INTERNATIONAL MONETARY FUND

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TOGO

December 2018

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

In the context of the Third Review under the Extended Credit Facility, 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 December 10, 2018, following discussions that ended on October 31, 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 November 20, 2018.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- 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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December 10, 2018

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IMF Executive Board Completes the Third Review under the Extended Credit Facility Arrangement and Approves the Fourth US$34.9 Million Disbursement to Togo

On December 10, 2018, the Executive Board of the International Monetary Fund (IMF) completed the third review of Togo's performance under the program supported by an Extended Credit Facility (ECF). Program performance has been satisfactory. All quantitative performance criteria and three out of five structural benchmarks were met. The completion of the review enables the disbursement of SDR25.17 million (about US$34.9 million), bringing total disbursements since the beginning of the arrangement to SDR100.68 million (about US$139.5 million).

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 to ensure long-term debt and external sustainability; refocus policies on 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, Deputy Managing Director and Acting Chair, issued the following statement:

"Togo's performance under the ECF-supported program has been satisfactory despite a challenging environment. The economy shows signs of incipient stabilization, growth is projected to accelerate, and inflation remains within the WAEMU criteria. Meanwhile, the structural reform agenda is advancing. With risks abating but still on the downside, it is important that the authorities remain committed to their macroeconomic adjustment and reform agenda.

"The authorities are determined to reduce public debt to sustainable levels and advance fiscal reforms. The fiscal framework is expected to achieve the debt reduction envisaged initially under the program, and Togo is projected to comply with the WAEMU convergence criteria by end-2019. The authorities are planning to pursue a debt reprofiling operation with appropriate safeguards, aimed at reducing the present value of total public debt.

"Ongoing fiscal reforms aim to create space for much-needed social and infrastructure spending. The authorities are making efforts to improve revenue mobilization in a permanent way, shift the composition of spending in favor of growth-supporting public investment, and enhance the efficiency of overall spending. Further progress is needed to finalize the cost-benefit analysis of public investment projects and strengthen arrears management.

“The authorities have revisited their financial sector strategy and have re-launched the privatization of the two remaining public banks. Implementation of the agreed safeguard measures will be important to ensure that the privatization is in line with international best practices.

“Efforts are underway to implement measures under the National Development Plan and the Compact with Africa, with a view to promoting Togo as a major logistical hub, a dynamic financial center, and a strong manufacturing base. To this end, priorities include fighting corruption, strengthening governance, and improving the business climate more broadly.”

TOGO

November 20, 2018

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

EXECUTIVE SUMMARY

Context: Economic activity shows incipient signs of stabilization in some sectors while it remains weak in others. The fiscal consolidation efforts continued and the domestic primary balance at end-June 2018 improved by 0.3 percent of GDP relative to the same period in 2017. Inflation has turned positive at 0.9 percent in September 2018 and is expected to remain below the WAEMU convergence criterion of up to 3 percent during the program period. The government is revisiting its strategy on the two public banks and is relaunching their privatization. The socio-political tensions have abated but the situation remains uncertain, particularly in light of the upcoming elections at end-2018.

Program performance: All continuous and end-June 2018 quantitative performance criteria (QPCs) were met as well as three of five structural benchmarks. While the indicative target on fiscal revenue at end-June 2018 was met, the indicative target on social spending was not met. Corrective actions are being taken. The structural benchmark on cost-benefit analysis of public investments was not met but good progress has been made in preparing the methodological guide. The structural benchmark on the public banks was not met as the government is revisiting its strategy. The ECF program was approved in May 2017 and is scheduled to end in May 2020. Total planned disbursements under the program amount to SDR176.16 million. The second review of the program was completed in June 2018.

Program objectives:

- Maintain the magnitude of debt reduction as originally envisaged under the program while allowing a minor loosening of the 2019 domestic primary balance relative to the previous fiscal framework to support the incipient stabilization of economic activity.
- Pursue fiscal structural reforms to raise revenues durably, improve budget preparation, strengthen arrears management, and prioritize public investment.
- Restore the financial viability of the two weak public banks through privatization, accompanied by adequate safeguards.
- Conduct growth-enhancing structural reforms by swiftly implementing measures under the National Development Plan and the Compact with Africa.

- Support the WAEMU regional policies, including adherence to the regional convergence criteria, as part of the joint WAEMU countries' efforts to help maintain strong regional reserves.

Staff's views: Staff supports the completion of the third ECF review considering the satisfactory implementation of measures and reforms under the program as well as policy commitments going forward.

