INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/184

TOGO

June 2018

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA —PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR TOGO

In the context of the request for the second review under the Extended Credit Facility and Request for Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 15, 2018, following discussions that ended on April 10, 2018, 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 May 30, 2018.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Togo.

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

Letter of Intent sent to the IMF by the authorities of Togo*
Memorandum of Economic and Financial Policies by the authorities of Togo*
Technical Memorandum of Understanding*
*Also included in 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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June 15, 2018

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IMF Executive Board Completes Second Review under the Extended Credit Facility, and Approves US$35.5 Million Disbursement for Togo

On June 15, 2018 the Executive Board of the International Monetary Fund (IMF) completed the second review of Togo's economic performance under the program supported by an Extended Credit Facility (ECF) arrangement. Completion of the review enables the disbursement of SDR25.17 million (about US$35.5 million), bringing total disbursements under the arrangement to SDR75.51 million (about US$106.5 million). Program performance has been good. The Executive Board granted a modification of three performance criteria.

Togo's three-year arrangement was approved on May 5, 2017 (see Press Release No. 17/151) for SDR176.16 million (120 percent of quota or about US$241.5 million at the time of approval of the arrangement) to support the country's economic and financial reforms. The program aims to reduce the overall fiscal deficit substantially upfront to ensure long-term debt and external sustainability; refocus policies on sustainable and inclusive growth through targeted social spending and sustainably-financed infrastructure spending; and resolve the financial weaknesses in the two public banks.

Following the Executive Board's discussion on Togo, Mr. Mitsuhiro Furusawa, Acting Chair and Deputy Managing Director, made the following statement:

"Togo's performance under the ECF-supported program has been broadly satisfactory despite a difficult political and economic environment. The fiscal position improved significantly, driven mainly by expenditure reduction and public debt has declined. However, the medium-term outlook faces risks due to socio-political uncertainty and unfavorable global financial conditions. Strong commitment to the program and maintaining the reform momentum remains critical to preserving macroeconomic stability, improving social protection, safeguarding long-term debt sustainability, and boosting the country's growth potential.

"It is important that fiscal policy continues to focus on reducing public debt and preserving fiscal sustainability. The authorities should pursue reforms to address the weak revenue collection, prevent new arrears, improve the cost-effectiveness of public investment projects, and contain public expenditure. The authorities are undertaking a review of expenditure to improve its efficiency and they have started implementing measures to improve public debt management. Ensuring debt reduction remains key for macroeconomic stability.

"It is important that the authorities continue to make progress toward adherence to the WAEMU convergence criteria so as to help maintain strong regional reserves. Restructuring of the two public banks, including adequate recapitalization, addressing non-performing loans, and strengthening governance, is an important step towards restoring financial stability.

"The finalization of the National Development Plan and Togo's admission to the Compact with Africa are commendable. Swift and decisive implementation of the structural reforms outlined in these two policy documents, which are consistent with the ECF-supported program, would help Togo achieve stronger and more inclusive growth."

Table 1. Togo: Selected Economic and Financial Indicators, 2015-23

	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Est.	Proj.					
	(percentage change, unless otherwise indicated)								
National income, prices, and exchange rates									
Real GDP	5.7	5.1	4.4	4.7	5.0	5.3	5.4	5.4	5.4
Real GDP per capita	3.1	2.5	1.8	2.1	2.4	2.7	2.8	2.8	2.8
GDP deflator	3.5	1.8	0.4	1.9	2.3	3.0	3.0	3.0	3.0
Consumer price index (average)	1.8	0.9	-0.7	0.4	1.2	2.0	2.0	2.0	2.0
GDP (CFAF billions)	2,472	2,643	2,769	2,958	3,180	3,449	3,744	4,065	4,413
Exchange rate CFAF/US$ (annual average level)	591.2	592.8	580.9	…	…	…	…	…	…
Real effective exchange rate (appreciation = –)	7.1	-1.1	1.6	…	…	…	…	…	…
Terms of trade (deterioration = –)	6.9	-3.3	-0.7	-1.7	0.5	1.9	1.0	2.5	0.4
	(percentage change of beginning-of-period broad money)								
Monetary survey									
Net foreign assets	-3.6	5.1	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
Net credit to government	-2.1	-2.3	9.4	-13.9	2.3	0.0	0.0	0.0	0.0
Credit to nongovernment sector	13.2	10.1	-1.5	8.5	9.5	10.8	11.4	12.0	13.8
Broad money (M2)	20.6	12.6	8.3	6.8	7.5	8.5	10.1	8.6	12.4
Velocity (GDP/end-of-period M2)	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.7
	(percent of GDP, unless otherwise indicated)								
Investment and savings									
Gross domestic investment	33.7	33.8	25.3	30.1	27.7	29.3	30.3	30.6	30.8
Government	12.9	13.9	6.3	10.1	6.7	6.8	6.9	7.2	7.4
Nongovernment	20.8	19.9	19.0	20.0	21.0	22.5	23.4	23.4	23.4
Gross national savings	22.7	24.4	17.3	22.2	20.9	23.7	25.3	25.7	25.8
Government	4.1	4.3	6.0	7.0	6.2	6.5	6.8	7.4	7.9
Nongovernment	18.6	20.1	11.2	15.2	14.7	17.3	18.5	18.3	17.9
Government budget									
Total revenue and grants	21.8	21.6	21.5	24.5	23.8	23.8	24.0	24.3	24.5
Revenue	19.5	18.8	18.3	20.5	19.9	20.0	20.2	20.4	20.6
Total expenditure and net lending	30.7	31.2	21.8	29.0	24.3	24.2	24.1	24.1	24.0
Domestic primary balance[1]	-3.2	-4.5	0.8	1.0	2.9	2.9	2.9	2.8	2.8
Excluding bank recapitalization	-3.2	-4.5	0.8	2.4	2.9	2.9	2.9	2.8	2.8
Overall primary balance (commitment basis, incl. grants)	-6.5	-7.2	1.5	-2.1	2.0	2.0	2.0	2.0	2.0
Excluding bank recapitalization	-6.5	-7.2	1.5	-0.7	2.0	2.0	0.0	0.0	0.0
Overall balance (commitment basis, incl. grants)	-8.9	-9.6	-0.3	-4.5	-0.5	-0.3	0.0	0.2	0.5
Excluding bank recapitalization	-8.9	-9.6	-0.3	-3.1	-0.5	-0.3	0.0	0.0	0.0
Overall primary balance (cash basis, incl. grants)	-5.3	-7.2	-0.3	-4.3	0.9	2.0	2.0	2.0	2.0
Excluding bank recapitalization	-5.3	-7.2	-0.3	-2.9	0.9	2.0	2.0	2.0	2.0
Overall balance (cash basis, incl. grants)	-7.7	-9.6	-2.1	-6.7	-1.6	-0.3	0.0	0.2	0.5
Excluding bank recapitalization	-7.7	-9.6	-2.1	-5.3	-1.6	-0.3	0.0	0.2	0.5
External sector									
Current account balance	-11.0	-9.3	-8.0	-7.9	-6.8	-5.6	-5.0	-4.9	-5.0
Exports (goods and services)	35.8	33.4	31.9	31.0	30.8	30.7	30.8	30.8	30.7
Imports (goods and services)	-57.8	-53.2	-50.0	-48.5	-46.7	-45.3	-44.6	-44.4	-44.4
External public debt[2]	21.7	20.2	19.9	22.7	24.3	23.8	23.4	23.0	22.4
External public debt service (percent of exports)[2]	4.1	5.2	6.1	4.6	4.3	4.3	3.9	4.1	4.8
Domestic public debt[3]	50.6	61.4	55.9	51.6	44.8	39.9	35.0	30.3	25.9
Excluding bank recapitalization[3]	50.6	61.4	55.9	50.2	43.5	38.7	33.9	29.3	25.0
Total public debt[4]	72.2	81.6	75.7	74.3	69.2	63.7	58.4	53.3	48.3
Excluding bank recapitalization[4]	72.2	81.6	75.7	72.9	67.8	62.5	57.3	52.3	47.4
Total public debt (excluding SOEs)[5]	69.8	78.2	72.5	71.4	66.7	61.6	56.6	51.8	47.1
Excluding bank recapitalization (excluding SOEs)[5]	69.8	78.2	72.5	70.0	65.4	60.4	55.5	50.8	46.2

Sources: Togolese authorities and IMF staff estimates and projections.

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

[2] Includes state-owned enterprise external debt.

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

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

[5] Includes prefinancing debt and domestic arrears.

INTERNATIONAL MONETARY FUND

TOGO

May 30, 2018

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context: Economic activities have weakened due to the continuing socio-political tensions. Despite the ensuing revenue underperformance, the fiscal position improved significantly as expenditure was curtailed; the domestic primary balance at end-2017—the fiscal indicator under the direct control of the government—improved by about 5 percentage points of GDP relative to 2016. Inflation has been subdued and is expected to remain below the WAEMU convergence criterion of up to 3 percent during the program period. The current account balance has improved, driven by lower imports related to public investments. The political dialogue has stalled and protests resumed.

Program performance: All continuous and end-December 2017 quantitative performance criteria (QPCs) were met, as well as the structural benchmarks. The indicative target on fiscal revenue was missed by about 2 percent of GDP and the indicative target on social spending was missed by a small margin (0.2 percent of GDP).

Policy recommendations:

- Maintain the debt reduction for 2017-19 as originally envisaged, while allowing for a slight loosening of the fiscal stance in 2018 in response to weaker economic activities and the ensuing revenue underperformance.
- Progress toward adherence to the WAEMU convergence criteria to help rebuild reserves.
- Pursue reforms in the revenue authority to address the weak collection; harmonize the expenditure chain and treasury management to prevent new arrears accumulation; and conduct cost-effectiveness analysis of public investments.
- Implement the restructuring plan of the two public banks, including adequate recapitalization, strengthened governance, and financial viability.
- Conduct growth-enhancing structural reforms, including by opening up some key sectors to private investment.

Staff's views: Staff supports the completion of the second ECF review as well as the modification of end-June 2018 QPCs on the domestic primary balance and net domestic financing and the continuous QPC on non-concessional external borrowing.

Approved By
Dominique Desruelle and Johannes Wiegand

Discussions on the second review under the ECF arrangement took place in Lomé during March 28 – April 10, 2018. 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. Ndome-Yandun, Ms. Margevich, and Ms. Kinvi-boh provided administrative assistance. Ms. Boukpessi (OED) also joined 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 Ténou, BCEAO National Director; and other senior officials. Discussions were also held at the General Secretariat of the WAMU Banking Commission in Abidjan with Ms. Séna Elda Kpotsra (General Secretary) and other staff. Furthermore, the mission met with representatives of the private sector and development partners, and held a press conference.

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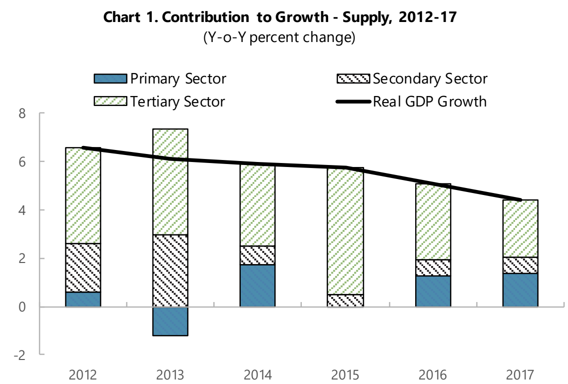
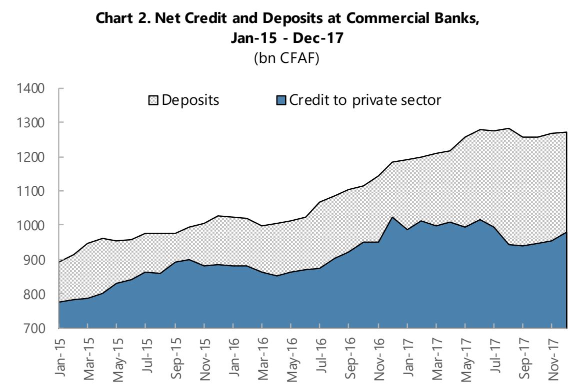
CONTEXT AND RECENT DEVELOPMENTS

A. Recent Developments: Economic Costs of Socio-Political Tensions

1. **The socio-political tensions are increasingly taking a toll on economic activities (Text Figure 1).** Since the eruption of the political turmoil in August 2017, economic activities have decelerated. The turnover of large companies in some key sectors has fallen. Tertiary sector activities are the hardest hit. Private sector credit during the second half of 2017 was lower by 4.2 percent relative to the first half of 2017; the largest decline was in the construction sector. Thus, despite strong agricultural production, economic growth is estimated to have decelerated from 5.1 percent in 2016 to 4.4 percent in 2017. The current account deficit is estimated to have improved from 9.3 percent of GDP in 2016 to 8.0 percent of GDP in 2017, as imports related to public investment projects are dropping. Inflation has remained subdued, entering positive territory to 1.1 percent (year-on-year) at end-March 2018, after falling below zero in November 2017, due primarily to a sharp decline in food and energy prices, and possibly to slowing domestic demand. Core inflation, according to the WAEMU definition, rose to 0.7 percent in March 2018.

Text Figure 1. Togo: GDP and Financial Conditions





Sources: Togolese authorities, and IMF staff estimates.

2. **Despite the large revenue underperformance, the fiscal position improved significantly as expenditure was curtailed (Text Table 1).** The strong fiscal performance in the first half of 2017 loosened in the second half, as the expected boost in revenue did not materialize. The domestic primary balance swung from a surplus of 1.6 percent of GDP to a deficit of -0.8 percent, respectively during the two semesters.[1] Nonetheless, the full-year domestic primary surplus of 0.8 percent of GDP represents a significant consolidation of 5.3 percentage points of GDP relative to 2016. The overall primary balance and the overall balance (commitment basis) improved by about 9 percentage points of GDP. This strong consolidation was mostly driven by the halting of investment prefinancing, which led to a reduction of domestically financed investment by 4.6

[1] The domestic primary balance reflects the fiscal effort under the direct control of the government.

percentage points of GDP.[2] Externally financed investment declined by 3 percent of GDP. Current expenditure also declined, by 1.8 percent of GDP.

Text Table 1. Togo: Fiscal Developments, 2016-17
(percent of GDP)

	2016	2017		
		Jan-Jun	Jul-Dec	Jan-Dec
Revenue and grants	21.6	9.4	12.1	21.5
Revenue	18.8	8.9	9.4	18.3
Grants	2.9	0.5	2.7	3.2
Expenditures and net lending	31.2	9.2	12.6	21.8
Current expenditures	17.3	7.7	7.8	15.5
Primary domestic current expenditure	14.9	6.9	6.9	13.7
Interest	2.4	0.8	0.9	1.8
Public investment	13.9	1.5	4.8	6.3
Domestically financed	8.4	0.5	3.3	3.8
Externally financed	5.5	1.0	1.5	2.5
Net lending	0.0	0.0	0.0	0.0
Domestic primary balance (commitment basis)	-4.5	1.6	-0.8	0.8
Overall primary balance (commitment basis, incl. grants)	-7.2	1.0	0.4	1.5
Overall balance (commitment basis, incl. grants)	-9.6	0.2	-0.5	-0.3
Change in arrears	0.0	0.4	-2.3	-1.8
Overall primary balance (cash basis, incl. grants)	-7.2	1.5	-1.8	-0.4
Overall balance (cash basis, incl. grants)	-9.6	0.7	-2.8	-2.1
Financing	12.2	-0.2	5.5	5.3
Domestic financing (net)	7.0	-0.6	1.6	1.0
External financing (net)	5.2	0.4	3.9	4.3

Sources: Togolese authorities and IMF staff estimates.

3. **The political dialogue has stalled and protests have resumed.** The dialogue between the government and opposition, facilitated by the Presidents of Ghana and Guinea, stumbled on the retroactivity of the two-term limit for the President. The opposition resumed protests in mid-April, which were dispersed by the police, leading reportedly to several injuries and arrests. Tensions have been re-intensifying.

[2] Investment prefinancing is a non-orthodox mechanism to finance investment which had led to soaring public debt in recent years, preceding the approval of the ECF arrangement.

B. Program Performance: Broadly Satisfactory

4. All continuous and end-December 2017 quantitative performance criteria (QPCs) were met while the indicative targets were missed (MEFP¶4, Text Table 2). The QPC on the domestic primary surplus for end-December 2017 under the program was exceeded by 0.3 percent of GDP. The QPC on net domestic financing was met; even if the higher-than-programmed arrears repayment is taken into account, the QPC would be met with a margin of about 1 percent of GDP. The government refrained from contracting or guaranteeing non-concessional external debt and continually remained current on its external debt obligations. Moreover, the government did not provide any guarantees for domestic suppliers and contractors and refrained from any new prefinancing. The indicative target on revenue collection was missed by 2 percent of GDP. The indicative target on domestically financed social spending was missed by a small margin (0.2 percent of GDP).

Text Table 2. Togo: Fiscal Developments, 2017
(percent of GDP)

	Authorities' revised budget	Program	Outturns
Revenue and grants	25.3	24.7	21.5
Revenue	20.0	20.2	18.3
Grants	5.3	4.6	3.2
Expenditures and net lending	27.6	29.5	21.8
Current expenditures	16.6	17.8	15.5
Primary domestic current expenditure	14.5	14.9	13.7
Interest	2.1	3.0	1.8
Public investment	11.0	11.7	6.3
Domestically financed	3.3	4.8	3.8
Externally financed	7.7	6.8	2.5
Net lending	0.0	0.0	0.0
Domestic primary balance (commitment basis)	2.3	0.5	0.8
Overall primary balance (commitment basis, incl. grants)	-0.2	-1.8	1.5
Overall balance (commitment basis, incl. grants)	-2.3	-4.8	-0.3
Change in arrears	-2.5	-0.9	-1.8
Overall primary balance (cash basis, incl. grants)	-2.7	-2.7	-0.4
Overall balance (cash basis, incl. grants)	-4.8	-5.7	-2.1
Financing	8.8	10.2	5.3
Domestic financing (net)	1.1	1.1	1.0
External financing (net)[1]	7.7	9.1	4.3
Nominal GDP (CFAF billions)[2]	2,779	2,812	2,769

Sources: Togolese authorities and IMF staff estimates.
[1] Include ECF financing.
[2] GDP figures for original program approval and authorities' revised budget reflect contemporaneous estimates.

5. Structural reforms are also progressing (MEFP¶6). All the four end-December 2017 structural fiscal benchmarks were met. The authorities reported that all controls were in place by August 2017 to detect and tax inaccurate declarations in the phosphate, clinker, cement, and iron sectors. A decree reorganizing the Ministry of Economy and Finance was adopted in September 2017. The authorities developed a cash management plan for 2018, which is consistent with consolidated procurement and commitment plans received from line ministries. A budget for FY2018 consistent with the Fund-supported program was adopted in November 2017. The end-February structural benchmark on the bank restructuring plan was not met but implemented with delay.

C. Medium-term Outlook: Downside Risks

6. Medium-term projections have been revised downward to account for the political uncertainty (Text Table 3). Growth projections have been lowered in the near future; growth is expected to gradually return to potential in outer years as the socio-political shock may dissipate and the recent upgrading of public infrastructure is expected to boost productivity and motivate private investment. Inflation is expected to remain below the WAEMU criterion of up to 3 percent. The current account deficit is expected to narrow to around 5 percent of GDP from 2021, reflecting reduced imports of public capital goods and better export performance. The debt-to-GDP ratio is forecast to decline below 60 percent by 2021.

Text Table 3. Togo: Selected Economic Indicators, 2015–23

	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percentage growth, unless otherwise indicated)								
Real GDP	5.7	5.1	4.4	4.7	5.0	5.3	5.4	5.4	5.4
Consumer price index (average)	1.8	0.9	-0.7	0.4	1.2	2.0	2.0	2.0	2.0
	(Percent of GDP, unless otherwise indicated)								
Domestic primary balance	-3.2	-4.5	0.8	1.0	2.9	2.9	2.9	2.8	2.8
Overall primary balance (commitment basis, incl. grants)	-6.5	-7.2	1.5	-2.1	2.0	2.0	2.0	2.0	2.0
Overall balance (commitment basis, incl. grants)	-8.9	-9.6	-0.3	-4.5	-0.5	-0.3	0.0	0.2	0.5
Excluding bank recapitalization	-8.9	-9.6	-0.3	-3.1	-0.5	-0.3	0.0	0.2	0.5
Overall primary balance (cash basis, incl. grants)	-5.3	-7.2	-0.3	-4.3	0.9	2.0	2.0	2.0	2.0
Overall balance (cash basis, incl. grants)	-7.7	-9.6	-2.1	-6.7	-1.6	-0.3	0.0	0.2	0.5
Current account balance	-11.0	-9.3	-8.0	-7.9	-6.8	-5.6	-5.0	-4.9	-5.0
Total public debt[1]	72.2	81.6	75.7	74.3	69.2	63.7	58.4	53.3	48.3
Excluding bank recapitalization	72.2	81.6	75.7	72.9	67.8	62.5	57.3	52.3	47.4

Sources: Togolese authorities; and IMF staff estimates and projections.

[1] Includes central government domestic arrears, state-owned enterprises debt and bank recapitalization costs.

7. Risks are tilted to the downside. Despite the authorities' sustained efforts under the program, should public discontent persist, the government may face greater pressure to slow the ambitious fiscal consolidation and other planned reforms. The legislative and local elections scheduled for this year, possibly combined with a constitutional referendum, could put pressure to expand public expenditure. A strong reduction in public investment may lead to a greater-than-expected slowdown in growth, particularly if private investment lags. Furthermore, the uncertain behavior of the WAMU regional financial market may pose challenges to program implementation.

Finally, weaker-than-expected global growth and unfavorable global financial conditions may also cloud program implementation (Annex I).

POLICY DISCUSSIONS

Fiscal policy aims at achieving the debt reduction envisaged under the original program for 2017-19 to ensure public debt sustainability and WAEMU regional external stability. Due to the significant revenue underperformance in 2017, revenue projections have been lowered for 2018. The revenue loss is addressed by a combination of revenue and expenditure measures and a slightly looser 2018 fiscal balance target. This loosening is warranted given the tense socio-political context and weak economic activity. Financial sector policies will focus on the implementation of the restructuring plan for the two troubled public banks. Structural reforms will be geared toward starting the implementation of the National Development Plan and the Compact with Africa initiative.

A. Fiscal Policy: Reducing Debt while Absorbing Shocks

8. Revenue projections for 2018 have been lowered to reflect the 2017 underperformance and account for the economic and socio-political situations (MEFP¶8). Whereas revenue was expected to increase by about 1 percent of GDP from 2016 to 2017, it declined by about 0.5 percent of GDP. This weak performance was due to a combination of two main factors. First, the deceleration of economic activities resulting from the socio-political tensions has hindered revenue collection. More importantly, the economic activities that form the tax base (such as commerce and construction) have been hit harder by the tensions than the non-taxed activities (such as agriculture). In addition to the direct impact on the tax base, the socio-political tensions have also altered the tax compliance behavior. Second, some weaknesses seem to persist in the tax administration; some reforms planned under the creation of the revenue authority (*Office Togolais des Recettes*) remain unfinished. Given this weak performance in 2017, the baseline revenue projections—without corrective measures—were lowered by about 1.5 percent of GDP, relative to the revenue contemplated in the adopted 2018 budget.

9. Given the lower revenue and the adverse political developments, some loosening of deficit targets is necessary in 2018 (MEFP¶8). The revised fiscal framework loosens the domestic primary balance (excluding bank recapitalization)—the fiscal indicator under the authorities' direct control—by about 1 percent of GDP relative to the original program, after an overperformance of about 0.3 percent of GDP in 2017. This loosening is warranted in the context of weakening economic activities resulting from the political tensions. It also reflects difficulties to significantly reduce expenditure in the current context; considering the socio-political tensions and some key elections—local, legislative, and possibly constitutional—expected in 2018, spending pressures will likely mount and the government may be unable to repeat compressing spending below budgeted amounts, as it did in 2017.

10. The remaining revenue shortfall will be addressed through a combination of revenue and expenditure measures (MEFP¶8). In the original 2018 budget, in the context of the ECF first review, some tax and non-tax policy measures were introduced to boost revenue collection, amounting to about 1.2 percent of GDP. In the revised 2018 budget, some of these measures were redesigned and new measures were adopted, expected to yield additional revenue of about 0.5 percent of GDP relative to the original 2018 budget or 1.7 percent of GDP relative to 2017 (Box 1). On the expenditure side, the authorities have undertaken a comprehensive review of expenditure, with support from an international consulting firm. The review aims at identifying areas where expenditure efficiency could be improved to allow savings of about 0.5 percent of GDP in 2018 and up to 2 percent of GDP annually in the medium term. The adoption of a revised 2018 budget in line with this revised fiscal framework is a prior action for the conclusion of this second ECF review; this action is necessary to achieve fiscal sustainability and debt reduction, which are key objectives of the program.

11. This revised fiscal framework preserves the program's overall fiscal and external objectives (MEFP¶9). Under the original program, the magnitude of debt reduction envisaged for 2017-19 was about 12 percentage points of GDP (excluding bank recapitalization); under the above revised fiscal framework, debt is expected to decline by about 14 percent during this period. In 2017, Togo's overall fiscal deficit (commitment basis) of 0.3 percent of GDP complied with the WAEMU convergence criteria of 3 percent of GDP. In 2018, the overall fiscal deficit (commitment basis and excluding bank recapitalization) is projected to miss the WAEMU convergence criteria only by a very small margin. From 2019 onwards, the domestic primary balance (commitment basis) is programmed at a surplus of 2.9 percent of GDP.[3] This corresponds to an overall fiscal deficit (commitment basis) of 0.5 percent of GDP, which is well within the WAEMU convergence criterion (Text Table 4). Togo will also be on track to meet the program's long-term debt-sustainability objective of reducing the NPV of debt below 38 percent by 2025. Togo's compliance with the WAEMU convergence criteria, despite the loosening of the fiscal framework in 2018, contributes to help rebuild WAEMU external reserves, which stood at US$17.9 billion at end-April 2018.[4] Furthermore, the expected increase in external financing can also bolster external reserves.

Text Table 4. Togo: Compliance with the WAEMU Convergence Criteria, 2015-23

	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Est.	Proj.					
First-order criteria									
Overall balance/GDP (≥-3 percent)[1]	-8.9	-9.6	-0.3	-3.1	-0.5	-0.3	0.0	0.2	0.5
Average consumer price inflation (≤ 3 percent)	1.8	0.9	-0.7	0.4	1.2	2.0	2.0	2.0	2.0
Total debt/GDP (≤ 70 percent) [1,2]	72.2	81.6	75.7	72.9	67.8	62.5	57.3	52.3	47.4
Second-order criteria									
Wages and salaries/ tax revenue (≤ 35 percent)	40.1	41.1	42.9	39.4	39.7	39.6	39.4	38.9	38.5
Tax revenue/GDP (≥ 20 percent)	17.3	16.8	16.2	17.5	17.4	17.5	17.7	17.9	18.1

Sources: Togolese authorities and IMF staff estimates and projections.

[1] Excludes bank recapitalization costs of CFAF 42 billion (1.4 percent of GDP).

[2] Includes central government domestic arrears and state-owned enterprise debt.

[3] The consolidation in 2019 is expected to come from a reduction of investment expenditure, which has soared in recent years and remains above peer countries. No further consolidation is expected after 2019.

[4] Gross reserves were USD 13.0 at end-2017, covering 4.2 months of imports. However, coverage has increased significantly since, reflecting primarily the issuance of Eurobonds by Cote d'Ivoire and Senegal in March.

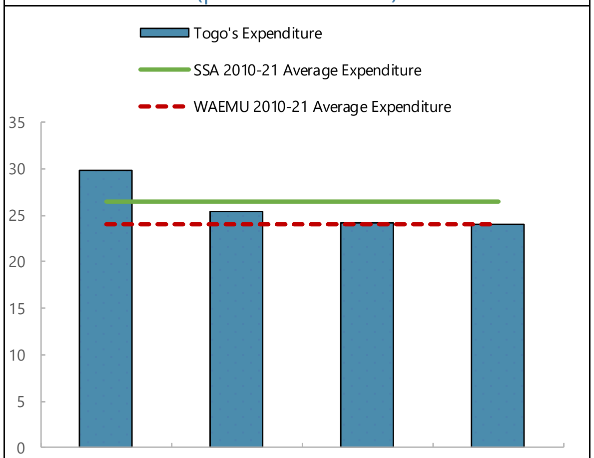
12. The above 2019 and medium-term fiscal objectives, both in terms of the WAEMU criteria and the more ambitious program targets, are within reach. The fiscal consolidation required in 2019 to meet the WAEMU convergence criteria of an overall fiscal balance at a deficit under 3 percent of GDP is 0.1 percentage point of GDP on commitment basis. The fiscal consolidation required in 2019 to meet the program target on the overall fiscal balance is 2.6 percentage points of GDP on commitment basis (Text Table 5). These adjustments seem feasible given (i) Togo's large expenditure increase in recent years; (ii) the higher level of expenditure in 2018 relative to peer countries (Text Figure 2); and (iii) the cross-country experiences on fiscal adjustment (Text Figure 3). The WAEMU targets are well within reach; although the program targets are more challenging, they seem feasible.

Text Table 5: Togo. Fiscal Adjustment, 2018-19[1]
(percent of GDP)

	2018 projections	2019 targets	Necessary adjustment 2018-19
WAEMU Target			
Overall fiscal balance	-3.1	-3.0	0.1
Program Target			
Overall fiscal balance	-3.1	-0.5	2.6
Primary fiscal balance	-0.7	2.0	2.7
Domestic primary fiscal balance	1.0	2.9	1.9

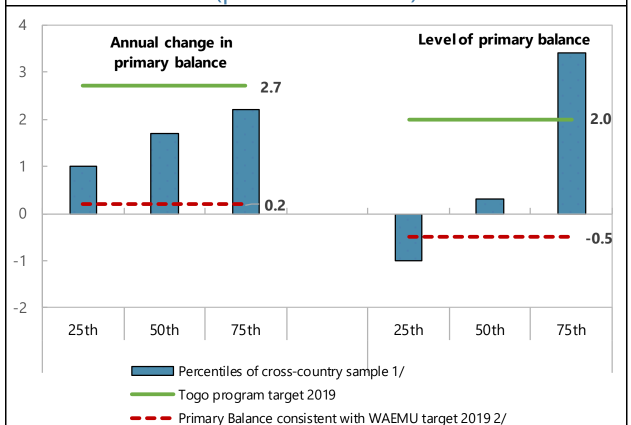
Sources: Togolese authorities; and IMF staff estimates.
[1]Commitment basis, incl. grants and excl. bank recapitalization costs.

Text Figure 2: Togo. Public Expenditure, 2018-2021
(percent of GDP)



Sources: World Economic Outlook; Togolese authorities; and IMF staff estimates.

Text Figure 3: Togo. Fiscal Adjustment in Cross-Country Context
(percent of GDP)



Sources: Escolano, J. et al (2014), "How Much is A Lot? Historical Evidence on the Size of Fiscal Adjustments", IMF Working Paper No. 14/179 (Washington: International Monetary Fund); Togolese authorities; and IMF staff estimates.
1/ Sample of 49 countries covering fiscal adjustments undertaken from 1945-2012.
2/ Adjustment in primary balance needed to reach WAEMU convergence criterion of overall deficit (committment basis) of 3 percent or less.

B. Fiscal Management: Strengthening Revenue Administration and Public Financial Management

13. The large revenue underperformance calls for measures to bolster revenue administration (MEFP¶10-12). Since its creation in 2012, the revenue authority (*Office Togolais des Recettes*) has implemented several measures, including, in 2017, payments online and through mobile phones, collateral against tax disputes, and expanded the use of computers in customs clearance procedures. Nonetheless, some key reforms remain unfinished. In 2018, the revenue authority plans to strengthen the collection of property taxes, document and streamline tax exemptions, expand further the functionalities and coverage of the digital customs clearance procedures, and tighten controls (Box 1).

Box 1. Bolstering Revenue Collection

Faced with the weak revenue collection, the authorities are redesigning and taking new corrective measures, both on tax policy and tax administration. These measures are expected to yield about 1.7 percent of GDP of revenue in 2018 relative to 2017. Some additional measures, which have not been quantified nor included in the above package yet, will also be introduced to guard against risks of underperformance.

Tax Policy Measures:

- VAT rates: the reduced rates introduced in 2017 are phased out (on a range of basic food and textile products, electronic and telecommunication equipment, and solar power panels). The reduced rates did not lead to a decline in end-consumer prices and facilitated tax fraud.
- Telecommunication sector: the 5-percent turnover tax envisaged in the original 2018 budget has been substituted with license fees, which yield higher revenue for 2018. As such license fees will likely not reoccur permanently in the future, revenue yields from this measure are reduced in outer years.
- Property tax: first, a general land survey is underway country-wide to establish and (re)evaluate the property tax base. Second, a digital detailed land registry will be put in place for the capital city of Lomé to identify zones and neighborhoods with large potential tax revenue (“*niches fiscales*”). The communication to the Cabinet meeting of this digital land registry is a prior action for the conclusion of this second ECF review.
- Interest earnings: currently, interest earnings from deposits in accounts below CFAF20 millions are exempted from tax payment. This threshold will be lowered to CFAF10 million and limited to only one exempted account per person. The latter measure will prevent fraudulent behavior to split deposits in multiple accounts below the threshold.
- Service fees: revenue previously collected by various government entities or agencies and used for various purposes outside the budget will be collected directly by the revenue authority through new collection offices and will feed into the budget.
- Dividends: some state-owned enterprises with strong financial position will distribute dividends. As such dividends may not accrue sustainably in the future, revenue yields from this measure are reduced in outer years.
- Tax expenditures: a comprehensive record will be produced and appended to the 2019 draft budget law to be submitted to Parliament.

Box 1. Bolstering Revenue Collection (concluded)

Tax Administration Measures:

- Tax arrears: several tax adjustment notifications have been sent out; some large amounts have already been settled and paid.
- e-Service: the mandatory online declaration for large taxpayers and the mobile payment for transport activities, which were implemented in 2017, will be expanded in 2018 for several other sectors.
- Tax certificate: the use of VAT ineligibility certificate ("*certificat de détaxe*") will be limited to VAT payments only; the use of this mechanism will be disallowed for the payment of other taxes. This measure will prevent the abusive use of these certificates and will protect the collection of other (non-VAT) taxes.
- Digital procedures: customs declaration will be gradually conducted through digital procedures, including customs declaration documents. This measure will accelerate clearance and reduce opportunities for fraud.
- Auctions: the functionalities in ASYCUDA to record and process activities related to auctions will be activated.
- Pre-clearance control: all controls and adjustments on customs declarations will mandatorily be completed and recorded in the computer system before clearance can be given and before the merchandises can leave the customs area.

Togo: Yield from Fiscal Measures in Revised 2018 Budget

	1st Review		2nd Review		Difference	
	Billion CFAF	Percent of GDP	Billion CFAF	Percent of GDP	Billion CFAF	Percent of GDP
Tax revenue	**22.3**	**0.80**	**22.1**	**0.79**	**-0.2**	**-0.01**
Tax policy measures	16.5	0.59	16.3	0.59	-0.2	-0.01
Cancellation of reduced VAT rates introduced in the 2017 budget law	10.0	0.36	10.0	0.36	0.0	0.00
Turnover tax of 5 percent in telecommunication sector	5.2	0.19	0.0	0.00	-5.2	-0.19
Land survey for property tax	1.3	0.05	1.3	0.05	0.0	0.00
Collection of tax arrears	0.0	0.00	5.0	0.18	5.0	0.18
Tax adminsitrative measures	5.8	0.21	5.8	0.21	0.0	0.00
Non-tax revenue	**12.2**	**0.44**	**25.4**	**0.91**	**13.2**	**0.47**
New collection offices	0.0	0.00	2.0	0.07	2.0	0.07
4G licences	0.0	0.00	15.0	0.54	15.0	0.54
Dividends	12.2	0.44	8.4	0.30	-3.8	-0.14
Total	**34.5**	**1.24**	**47.5**	**1.71**	**13.0**	**0.47**

Sources: Togolese authorities; and Fund staff estimates.

14. To complement the ongoing efforts on clearing the stock of arrears, the institutional framework will be strengthened to prevent new accumulation (MEFP¶13). The authorities made strong efforts to repay arrears in 2017; net repayment reached CFAF50 billion or about 2 percent of GDP, which corresponds to 41 percent of total recent arrears stock.[5] The fiscal framework under the IMF-supported program envisages further net repayments of CFAF65 billion (2.2 percent of GDP) in 2018 and CFAF35 billion (1.1 percent of GDP) in 2019. To support these efforts and prevent new accumulation, the government plans to synchronize the entire expenditure chain with the cash management plan. The procurement, commitment, and cash management plans will be updated on a monthly basis to ensure coordination and guide the pace of commitment authorizations (structural benchmark for end-December 2018). The authorities will send to staff, starting from July 2018, monthly data on the stock of payment arrears by age (structural benchmark for end-December 2018). The coverage of the treasury single account will be expanded. Furthermore, a cost-effectiveness analysis of public investment projects will be carried out and enforced under the 2019 budget (structural benchmark for end-September 2018).

15. A mechanism could be set up to facilitate the recording and projections of financing from development partners. There seem to be some delays in the recording of the status of some foreign-financed projects in the budget execution. Information on disbursement plans could also be harmonized between partners and the authorities to ensure accurate budget formulation and smooth budget execution.

C. Borrowing Policies: Strengthening Debt Management and Reprofiling Public Debt

16. The authorities are implementing some key measures to improve debt management (MEFP¶14). In the context of the reorganization of the Ministry of Finance, the functions of cash flow forecasting and debt management have been brought together under a single general directorate; the latter is organized in front, middle, and back offices to enhance its efficiency. A procedures manual is under preparation to guide debt management operations under the new debt office. The manual describes the operational practices that need to be followed under the new organizational structure, the roles and responsibilities of each unit pertaining to debt management activities, and the information flows between teams within the new debt office and other institutions such as the Budget General Directorate, the Central Bank, *Agence UMOA-Titres*, and the Ministry of finance.

17. To alleviate the heavy debt service burden, the authorities are considering borrowing externally at more favorable terms to repay more costly domestic debt (MEFP¶15). At end-December 2017, the external debt-to-GDP ratio was 19.9 percent and the domestic debt-to-GDP ratio was 58.8 percent. Total debt service amounted to 24 percent of revenue in 2017. While the ECF-supported program currently includes a zero-limit on non-concessional debt, Togo is currently

[5] Recent arrears stock refers to post-2006 arrears.

rated as being at 'moderate' risk of external debt distress, and hence the program can accommodate non-zero non-concessional borrowing limits if they do not lead to an external risk-rating downgrade. [6] However, to ensure that the reprofiling operation achieves its objective of improving the overall public debt profile, it should maintain or reduce the present value of total public debt, after taking into account all costs such as fees and charges. The operation should be limited to a magnitude that keeps Togo comfortably at moderate risk of external debt distress (*i.e.* below the NPV-of-external-Debt-to-GDP ratio of 30 percent); at end-December 2018, this ratio is currently forecast to be 18.2 percent. Other DSA thresholds would also need to be scrutinized and complied with. The debt reprofiling operation could alleviate some short and medium-term liquidity constraints, which is beneficial for Togo considering the uncertain behavior of the regional financial market. Nonetheless, the authorities will need to persevere in the ongoing fiscal consolidation to fundamentally address the debt burden.

D. Financial Sector: Implement the Bank Restructuring Plan

18. The restructuring plan was submitted to the general secretariat of the WAMU banking commission for review and approval in June 2018 (MEFP¶16-18). [7] The restructuring process of the two ailing public banks—which is the main strategy intended to restore financial stability under the program—will be guided by the following principles: adequate recapitalization in line with latest prudential requirements by the WAMU regulator; no bail-out of minority shareholders; minimum cost for the government while preserving financial stability; active collection of non-performing loans by an entity within the bank; clear public interest mandate; strengthening of the bank's governance framework; strengthening of internal control; closing of non-profitable activities or branches; and setting-up of an efficient organizational structure. The Board of Directors of the new bank will comprise four independent and three non-executive members, with the heads of audit and risk committees chosen among the independent members. A mechanism will be put in place to ensure full independence of the governance structure of the new public bank resulting from the merger of the two state-owned banks (structural benchmark for end-December 2018). The recapitalization is estimated at about CFAF42 billion (or about 1.5 percent of GDP).

19. Beyond the bank restructuring, the high NPLs ratio—17 percent at end-December 2017—also needs to be addressed (Text Figure 4). The two public banks—which together account for 20.1 percent of total assets of the banking system at end-2017—have contributed to the country-wide deterioration in solvency ratios and increase in the fraction of non-performing loans over time. Their merger and restructuring includes a resolution mechanism for the stock of NPLs accumulated in the two banks. More precisely, an NPLs recovery unit will be created inside the newly merged bank, with the option to outsource some difficult debts. The bank will identify the

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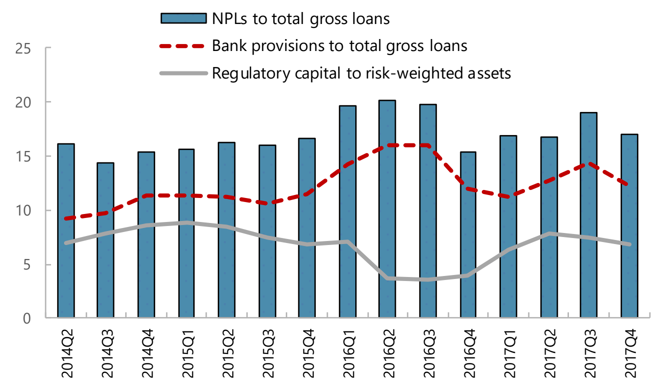
[6] "Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries," International Monetary Fund, Washington, D.C., February 2018.

[7] The WAMU banking commission is the independent regional supervisory entity of the WAMU credit and microfinance institutions. The general secretariat of the WAMU banking commission is supporting the banking commission by deploying supervisory activities. The general secretariat oversees the implementation of the banking commission's decisions by the national authorities, carries out off- and on-site supervision, conducts financial stability studies for the WAMU region, and reviews the applications for approval and authorizations.

positions and functions involved in the collection process and staff will be selected and trained on the best techniques and practices to ensure successful loan recovery and good customer relations. A system of incentives for staff will be added to the base salary, with a collection fee designed to include higher fees for the recovery of higher default amounts.

Text Figure 4. Togo: Non-Performing Loans (NPLs) and Provision, 2014Q2 - 2017Q4
(in percent)



Sources: Togolese authorities; and IMF staff estimates.

20. The general secretariat of the WAMU banking commission has opened collaboration with staff. They communicated to staff that they have been regularly informed of the progress on the bank restructuring since the authorities' decision to proceed with the merger. They have begun examining the restructuring plan. This plan is scheduled to be submitted to the WAMU banking commission during their session in June 2018; an approval is expected, provided that the application meets the requirements.

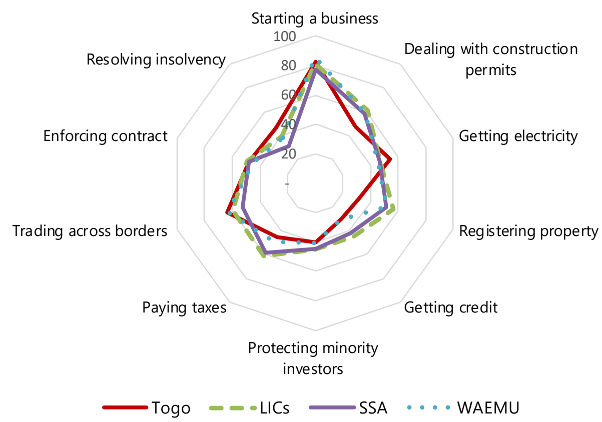
E. Structural Reforms: New National Development Plan and Compact with Africa

21. A new National Development Plan (NDP) has been finalized to anchor public policies and partners' programs for 2018-2022 (MEFP¶19-20). The overarching objective of the NDP is to pave the way for a structural transformation of the Togolese economy through a major logistic hub, a dynamic financial center, a strong manufacturing base, and inclusive and social policies. The logistic hub, leveraging Togo's geographical location, will be supported by the deep-water Port of Lomé, the newly-renovated international airport, and littoral and hinterland corridors. The objective of a dynamic financial center will build on the presence in Togo of headquarters of several regional banking and insurance groups, and the development of the digital economy. The inclusive and social policies to tackle poverty will be based on agricultural clusters, manufacturing through industrial parks, and consolidation of the mining sector. The ECF-supported program's emphasis on safeguarding social spending in the context of fiscal consolidation is fully in line with the NDP's objectives on inclusive and social policies to tackle poverty. A successful implementation of the NDP will benefit from greater prioritization of projects and greater emphasis on domestic resource mobilization.

22. Given Togo's desire to become a regional commercial and transportation hub, it is paramount to develop an inviting business climate. Some measures have been initiated to improve the business environment. Based on the findings of the Doing Business survey (Text Figure 5), the government, in consultation with the private sector, produced and publicized an action plan which targets the improvement of the main indicators on which Togo performs subpar. The authorities adopted some measures to improve the access to electricity, business creation, dealing with construction permits, and contract enforcement. However, reforms are needed in areas where performance seems lower than peer countries, i.e., registering property, easiness of paying taxes, and access to credit. 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. As a first step, the authorities committed to digitize the stock of existing land property titles and open the central window for the liquidation and payment of fees, and clear the entire backlog of pending mortgage handover documents (structural benchmark for end-December 2018). In addition, high government presence and intervention in key sectors—such as phosphates and telecoms— is stifling private initiative.

Text Figure 5. Togo: Doing Business Indicators, 2018

(0=lowest, 100=highest performance)



Source: World Bank Doing Business Report 2018.

23. Togo has been admitted to the Compact with Africa (CwA) (MEFP¶22). The macroeconomic reforms in the policy matrix are aligned with the ECF-supported program, covering macroeconomic stability, mobilization of domestic revenue, public investment management, and public financial institutions. Other reforms include business environment and regulation, investor protection and dispute resolution, legal framework for public-private partnership, and mobilization of private and institutional investors. These reforms are consistent with the National Development Plan. The authorities intend to leverage the CwA membership to attract foreign direct investment.