Approved By
Dominique Desruelle and Johannes Wiegand

Discussions on the third review under the ECF arrangement took place in Lomé during October 18-31, 2018. The IMF staff team comprised Mr. Razafimahefa (head), Ms. Bunda, Mr. Engstrom, Mr. Tapsoba (Resident Representative) (all AFR), Mr. Binici (SPR), Mr. van Houtte (MCD), Mr. Sowou (Local Economist), and Mr. Kébalo (Intern at the local office). Ms. Nikaein provided research assistance. 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 with the WAMU Banking Commission 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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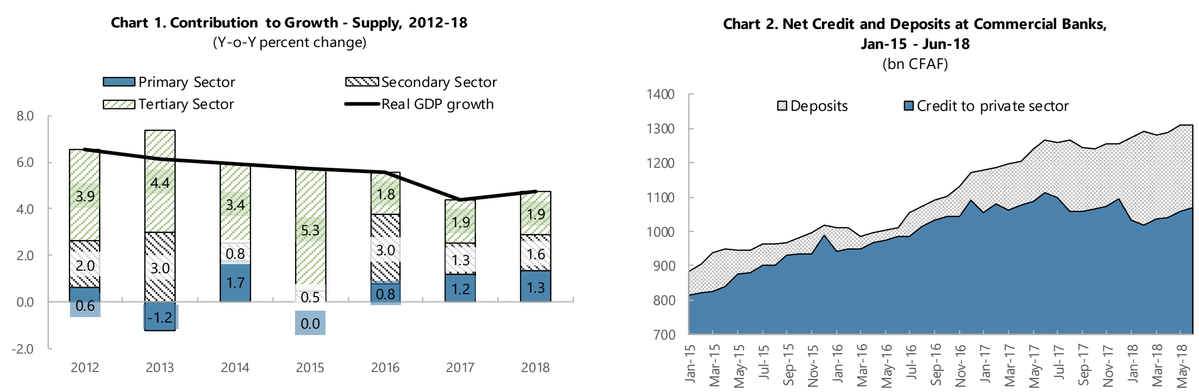
CONTEXT AND RECENT DEVELOPMENTS

A. Recent Economic Developments: Some Incipient Signs of Stabilization

1. **Economic activity shows incipient signs of stabilization in some sectors while it remains weak in others** (Text Figure 1 and Table 1)**.** After a sharp deceleration in 2017, bottoming out at 4.4 percent, economic growth is projected to accelerate slightly to 4.7 percent in 2018. Export-oriented activities such as extraction of phosphate and production of cotton are improving, but the recovery of the service sector remains fragile. Activity at the port is picking up and the traffic at the airport is stabilizing. Credit to the private sector picked up and increased by 9 percent year-on-year in August 2018. Prices have started to increase, entering positive territory; headline inflation reached 0.9 percent (year-on-year) in September 2018, driven partly by the effects of the fuel price increase and possibly reflecting the strengthening of domestic demand.

Text Figure 1. Togo: Real GDP and Financial Conditions



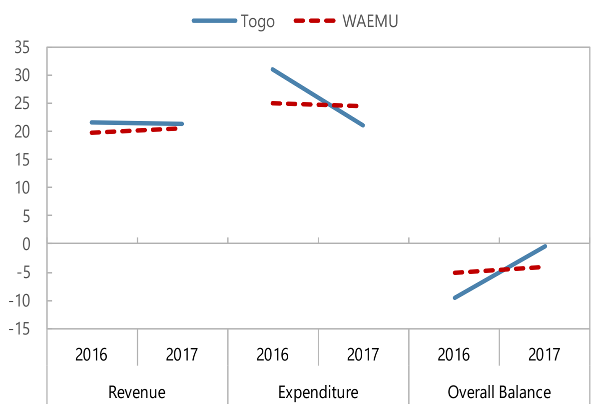
Sources: Togolese authorities, and IMF staff estimates.

2. **The fiscal consolidation effort in 2017 was remarkable and the outturn in the first half of 2018 exceeded the objective** (Tables 2a-b)**.** In 2017, notwithstanding weak revenue collections, expenditure cuts improved the overall fiscal balance significantly; on a commitment basis, the deficit was limited to 0.3 percent of GDP (Text Figure 2). In the first half of 2018, revenue collections recovered, increasing by 16 percent compared with the first half of 2017 and exceeding projections by 1.5 percentage points of GDP (Text Table 1). At the same time, the expenditure outturn was about 3.4 percentage points of GDP lower than projected, primarily because of lower than projected foreign-financed capital expenditure due to slower-than-expected execution of investment projects.[1] As a result, the overall fiscal balance (commitment basis) improved from 0.2 percent of GDP in the first half of 2017 to 0.7 percent of GDP during the same period in 2018.