PROGRAM MODALITIES AND OTHER ISSUES

24. The program will continue to be reviewed semi-annually based on quantitative performance criteria, indicative targets, and structural benchmarks. The authorities are requesting—and staff supports—a modification of the end-June 2018 QPCs on the domestic primary balance and net domestic financing as well as the continuous QPC on non-concessional external borrowing. One structural benchmark is proposed to be reset from end-June 2018 to end-September 2018; five new structural benchmarks are proposed for end-December 2018. These structural benchmarks are expected to strengthen cash management, prevent arrears accumulation, ensure fiscal sustainability, restore financial stability, and improve business environment. The third review of the program will be based on the end-June 2018 criteria/targets/benchmarks and is scheduled to be discussed by the IMF Board on or after September 15, 2018. The program is financed with support from development partners including the World Bank, the European Union, and the African Development Bank, while ECF disbursements will close the remaining financing needs.

25. Safeguards assessment: An updated safeguards assessment of the BCEAO, completed in April 2018, found that the central bank has maintained a strong control environment since the last assessment in 2013 and its governance arrangements are broadly appropriate. In addition, audit arrangements have been strengthened, International Financial Reporting Standards (IFRS) were adopted as the accounting framework beginning with the 2015 financial statements, and a 2016 external quality review of the internal audit function found broad conformity with international standards. The BCEAO's risk management framework established in 2014 is also progressing well with implementation of its work across the bank.

26. Capacity to repay: Togo's capacity to repay the Fund remains adequate (Table 6). Obligations to the Fund would peak in 2025 at only 2.5 percent of government revenue or 0.5 percent of GDP.

27. Capacity Development: The TA priorities are aligned with the program objectives. Focus is on revenue administration, public financial management, financial sector, and real sector statistics (Annex II).

STAFF APPRAISAL

28. Economic activities have weakened due to the continuing socio-political tensions. Economic growth is estimated to have decelerated from 5.1 percent in 2016 to 4.4 percent in 2017. Private-sector credit during the second half of 2017 was lower by 4.2 percent relative to the first half of the year. Inflation has remained subdued at 1.1 percent (year-on-year) at end-March 2018. The current account deficit is estimated to have improved from 9.3 percent of GDP in 2016 to 8.0 percent of GDP in 2017, as imports related to public investment projects are declining.

29. Risks are tilted to the downside. Although recent infrastructure upgrades may boost productivity and motivate private investments in the medium term, a persistence of the socio-political tensions could weigh on macroeconomic performance. The government may face greater pressure to slow the ambitious fiscal consolidation and other reforms. The legislative and local elections scheduled for this year, possibly combined with a constitutional referendum, could put pressure to expand public expenditure. A strong reduction in public investment may lead to a greater-than-expected slowdown in growth, particularly if private investment lags.

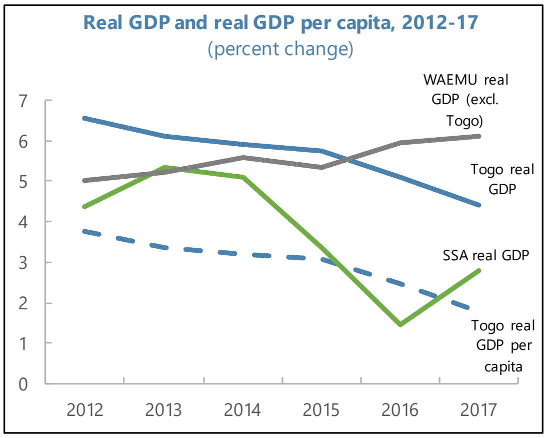
30. Staff commends the authorities' satisfactory performance under the ECF-supported program despite difficult circumstances. Despite weak revenue collection, the fiscal position shows a strong consolidation as expenditure was curtailed; the domestic primary balance at end-2017—the fiscal indicator under the control of the government—improved by about 5 percentage points of GDP relative to 2016. Public debt declined from 81.6 percent of GDP in 2016 to 75.7 percent of GDP in 2017. The authorities are undertaking a review of expenditure to improve its efficiency. They have started implementing measures to improve public debt management. They have reduced the stock of arrears by about 2 percent of GDP.

31. Staff recommends pursuing debt reduction, implementing the bank restructuring plan, and persevering on structural reforms. The magnitude of debt reduction originally envisaged under the program for 2017-19 should be maintained, while allowing for a slight loosening in 2018 to account for the weak economic activities and the ensuing revenue underperformance. Staff reiterates the importance of progressing toward adherence to the WAEMU convergence criteria to help rebuild regional reserves. Reforms should be pursued to address weak revenue collection, prevent new arrears accumulation, and improve the cost-effectiveness of public investment projects. The restructuring plan of the two public banks should be implemented, including adequate recapitalization, strengthened governance, and financial viability.

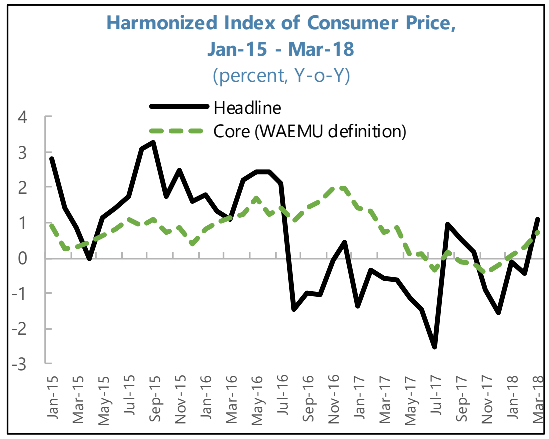
32. Staff recommends completion of the second ECF review as well as the modification of the performance criteria on domestic primary balance and net domestic financing (both for end-June) and on non-concessional external borrowing (continuous). This recommendation is based on the authorities' good performance under the program as well as their commitments going forward.

Figure 1. Togo: Indicators of Economic Activity

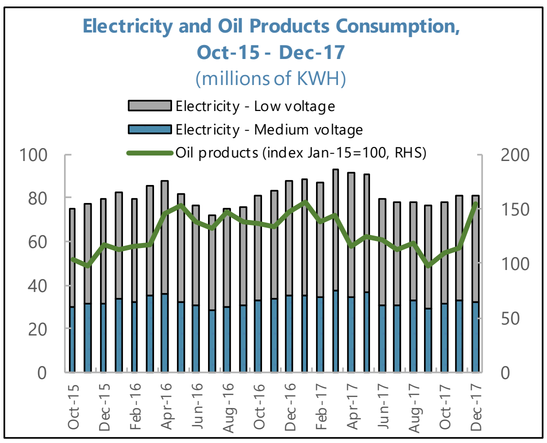
Economic activity has weakened in 2017 and...



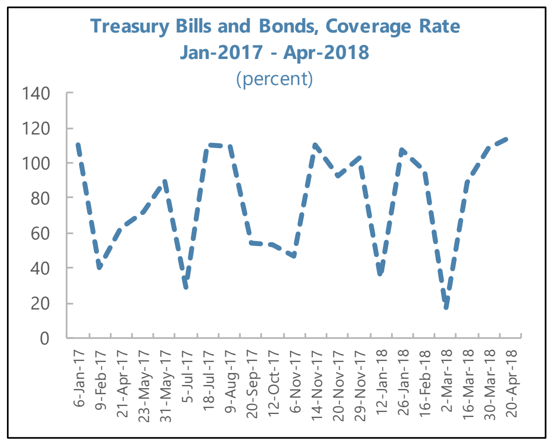
...inflation has remained low, due to a sharp decline in fresh food and energy prices.



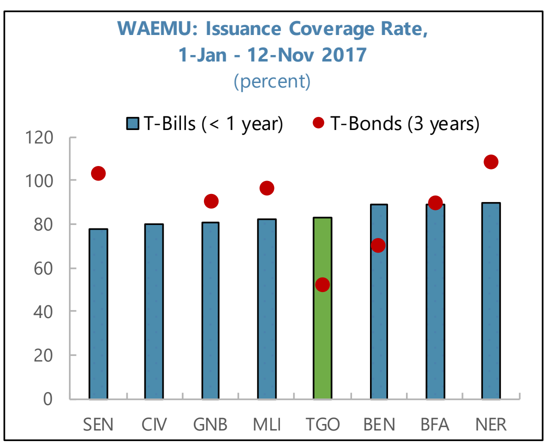
The consumption of some key products has softened, including energy and petroleum products.



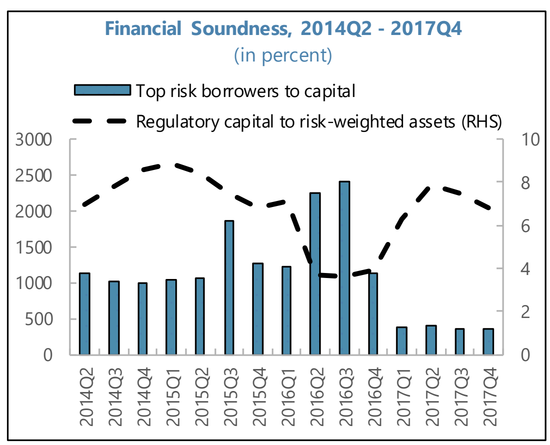
The government's ability to raise funds in the WAEMU regional bond market has been uneven...



...and the yearly average has been generally lower than the WAEMU countries...

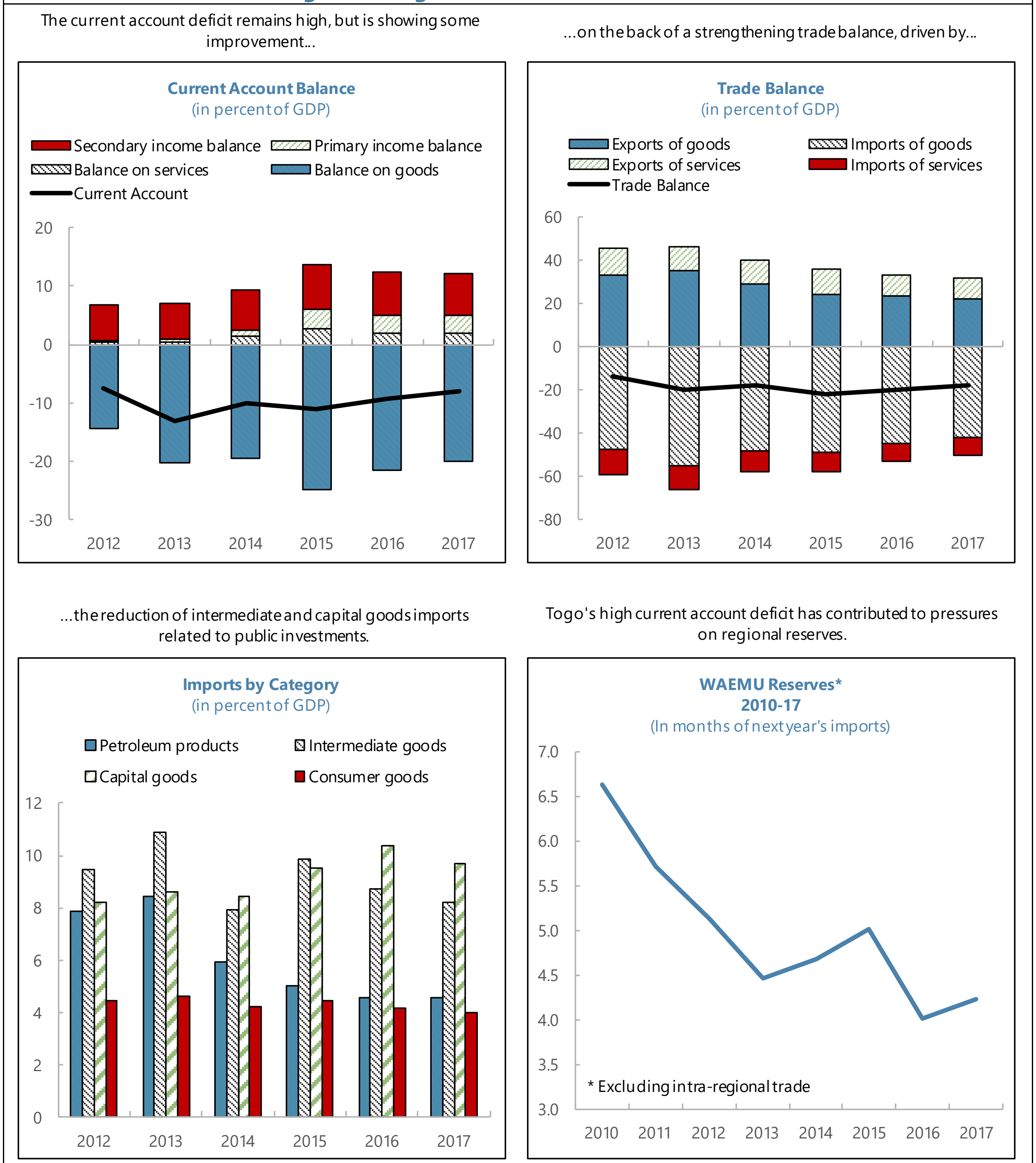


...while banks' behaviour has been affected by regulatory changes and existing vulnerabilities.



Sources: Togolese authorities; and IMF staff estimates.

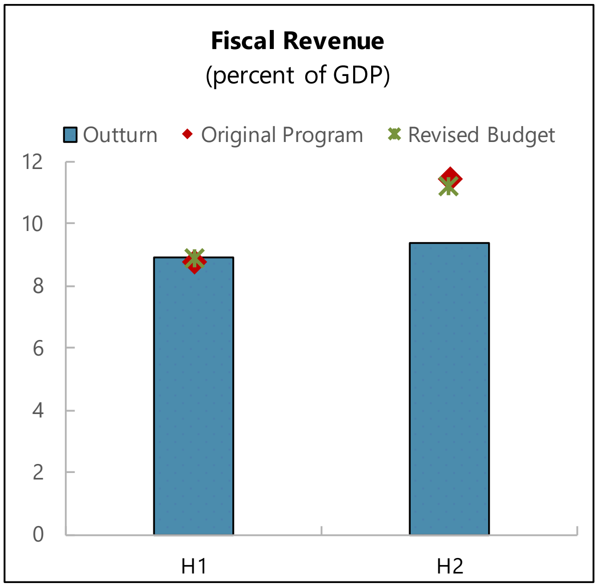
Figure 2. Togo: External Sector, 2012–2017



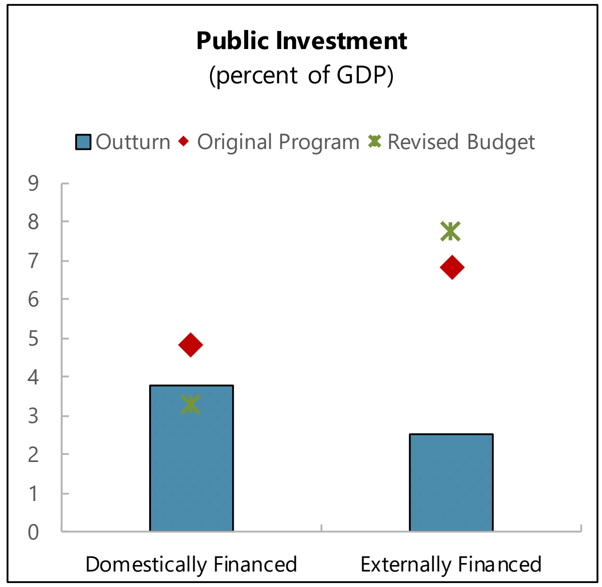
Sources: Togolese authorities; and IMF staff estimates.

Figure 3. Togo: Fiscal Developments, 2017

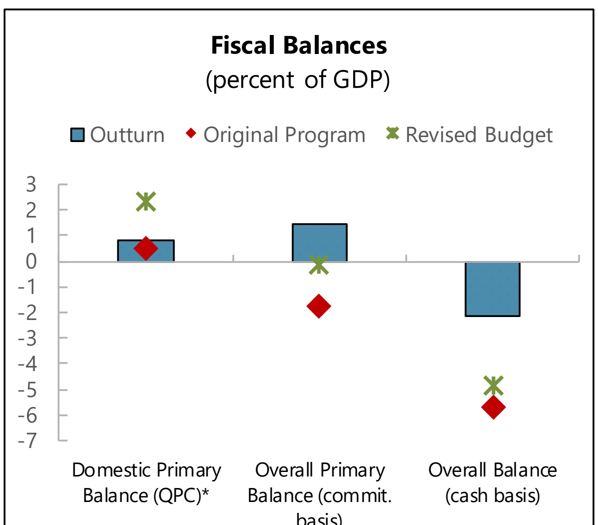
Fiscal revenue in H1 was in line with projections, though it fell short in H2...



...however, this was compensated by significantly lower investment spending over the year...

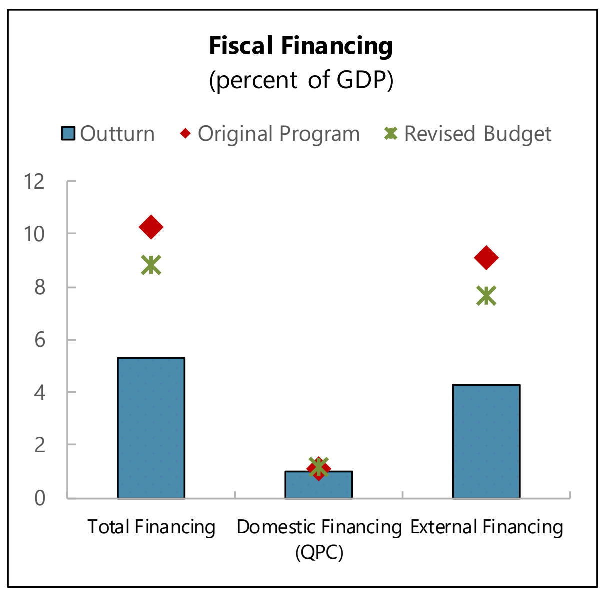


...thus meeting the QPC on the domestic primary balance, as well as the overall balance targets.



* The QPC for the 2nd Review was aligned with the original program rather than the revised budget.

Financing remained well within targets, even taking into account domestic arrears.



Sources: Togolese authorities; and IMF staff estimates.

Table 1. Togo: Selected Economic and Financial Indicators, 2015–23

	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Est.	Proj.					
	(Percentage change, unless otherwise indicated)								
National income, prices, and exchange rates									
Real GDP	5.7	5.1	4.4	4.7	5.0	5.3	5.4	5.4	5.4
Real GDP per capita	3.1	2.5	1.8	2.1	2.4	2.7	2.8	2.8	2.8
GDP deflator	3.5	1.8	0.4	1.9	2.3	3.0	3.0	3.0	3.0
Consumer price index (average)	1.8	0.9	-0.7	0.4	1.2	2.0	2.0	2.0	2.0
GDP (CFAF billions)	2,472	2,643	2,769	2,958	3,180	3,449	3,744	4,065	4,413
Exchange rate CFAF/US$ (annual average level)	591.2	592.8	580.9	...	...	...	...	...	...
Real effective exchange rate (appreciation = –)	7.1	-1.1	1.6	...	...	...	...	...	...
Terms of trade (deterioration = –)	6.9	-3.3	-0.7	-1.7	0.5	1.9	1.0	2.5	0.4
	(Percentage change of beginning-of-period broad money)								
Monetary survey									
Net foreign assets	-3.6	5.1	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
Net credit to government	-2.1	-2.3	9.4	-13.9	2.3	0.0	0.0	0.0	0.0
Credit to nongovernment sector	13.2	10.1	-1.5	8.5	9.5	10.8	11.4	12.0	13.8
Broad money (M2)	20.6	12.6	8.3	6.8	7.5	8.5	10.1	8.6	12.4
Velocity (GDP/end-of-period M2)	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.7
	(Percent of GDP, unless otherwise indicated)								
Investment and savings									
Gross domestic investment	33.7	33.8	25.3	30.1	27.7	29.3	30.3	30.6	30.8
Government	12.9	13.9	6.3	10.1	6.7	6.8	6.9	7.2	7.4
Nongovernment	20.8	19.9	19.0	20.0	21.0	22.5	23.4	23.4	23.4
Gross national savings	22.7	24.4	17.3	22.2	20.9	23.7	25.3	25.7	25.8
Government	4.1	4.3	6.0	7.0	6.2	6.5	6.8	7.4	7.9
Nongovernment	18.6	20.1	11.2	15.2	14.7	17.3	18.5	18.3	17.9
Government budget									
Total revenue and grants	21.8	21.6	21.5	24.5	23.8	23.8	24.0	24.3	24.5
Revenue	19.5	18.8	18.3	20.5	19.9	20.0	20.2	20.4	20.6
Total expenditure and net lending	30.7	31.2	21.8	29.0	24.3	24.2	24.1	24.1	24.0
Domestic primary balance[1]	-3.2	-4.5	0.8	1.0	2.9	2.9	2.9	2.8	2.8
Excluding bank recapitalization	-3.2	-4.5	0.8	2.4	2.9	2.9	2.9	2.8	2.8
Overall primary balance (commitment basis, incl. grants)	-6.5	-7.2	1.5	-2.1	2.0	2.0	2.0	2.0	2.0
Excluding bank recapitalization	-6.5	-7.2	1.5	-0.7	2.0	2.0	0.0	0.0	0.0
Overall balance (commitment basis, incl. grants)	-8.9	-9.6	-0.3	-4.5	-0.5	-0.3	0.0	0.2	0.5
Excluding bank recapitalization	-8.9	-9.6	-0.3	-3.1	-0.5	-0.3	0.0	0.0	0.0
Overall primary balance (cash basis, incl. grants)	-5.3	-7.2	-0.3	-4.3	0.9	2.0	2.0	2.0	2.0
Excluding bank recapitalization	-5.3	-7.2	-0.3	-2.9	0.9	2.0	2.0	2.0	2.0
Overall balance (cash basis, incl. grants)	-7.7	-9.6	-2.1	-6.7	-1.6	-0.3	0.0	0.2	0.5
Excluding bank recapitalization	-7.7	-9.6	-2.1	-5.3	-1.6	-0.3	0.0	0.2	0.5
External sector									
Current account balance	-11.0	-9.3	-8.0	-7.9	-6.8	-5.6	-5.0	-4.9	-5.0
Exports (goods and services)	35.8	33.4	31.9	31.0	30.8	30.7	30.8	30.8	30.7
Imports (goods and services)	-57.8	-53.2	-50.0	-48.5	-46.7	-45.3	-44.6	-44.4	-44.4
External public debt[2]	21.7	20.2	19.9	22.7	24.3	23.8	23.4	23.0	22.4
External public debt service (percent of exports)[2]	4.1	5.2	6.1	4.6	4.3	4.3	3.9	4.1	4.8
Domestic public debt[3]	50.6	61.4	55.9	51.6	44.8	39.9	35.0	30.3	25.9
Excluding bank recapitalization	50.6	61.4	55.9	50.2	43.5	38.7	33.9	29.3	25.0
Total public debt[4]	72.2	81.6	75.7	74.3	69.2	63.7	58.4	53.3	48.3
Excluding bank recapitalization[4]	72.2	81.6	75.7	72.9	67.8	62.5	57.3	52.3	47.4
Total public debt (excluding SOEs)[5]	69.8	78.2	72.5	71.4	66.7	61.6	56.6	51.8	47.1
Excluding bank recapitalization (excluding SOEs)[5]	69.8	78.2	72.5	70.0	65.4	60.4	55.5	50.8	46.2

Sources: Togolese authorities and IMF staff estimates and projections.

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

[2] Includes state-owned enterprise external debt.

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

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

[5] Includes prefinancing debt and domestic arrears.

Table 2a. Togo: Central Government Financial Operations, 2015–20

(billions of CFA Francs)

	2015	2016	2017			2018		2019	2020
			Rev. Budg.	Prog.	Est.	Orig. Budg.	Proj.	Proj.	Proj.
					(Billions of CFA Francs)				
Revenue and grants	539.5	571.3	703.1	695.8	595.8	757.8	723.5	755.7	822.4
Total revenue	482.3	495.7	556.3	567.5	507.3	641.6	606.5	632.0	688.2
Tax revenue	427.6	444.7	503.0	514.0	449.0	570.0	518.3	553.1	602.6
Tax administration (CI)	213.6	238.0	273.2	272.7	247.2	320.2	297.9	318.0	344.9
Customs administration (CDII)	214.0	206.8	229.8	241.3	201.8	249.8	220.4	235.1	257.7
Nontax revenue	54.7	50.9	53.3	53.4	58.2	71.6	88.2	78.9	85.6
Grants	57.2	75.6	146.8	128.3	88.5	116.2	117.0	123.7	134.2
Expenditure and net lending	759.1	823.9	767.4	829.7	603.6	830.3	857.3	772.5	833.0
Of which: Dom. primary expenditures	561.5	614.5	493.8	554.0	484.9	538.1	576.3	539.0	588.1
Current expenditure	438.1	456.7	461.2	501.7	429.0	515.5	515.5	559.4	599.8
Primary current spending	379.0	393.8	402.5	417.7	380.4	444.5	444.5	479.0	520.1
Wages and salaries	171.7	182.7	193.1	191.6	192.8	204.0	204.0	219.7	238.5
Goods and services	89.4	100.3	96.0	102.2	84.3	114.7	114.7	123.3	133.8
Transfers and subsidies	115.9	110.8	113.4	123.9	103.3	125.8	125.8	136.0	147.8
Interest	59.1	62.9	58.7	84.0	48.6	71.0	71.0	80.4	79.7
Domestic debt	44.9	54.1	55.9	72.7	38.7	56.9	56.9	70.6	68.4
External debt	14.2	8.8	2.8	11.3	9.9	14.1	14.1	9.8	11.3
Public investment	319.6	367.3	306.2	328.0	174.5	314.8	299.8	213.1	233.2
Domestically financed	181.1	220.8	91.3	136.3	104.4	93.6	89.8	60.0	68.0
Foreign financed	138.5	146.5	214.9	191.7	70.0	221.2	210.0	153.1	165.2
Net Lending[1]	1.4	-0.1	0.0	0.0	0.1	0.0	42.0	0.0	0.0
Domestic primary balance[1]	-79.2	-118.8	62.5	13.4	22.3	103.5	30.2	93.0	100.1
Excluding bank recapitalization	-79.2	-118.8	62.5	13.4	22.3	103.5	72.2	93.0	100.1
Overall primary balance (commitment basis, incl. grants)[1]	-160.5	-189.7	-5.6	-49.9	40.8	-1.5	-62.9	63.6	69.1
Excluding bank recapitalization	-160.5	-189.7	-5.6	-49.9	40.8	-1.5	-20.9	63.6	69.1
Overall balance (commitment basis, incl. grants)[1]	-219.6	-252.6	-64.3	-133.9	-7.8	-72.5	-133.9	-16.8	-10.6
Excluding bank recapitalization	-219.6	-252.6	-64.3	-133.9	-7.8	-72.5	-91.9	-16.8	-10.6
Overall balance (commitment basis, excl. grants)[1]	-276.8	-328.2	-211.1	-262.2	-96.3	-188.7	-250.8	-140.5	-144.8
Excluding bank recapitalization	-276.8	-328.2	-211.1	-262.2	-96.3	-188.7	-208.8	-140.5	-144.8
Change in arrears[2,3]	28.3	0.0	-70.0	-25.9	-50.4	-64.8	-64.8	-35.4	0.0
Overall primary balance (cash basis, incl. grants)[1,3]	-132.2	-189.7	-75.6	-75.8	-9.6	-66.3	-127.7	28.2	69.1
Excluding bank recapitalization	-132.2	-189.7	-75.6	-75.8	-9.6	-66.3	-85.7	28.2	69.1
Overall balance (cash basis, incl. grants)[1,3]	-191.3	-252.6	-134.3	-159.8	-58.2	-137.3	-198.7	-52.2	-10.6
Excluding bank recapitalization	-191.3	-252.6	-134.3	-159.8	-58.2	-137.3	-156.7	-52.2	-10.6
Overall balance (cash basis, excl. grants)[1,3]	-248.5	-328.2	-281.1	-288.1	-146.8	-253.5	-315.6	-175.9	-144.8
Excluding bank recapitalization	-248.5	-328.2	-281.1	-288.1	-146.8	-253.5	-273.6	-175.9	-144.8
Financing[1,3]	369.8	322.6	240.7	248.3	106.4	213.2	275.3	115.7	144.8
Domestic financing (net)[1,3]	235.7	184.4	31.6	31.6	27.3	-12.6	48.0	-58.8	-43.8
Banking system	150.3	-3.6	-244.9	-165.8	-17.8	-17.8	0.0	0.0	0.0
Nonbank financing[1,3,4]	85.4	187.9	276.5	197.4	45.1	5.2	48.0	-58.8	-43.8
External financing (net)	134.2	138.3	209.1	216.7	79.1	225.8	227.3	174.5	188.6
Financing gap/unidentified financing	-121.3	5.6	40.4	39.7	40.3	40.3	40.3	60.1	0.0
IMF-ECF			40.4	39.7	40.3	40.3	40.3	60.1	
Memorandum Item:									
Nominal GDP (CFAF billions)	2,471.8	2,643.5	2,778.9	2,811.8	2,769.5	2,957.5	2,957.5	3,179.7	3,448.7

Sources: Togolese authorities and IMF staff estimates and projections.

[1] Reflects projected cost for the recapitalization of the two merged 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.

Table 2b. Togo: Central Government Financial Operations, 2015–20

(Percent of GDP)

	2015	2016	2017			2018		2019	2020
			Rev. Budg.	Prog.	Est.	Orig. Budg.	Proj.	Proj.	Proj.
	(Percent of GDP)								
Revenue and grants	21.8	21.6	25.3	24.7	21.5	25.6	24.5	23.8	23.8
Total revenue	19.5	18.8	20.0	20.2	18.3	21.7	20.5	19.9	20.0
Tax revenue	17.3	16.8	18.1	18.3	16.2	19.3	17.5	17.4	17.5
Tax administration (CI)	8.6	9.0	9.8	9.7	8.9	10.8	10.1	10.0	10.0
Customs administration (CDII)	8.7	7.8	8.3	8.6	7.3	8.4	7.5	7.4	7.5
Nontax revenue	2.2	1.9	1.9	1.9	2.1	2.4	3.0	2.5	2.5
Grants	2.3	2.9	5.3	4.6	3.2	3.9	4.0	3.9	3.9
Expenditures and net lending	30.7	31.2	27.6	29.5	21.8	28.1	29.0	24.3	24.2
Of which: Dom. primary expenditures	22.7	23.2	17.8	19.7	17.5	18.2	19.5	17.0	17.1
Current expenditures	17.7	17.3	16.6	17.8	15.5	17.4	17.4	17.6	17.4
Primary current spending	15.3	14.9	14.5	14.9	13.7	15.0	15.0	15.1	15.1
Wages and salaries	6.9	6.9	6.9	6.8	7.0	6.9	6.9	6.9	6.9
Goods and services	3.6	3.8	3.5	3.6	3.0	3.9	3.9	3.9	3.9
Transfers and subsidies	4.7	4.2	4.1	4.4	3.7	4.3	4.3	4.3	4.3
Interest	2.4	2.4	2.1	3.0	1.8	2.4	2.4	2.5	2.3
Public investment	12.9	13.9	11.0	11.7	6.3	10.6	10.1	6.7	6.8
Domestically financed	7.3	8.4	3.3	4.8	3.8	3.2	3.0	1.9	2.0
Foreign financed	5.6	5.5	7.7	6.8	2.5	7.5	7.1	4.8	4.8
Net Lending[1]	0.1	0.0	0.0	0.0	0.0	0.0	1.4	0.0	0.0
Domestic primary balance[1]	-3.2	-4.5	2.3	0.5	0.8	3.5	1.0	2.9	2.9
Excluding bank recapitalization	-3.2	-4.5	2.3	0.5	0.8	3.5	2.4	2.9	2.9
Overall primary balance (commitment basis, incl. grants)[1]	-6.5	-7.2	-0.2	-1.8	1.5	-0.1	-2.1	2.0	2.0
Excluding bank recapitalization	-6.5	-7.2	-0.2	-1.8	1.5	-0.1	-0.7	2.0	2.0
Overall balance (commitment basis, incl. grants)[1]	-8.9	-9.6	-2.3	-4.8	-0.3	-2.5	-4.5	-0.5	-0.3
Excluding bank recapitalization	-8.9	-9.6	-2.3	-4.8	-0.3	-2.5	-3.1	-0.5	-0.3
Overall balance (commitment basis, excl. grants)[1]	-11.2	-12.4	-7.6	-9.3	-3.5	-6.4	-8.5	-4.4	-4.2
Excluding bank recapitalization	-11.2	-12.4	-7.6	-9.3	-3.5	-6.4	-7.1	-4.4	-4.2
Change in arrears[2,3]	1.1	0.0	-2.5	-0.9	-1.8	-2.2	-2.2	-1.1	0.0
Overall primary balance (cash basis, incl. grants)[1,3]	-5.3	-7.2	-2.7	-2.7	-0.3	-2.2	-4.3	0.9	2.0
Excluding bank recapitalization	-5.3	-7.2	-2.7	-2.7	-0.3	-2.2	-2.9	0.9	2.0
Overall balance (cash basis, incl. grants)[1,3]	-7.7	-9.6	-4.8	-5.7	-2.1	-4.6	-6.7	-1.6	-0.3
Excluding bank recapitalization	-7.7	-9.6	-4.8	-5.7	-2.1	-4.6	-5.3	-1.6	-0.3
Overall balance (cash basis, excl. grants)[1,3]	-10.1	-12.4	-10.1	-10.2	-5.3	-8.6	-10.7	-5.5	-4.2
Excluding bank recapitalization	-10.1	-12.4	-10.1	-10.2	-5.3	-8.6	-9.3	-5.5	-4.2
Financing[1,3]	15.0	12.2	8.7	8.8	3.8	7.2	9.3	3.6	4.2
Domestic financing (net)[1,3]	9.5	7.0	1.1	1.1	1.0	-0.4	1.6	-1.8	-1.3
Banking system	6.1	-0.1	-8.8	-5.9	-0.6	-0.6	0.0	0.0	0.0
Nonbank financing[1,3,4]	3.5	7.1	9.9	7.0	1.6	0.2	1.6	-1.8	-1.3
External financing (net)	5.4	5.2	7.5	7.7	2.9	7.6	7.7	5.5	5.5
Financing gap/unidentified financing	-4.9	0.2	1.5	1.4	1.5	1.4	1.4	1.9	0.0
IMF-ECF	…	…	1.5	1.4	1.5	1.4	1.4	1.9	…
Memorandum Item:									
Nominal GDP (CFAF billions)	2,471.8	2,643.5	2,778.9	2,811.8	2,769.5	2,957.5	2,957.5	3,179.7	3,448.7

Sources: Togolese authorities and IMF staff estimates and projections.

[1]Reflects projected cost for the recapitalization of the two merged 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.

Table 3. Togo: Balance of Payments, 2015–23

	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Est.	Proj.					
				(Billions of CFA Francs)					
Current account balance	-272.6	-246.4	-222.5	-233.8	-217.8	-192.3	-185.4	-199.5	-219.6
Trade balance	-610.8	-571.8	-555.2	-575.7	-576.0	-590.1	-613.6	-658.0	-715.9
Of which: petroleum products, net	-101.8	-95.6	-100.0	-108.2	-105.7	-103.6	-104.5	-111.0	-119.5
Exports	597.7	614.2	608.8	621.8	667.0	718.7	783.5	850.6	922.4
Imports	1,208.5	1,186.0	1,164.0	1,197.4	1,243.0	1,308.9	1,397.2	1,508.6	1,638.3
Services, net	67.8	48.4	54.2	56.3	70.5	86.5	93.9	103.0	111.6
Primary income, net	83.1	84.3	85.0	85.7	85.6	92.3	99.1	106.7	115.2
Secondary income, net	187.3	192.7	193.5	199.8	202.0	219.1	235.2	248.8	269.5
Capital account balance	159.4	160.9	169.1	175.2	178.8	186.2	194.5	203.2	212.7
Current and capital account balance	-113.2	-85.5	-53.3	-58.6	-39.1	-6.0	9.1	3.8	-6.9
Financial account	-225.5	-152.6	-108.7	-133.6	-137.2	-47.7	-45.8	-44.3	-58.3
Direct investment, net	53.7	72.3	96.0	97.4	117.9	128.0	139.0	152.8	165.9
Portfolio investment, net	-75.5	-77.0	-13.7	-14.6	-15.7	-17.1	-18.5	-20.1	-21.9
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	-203.7	-147.9	-191.0	-216.4	-239.4	-158.6	-166.3	-177.0	-202.4
Of which: general government, net	134.2	138.3	119.5	227.3	174.5	188.6	207.0	222.8	232.7
Errors and omissions	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	115.0	67.1	55.3	75.0	98.2	41.6	54.9	48.1	51.4
Financing	-115.0	-67.2	-15.0	-34.7	-38.0	-41.6	-54.9	-48.1	-51.4
Change NFA[1]	-115.0	-67.2	-15.0	-34.7	-38.0	-41.6	-54.9	-48.1	-51.4
Financing gap	…	…	40.3	40.3	60.1	0.0	0.0	0.0	0.0
IMF ECF	…	…	40.3	40.3	60.1	…	…	…	…
				(Percent of GDP)					
Current account balance	-11.0	-9.3	-8.0	-7.9	-6.8	-5.6	-5.0	-4.9	-5.0
Trade balance	-24.7	-21.6	-20.0	-19.5	-18.1	-17.1	-16.4	-16.2	-16.2
Of which: petroleum products, net	-4.1	-3.6	-3.6	-3.7	-3.3	-3.0	-2.8	-2.7	-2.7
Exports	24.2	23.2	22.0	21.0	21.0	20.8	20.9	20.9	20.9
Imports	48.9	44.9	42.0	40.5	39.1	38.0	37.3	37.1	37.1
Services, net	2.7	1.8	2.0	1.9	2.2	2.5	2.5	2.5	2.5
Primary income, net	3.4	3.2	3.1	2.9	2.7	2.7	2.6	2.6	2.6
Secondary income, net	7.6	7.3	7.0	6.8	6.4	6.4	6.3	6.1	6.1
Capital account balance	6.4	6.1	6.1	5.9	5.6	5.4	5.2	5.0	4.8
Current and capital account balance	-4.6	-3.2	-1.9	-2.0	-1.2	-0.2	0.2	0.1	-0.2
Financial account	-9.1	-5.8	-3.9	-4.5	-4.3	-1.4	-1.2	-1.1	-1.3
Direct investment, net	2.2	2.7	3.5	3.3	3.7	3.7	3.7	3.8	3.8
Portfolio investment, net	-3.1	-2.9	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
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	-8.2	-5.6	-6.9	-7.3	-7.5	-4.6	-4.4	-4.4	-4.6
Of which: general government, net	5.4	5.2	4.3	7.7	5.5	5.5	5.5	5.5	5.3
Errors and omissions	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	4.7	2.5	2.0	2.5	3.1	1.2	1.5	1.2	1.2
Financing	-4.7	-2.5	-0.5	-1.2	-1.2	-1.2	-1.5	-1.2	-1.2
Change in NFA[1]	-4.7	-2.5	-0.5	-1.2	-1.2	-1.2	-1.5	-1.2	-1.2
Financing gap	…	…	1.5	1.4	1.9	0.0	0.0	0.0	0.0
IMF ECF	…	…	1.5	1.4	1.9	…	…	…	…
Memorandum items:									
BCEAO NFA (in months of next year's WAEMU imports)	5.0	4.0	4.2	…	…	…	…	…	…
BCEAO NFA (in million USD)[2]	12,415	10,392	12,963	17,865	…	…	…	…	…
BCEAO NFA (in percent of broad money)	43.8	35.0	35.3	…	…	…	…	…	…

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.

[2]2018 value is for end-April.

Table 4. Togo: Monetary Survey, 2015–23

	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Est.	Proj.					
				(Billions of CFA Francs)					
Net foreign assets	-31.6	33.7	5.3	5.6	5.8	6.2	6.5	6.8	7.2
BCEAO	-259.6	-330.7	-388.5	-406.9	-427.5	-450.1	-474.4	-500.1	-527.1
Assets	44.7	29.8	50.8	40.3	40.3	40.3	40.3	40.3	40.3
Liabilities	-304.3	-360.6	-439.3	-447.3	-467.8	-490.5	-514.8	-540.4	-567.4
Commercial banks	228.0	364.4	393.8	412.5	433.3	456.3	480.9	506.9	534.3
Assets	519.7	684.6	690.7	690.6	690.6	690.6	690.6	690.6	690.6
Liabilities	-291.7	-320.2	-296.9	-278.1	-257.3	-234.3	-209.7	-183.7	-156.3
Net domestic assets	1340.1	1445.7	1602.3	1697.5	1821.7	1972.2	2166.4	2348.2	2634.0
Credit to government (net)	60.9	32.2	166.5	-49.5	-11.1	-11.1	-11.2	-11.3	-11.4
BCEAO	52.9	-12.1	-10.3	-10.3	-10.3	-10.3	-10.3	-10.3	-10.3
Commercial banks	8.0	44.3	176.8	-39.1	-0.7	-0.8	-0.9	-1.0	-1.0
Credit to nongovernment sector	954.6	1082.8	1060.7	1192.7	1350.5	1542.0	1763.2	2018.6	2336.3
of which: Credit to private sector	889.3	1025.0	983.5	1105.9	1253.4	1439.3	1656.3	1906.0	2193.3
Other items (net)	-432.2	-462.1	-515.8	-671.8	-599.9	-558.8	-532.0	-458.4	-426.7
Shares and other equities	107.7	131.4	140.7	117.5	117.5	117.5	117.5	117.5	117.5
Total broad money liabilities	1308.4	1479.4	1607.6	1703.0	1827.6	1978.3	2172.9	2355.0	2641.3
Money supply (M2)	1272.1	1432.6	1552.1	1657.4	1782.0	1932.7	2127.3	2309.4	2595.7
Currency Outside Depository Corporations	241.5	246.5	276.7	280.1	281.9	283.5	285.1	286.6	288.0
Transferable Deposits	431.5	517.5	543.7	576.6	619.3	636.3	677.4	671.6	740.2
Other Deposits	599.1	668.6	731.7	800.7	880.8	1012.9	1164.8	1351.2	1567.4
Non-liquid liabilities (excl. from broad money)	36.3	46.7	55.5	45.6	45.6	45.6	45.6	45.6	45.6
				(Annual change, as a percent of beginning-of-period broad money)					
Net foreign assets	-3.6	5.1	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
BCEAO	-4.6	-5.6	-4.0	-1.2	-1.3	-1.5	-1.6	-1.7	-1.7
Commercial banks	1.0	10.7	2.1	1.2	1.3	1.5	1.6	1.7	1.8
Net domestic assets	24.4	8.3	10.9	6.1	7.5	8.4	10.0	8.5	12.4
Credit to government (net)	-2.1	-2.3	9.4	-13.9	2.3	0.0	0.0	0.0	0.0
Credit to nongovernment sector	13.2	10.1	-1.5	8.5	9.5	10.8	11.4	12.0	13.8
Other items (net)	-14.9	-2.4	-3.7	-10.1	4.3	2.3	1.4	3.5	1.4
Shares and other equities	1.6	1.9	0.6	-1.5	0.0	0.0	0.0	0.0	0.0
Total broad money liabilities									
Money supply (M2)	20.6	12.6	8.3	6.8	7.5	8.5	10.1	8.6	12.4
Currency Outside Depository Corporations	8.9	0.4	2.1	0.2	0.1	0.1	0.1	0.1	0.1
Transferable Deposits	3.0	6.8	1.8	2.1	2.6	1.0	2.1	-0.3	3.0
Other Deposits	8.7	5.5	4.4	4.4	4.8	7.4	7.9	8.8	9.4
Non-liquid liabilities (excl. from broad money)	0.2	0.8	0.6	-0.6	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Velocity (GDP/end-of-period M2)	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.7
				(Percent of GDP)					
Net foreign assets	-1.3	1.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
BCEAO	-10.5	-12.5	-14.0	-13.8	-13.4	-13.1	-12.7	-12.3	-11.9
Assets	1.8	1.1	1.8	1.4	1.3	1.2	1.1	1.0	0.9
Liabilities	-12.3	-13.6	-15.9	-15.1	-14.7	-14.2	-13.7	-13.3	-12.9
Commercial banks	9.2	13.8	14.2	13.9	13.6	13.2	12.8	12.5	12.1
Assets	21.0	25.9	24.9	23.4	21.7	20.0	18.4	17.0	15.7
Liabilities	-11.8	-12.1	-10.7	-9.4	-8.1	-6.8	-5.6	-4.5	-3.5
Net domestic assets	54.2	54.7	57.9	57.4	57.3	57.2	57.9	57.8	59.7
Credit to government (net)	2.5	1.2	6.0	-1.7	-0.3	-0.3	-0.3	-0.3	-0.3
BCEAO	2.1	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2
Commercial banks	0.3	1.7	6.4	-1.3	0.0	0.0	0.0	0.0	0.0
Credit to nongovernment sector	38.6	41.0	38.3	40.3	42.5	44.7	47.1	49.7	52.9
of which: Credit to private sector	36.0	38.8	35.5	37.4	39.4	41.7	44.2	46.9	49.7
Other items (net)	-17.5	-17.5	-18.6	-22.7	-18.9	-16.2	-14.2	-11.3	-9.7
Shares and other equities	4.4	5.0	5.1	4.0	3.7	3.4	3.1	2.9	2.7
Total broad money liabilities	52.9	56.0	58.0	57.6	57.5	57.4	58.0	57.9	59.9
Money supply (M2)	51.5	54.2	56.0	56.0	56.0	56.0	56.8	56.8	58.8
Currency Outside Depository Corporations	9.8	9.3	10.0	9.5	8.9	8.2	7.6	7.1	6.5
Transferable Deposits	17.5	19.6	19.6	19.5	19.5	18.4	18.1	16.5	16.8
Other Deposits	24.2	25.3	26.4	27.1	27.7	29.4	31.1	33.2	35.5
Non-liquid liabilities (excl. from broad money)	1.5	1.8	2.0	1.5	1.4	1.3	1.2	1.1	1.0

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

(Percent)

	2014	2015	2016	2017
Capital Adequacy				
Regulatory capital to risk-weighted assets	8.5	6.8	3.9	6.8
Regulatory tier 1 capital to risk-weighted assets	7.2	6.1	3.0	5.6
Capital to assets	4.7	3.7	1.4	3.9
Sectoral distribution of credit (percent of total credit)				
Agriculture and fishing	0.3	0.3	0.3	0.2
Extracting industries	0.7	0.8	0.8	0.5
Manufacturing	11.5	11.6	9.2	7.9
Electricity, gas, and water	4.4	3.7	6.0	4.3
Building and construction	18.0	22.7	21.4	14.7
Commerce	37.2	33.6	34.6	32.9
Transport and Communication	12.0	11.2	10.6	10.4
Services	3.5	2.9	2.5	2.4
Collectives and Social Services	12.5	13.3	14.8	23.8
Asset quality				
Non-performing loans to total gross loans	15.4	16.6	15.4	17.0
Non-performing loans net of provisions to capital	65.3	96.4	112.9	58.6
Bank provisions to non-performing loans	74.0	69.2	77.3	71.7
Provisions to total assets	13.1	13.3	14.9	14.8
Top risk assets to capital	115.5	136.6	1122.6	390.7
Loans to total assets	63.5	62.6	59.0	61.7
Loan to deposit ratio	93.0	94.1	94.5	92.0
Earnings and profitability (available up to 2017Q2)				
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	3.5
Liquidity				
Liquid assets to total assets (liquid asset ratio)	43.5	44.3	58.1	46.1
Liquid assets to short term liabilities	73.9	76.7	78.5	74.7
Liquid assets to deposits	63.6	66.5	93.0	69.9
Sensitivity to market risk				
Foreign-currency-denominated liabilities to total liabilities	0.0	0.0	4.4	2.2
Net foreign open position to capital	0.0	0.0	-77.6	21.3

Source: BCEAO.