[1] Authorities and donors are making efforts to improve the reporting timeliness of the execution of foreign-financed projects.

3. The stock of arrears was kept under control while the stock of accounts payable increased.[2] The budget provided for a net reduction of accounts payable and arrears by 1.1 percent of GDP in the first half of 2018 but the outturn showed an unchanged stock. The decline in the stock of arrears (beyond 90 days) by 0.5 percent of GDP was offset by a corresponding increase in accounts payable (before 90 days). The policy effort to prevent payment delays beyond 90 days is a welcome development; nonetheless, swift payment (even before 90 days) is also recommended. Togo's ability to raise funds in the regional WAMU bond market has improved; while subscription rates averaged 77 percent in 2017, they reached an average of 94 percent during January-October 2018.

Text Figure 2. Togo: Fiscal Developments, 2016 – 17
(percent of GDP)



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

Text Table 1. Togo: Fiscal Developments, June 2018
(percent of GDP)

	June 2017	June 2018	
	Outturn	Prog. Proj.	Outturn
Revenue and grants	8.8	9.7	10.2
Revenue	8.3	8.2	9.7
Grants	0.4	1.6	0.6
Expenditure and net lending	8.5	13.0	9.6
Current expenditure	7.2	8.7	8.0
Capital expenditure	1.4	4.3	1.6
Domestic primary balance	1.5	-0.8	1.8
Overall primary balance (commitment basis, incl. grants)	1.0	-2.1	1.5
Overall balance (commitment basis, incl. grants)	0.2	-3.3	0.7
Arrears payment, net (decrease= -)	0.4	-1.1	0.0
Overall balance (cash basis, incl. grants)	0.6	-4.4	0.7
Overall balance (cash basis, excl. grants)	0.2	-5.9	0.1
Financing	-0.2	5.9	-0.1
Domestic financing 1/	-1.0	2.3	-1.1
External financing	0.9	3.6	1.0

Sources: Togolese authorities; and IMF staff estimates.
1/ End-June 2018 target for domestic financing 1.2 percent of GDP after adjustment for arrears.

B. Program Performance: Broadly Satisfactory

4. Performance under the ECF-supported program has been broadly satisfactory, with all quantitative performance criteria (QPCs) and one of the two indicative targets met at end-June 2018 (MEFP¶4, Table 6). The QPCs on the domestic primary fiscal balance and net domestic financing were met with a margin of about 2 percent of GDP. All zero ceilings—on (i) accumulation of arrears on external public debt; (ii) contracting or guaranteeing of nonconcessional external debt; (iii) guaranteeing of domestic loans to suppliers and contractors; and (iv) guarantees on bank prefinancing for public investment—were met. While the indicative target on revenue collections

[2] Arrears refer to domestic arrears. Until now, the authorities have considered as arrears all unpaid invoices corresponding to previous fiscal years and as accounts payable all invoices corresponding to the current fiscal year. As of now, they are aligning their classification to the WAEMU directive to consider as arrears all invoices that remain unpaid beyond 90 days and as accounts payable unpaid invoices that have not reached 90 days yet.

was met with a margin of 1.5 percent of GDP, the indicative target on domestically-financed social spending was missed by 1 percent of GDP.

5. Corrective measures are being taken to address the underperformance on social spending. In parallel with the National Development Plan, two social programs are under implementation. The program to support vulnerable groups (PAPV) is an emergency initiative aiming at renovating social infrastructure and expanding social projects. The program covers areas such as potable water, sanitation, electricity, education, health, housing, financial inclusion, and youth employment.[3] The community development program (PUDC) aims at reducing social inequality by improving the living conditions of populations in remote places, with insufficient basic social infrastructure.[4]

6. All three fiscal structural benchmarks for end-June 2018 were met (MEFP¶5). The revenue administration took measures to reduce the number of pending customs transit cases by 60 percent, with favorable impacts on revenue and fraud. The procurement, commitment, and cash management plans have been updated each month to guide the pace of commitment authorizations and prevent arrears accumulation; circulars were also issued to financial services accordingly. The authorities closed the accounts of general government entities in commercial banks as envisaged and transferred the balance to the Treasury Single Account (TSA).