Table 6. Togo: Indicators of Capacity to Repay the Fund, 2017–2029[1]

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Est.						Projections						
Fund obligations based on existing and prospective credit													
(in millions of SDRs)													
Principal	19.1	17.8	11.0	7.5	1.8	2.5	12.6	22.7	35.2	35.2	32.7	22.7	12.6
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	19.4	18.1	11.3	7.8	2.1	2.8	12.9	22.9	35.5	35.5	33.0	22.9	12.9
In billions of CFAF	15.6	13.9	8.7	5.9	1.6	2.1	9.7	17.3	26.8	26.8	24.9	17.3	9.7
In percent of government revenue	3.1	2.3	1.4	0.9	0.2	0.3	1.1	1.7	2.5	2.2	1.9	1.2	0.6
In percent of exports of goods and services	1.8	1.5	0.9	0.6	0.1	0.2	0.7	1.2	1.7	1.6	1.3	0.9	0.4
In percent of debt service[2]	16.8	17.4	10.7	6.7	1.8	2.1	7.6	11.0	14.1	13.0	11.5	8.3	4.7
In percent of GDP	0.6	0.5	0.3	0.2	0.0	0.1	0.2	0.4	0.5	0.5	0.4	0.3	0.1
In percent of quota	13.2	12.3	7.7	5.3	1.4	1.9	8.8	15.6	24.2	24.2	22.5	15.6	8.8
Outstanding IMF credit													
In millions of SDRs	88.4	121.0	185.4	177.9	176.2	173.6	161.1	138.4	103.2	67.9	35.2	12.6	0.0
In billions of CFAF	71.2	93.1	141.9	135.3	133.5	131.3	121.6	104.5	77.9	51.3	26.6	9.5	0.0
In percent of government revenue	14.0	15.3	22.5	19.7	17.7	15.8	13.4	10.5	7.1	4.3	2.0	0.7	0.0
In percent of exports of goods and services	8.0	10.2	14.5	12.8	11.6	10.5	9.0	7.1	4.9	3.0	1.4	0.5	0.0
In percent of debt service[2]	76.4	116.8	175.0	153.1	153.1	130.5	94.6	66.3	40.9	24.8	12.3	4.6	0.0
In percent of GDP	2.6	3.1	4.5	3.9	3.6	3.2	2.8	2.2	1.5	0.9	0.4	0.1	0.0
In percent of quota	60.2	82.4	126.3	121.2	120.0	118.3	109.7	94.3	70.3	46.3	24.0	8.6	0.0
Net use of IMF credit (millions of SDRs)													
Disbursements	50.3	50.3	75.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	19.1	17.8	11.0	7.5	1.8	2.5	12.6	22.7	35.2	35.2	32.7	22.7	12.6
Memorandum items:													
Nominal GDP (in billions of CFAF)	2,769	2,958	3,180	3,449	3,744	4,065	4,413	4,790	5,201	5,646	6,129	6,654	7,224
Exports of goods and services (in billions of CFAF)	885	916	980	1,058	1,152	1,251	1,356	1,465	1,583	1,719	1,865	2,024	2,197
Government revenue (in billions of CFAF)	507	607	632	688	755	829	909	997	1,093	1,199	1,314	1,429	1,553
Debt service (in billions of CFAF)[2 3]	93	80	81	88	87	101	129	158	190	207	216	208	207
CFAF/SDR (period average)	805	769	766	761	758	756	755	755	755	755	755	755	755

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]

Nature/Sources of Risk	Relative Likelihood	Expected Impact If Realized	Policies to Mitigate Risks
External Risks			
Tighter global financial conditions (ST, MT).	***High***	***High*** • The inability of the government to raise financing may reemerge. • Higher rates would increase debt servicing costs, putting pressure on the budget.	• Bolster investors' confidence by implementing a credible medium-term fiscal adjustment strategy.
Weaker-than-expected global growth (ST, MT).	***High/Medium***	***Medium*** • 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, and further diversify export market locations.
Retreat from cross-border integration (ST, MT).	***Medium***	***Medium*** • 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)	***Medium***	***Medium*** • 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 unrest (ST, MT)	***High***	***High*** • 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)	***Medium***	***Medium*** • The large revenue under- performance may persist. • 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 shortfall (ST, MT).	***High***	***High*** • 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.

Annex II. Capacity Development Strategy

As a low-income fragile country, Togo faces capacity and institution building challenges, which are being addressed with tailored capacity development, including technical assistance and training. This assistance is coordinated with the IMF-supported program and covers the areas of revenue administration, public financial management, bank restructuring, and statistics.

1. **The priorities under the ECF-supported program and recent economic developments require extensive capacity development (CD).** The key policy priorities under the authorities' program supported by the ECF are to (i) pursue fiscal consolidation to ensure debt sustainability; (ii) enhance fiscal governance on revenue administration and PFM; and (iii) solve the problem of the two public banks to ensure financial stability and prevent future fiscal costs. Recent developments in those areas call for stepping up CD: revenue has significantly underperformed; arrears continue to accumulate; the efficiency of investment needs to be bolstered following the phasing-out of prefinancing; and the recently developed bank restructuring plan should be implemented swiftly. Despite notable progress made by the authorities in the areas where the IMF provided CD, some obstacles to effective absorption of CD remain. The implementation of CD recommendations has been uneven across sectors; obstacles are mostly related to capacity weaknesses, insufficient ownership, need for prioritization, and internal coordination issues.

Key CD Priorities and Objectives for FY2018:

Priorities	Objectives
Revenue administration	(i) analysis of the weak revenue performance in 2017 and design/ implementation of corrective measures; (ii) minimization/elimination of cash transactions; (iii) reduction of the stock of pending transit cases; (iv) extension of SYDONIA World coverage to all clearance phases; and (v) coordination/ synchronization of tax and customs databases.
Public financial management	(i) clearance of arrears and prevention of re-accumulation; (ii) enforcement of procurement, commitment, and cash plans; (iii) enhancement of the Treasury Single Account; (iv) launch of an investment cost-effectiveness analysis; and (v) setting up of program budgeting.
Financial sector	(i) implementation of the bank restructuring plan; and (ii) strengthening of governance structure for the new single public bank.
Statistics	Reduction of delays in the production of the national accounts.

Authorities' Views:

2. **The authorities agree with the thrust of the CD strategy.** They see the CD as being aligned with their reform agenda. The CD from the IMF has helped feed their reform agenda by providing specific measures. The implementation/absorption of the recommendations could be improved through more training and outreach.

Appendix I. Letter of Intent

MINISTRY OF ECONOMY AND FINANCE	**REPUBLIC OF TOGO**
---------------	*Travail-Liberté-Patrie*
OFFICE OF THE MINISTER	---------

N°………………/MEF/CAB	

Lomé, May 29, 2018

To

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

Dear Ms. Lagarde:

1. The Togolese government requests the completion of the second review under the ECF arrangement based on the satisfactory implementation of the program. All continuous and end-December 2017 quantitative performance criteria were met. The domestic primary balance and domestic financing targets were met. We refrained from contracting any new prefinancing, contracting or guaranteeing non-concessional external debt, and providing any guarantees for domestic suppliers and contractors. All structural benchmarks at end-December 2017 were also met; the structural benchmark on the bank restructuring plan due by end-February was not met but implemented with delay. We also completed the prior actions on submitting to the Parliament a revised 2018 budget consistent with the program and submitting to the Cabinet a draft proposal to enhance property tax revenue. The Indicative Target (IT) on revenue collection was missed and the IT on domestically financed social spending was marginally below target. We propose modification of the end-June 2018 performance criteria on domestic primary balance and net domestic financing as well as the continuous performance criteria on non-concessional external borrowing.

2. We have carried out the fiscal consolidation as envisaged under our program supported by the ECF arrangement. Despite a large revenue underperformance, the 2017 fiscal outturn shows a substantial consolidation relative to 2016 driven by significant expenditure optimisation. The domestic primary balance, which reflects the fiscal effort under the control of the government, improved from a deficit of about 4 percent of GDP in 2016 to a surplus of about 1 percent of GDP in 2017. At the same time, good progress was made in implementing our structural reform agenda, including on revenue administration and public financial management.

3. The government remains committed to continue addressing the high debt level. The government has submitted to the parliament a revised 2018 budget accounting for the revenue shortfall and consistent with the targets under the ECF-supported program. While this revised budget shows a slight loosening of the 2018 fiscal balance target relative to the initial budget, the revised fiscal framework broadly preserves the original magnitude of debt reduction during program period as well as the external objectives, due partly to the overperformance in 2017. Our policies will ensure that Togo adheres to the regional convergence criteria and contribute to the joint WAEMU countries' efforts to help rebuild regional reserves. Furthermore, we will continue to focus our policies on sustainable and inclusive growth, including the protection of social spending despite the fiscal consolidation. As part of the continuation of the program, our structural reforms under the ECF-supported program in the second half of 2018 will focus on six (6) structural benchmarks related to: (i) the transmission to IMF staff, starting with July 2018, of monthly data on the stock of payment arrears by age (December 2018); (ii) strengthening of the implementation of the cash plan and control of commitment authorizations (December 2018); (iii) guidelines to include in 2019 budget only investment projects selected through cost-benefit analysis (reset for September 2018); (iv) adoption of 2019 budget in line with program objectives (December 2018); (v) mechanism to ensure full independence of the governance structure of the new public bank resulting from the merger of the two state-owned banks (December 2018); and (vi) putting in place mechanisms and procedures to facilitate land registration (December 2018).

4. Our financial sector program aims at maintaining financial stability, and ensuring that all banks are well capitalized and viable, with owners and managers that meet the *fit-and-proper* and financial-strength criteria, in line with the regulations set by the BCEAO. With that objective, the government will pursue policy reforms to strengthen the financial situation of the two public banks, while minimizing future risks to the budget. Such reforms include finalizing the ongoing merger and restructuring process as well as putting in place an independent governance.

5. We are considering reprofiling a portion of our domestic debt into external debt on more favorable terms. We request that the zero-ceiling on non-concessional external debt be modified to allow for such operations. We commit to limiting the magnitude of any such operations to ensure that Togo maintains a moderate risk of external debt distress and that these do not increase our total public debt level in net-present-value terms. We further commit to providing Fund staff, prior to undertaking any reprofiling operations, all necessary data to confirm that they are consistent with our ECF-supported program.

6. We are confident that the policies set out in the attached 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 about progress in implementing our economic and financial policies. We authorize the publication of the staff report for the second review under the ECF arrangement, this letter of intent, and the attached memorandum of economic and financial policies and technical memorandum of understanding.

Very truly yours,

Minister of Economy and Finance

/s/
Sani Yaya

Attachments:

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 Togo's program supported by the ECF arrangement, and describes the authorities' policies going forward. It takes stock of continuous and end-December 2017 quantitative performance criteria and structural benchmarks and sets the targets for end-June and end-December 2018.

RECENT ECONOMIC DEVELOPMENTS

2. Economic activity has weakened due to continuing socio-political tensions. Economic growth is estimated to have decelerated due to a slowdown in tertiary sector activities that are the most affected by the political demonstrations, despite bumper agricultural production. The consumption of some key products has softened in the second half of 2017, including energy, petroleum products, and construction materials. Stagnant since early 2017, the turnover of large companies in several key sectors waned in the last quarter as did credit to the private sector. The trade balance continued to improve, driven by considerably lower imports related to public investments. Inflation has remained subdued, entering positive territory to 1.1 percent (year-on-year) at end-March 2018, after dropping below zero in November 2017 due primarily to a sharp decline in food and energy prices, and possibly to slowing domestic demand.

3. Despite the revenue underperformance, we were nonetheless able to achieve a substantial consolidation relative to 2016 driven by a significant expenditure optimization. The primary fiscal balance improved by 8.7 percentage points of GDP to a surplus of 1.5 percent of GDP. The overall balance improved by more, while the domestic primary balance improved by 5.3 percentage points of GDP. This consolidation was mostly driven by our halting of investment prefinancing, combined with some optimization of current expenditure. It also reflected a decline of foreign-financed investment by about 3 percentage points of GDP.

PROGRAM IMPLEMENTATION

4. All continuous and end-December 2017 quantitative performance criteria (QPCs) under the program have been met. The QPC on the domestic primary surplus for end-December 2017 under the program was exceeded by 0.3 percent of GDP. In the revised 2017 budget, we had envisaged to tighten the domestic primary balance further than the program objective to make room for significant arrears repayment, but we were unable to reach this ambitious target due to the revenue underperformance. The QPC on net domestic financing ceiling was met. The government refrained from contracting or guaranteeing non-concessional external debt and continually remained current on our external debt obligations. The government did not provide any guarantees for domestic suppliers and contractors and refrained from any new prefinancing. The memo items on the overall primary balance and contracting of concessional external debt were overperformed by significant margins.

5. Despite the revenue shortfall, we have protected social spending. They were executed at 98 percent of the level planned in the program; we will continue our efforts to preserve priority social spending. As noted above, fiscal revenue lagged expectations, leading the end-December Indicative Target (IT) on revenue collection to be missed by 2 percent of GDP.

6. We have successfully implemented the structural reforms laid out in our ECF-supported program. All the four end-December structural fiscal benchmarks were met: (i) all controls were in place by August 2017 to detect and tax inaccurate declarations in the phosphate, clinker, cement and iron sectors; (ii) in September 2017, we adopted a decree reorganizing the Ministry of Economy and Finance; (iii) in December 2017, we produced a cash management plan for FY2018; and (iv) a budget for FY2018 consistent with the Fund-supported program was adopted by the Cabinet in November 2017. The structural benchmark on the bank restructuring plan due by end-February 2018 was not met but implemented with delay.

ECONOMIC AND FINANCIAL POLICIES FOR 2018-19

Macroeconomic Framework

7. Notwithstanding the challenges presented by the current socio-political environment, we intend to continue efforts to revive the Togolese economy. While growth may face some new headwinds in the near term, we expect economic activity to gradually pick up in coming years, as the political situation improves and the recent upgrading of public infrastructure boosts productivity and motivates private investment. Inflation should remain within the WAEMU convergence criterion of up to 3 percent. The current account deficit will narrow to about 5 percent of GDP by 2021, reflecting reduced imports of public capital goods and better export performance.

Fiscal Policy

8. We have revised the 2018 budget to take into account the weaker-than-expected revenue performance and the adverse political developments (prior action). Thus, we have taken measures at both revenue level (an increase of about 0.5 percent of GDP) and spending (an optimization of about 0.5 percent of GDP) and have slightly relaxed the budget balance target. Revenues will be boosted primarily by additional non-tax revenues, including mobile phone license revenues. Expenditure savings will be obtained from an optimization effort that we are undertaking with the support of an international consulting firm. The loosening of the budget deficit is warranted by our good performance in 2017 and as a countercyclical fiscal policy in a context marked by the slowdown in economic activities, in connection with the socio-political tensions.

9. This revised fiscal framework broadly preserves the program's overall fiscal and external objectives. It maintains the magnitude of debt reduction envisaged under the original program for 2017-19, of about 12 percentage points of GDP. Implications for the regional WAEMU reserves are also similar to the original program. From 2019 onwards, the domestic primary balance (commitment basis) is projected at a surplus of 2.9 percent of GDP. This fiscal path will ensure that, by the end of the program in 2019, we will meet the WAEMU convergence criterion of reducing the overall deficit to under 3 percent of GDP.

Fiscal Management and Institutions

10. We implemented several administrative measures in 2017 to improve revenue collection. The Revenue Authority (*Office Togolais des Recettes* - OTR) has made online reporting mandatory for large companies. The OTR has also introduced the mobile payment option for Used Vehicle Fleet (PVO) and Motor Carrier Income Tax (IRTR) transactions. Recovery measures have been strengthened regarding the request for suspension of payment and the lodging of a guarantee in the event of dispute of charges. The recovery of declarative defaulters has been made systematic. Finally, the IT tool has been extended to all clearance procedures.

11. We will continue our efforts in 2018 to correct the revenue underperformance in 2017. To this end, aware of a significant fiscal niche at the property tax level, we have taken steps to enhance property tax collections (prior action). We have prepared and submitted to the Cabinet a methodological document for the establishment of the Urban Land Registry (*Régistre Foncier Urbain*) of Lomé, which will allow the control of the matter and the taxable persons with a view to increasing and consolidating the revenues from land taxation. The RFU allows setting up a land map identifying and locating each property, as well as land databases. The RFU can be defined as a multi-purpose Land Information System (*Système d'Informations Foncières*) based on digitized parcel mapping. It is thus assimilated to a simplified cadaster and has a purely fiscal purpose. The methodological note describes the various stages, the actors and their role, the detailed estimated cost, the timing of the realization of the RFU. The activities will start with pilot areas with high potential in 2018.

12. Other revenue enhancing measures are also under consideration. The tax exemption threshold for interest income on funds deposited in savings account will be reduced from 20 to 10 million CFA francs, all accounts combined. The e-service—related to online declaration and payments and mobile payments—will be expanded to all other taxpayers. The use of exemption eligibility certificate (*certificat de détaxes*) will be limited to the sole payment of VAT and this mechanism will be disallowed for other taxes. Customs clearance procedures and related documentation will be gradually digitalized. The functions of trans-shipment and auctions in ASYCUDA will be activated. All ex-ante controls and all adjustments to customs declarations will be completed and reported in the IT system by officers before clearance. Finally, all tax expenditures will be compiled and attached to the next budget law for FY2019.

13. With the goal of accelerating arrears clearance and preventing new accumulation, our government will strengthen the entire expenditure chain and cash management. Beginning with July 2018, the Ministry of Economy and Finance will complete monthly procurement and commitment plans consistent with a cash plan derived from the revised 2018 budget. We will bolster the implementation of the cash plan and the control of commitment authorizations (structural benchmark end-December 2018). We will provide IMF staff with monthly data on the stock of payment arrears by age (structural benchmark end-December 2018). Reforms will continue on the coverage of the Treasury Single Account (TSA) with a view to centralizing public funds. Furthermore, the government will pursue the cost-benefit analysis of investment projects (structural benchmark end-September 2018).

Borrowing Policies and Debt Management

14. We remain committed to reducing public debt to approach the WAEMU debt convergence criterion of 70 percent of GDP by the end of the ECF-supported program in 2019. We will also be on track to meet our program's long-term debt-sustainability objective of reducing the NPV of debt below 38 percent by 2025. We are strengthening our debt management capacities. To this end, we centralized the debt management functions, organized the debt management unit with front, middle and back offices; the managers will be appointed as soon as possible to allow the new structure to function properly. To further support these efforts, we will develop a procedures manual for debt management by around end-June 2018 following the recommendations of AFRITAC technical assistance; the manual will guide the activities of this structure.

15. We are considering reprofiling a portion of our domestic debt into external debt on more favorable terms. We request that the zero-ceiling on non-concessional external debt be modified to allow for such operations. We will limit the magnitude of any such operations to ensure that Togo maintains a moderate risk of external debt distress and that these do not increase our total public debt level in net-present-value terms. Before undertaking any debt-management operations, we commit to consult with the IMF staff and provide IMF staff with all data necessary to confirm that they comply with our ECF-supported program.

Financial Sector Policy

16. We have completed the comprehensive restructuring plan of the two problem banks (structural benchmark end-February 2018). The plan is guided by principles in line with best practices: 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 new bank resulting from the merger of the two state-owned banks; elimination of loss-making activities; and improved organizational efficiency. The cost of the restructuring to the budget is estimated at about 1.4 percent of GDP. The government submitted the plan in April 2018 to the WAMU Banking Commission for review. The legal transfer for the merger is expected to be completed by end-June 2018 (structural benchmark end-June 2018).

17. We are committed to taking measures to ensure long-term independent governance of the new bank and prevent future risks to the budget. To build a viable and well-managed bank, we are committed to strengthening the governance framework of the new bank by setting up a mechanism ensuring that the Board effectively exercises independent and objective judgment. In particular, the majority of the Board members will be independent and the Board will deliberate only in the presence of a majority of independent members. Given the critical role of the Board Chair for Board effectiveness, specific skills will be required for this position. For this purpose, the chairman of the Board will be either an independent director, or a non-executive director operating within a framework to be defined in coordination with IMF staff. The principles of governance of the bank, replacement and election of directors will be set forth in the bank's statutes. We will put in place, before the legal merger at the end of June 2018, a formal framework guaranteeing the accountability of the Board. This relationship framework will allow the State to set high-level expectations and strategic orientations, based on which the Board will develop and/or fine-tune the strategy of the bank. The Ministry of Economy and Finance will act as a representative of the State while a unit within the ministry will monitor the strategy and financial performance of the bank. Following the legal merger, we will set up the new governance structure (structural benchmark end-December 2018)

18. Going forward, further reforms may be possible. In case such reforms entail modifications to the ownership structure, any such step would be governed by existing Togolese law and BCEAO regulations, including (but not limited to) fit-and-proper and solvency requirements for any potential shareholder. We will timely consult with IMF staff prior to taking such steps. Furthermore, given the high NPL ratio of about 17 percent at end-December 2017, we will develop a resolution plan, including measures and time-bound reduction targets.

Structural Reforms and Inclusive Growth

19. We completed and validated our National Development Plan (NDP). It will guide our policies in the coming years to spur growth and tackle poverty. This plan covers the period 2018-22, succeeding the Accelerated Growth and Employment Promotion Strategy (*Stratégie de Croissance Accélérée et de Promotion de l'Emploi,* SCAPE) which expired in 2017. The NDP is based on Government's general policy principles. It is also inspired by the 2030 Agenda for Sustainable Development, the 2063 Agenda of the African Union, and the Vision 2020 of the Economic Community of West African States (ECOWAS). The overarching objectives of the plan are to pave the way for a structural transformation of the Togolese economy through the setting up of a major logistic hub, a dynamic financial center, a solid manufacturing base, accompanied by inclusive and social policies. The medium-term social priorities of the NDP dovetail with our commitment under our ECF-supported program to protect social spending, in particular for projects that have a high impact on poverty reduction. We have submitted a consolidated version of the NDP, which is our new Economic Development Document (EDD) for the information of the Executive Boards of the IMF and the World Bank.

20. The process of developing the NDP has actively involved all categories of development actors (public administration, institutions of the Republic, private sector, civil society in all its components, and development partners). Stakeholder mapping giving an indication of the specializations of the centers of interest and the intentions of the various partners intervening in Togo to support public policies has been established. Furthermore, consultations on development priorities were conducted at the central level and in the capitals of the five regions of the country.

21. Despite the considerable progress we have made toward improving the business environment, we recognize that more remains to be done. Based on the findings of the World Bank Doing Business survey and other competitiveness indicators, our government, in consultation with the private sector, produced an action plan to address key shortcomings and has recently adopted several measures to improve the granting of building permits, the access to electricity, the transfer of existing property titles, contract enforcement, and paying taxes. Our immediate concerns are land reform, business creation, cross-border trade, contract enforcement, and increasing the competitiveness of the Togolese economy (i.e., putting in place a legal framework governing dynamic public-private partnerships, acceleration of the tax telepayment). Regarding the land reform that is among the most pressing, we commit to put in place mechanisms and procedures to facilitate land registration, which shall include digitizing the stock of existing land property titles and open the central window for the liquidation and payment of fees, and clearing the entire backlog of pending mortgage handover documents (structural benchmark end-December 2018). Furthermore, we will take steps to further open some key sectors, such as phosphates and telecommunications, to private investment.

22. We are hopeful that Togo's recent accession to the Compact with Africa will help us attract more investors. The matrix of reforms and the investment prospectus submitted as part of the CwA process capitalize on Togo's major reforms to ensure a stable macroeconomic framework and an attractive investment framework. We pledge to use the Compact with Africa as a catalyst to advance reforms aimed at improving the business climate.

PROGRAM MONITORING AND DATA ISSUES

23. The program will continue to be reviewed semi-annually based on quantitative performance criteria, indicative targets, and structural benchmarks (Tables 1 and 2). Based on the revised fiscal framework explained above, we request a modification of the quantitative performance criteria for end-June 2018 on the domestic primary balance and net domestic financing. We also request a modification of the continuous performance criterion on non-concessional external borrowing. We propose quantitative performance criteria for end-December 2018 and indicative targets for end-September 2018 and end-December 2018. The performance criteria and indicators are defined in the attached Technical Memorandum of Understanding (TMU), along with the relevant adjustors. The third and fourth reviews of the program will be based on performance criteria for end-June 2018 and end-December 2018, respectively, and discussions of the program by the IMF Board will take place on or after September 15, 2018 and March 15, 2019, respectively.

24. The government will continue to strengthen the 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 (i) technical program monitoring and quarterly progress reports; (ii) liaison between national structures, technical and financial partners; and (iii) coordination of technical assistance.

25. We recognize and acknowledge the weaknesses of our statistics and will take remedial measures in this regard. We have already reduced the lags in the production of final national accounts. In addition, efforts are being made to improve GDP estimates. We will take steps to avoid any delay in the production of final national accounts. The quality of the data will continue to improve. 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 are based on estimates of budget execution of the current year.

26. We are confident that the policies included in this memorandum will allow for the achievement of the objectives of the economic program. We stand 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, we 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
December 2017 – December 2018
(Billions CFA Francs)

	End-December 2017			End-March 2018[1]	End-June 2018	End-September 2018	End-December 2018
	Performance Criteria			Indicative Target	Performance Criteria	Indicative Target	Performance Criteria
	Target	Outturn	Met/Not Met				
Performance criteria							
Domestic primary fiscal balance (floor)[2]	13.4	22.3	Met	-6.2	-24.5	-6.5	72.2
Non-accumulation of arrears on external public debt[3]	0.0	0.0	Met	0.0	0.0	0.0	0.0
Net domestic financing (ceiling)[4]	31.6	27.3	Met	51.4	68.6	80.2	6.0
Government contracting or guaranteeing of nonconcessional external debt (ceiling)[5]	0.0	0.0	Met	0.0	0.0	0.0	0.0
Government guaranteeing of domestic loans to suppliers and contractors (ceiling)[6]	0.0	0.0	Met	0.0	0.0	0.0	0.0
Government guarantees on bank prefinancing for public investments (ceiling)[7]	0.0	0.0	Met	0.0	0.0	0.0	0.0
Indicative targets							
Total fiscal revenue (floor)	556.3	507.3	Not Met	128.3	242.6	394.2	606.5
Total domestically financed social spending (floor)	218.4	213.7	Not Met	37.3	109.6	164.4	219.3
Memorandum Item							
Overall primary balance[8]	-75.6	-9.6		-36.9	-94.2	-115.6	-85.7
Government contracting or guaranteeing of nominal concessional external debt	138.0	29.8		138.0	57.1	92.7	142.6
NPV of new non-concessional external debt contracted as a result of debt management operations (maximum)	...	...		...	260.3	260.3	260.3

Sources: Togolese authorities; and IMF staff estimates.

[1]March indicative targets were set during the 1st review and do not align with the revised 2018 budget.

[2]Performance criteria and indicative targets for 2018 will be adjusted downwards by the actual amount spent on bank recapitalization as defined in paragrah 16 of the MEFP.

[3]Continous performance criterion and cumulated from the approval of the arrangement on May 5, 2017.

[4] Performance criteria and indicative targets for 2018 will be adjusted upwards by the actual amount spent on bank capitalization as defined in paragraph 16 of the MEFP. They will be adjusted downwards by the amount corresponding to the debt management operations as described in the TMU, and subject to the constraint that these operations do not increase the net present value of the public debt stock. The adjustor is capped at the nominal equivalent of 260.3 billion CFA francs in net-present-value terms. Performance criteria and indicative targets for 2018 will be adjusted upwards as well to offset deviations from projected external program financing, subject to a cap of CFAF 10 billion. If net arrears repayment in 2018 is less than the one evisaged in the revised 2018 budget, currently projected at CFAF 64.8 billion, the 2018 performance criteria and indicative targets for net domestic financing will be adjusted downwards by the difference between the arrears repayment outturn and the budgeted repayment. The current performance criteria and indicative targets shown are consistent with a net arrears repayment in 2018 of CFAF 64.8 billion.

[5] Continous performance criterion. Performance criteria and indicative targets for 2018 will be adjusted upwards by the amount corresponding to the debt management operations as described in the TMU, and subject to the constraint that these operations do not increase the net present value of the public debt stock. The adjustor is capped at the nominal equivalent of 260.3 billion CFA francs in net-present-value terms.

[6] Continous performance criterion and cumulated from the approval of the arrangement on May 5, 2017.

[7] Continous performance criterion and cumulated from the approval of the arrangement on May 5, 2017.

[8]Before bank recapitalization and with arrears repayment as envisaged in the 2018 budget.

Table 2a. Togo: Structural Benchmarks for the 2nd Review			
Measures	**Rationale**	**Deadline**	**Status**
Submit to the Parliament a revised 2018 budget consistent with the program; or alternatively adopt by the Cabinet in case of technical or time constraints.	Ensure fiscal and debt sustainability	Proposed Prior Action	Met
Prepare and submit to the Cabinet a methodological document for the creation of the Urban Land Registry (RFU) of Lomé.	Improve property tax collection	Proposed Prior Action	Met
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	Met
Public financial management			
Sign a decree reorganizing the Ministry of Economy and Finance	Improve fiscal policy and management	End-December 2017	Met
Ministry of Economy and Finance to submit, in collaboration with the revenue authority (OTR), an annual cash plan for FY2018 consistent with the FY2018 procurement plan and quarterly commitments for 2018.	Improve cash management and prevent arrears	End-December 2017	Met
Public investment management			
Adopt a budget for FY2018 consistent with the Fund-supported program.	Ensure fiscal sustainability	End-December 2017	Met
Financial sector			
Produce and approve by the Ministry of Economy and Finance a comprehensive restructuring plan for the two public banks, and if required, submit an application to the WAMU Banking Commission for the creation of a new bank.	Address the situation of nonviable financial entities by implementing least-cost resolution options	End-February 2018	Not met but implemented with delay

Table 2b. Togo: Structural Benchmarks for the 3rd and 4rd Reviews		
Measures	**Rationale**	**Deadline**
Revenue administration		
Reduce by 60 percent the number of pending customs transit cases.	Improve revenue collection	End-June 2018
Public financial management		
Close 32 accounts of general government entities in commercial banks and transfer the balance to the Treasury Single Account (TSA).	Improve cash management	End-June 2018
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
Send to IMF staff, starting from July 2018, monthly data on the stock of payment arrears by age (TMU ¶28).	Improve analysis and monitoring of budget execution	End-December 2018 (proposed structural benchmark)
Strengthen the implementation of the cash plan and the control of commitment authorizations (TMU ¶29-30).	Prevent accumulation of new arrears	End-December 2018 (proposed structural benchmark)
Public investment management		
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-September 2018 (proposed resetting from end-June 2018)
Adopt a FY2019 Budget in line with existing commitments under the ECF-supported program.	Ensure fiscal and debt sustainability	End-December 2018 (proposed structural benchmark)
Financial sector		
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
Put in place a mechanism which ensures full independence of the governance structure of the new public bank resulting from the merger of the two state-owned banks (TMU ¶31).	Ensure financial stability and prevent risks to the budget	End-December 2018 (proposed structural benchmark)
Structural reforms		
Put in place mechanisms and procedures to facilitate land registration (TMU ¶32).	Improve the business environment	End-December 2018 (proposed structural benchmark)

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

4. For program purposes, the definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014.[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 life of the property, while the lessor retains the title to the property. For the purpose of these

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

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

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

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

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

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-June 2018 and end-December 2018, and the indicative targets for end-September 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 ceiling on government contracting or guaranteeing of 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-December 2017 to end-June 2018 and to end-December 2018 (performance criteria) and the periods from end-December 2017 to end-September 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. The domestic primary fiscal balance will be adjusted downwards by the amount spent on bank recapitalization as defined in MEFP¶16.

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). For purposes of the PC on the non-accumulation of new external payment arrears, arrears are defined as external debt obligations of the government that have not been paid when due in accordance with the relevant contractual terms (taking into account any contractual grace periods). This PC excludes arrears on external financial obligations of the government subject to rescheduling. 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-December 2017 to end-June 2018 and to end-December 2018 (performance criteria) and the periods from end-December 2017 to end-September 2018 (indicative targets) must be equal to or less than the amounts indicated in Table 1 appended to the MEFP.

12. Adjustors. The ceiling on net domestic financing shall be adjusted upwards by the amount spent on bank recapitalization as defined in MEFP¶16. It will be adjusted downwards by the amount of domestic debt retired as a result of debt management operations. For the purposes of this performance criterion, the definition of "debt-management operations" in paragraph 20, below, shall apply. The adjustor related to debt-management operations is capped at the nominal equivalent of the net present value of CFAF 260.3 billion after converting the nonconcessional external debt into CFA francs using the prevailing exchange rate at the time of the transaction. The ceiling on net domestic financing shall also be adjusted upwards to make up for gaps between projected and actual external financing for the program, subject to a cap of CFAF 10 billion. Finally, the performance criterion on the ceiling for net domestic financing will 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 64.8 billion; the end-June performance criterion includes CFAF 30.4 billion as part of the adjustor for arrears payments. The arrears adjustor on the net domestic financing ceiling will be calculated as follows. In the statistical TOFE, the authorities will continue to use their existing methodology of tracking all balances outstanding within the fiscal year *(instances de paiements)* and payments of balances outstanding from previous years. The sum of these two flows will be defined as domestic arrears for the purposes of calculating the net arrears payment for the adjustor on the net domestic financing ceiling.

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

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

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

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

Reporting Deadlines

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

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

D. Government or Government-Guaranteed Non-concessional External Debt

Definition

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

20. This performance criterion will be adjusted upwards by the amount of nonconcessional external borrowing used for debt-management operations that improves the overall public debt profile. For debt-management operations executed in 2018 and 2019, this adjustor will be capped at the nominal equivalent of the net present value of CFA francs 260.3 billion after converting the nonconcessional external debt into CFA francs using the prevailing exchange rate at the time of the transaction. For the purposes of this performance criterion, "debt-management operations" will be limited to the exchange of domestic debt for nonconcessional external debt. The NPV of the domestic debt to be reprofiled shall be calculated as the sum of the discounted debt service flows using a discount rate of 5 percent. The NPV of the external debt to be acquired shall be calculated in the same manner. The net effect of a debt-management operation will be calculated as the difference between the NPV of the domestic debt to be reprofiled, minus the net cost of the domestic debt repurchase, and the NPV of the external debt to be acquired, plus any fees associated with the external debt issuance. The net effect of a debt-management operation must be to either reduce or leave unchanged the total stock of public debt in NPV terms. Should any operation involving the contracting or guaranteeing of nonconcessional external debt lead to an increase in the stock of debt in NPV terms, the operation will not be considered to be a debt-management operation and would constitute a non-observance of this performance criterion. Before undertaking any debt-management operations, the government will consult with the IMF staff and will provide IMF staff with data on the terms of the debt to be exchanged and the terms of the new non-concessional debt to be contracted, along with data on all fees and costs associated with the transaction, as well as any costs and fees associated with compensating current domestic bondholders and lenders for not holding the debt which will be retired to maturity.

E. Government-Guaranteed Domestic Loans to Suppliers and Contractors

Definition

21. 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

22. 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

23. 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.

24. Revenue collection for the periods from end-December 2017 to end-June 2018, end-September 2018, and end-December 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

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

H. Domestically Financed Social Spending

Definition

26. 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.

27. Social spending financed with domestic resources for the periods from end-December 2017 to end-June 2018, end-September 2018, and end-December 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

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

STRUCTURAL BENCHMARKS

29. For the purpose of the end-December 2018 structural benchmark on the monthly report of the stock of payment arrears by age, the following methodology and definitions shall apply:

a. Domestic payment arrears are defined as domestic debt obligations of the government to nonfinancial public and private entities and the domestic debt service (excluding the BCEAO) that have not been paid within 90 days after the contractual due date (taking into account any contractual grace periods).

b. Floating debt refers to domestic debt obligations of the government to nonfinancial public and private entities and the domestic debt service (excluding the BCEAO) that have not been paid when due in accordance with the relevant contract terms (taking into account any contractual grace periods) and for which such due date has been exceeded by fewer than 90 days.

c. Data concerning the stock of domestic payment arrears and floating debt by age will be reported monthly within eight weeks of the end of the month starting from July 2018, continuously through December 2018.

30. For the end-December 2018 structural benchmark in strengthening the implementation of the cash plan and the control commitment authorizations, the authorities will ensure that the cash plan is updated on a monthly basis by the Treasury Committee of the Ministry of Finance. This monthly update will include updates to the commitment plan and the procurement plan, with data consistent between the three plans. The authorities will align expenditure authorizations with these plans.

Reporting Deadlines

31. The cash management, commitment and procurement plans will be reported every month within eight weeks of the end of the month.

32. For the end-December 2018 structural benchmark on an independent governance structure for the newly-merged bank, the authorities will ensure that the Board exercises independent and objective judgement. A fully independent bank governance structure includes at the minimum the following features: (1) a majority of independent Board members, with this majority of independent members required for Board deliberations; (2) distinct audit and risk committees headed by independent directors; (3) a chairman of the Board being either an independent director, or a non-executive director operating within a framework designed to ensure an equivalent degree of independence; (4) the principles of governance of the bank, replacement and election of directors enshrined in the bank's statutes; (5) a formal framework guaranteeing the accountability of the Board, through which the State (represented by the Ministry of Economy and Finance, via an internal unit which monitors the strategy and financial performance of the bank) sets high-level expectations and strategic orientations, based on which the Board develops and/or fine-tunes the strategy of the bank.

33. For the end-December 2018 structural benchmark on land registration, the following actions will be taken: digitize the stock of existing land property titles and open the central window for the liquidation and payment of fees; and clear the entire backlog of pending mortgage handover documents.

INTERNATIONAL MONETARY FUND

TOGO

May 30, 2018

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

Approved By
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Prepared by the staffs of the International Monetary Fund and the International Development Association

Risk of external debt distress:	Moderate[1]
Augmented by significant risks stemming from domestic public debt?	Yes

Togo's risk of external debt distress continues to be moderate with heightened overall risk of debt distress—unchanged from the previous Debt Sustainability Analysis (DSA) published in April 2017. Alternative scenarios and stress tests suggest, however, that external public debt could accumulate rapidly, pushing Togo above the external debt-distress threshold for the present value (PV) of public and publicly guaranteed (PPG) debt-to-GDP. Togo's domestic public debt burden remains high and reflects among others, persistently high deficits, materialized contingent liabilities and arrears accumulation. Baseline projections show that Togo's PV of total PPG debt (external plus domestic) -to-GDP ratio will reach the 38 percent benchmark by 2025, down from 73.1 percent in 2017 -with the bulk constituting domestic debt obligations. This analysis highlights the need for sustained fiscal consolidation, improved debt management, and macroeconomic policies to reduce the level of public debt to prudent levels over the medium term.

[1] Togo's Country Policy and Institutional Assessment (CPIA) rating averaged 3.00 over 2014-2016 and the country is classified as having weak policy performance.

BACKGROUND

1. **The debt sustainability analysis (DSA) for Togo's public debt is the result of collaborative efforts of the International Monetary Fund (IMF) and the World Bank.[2]** It updates the 2017 DSA (IMF Country Report No. 17/127), based on the most recent debt data from the authorities, and the macroeconomic framework derived from the 2018 discussions on the second review of the program supported by the IMF's Extended Credit Facility (ECF). It uses the template of the debt sustainability analysis for low-income countries (LIC DSA). Debt data includes external and domestic obligations of the central government, including arrears and guaranteed debt, as well as external and domestic debt of state-owned enterprises (SOEs). Domestic debt is defined as debt denominated in *franc de la Communauté Financière d'Afrique* (FCFA). The choice of coverage based on currency, rather than residency is due to the difficulty of monitoring the residency of creditors for debt traded in the WAEMU regional market.

2. **The previous DSA assessed the level of Togo's risk of external debt distress to be moderate owing to the large increase in government debt to finance infrastructure projects following the HIPC completion point and to the country's vulnerability to adverse shocks.** Following the debt relief under the HIPC-MDRI initiative, Togo's PPG external debt dropped from 52.6 percent of GDP in 2009 to about 32 percent by end-2010. Since then, the external debt stock has remained low, reaching 19.9 percent by end-2017 (Text Table 1). Togo's external debt remains vulnerable to adverse shocks on exports stemming from low external demand or decline in commodity prices.

Text Table 1. Togo: Composition of Public Debt, 2013 - 2017

	End-2013			End-2016			End-2017		
	Billions of CFAF	Percent of public debt	Percent of GDP	Billions of CFAF	Percent of public debt	Percent of GDP	Billions of CFAF	Percent of public debt	Percent of GDP
Total Public Debt	**1,189**	**100.0**	**55.7**	**2,157**	**100.0**	**81.6**	**2,097**	**100.0**	**75.7**
Total Central Government	1,074	90.3	50.3	2,067	95.8	78.2	2,007	95.7	72.5
Total SOEs	116	9.7	5.4	90	4.2	3.4	90	4.3	3.3
External Debt	**306**	**25.7**	**14.3**	**535**	**24.8**	**20.2**	**550**	**26.2**	**19.9**
Central Government	**295**	**24.8**	**13.8**	**519**	**24.1**	**19.6**	**538**	**25.7**	**19.4**
Multilateral	147	12.3	6.9	168	7.8	6.4	192	9.1	6.9
o/w IMF	69	5.8	3.2	42	2.0	1.6	69	3.3	2.5
Bilateral[1]	25	2.1	1.2	43	2.0	1.6	41	1.9	1.5
Paris Club	7	0.6	0.3	6	0.3	0.2	6	0.3	0.2
Non-Paris Club	19	1.6	0.9	37	1.7	1.4	35	1.7	1.3
Commercial Banks[1]	123	10.3	5.8	308	14.3	11.6	306	14.6	11.0
SOEs	**11**	**0.9**	**0.5**	**16**	**0.7**	**0.6**	**12**	**0.6**	**0.4**
Multilateral	1	0.1	0.1	3	0.1	0.1	2	0.1	0.1
Commercial	9	0.8	0.4	14	0.6	0.5	9	0.4	0.3
Domestic Debt	**883**	**74.3**	**41.4**	**1,622**	**75.2**	**61.4**	**1,547**	**73.8**	**55.9**
Central Government	**779**	**65.5**	**36.5**	**1,548**	**71.8**	**58.6**	**1,469**	**70.0**	**53.0**
T-Bills (Bons du Tresor)	111	9.4	5.2	189	8.7	7.1	148	7.0	5.3
Bonds (Emprunts Obligataires)[2]	213	17.9	10.0	574	26.6	21.7	797	38.0	28.8
Domestic Arrears	290	24.4	13.6	334	15.5	12.6	310	14.8	11.2
Pre-2006	249	21.0	11.7	173	8.0	6.6	173	8.3	6.3
Post-2006	-	0.0	0.0	122	5.6	4.6	100	4.8	3.6
Liquidated SOEs	41	3.5	1.9	39	1.8	1.5	36	1.7	1.3
Banking System	164	13.8	7.7	452	21.0	17.1	214	10.2	7.7
SOEs	**105**	**8.8**	**4.9**	**74**	**3.4**	**2.8**	**79**	**3.7**	**2.8**

Sources: Togolese authorities and Staff calculations.

[1]Figures for 2013 and 2016 differ from the previous DSA, since borrowing from some lenders that was subsequently classified as commercial was instead reported as bilateral.

[2]Includes SUKUK.

[2] The DSA follows the IMF and World Bank Staff Guidance Note on the Application of the Joint IMF-World Bank Debt Sustainability Framework for Low-Income Countries, dated November 5, 2013 (SM/13/292).

3. **Togo's public domestic debt soared during 2013-16 from 41.4 percent of GDP to 61.4 percent.** Key drivers of the increase in domestic debt have been an extended recourse to the regional financial market and investment pre-financing. The stock of government securities on the regional market increased from 15.2 percent of GDP to 28.8 percent between 2013 and 2016, with an increasing use of both Treasury bills and bonds. In addition, the stock of domestic arrears, which is included in domestic debt, has remained relatively high during this period, amounting CFAF 334 billion (12.6 percent of GDP) by end-2016.[3] Lastly, a slight upward revision was made by the authorities, raising domestic debt by 0.8 percent of GDP compared to the April 2017 DSA.[4]

4. **The government halted investment pre-financing and replaced the related obligations with bonds at more favorable conditions.** Beginning in 2013, the government of Togo initiated a new financing tool that consisted of private sector contractors pre-financing public infrastructure development through domestic commercial bank loans to be repaid by the government. The ensuing debt obligations were not included in public debt. The pre-financing contracts were generally obtained through direct negotiations (not through competitive bids). The government has now discontinued this problematic public financial management practice and has exchanged the outstanding obligations with bonds at a lower interest rate and longer maturity.