7. The structural benchmarks on investment prioritization and bank restructuring were not met but progress has been made in these areas (MEFP¶5-6). On the cost-benefit analysis of public investments, the methodological guide is nearing completion, with support from IMF technical assistance. On the two weak public banks, the restructuring plan was completed and approved by the WAMU Banking Commission. The transfers did not take place, however, as the government modified its strategy; instead of a restructuring and recapitalization by the State, the government decided to re-launch the privatization of the two banks (see below).

C. Medium-Term Outlook: Risks Abating but Lingering

8. Growth is expected to accelerate to about 5.4 percent a year over the medium term (Text Table 2). Private-sector investment and productivity would be supported by the recent upgrading of public infrastructure and resilient demand in Togo's main export markets in the sub-region. Inflation is expected to stay within the WAEMU convergence criterion of up to 3 percent. The current account deficit would narrow to below 6 percent of GDP, reflecting reduced imports of public capital goods and better export performance. The combination of fiscal consolidation (targeting an overall primary balance of 1.0 percent of GDP) and economic growth would bring the public debt-to-GDP ratio below 60 percent in 2022 and the net present value of public debt below the threshold of 55 percent of GDP starting in 2021.

[3] Programme d'Appui aux Populations Vulnérables (PAPV).

[4] Programme d'Urgence de Développement Communautaire (PUDC).

Text Table 2. 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	5.6	4.4	4.7	5.0	5.3	5.4	5.4	5.4
Consumer price index (average)	1.8	0.9	-0.7	0.7	1.8	2.0	2.0	2.0	2.0
	(Percent of GDP, unless otherwise indicated)								
Domestic primary balance	-3.2	-4.5	0.8	2.4	2.8	2.8	2.7	2.7	2.7
Overall primary balance (commitment basis, incl. grants)	-6.5	-7.1	1.5	-0.7	1.0	1.0	1.0	1.0	1.0
Overall balance (commitment basis, incl. grants)	-8.9	-9.5	-0.3	-3.1	-1.5	-1.2	-1.1	-1.0	-0.8
Overall primary balance (cash basis, incl. grants)	-5.3	-7.1	-0.3	-2.9	-0.1	1.0	1.0	1.0	1.0
Overall balance (cash basis, incl. grants)	-7.7	-9.5	-2.1	-5.3	-2.6	-1.2	-1.1	-1.0	-0.8
Current account balance	-11.0	-9.7	-7.9	-8.0	-7.0	-5.9	-5.1	-5.0	-5.1
Total public debt (including SOE debt)[1]	72.1	81.1	75.6	74.1	69.9	65.3	60.9	56.8	52.9
Total public debt (excluding SOE debt)	69.7	77.7	72.4	71.3	67.5	63.2	59.1	55.3	51.7

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

[1] Includes central government domestic arrears and state-owned enterprises (SOEs) debt.

9. **Although slightly abating, risks remain tilted to the downside.** The opposition demands a retroactive two-term limit for the President, which would prevent the current President from running for a new (fourth) term in 2020. The violent protests that erupted in mid-2017 have subsided but the dialogue between the government and the opposition is faltering. The socio-political environment remains volatile. Particularly, the legislative elections, possibly together with some other elections, planned for end-2018 could reignite socio-political tensions and put pressure on the government to expand public expenditure and delay reforms. Against this background, the private sector may remain cautious and delay planned investment. In general, Togo is a fragile country and is subject to risks inherent to fragility. On external risks, weaker-than-expected global economic growth and tighter financial conditions may also challenge program implementation (Annex I).

POLICY DISCUSSIONS

Policy discussions focused on achieving the magnitude of debt reduction envisaged under the original program for 2017-19, despite some relaxation of the fiscal policy in 2019 relative to the previous fiscal framework. This fiscal stance ensures debt sustainability, contributes to the WAEMU regional stability, and alleviates the impact of consolidation on economic activity. Measures will also be taken to permanently support revenue, strengthen expenditure efficiency, and improve the business environment. The strategy in the financial sector has been revisited; the government is relaunching the privatization of the two public banks to ensure long-term financial viability and minimize costs to the budget.