5. **As a result of the start of the fiscal consolidation, total public debt and public domestic debt began to decline in 2017.[5]** The fiscal consolidation initiated in 2017 has started curbing the debt-to-GDP path. By end-2017, total public debt dropped 5.9 percentage points of GDP from the previous year, reaching 75.7 percent, and the domestic debt stock fell 5.5 percentage points from 2016, reaching 55.9 percent.[6] Togo, however, still has the highest levels of total debt-to-GDP and domestic debt-to-GDP ratios within the WAEMU.[7]

Text Table 2. Togo: External Debt Burden Thresholds[1]

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

Source: DSA template.
[1] With remittances being low in Togo, the scenario with remittances will not be considered.

[3] Based on the preliminary report and their own analysis, the authorities have reduced their estimate of the stock of total arrears at end-2016 to CFAF 316 billion (11.9 percent of GDP). By contrast, staff are continuing to use the estimate of CFAF 334 billion (12.6 percent of GDP). Staff will maintain this estimate of arrears until evaluating the findings of the final audit report.

[4] This upward revision of 0.8 percent was accompanied by a reclassification of some SOE domestic debt as external debt. Therefore, while total debt increased by 0.8 percent of GDP, domestic debt only increased by 0.3 percent of GDP.

[5] If the costs of the bank recapitalization do not materialize, currently estimated at CFAF 42 billion (1.4 percent of GDP), the debt profile will improve.

[6] About half a percent of this difference comes from methodological change in the presentation of SDR obligations.

[7] WAEMU Staff Report, April 2018 (IMF Country Report No. 18/106).

6. Togo is considered a weak policy performer for the purpose of determining the debt burden thresholds under the DSA framework. Togo's rating on the World Bank's Country Policy and Institutional Assessment (CPIA) averaged 3.0 from 2014 to 2016, classifying the country as a weak policy performer for purposes of this DSA analysis. The relevant external public debt burden thresholds are as shown in Text Table 2.

UNDERLYING DSA ASSUMPTIONS

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

a) Real GDP growth is currently expected to be lower in the medium-term and revert slightly above the April 2017 forecast in the long-run. Growth projections for 2017-19 were lowered from 5.2 to 4.7 percent due to continuing socio-political tensions in the country. For 2020-37, growth is expected to reach 5.4 percent on average, provided that the effects of the political shock dissipate and the current structural reforms bear fruit.

b) Public investment is estimated to have dropped to 6.3 percent of GDP in 2017 and is projected to reach 10.1 percent in 2018, before stabilizing at around 7 percent by 2020-23. Compared to the 2017 DSA, projections were revised down to allow the primary fiscal balance to remain anchored on a surplus of 2 percent by the end of the program. Public investment financing is expected to tilt toward external concessional sources, as external financing remains around current levels. Public investment projects are expected to be mostly directed to infrastructure, with increasing portions dedicated to social spending.

c) Key commodity price projections (i.e., for oil, phosphates, cotton, cocoa, and coffee) through 2023 are sourced from the WEO prepared in January 2018, and are assumed to remain constant in real terms for the remainder of the forecast period.

d) Inflation projections were revised down in the medium term compared to the 2017 DSA. Average inflation declined to -0.7 percent in 2017 from 0.9 in 2016 due to a sharp decline in food and energy prices, and possibly by slowing domestic demand. It is expected to increase slightly to 0.4 percent in 2018 and reach 2 percent in the medium-term, below the WAEMU convergence criteria.

e) Total revenue projections were revised down compared to the previous DSA, in line with the new growth projections. The recent socio-political tensions in the country lowered growth projections which in turn decreased expected revenue by 2.1 percentage points of GDP to 23.2 percent of GDP for 2017-19. Provided that the tensions' effects on growth dissipate, revenue is projected to increase to 25 percent in the long term.

f) The overall primary fiscal balance (commitment basis, including grants) is expected to reach a deficit of 2.1 percent of GDP in 2018 down from a surplus of 1.5 percent in 2017, but with fiscal consolidation resuming in 2019. The overall primary balance (cash basis, including grants) remains anchored on a surplus of 2 percent by the end of the program and until 2025, when total PPG debt declines below the threshold of heightened risk of public debt distress.

g) The current account deficit remained broadly the same as the previous DSA at 8 percent of GDP in 2017. The balance will continue narrowing in the long-term, reflecting reduced imports of capital goods, reaching a deficit of about 5 percent of GDP from 2021.

h) Foreign direct investment is expected to stabilize around an inflow of 3.8 percent of GDP per year in the long run, around 3 percentage points lower than the previous DSA so as to better reflect historical trends. These flows, as well as grants, are subject to significant risks given Togo's weak track record in governance, which may consequently alter the debt dynamics assumed in the baseline.

Text Table 3. Togo: Key Macroeconomic Assumptions (DSA 2018 vs DSA 2017)

	2014-16	2017-19	2020-37
Real GDP Growth (percent)			
DSA 2018	5.6	4.7	5.4
DSA 2017	5.2	5.2	5.2
Total Revenue (percent of GDP)[1]			
DSA 2018	21.4	23.2	25.0
DSA 2017	21.4	25.3	26.0
Exports of goods and services (percent of GDP)			
DSA 2018	36.3	31.2	30.5
DSA 2017	36.8	36.8	41.0

Sources: Togolese authorities and Staff calculations.

[1]Total revenue, including grants.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

Baseline

8. **Under the baseline scenario, all Togo's external debt indicators continue to remain below their indicative policy-relevant thresholds (Table 1a, Figure 1).** The present value of external PPG debt is projected at 18.2 percent of GDP in 2018 and should decrease to 13.1 percent by 2038. Aided by an absence of non-concessional financing for an extended period, the ratio will remain below the 30 percent threshold under the baseline throughout the projection period.[8] Both ratios of the PV of PPG external debt relative to revenues and to exports remain relatively stable and below their respective indicative thresholds through the end of the projection period. Similarly, debt service measures remain well below thresholds and on a broadly downward trend. Improvements in debt-management practices envisaged in the authorities' ECF-supported program will give further resilience to shocks affecting debt service needs (Figure 1).

[8] Commercial debt is assumed to resume after the conclusion of the ECF program, in line with the historical average.

Alternative Scenarios and Stress Tests

9. **Alternative scenarios reveal multiple breaches of relevant thresholds (Figure 1).** Under the most extreme shock scenario, the present value of PPG debt-to-GDP ratio and the PV of debt-to-exports ratio breach relevant thresholds - the former by an average of 2 percentage points over 2020-23, the latter by 14 percentage points during 2020-26. However other debt indicators remain well below their relevant thresholds. Under the historical scenario, which sets key macroeconomic parameters to their 10-year historical averages, the three solvency indicators and debt service-to-revenue ratio breach their relevant policy dependent thresholds, while debt service-to-exports remains broadly below the relevant policy dependent threshold. This highlights the importance for Togo to improve macroeconomic policies. On the stress tests, the results are the following:

- The most extreme shock that affects the PV of PPG external debt-to-GDP ratio (Figure 1, Table 1b) is a combination shock of low growth and a large reduction in exports and non-debt creating flows; GDP and exports growth, FDI and current transfers, are set at historical average minus one standard deviation for 2019-20. In this case the ratio will breach the threshold in 2020 and remain above until 2023. This indicator is mostly vulnerable to non-debt creating flows, and highlights the importance of FDI and the need for stability in such flows to maintain a stable profile for Togo's debt;

- The most extreme shock that affects the PV of PPG external debt-to-exports ratio (Figure 1, Table 1b) is an export shock. This ratio is also vulnerable to a combined growth and non-debt creating flow shock;

- Finally, under the most extreme shock, the PV of debt-to-revenue ratio and the debt service ratios remain well below their respective policy relevant thresholds.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

10. **The inclusion of Togo's domestic public debt in the analysis emphasizes the vulnerability of the baseline scenario, and yields an assessment of heightened risk of overall debt distress (Table 2a, Figure 2).** Togo's domestic debt burden reflects persistently high deficits, recognition as government debt of accumulated liabilities from liquidated loss-making SOEs and old arrears accumulation, as well as ongoing arrears accumulation. Weak public financial management, including limited debt management capacity has played a role in these developments. Domestic debt is projected to keep declining gradually from a record high of 61.4 percent of GDP in 2016. By the end of the projection period, repayment of arrears coupled with significant fiscal consolidation is expected to substantially have reduce domestic debt and total PPG debt.

Baseline Scenario

11. **Under the baseline and alternative scenarios, indicators of overall public debt burden (external plus domestic) show significant vulnerabilities.** The PV of public debt–to-GDP in 2017 stands at about twice the benchmark level of 38 percent. The authorities' ECF-supported program is leading to a

substantial fiscal adjustment due to a combination of spending restraint and strengthened revenue. The overall fiscal primary balance will reach 2 percent of GDP by 2019 and, if maintained, will allow Togo's PV of total public debt-to-GDP to reach the 38 percent benchmark by 2025, and to decline gradually below thereafter (Figure 2). However, under the historical scenario and the scenario that keeps the primary balance unchanged from 2018, the PV of public debt-to-GDP stays above the benchmark throughout the projection period as the country accumulates more debt to finance larger fiscal deficits. Such scenarios (essentially positing little change from historic and present performance) highlight risks to debt sustainability facing authorities in the absence of needed policy reforms. A significant shock to SOEs, such as a bankruptcy, could also result in the realization of contingent liabilities that could increase debt levels notably, though such risks are difficult to quantify.

Authorities' Views

12. The authorities broadly agreed with staff's assessment of Togo's debt situation and recommendations on debt management policy, but continued to prefer a narrower coverage of public debt. They concurred with staff that significant progress has been made in reducing debt levels since the inception of the ECF-supported program. Nonetheless, they recognized that Togo's current level of debt still poses risks to the country and that fiscal consolidation must continue to bring public debt down to sustainable levels. The authorities highlighted the progress they have made on debt management. However, they recognized that more improvements are called for, and they intend to make full use of IMF and World Bank technical assistance and training resources to strengthen their capacity in this area. The authorities reiterated their views expressed at the beginning of the ECF-supported program that they prefer to exclude public institutions from public sector debt, as they think that this debt does not represent a fiscal risk to the central government.

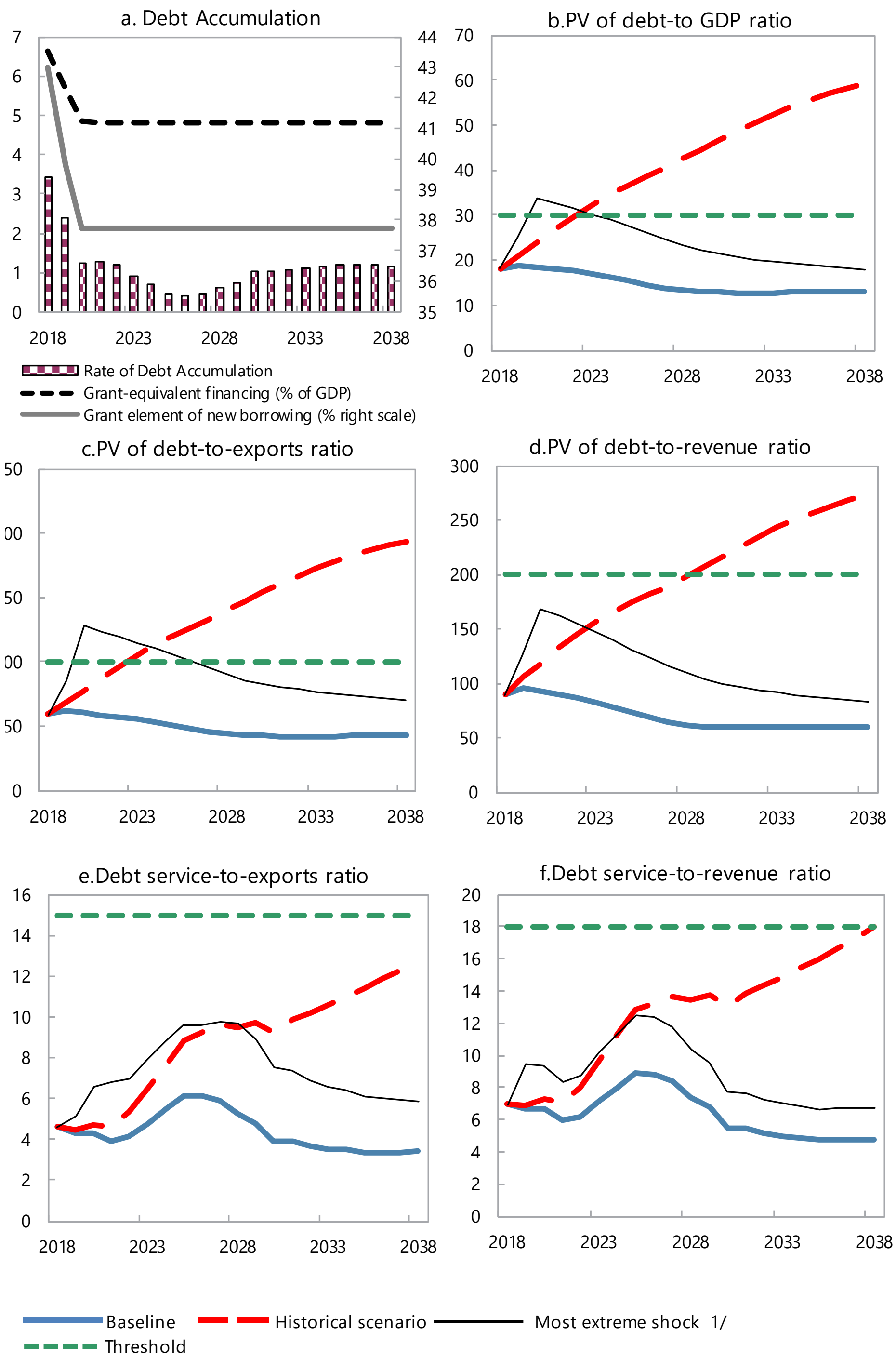
CONCLUSION

13. Togo remains at moderate risk of external public debt distress. Under the baseline scenario, all external debt sustainability indicators are expected to remain well below their indicative thresholds throughout the projection period (2018–38). However, under the historical scenario and several stress tests, some solvency indicators (i.e., PV debt-to-GDP and PV debt-to-exports) breach their respective thresholds. As shown by the deterioration of the debt indicators, Togo's public 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 (particularly, FDI flows).

14. The country is assessed at heightened risk of overall (external plus domestic) public debt distress, reflecting vulnerabilities in domestic debt. Togo had the largest debt-to-GDP ratio in WAEMU in 2017, at 75.7 percent of GDP (72.5 percent excluding SOEs' debt), composed largely of non-concessional loans. In addition, the ratio stands at about twice the prudential levels, remaining above such indicative benchmark through 2024—but on a steep declining trend, on the assumption of a continued fiscal consolidation path and substantial reduction in the domestic debt.

15. Togo's debt burden calls for the authorities' commitment to continue fiscal consolidation, and improve public financial and debt management, supported by solid macroeconomic policies. Togo should persevere in the strong fiscal consolidation initiated in 2017. Bolstering cash management practice will aid in containing new domestic arrears accumulation. Debt management should be strengthened through the creation of good information systems capable of feeding a comprehensive borrowing plan. The latter should include well-defined development objectives for investment projects and their financing options so that sound financing decisions can be undertaken. The zero ceiling on external non-concessional borrowing, with the exception of debt management operations, should help improve the financing mix. Moreover, efforts should be made to strengthen revenue mobilization and to improve the efficiency of public spending, especially capital investment, to identify saving and foster growth.

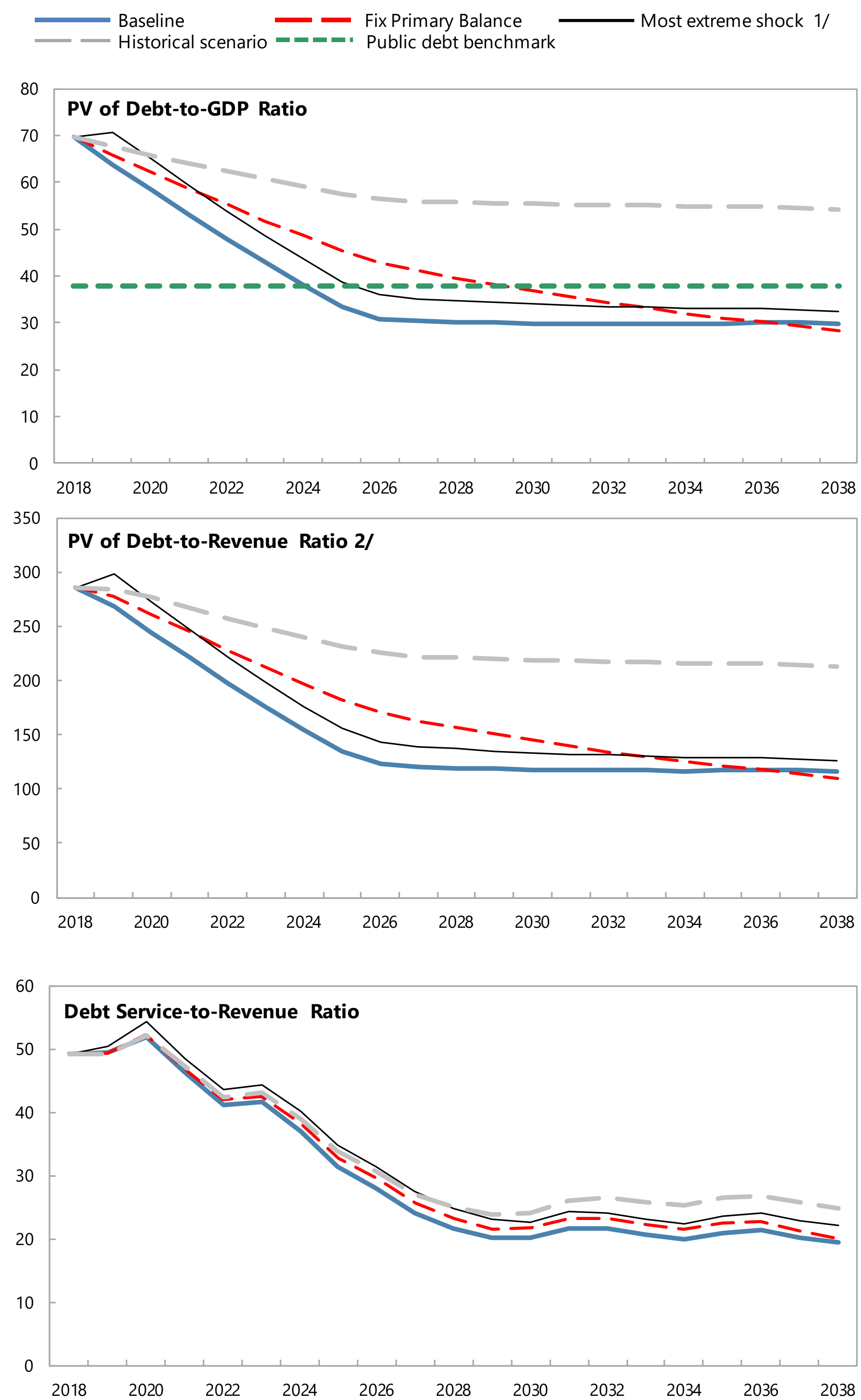
Figure 1. Togo: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2018-2038 1/



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 2028. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Togo: Indicators of Public Debt Under Alternative Scenarios, 2018-2038 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 2028.

2/ Revenues are defined inclusive of grants.

Table 1a. Togo: External Debt Sustainability Framework, Baseline Scenario, 2015-2038 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2015	2016	2017			2018	2019	2020	2021	2022	2023	2018-2023 Average	2028	2038	2024-2038 Average
External debt (nominal) 1/	**21.7**	**20.2**	**19.9**			**23.1**	**24.7**	**24.8**	**24.3**	**24.5**	**24.3**		**22.0**	**23.8**	
of which: public and publicly guaranteed (PPG)	21.7	20.2	19.9			22.7	24.3	23.8	23.4	23.0	22.4		19.5	20.6	
Change in external debt	3.6	-1.4	-0.4			3.2	1.7	0.1	-0.5	0.2	-0.2		-0.3	0.2	
Identified net debt-creating flows	10.6	5.2	3.3			3.8	2.1	0.7	0.0	-0.1	0.0		-0.1	-0.2	
Non-interest current account deficit	**10.7**	**9.0**	**7.7**	**8.2**	**2.4**	**7.6**	**6.5**	**5.2**	**4.6**	**4.5**	**4.6**		**4.4**	**4.4**	4.4
Deficit in balance of goods and services	22.0	19.8	18.1			17.6	15.9	14.6	13.9	13.7	13.7		13.8	13.8	
Exports	35.8	33.4	31.9			31.0	30.8	30.7	30.8	30.8	30.7		30.4	30.7	
Imports	57.8	53.2	50.0			48.5	46.7	45.3	44.6	44.4	44.4		44.2	44.5	
Net current transfers (negative = inflow)	-7.6	-7.3	-7.0	-7.8	1.6	-6.8	-6.4	-6.4	-6.3	-6.1	-6.1		-6.3	-6.3	-6.3
of which: official	-1.8	-1.8	-1.6			-2.0	-1.9	-1.9	-1.9	-1.9	-1.9		-1.9	-1.9	
Other current account flows (negative = net inflow)	-3.7	-3.5	-3.4			-3.2	-3.0	-3.0	-3.0	-3.0	-3.0		-3.0	-3.1	
Net FDI (negative = inflow)	**-2.2**	**-2.7**	**-3.5**	**-2.9**	**5.4**	**-3.3**	**-3.7**	**-3.7**	**-3.7**	**-3.8**	**-3.8**		**-3.8**	**-3.8**	-3.8
Endogenous debt dynamics 2/	**2.1**	**-1.0**	**-0.9**			**-0.5**	**-0.7**	**-0.9**	**-0.9**	**-0.8**	**-0.8**		**-0.7**	**-0.8**	
Contribution from nominal interest rate	0.4	0.4	0.4			0.3	0.3	0.3	0.4	0.4	0.4		0.4	0.3	
Contribution from real GDP growth	-1.1	-1.0	-0.8			-0.8	-1.1	-1.2	-1.2	-1.2	-1.2		-1.1	-1.2	
Contribution from price and exchange rate changes	2.8	-0.3	-0.5			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-7.0**	**-6.7**	**-3.7**			**-0.6**	**-0.4**	**-0.6**	**-0.5**	**0.3**	**-0.2**		**-0.2**	**0.4**	
of which: exceptional financing	-0.4	-1.2	-0.7			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	17.2			18.6	19.4	19.4	18.9	19.1	18.8		15.8	16.3	
In percent of exports	...	...	53.9			60.0	62.8	63.4	61.5	62.0	61.2		52.0	53.0	
PV of PPG external debt	**...**	**...**	**17.2**			**18.2**	**18.9**	**18.4**	**18.0**	**17.6**	**17.0**		**13.3**	**13.1**	
In percent of exports	**...**	**...**	**53.9**			**58.8**	**61.4**	**60.1**	**58.5**	**57.2**	**55.2**		**43.7**	**42.6**	
In percent of government revenues	**...**	**...**	**94.1**			**88.8**	**95.3**	**92.3**	**89.4**	**86.2**	**82.4**		**61.9**	**60.1**	
Debt service-to-exports ratio (in percent)	**4.1**	**5.2**	**6.1**			**4.6**	**4.3**	**4.3**	**3.9**	**4.1**	**4.8**		**5.2**	**3.4**	
PPG debt service-to-exports ratio (in percent)	**4.1**	**5.2**	**6.1**			**4.6**	**4.3**	**4.3**	**3.9**	**4.1**	**4.8**		**5.2**	**3.4**	
PPG debt service-to-revenue ratio (in percent)	**7.5**	**9.3**	**10.7**			**7.0**	**6.7**	**6.6**	**5.9**	**6.2**	**7.2**		**7.4**	**4.8**	
Total gross financing need (Billions of U.S. dollars)	0.4	0.4	0.3			0.3	0.3	0.2	0.2	0.2	0.2		0.3	0.5	
Non-interest current account deficit that stabilizes debt ratio	7.1	10.4	8.0			4.4	4.8	5.2	5.1	4.3	4.8		4.7	4.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.7	5.1	4.4	5.6	0.8	4.7	5.0	5.3	5.4	5.4	5.4	5.2	5.4	5.4	5.4
GDP deflator in US dollar terms (change in percent)	-13.6	1.5	2.4	0.7	8.9	11.9	3.5	4.2	3.7	3.7	3.4	5.1	3.0	3.0	3.0
Effective interest rate (percent) 5/	1.9	1.8	2.1	1.4	0.7	1.7	1.5	1.5	1.6	1.8	1.8	1.7	1.8	1.6	1.7
Growth of exports of G&S (US dollar terms, in percent)	-17.5	-0.5	2.1	6.1	14.4	13.6	8.3	9.1	9.7	9.3	8.9	9.8	8.5	9.0	8.6
Growth of imports of G&S (US dollar terms, in percent)	-8.5	-1.8	0.5	6.6	15.7	13.7	4.7	6.3	7.8	8.8	9.1	8.4	8.1	8.9	8.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	43.0	39.8	37.7	37.7	37.7	37.7	39.0	37.7	37.7	37.7
Government revenues (excluding grants, in percent of GDP)	19.5	18.8	18.3			20.5	19.9	20.0	20.2	20.4	20.6		21.5	21.8	21.5
Aid flows (in Billions of US dollars) 7/	0.1	0.1	0.2			0.4	0.4	0.4	0.4	0.5	0.5		0.7	1.7	
of which: Grants	0.1	0.1	0.2			0.2	0.2	0.3	0.3	0.3	0.3		0.5	1.2	
of which: Concessional loans	0.0	0.0	0.0			0.2	0.1	0.1	0.1	0.1	0.2		0.2	0.5	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			6.6	5.7	4.8	4.8	4.8	4.8		4.8	4.8	4.8
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			65.2	67.8	75.4	76.0	76.0	76.0		76.0	76.0	76.0
Memorandum items:															
Nominal GDP (Billions of US dollars)	4.2	4.5	4.8			5.6	6.1	6.7	7.3	8.0	8.7		13.1	29.8	
Nominal dollar GDP growth	-8.6	6.7	6.9			17.2	8.7	9.7	9.3	9.3	9.0	10.6	8.6	8.6	8.6
PV of PPG external debt (in Billions of US dollars)			0.9			1.0	1.2	1.2	1.3	1.4	1.5		1.7	3.9	
(PVt-PVt-1)/GDPt-1 (in percent)						3.4	2.4	1.2	1.3	1.2	0.9	1.7	0.6	1.2	0.9
Gross workers' remittances (Billions of US dollars)	0.2	0.3	0.2			0.3	0.3	0.3	0.3	0.4	0.3		0.6	1.4	
PV of PPG external debt (in percent of GDP + remittances)	...	...	16.4			17.3	18.2	17.6	17.3	16.8	16.3		12.7	12.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	46.5			50.5	54.1	52.1	51.7	49.9	49.0		37.9	37.0	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	5.3			4.0	3.8	3.7	3.4	3.6	4.3		4.5	2.9	

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, 2018-2038

(In percent)

		Projections						
	2018	2019	2020	2021	2022	2023	**2028**	2038
PV of debt-to GDP ratio								
Baseline	18	19	18	18	18	17	**13**	13
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	18	21	24	27	30	32	**43**	59
A2. New public sector loans on less favorable terms in 2018-2038 2	18	20	20	20	21	21	**20**	25
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	18	19	19	18	18	17	**13**	13
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	18	22	28	27	26	25	**19**	15
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	18	21	24	23	23	22	**17**	17
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	18	24	27	26	25	25	**19**	15
B5. Combination of B1-B4 using one-half standard deviation shocks	18	25	34	33	31	30	**23**	18
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	18	27	26	25	25	24	**19**	18
PV of debt-to-exports ratio								
Baseline	59	61	60	59	57	55	**44**	43
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	59	68	77	87	96	105	**140**	193
A2. New public sector loans on less favorable terms in 2018-2038 2	59	65	66	67	67	68	**67**	81
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	59	62	60	59	57	55	**44**	43
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	59	86	128	123	119	115	**90**	70
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	59	62	60	59	57	55	**44**	43
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	59	76	89	86	83	80	**62**	49
B5. Combination of B1-B4 using one-half standard deviation shocks	59	83	114	110	106	102	**80**	61
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	59	62	60	59	57	55	**44**	43
PV of debt-to-revenue ratio								
Baseline	89	95	92	89	86	82	**62**	60
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	89	106	119	132	145	157	**198**	273
A2. New public sector loans on less favorable terms in 2018-2038 2	89	100	101	102	102	101	**95**	114
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	89	96	93	90	87	83	**63**	61
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	89	113	140	134	128	122	**91**	70
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	89	108	119	115	111	106	**79**	77
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	89	118	136	131	125	119	**88**	69
B5. Combination of B1-B4 using one-half standard deviation shocks	89	126	169	162	154	147	**109**	83
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	89	135	130	126	122	116	**87**	85

Table 1b. Togo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018-2038 (concluded)
(In percent)

	Projections							
	2018	2019	2020	2021	2022	2023	**2028**	2038
Debt service-to-exports ratio								
Baseline	5	4	4	4	4	5	**5**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	5	4	5	5	5	7	**9**	13
A2. New public sector loans on less favorable terms in 2018-2038 2	5	4	4	4	4	5	**5**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	5	4	4	4	4	5	**5**	3
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	5	5	7	7	7	8	**10**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	5	4	4	4	4	5	**5**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	5	4	5	5	5	6	**7**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	6	6	6	7	**9**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	5	4	4	4	4	5	**5**	3
Debt service-to-revenue ratio								
Baseline	7	7	7	6	6	7	**7**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	7	7	7	7	8	10	**13**	18
A2. New public sector loans on less favorable terms in 2018-2038 2	7	7	7	6	6	7	**7**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	7	7	7	6	6	7	**7**	5
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	7	7	7	7	8	8	**10**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	7	8	8	8	8	9	**9**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	7	7	7	7	7	8	**10**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	7	7	8	9	9	10	**12**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	7	9	9	8	9	10	**10**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	30	30	30	30	30	30	**30**	30

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 2. Togo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015-2038
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2015	2016	2017	Average 5/	Standard Deviation 5/	2018	2019	2020	2021	2022	2023	2018-23 Average	2028	2038	2024-38 Average
Public sector debt 1/	72.2	81.6	75.7			74.3	69.2	63.7	58.4	53.3	48.3		36.4	37.3	
of which: foreign-currency denominated	21.7	20.2	19.9			22.7	24.3	23.8	23.4	23.0	22.4		19.5	20.6	
Change in public sector debt	11.8	9.4	-5.9			-1.5	-5.1	-5.5	-5.3	-5.1	-4.9		0.0	-0.2	
Identified debt-creating flows	5.8	5.5	-5.6			-2.6	-4.9	-5.3	-5.2	-4.9	-4.8		0.1	-0.2	
Primary deficit	6.7	7.0	-1.7	3.7	2.9	0.7	-2.2	-2.1	-2.2	-2.1	-2.1	-1.6	2.0	1.9	1.3
Revenue and grants	21.8	21.6	21.5			24.5	23.8	23.8	24.0	24.3	24.5		25.4	25.6	
of which: grants	2.3	2.9	3.2			4.0	3.9	3.9	3.9	3.9	3.9		3.9	3.9	
Primary (noninterest) expenditure	28.5	28.6	19.8			25.2	21.6	21.7	21.9	22.2	22.4		27.3	27.6	
Automatic debt dynamics	-0.8	-1.5	-3.9			-3.4	-2.8	-3.1	-3.0	-2.9	-2.7		-1.9	-2.1	
Contribution from interest rate/growth differential	-2.8	-2.0	-1.9			-2.4	-2.4	-2.8	-2.7	-2.6	-2.4		-1.3	-1.5	
of which: contribution from average real interest rate	0.5	1.5	1.5			1.1	1.2	0.7	0.6	0.4	0.3		0.5	0.4	
of which: contribution from real GDP growth	-3.3	-3.5	-3.4			-3.4	-3.6	-3.5	-3.3	-3.0	-2.7		-1.9	-1.9	
Contribution from real exchange rate depreciation	2.0	0.5	-2.0			-1.0	-0.3	-0.4	-0.4	-0.3	-0.3		...	...	
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	
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	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	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	
Residual, including asset changes	5.9	3.8	-0.3			1.2	-0.2	-0.2	-0.2	-0.2	-0.1		-0.1	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	73.1			69.8	63.8	58.4	53.0	47.9	42.9		30.2	29.8	
of which: foreign-currency denominated	...	...	17.2			18.2	18.9	18.4	18.0	17.6	17.0		13.3	13.1	
of which: external	...	...	17.2			18.2	18.9	18.4	18.0	17.6	17.0		13.3	13.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	19.4	19.5	9.3			12.7	9.6	10.2	9.0	7.9	8.1		7.5	6.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	339.8			285.3	268.4	244.7	220.6	197.2	175.1		119.0	116.2	
PV of public sector debt-to-revenue ratio (in percent)	...	...	399.2			340.3	320.9	292.4	263.2	234.9	208.2		140.6	137.0	
of which: external 3/	...	...	94.1			88.8	95.3	92.3	89.4	86.2	82.4		61.9	60.1	
Debt service-to-revenue and grants ratio (in percent) 4/	58.3	57.8	50.9			49.2	49.3	51.9	46.3	41.1	41.5		21.7	19.3	
Debt service-to-revenue ratio (in percent) 4/	65.2	66.6	59.8			58.7	59.0	62.1	55.3	49.0	49.3		25.6	22.8	
Primary deficit that stabilizes the debt-to-GDP ratio	-5.1	-2.3	4.2			2.2	2.9	3.3	3.2	3.0	2.9		2.0	2.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.7	5.1	4.4	5.6	0.8	4.7	5.0	5.3	5.4	5.4	5.4	5.2	5.4	5.4	5.4
Average nominal interest rate on forex debt (in percent)	1.9	1.8	2.1	1.4	0.7	1.7	1.6	1.5	1.7	1.8	1.9	1.7	2.0	1.8	1.9
Average real interest rate on domestic debt (in percent)	1.2	2.8	2.4	0.4	3.5	2.0	2.5	2.0	1.9	1.5	1.1	1.8	0.9	0.2	1.2
Real exchange rate depreciation (in percent, + indicates depreciation	11.5	2.5	-10.1	1.7	7.9	-5.3	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.5	1.8	0.4	2.4	3.4	1.9	2.3	3.0	3.0	3.0	3.0	2.7	3.0	3.0	3.0
Growth of real primary spending (deflated by GDP deflator, in percer	15.3	5.7	-27.8	-0.6	10.7	33.1	-9.8	5.8	6.3	7.0	6.3	8.1	6.0	5.4	6.9
Grant element of new external borrowing (in percent)	...	...	...	...	...	43.0	39.8	37.7	37.7	37.7	37.7	39.0	37.7	37.7	...

Sources: Country authorities; and staff estimates and projections.

1/ Includes gross debt from Non-Financial Public Sector, including state-owned enterprises and arrears.

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 3. Togo: Sensitivity Analysis for Key Indicators of Public Debt, 2018-2038

	Projections							
	2018	2019	2020	2021	2022	2023	2028	2038
PV of Debt-to-GDP Ratio								
Baseline	70	64	58	53	48	43	30	30
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	70	68	66	64	62	61	56	54
A2. Primary balance is unchanged from 2018	70	66	62	59	55	52	40	28
A3. Permanently lower GDP growth 1/	70	64	59	53	48	44	32	35
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20	70	64	59	54	49	44	31	32
B2. Primary balance is at historical average minus one standard deviations in 2019-202	70	70	70	64	59	53	38	34
B3. Combination of B1-B2 using one half standard deviation shocks	70	69	68	62	57	51	37	34
B4. One-time 30 percent real depreciation in 2019	70	70	64	58	52	47	32	30
B5. 10 percent of GDP increase in other debt-creating flows in 2019	70	71	65	59	54	49	35	32
PV of Debt-to-Revenue Ratio 2/								
Baseline	285	268	245	221	197	175	119	116
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	285	284	276	267	257	248	221	213
A2. Primary balance is unchanged from 2018	285	277	261	244	228	212	156	110
A3. Permanently lower GDP growth 1/	285	269	246	222	199	178	126	136
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20	285	269	247	223	200	178	123	123
B2. Primary balance is at historical average minus one standard deviations in 2019-202	285	294	295	268	242	217	151	134
B3. Combination of B1-B2 using one half standard deviation shocks	285	290	286	260	234	210	146	131
B4. One-time 30 percent real depreciation in 2019	285	296	269	242	216	191	126	115
B5. 10 percent of GDP increase in other debt-creating flows in 2019	285	298	272	247	222	198	137	126
Debt Service-to-Revenue Ratio 2/								
Baseline	49	49	52	46	41	42	22	19
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	49	49	52	47	42	43	25	25
A2. Primary balance is unchanged from 2018	49	49	52	47	42	43	23	20
A3. Permanently lower GDP growth 1/	49	49	52	47	41	42	22	21
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-20	49	49	52	47	41	42	22	20
B2. Primary balance is at historical average minus one standard deviations in 2019-202	49	49	53	48	43	43	23	21
B3. Combination of B1-B2 using one half standard deviation shocks	49	49	53	48	43	43	23	21
B4. One-time 30 percent real depreciation in 2019	49	50	54	49	43	44	25	22
B5. 10 percent of GDP increase in other debt-creating flows in 2019	49	49	53	48	42	42	23	20

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Statement by Mr. Sembene, Executive Director for Togo, and Mrs. Boukpessi, Advisor to the Executive Director
June 15, 2018

1. The Togolese authorities appreciate the candid and constructive discussions held with Fund staff in the context of the Second Review under the Extended Credit Facility arrangement. They value Fund's program engagement which has provided effective support for their reform and policy agenda.

2. Following a period of expansion driven by strong agricultural production and public investments, economic activity in Togo is estimated to have increased at a slower pace in 2017 amid recent social and political tensions. Going forward, this challenging domestic environment that could persist in the run-up to upcoming legislative and local elections is likely to continue weighing on the country growth's prospects. The authorities are taking a proactive approach to addressing these tensions, including by holding a political dialogue with concerned domestic stakeholders, facilitated by some regional leaders.

3. The authorities are determined to implement their ambitious new National Development Plan (NDP) for 2018-2022. The NDP focuses on reinforcing macroeconomic stability, transforming the economy into a logistic hub and a regional financial center, and promoting inclusive growth and reduce unemployment and poverty. It is the authorities' intention to build on the satisfactory performance under their Fund-supported program to make further inroads towards these NDP objectives.

Recent Economic Developments and Performance under the ECF Arrangement

4. Real GDP growth is estimated at 4.4 percent in 2017 compared to 5.1 percent in 2016 due largely to the impact of the current socio-political tensions on the tertiary sector, despite a solid performance in the primary sector. Notwithstanding the underperformance in revenue collection as a result of economic slowdown, the overall primary balance was significantly improved from a deficit of 7.2 percent in 2016 to a surplus of 1.5 percent in 2017 reflecting a strong commitment to fiscal consolidation and discipline. The current account deficit is estimated to have narrowed down from 9.3 percent of GDP in 2016 to 8.0 percent of GDP in

2017 thanks notably to the decrease in public investment projects. Inflation remained well below the WAEMU regional convergence criterion of 3 percent.

5. Program implementation under the ECF arrangement was broadly satisfactory. All the quantitative performance criteria (QPCs) set for end-December 2017 were met. Most notably (i) the domestic primarily balance exceeded the program target; (ii) no external arrears were accumulated; (iii) the net domestic financing was contained below the program ceiling; (iv) no new non-concessional debt was contracted and no guarantees for domestic suppliers and contractors were provided; and (v) no new prefinancing operations were initiated. As regard the indicative targets (IT), total fiscal revenue failed to meet the floor set under the program due to the activity slowdown while the priority social spending target was missed with a very small margin. On the structural front, all the benchmarks were met although the restructuring plan for the two public banks was completed with a minor delay.

Outlook and Policies for the remainder of 2018 and beyond

6. The Togolese authorities remain optimistic about the medium-term economic outlook. They are confident that sustained, high growth rates will be within reach once the socio-political environment improves. Moreover, recent public infrastructure investments are expected to enhance competitiveness and boost growth, notably by helping increase productivity and fostering stronger private sector activity.

7. The authorities reiterate their determination to keep the reform momentum with a view to preserving macroeconomic stability, improving social protection, safeguarding long-term debt sustainability, addressing remaining vulnerabilities in the financial sector and boosting the country's growth potential. Through sound policies, they plan to sustain Togo's positive contribution the West African Monetary Union (WAMU)'s external stability.

Pursuing fiscal consolidation and strengthening fiscal management and institutions

8. The authorities remain committed to the program objectives of reducing public debt and preserving fiscal sustainability. They agree with staff on the need to loosen the fiscal stance in 2018 amid the revenue-reducing turmoil in recent months, while securing prospects for timely progress toward the WAEMU convergence criteria related to the deficit. Against this background, the government adopted last month a revised 2018 budget that takes into account the adverse effects of the current social and political tensions on revenue mobilization. The revised budget includes a number of measures aimed at enhancing revenue collection for an amount equivalent to about 0.5 percent of GDP compared to the original budget and containing public expenditure.

9. On the revenue side, sustained efforts by the Revenue Authority to improve tax administration and policy will be pursued, building on the range of measures implemented in 2017, notably the introduction of mandatory online reporting made for larges companies, mobile payment options for some specific taxes, and the broader use of new technologies to

facilitate tax collection procedures. In this regard, various initiatives are underway or being considered, notably with the aim of expanding the tax base, improving property tax collection, reducing tax expenditures, increasing non-tax revenue, expanding the scope of the e-service for online declaration and payments as well as mobile payments, and digitalizing customs clearance procedures. Work has also been initiated for the creation of the Urban Land Registry.

10. On the spending side, the restraint exercised by the authorities helped achieve fiscal targets notwithstanding the significant revenue underperformance. Going forward, an optimization exercise was initiated following a comprehensive review that was supported by an international consulting firm and aimed at identifying and streamlining non-priority expenditure. This exercise is expected to yield significant savings in 2018 and onwards.

11. To continue making inroads in clearing domestic arrears and avoid new accumulation, steps are being taken to strengthen the expenditure chain and cash management flows. In this connection, it is envisaged that monthly procurement and commitment plans will be developed from July 2018. The authorities will also carry out a cost-effectiveness analysis of public investment projects that is expected to enrich the 2019 budget.

Achieving debt reduction

12. Bringing public debt on a sustainable downward path continues to be a key priority for the authorities. While considerable progress has been made to this end, with Togo's public debt-to-GDP ratio reduced from 78.2 percent of GDP in 2016 to 72.5 in 2017 (excluding debt from state-owned-enterprises SOEs), the authorities remain fully committed to their consolidation plans with a view to tackling the still high public debt level and meeting WAEMU requirements. They are determined to pursue a prudent borrowing strategy, and to continue strengthening the technical and operational capacities of the new debt management office.

13. As part of their efforts to ease the debt burden and improve the public debt profile, the authorities envision to carry out a reprofiling of a portion of their domestic debt. As such, they plan to contract new external debt at more favorable maturity and interest rates terms in order to repay the heavy and costly domestic debt service. Accordingly, the authorities would welcome a modification of the zero-ceiling on new non-concessional external borrowing that would not lead to a deterioration of Togo's current debt rating.

Maintaining financial stability

14. Togo is making important strides in addressing the legacies of the two remaining public banks with a view to mitigating risks to the budget. Building on international best practices, a comprehensive restructuring plan was submitted to the Secretariat of WAEMU

Banking Commission in April 2018. Upon its approval, the authorities expect that the legal transfer for the merger of the two banks will be promptly completed.

15. In the context of the NDP, the authorities aim to position Togo as a financial center hub in the sub-region. At the same time, they attach high value to safeguarding financial stability. They will address the remaining weaknesses in the financial system in close collaboration with the regional authorities. They plan to continue their efforts to improve access to credit, while taking steps to enhance the sector's regulatory and supervisory framework.

Promoting economic transformation and advancing other structural reforms

16. The main objective of Togo's NDP is to enable structural transformation of the economy with the view to achieving stronger and more inclusive growth, creating jobs, and improving living conditions. It is hoped that this will be achieved notably by setting up a modern and dynamic logistics hub and a premier sub-regional business and financial center and developing agricultural processing, manufacturing and extractive industries centers. In parallel, advancing reforms in the health and education sectors and creating jobs through agricultural clusters and industrial parks are among the key pillars of the authorities' inclusive growth strategy.

17. Continuous progress in improving the business environment will be of paramount importance given the critical role of the private sector is expected to play in advancing the country's economic transformation agenda. A business climate unit under the supervision of the Office of the President of the Republic was set up in September 2017. An action plan aiming at addressing impediments to a conducive business environment in Togo was adopted in January 2018 and various reforms notably in the electricity, construction and property sectors have since been initiated. Ongoing efforts focus *inter alia* on land reform, facilitating the issuance construction permits, fostering business creation, enforcing contracts and promoting trade with the country's partners. The authorities also look forward to receiving adequate assistance from development partners in the areas of property registration, tax administration, and access to credit where the country still significant room for maneuver. They expect Togo's participation in the G20 Compact with Africa Initiative (CwA) to help reform the business environment and attract foreign private investment.

Conclusion

18. The Togolese authorities would welcome the Executive Board's support for the completion of the second ECF review based on the strong program performance amid a challenging environment and their continued commitment to their Fund-supported program. They also request the modification of performance criteria on domestic primary balance, net domestic financing, and non-concessional external borrowing. This will help to accommodate the revenue underperformance stemming from the socio-political situation and

reduce the domestic debt service burden, while maintaining Togo at moderate risk of external debt distress. They look forward to Directors' continued support and Fund's valuable engagement in Togo.