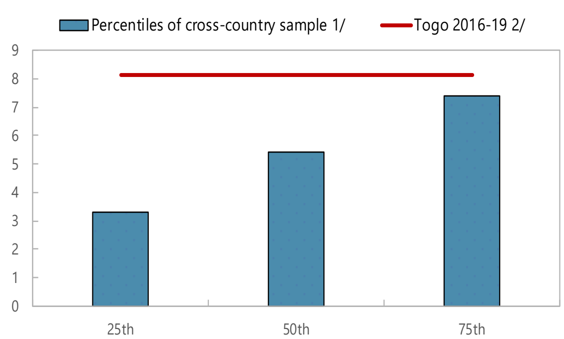
A. Fiscal Policy: Reducing Debt while Protecting Economic Activity

10. **The fiscal framework for 2018 remains unchanged (MEFP¶8).** Following the strong revenue collection in the first half of 2018, revenue collection underperformed targets in the third

quarter of the year. To ensure meeting the end-year revenue target, the revenue agency is taking measures to bolster collection of tax debts and taxes in litigation. In addition, if necessary, expenditure will also be contained. The large overperformance of the overall balance at end-June 2018, combined with the above measures, should allow meeting the end-year fiscal deficit target of 3.1 percent of GDP. This 2018 program objective is deemed adequate, keeping debt on a downward path while shielding the incipient stabilization of economic activity. Public debt is projected to decline from 81 percent of GDP at end-2016 before the start of the ECF-supported program to 74 percent of GDP by end-December 2018 (or 71 percent excluding debt of State-owned enterprises).

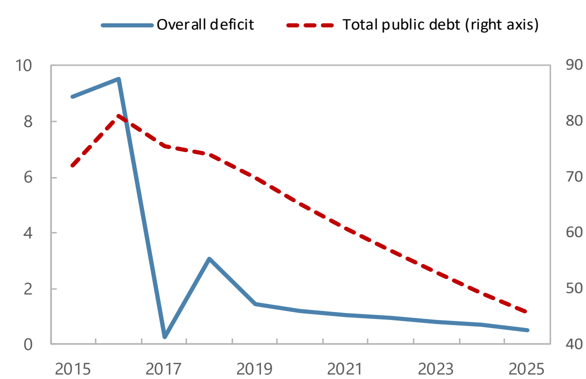
11. The fiscal framework for 2019 aims at achieving the originally envisaged debt reduction while protecting the incipient stabilization of economic activity (MEFP¶9-10). The domestic primary balance, which is the fiscal aggregate anchoring the program as it reflects the fiscal effort of the government, is marginally loosened (by 0.2 percent of GDP) from the previous target. As the authorities expect higher foreign-financed investments relative to previous projections, the overall fiscal balance (including grants) is planned to be looser by 1 percentage point of GDP, at a deficit of 1.5 percent of GDP. Accommodating the additional foreign-financed investment is warranted as the projected debt path remains sustainable and the deficit is well within the WAEMU's fiscal deficit convergence criterion. This fiscal framework delivers a fiscal consolidation of about 8 percent of GDP for the entire program period. The overall fiscal deficit (commitment basis) improves from 9.5 percent of GDP at end-2016 to 1.5 percent of GDP at end-2019. Such a significant consolidation—8 percent of GDP—is rare, with the average change in the primary balance during a consolidation episode estimated at about 5 percentage points of GDP (Text Figure 3). Debt is expected to decline from 81 percent of GDP at end-2016 to 70 percent of GDP by end-2019; this decline by 11 percentage points of GDP is slightly faster than that envisaged at program inception (Text Figure 4).

Text Figure 3. Togo: Change in Primary Balance, 2016–19
(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/ Projected fiscal adjustment (commitment basis, incl. grants) from 2016-19.

Text Figure 4. Togo: Deficit and Debt, 2016–25
(percent of GDP)

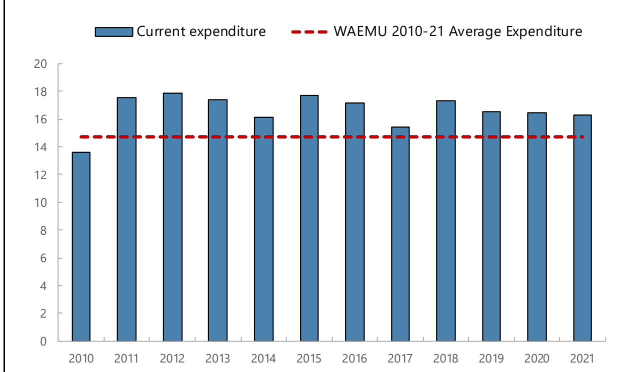


Note: Includes state-owned enterprises debt.

Sources: Togolese authorities; and IMF staff estimates.

12. The slightly looser fiscal stance, and somewhat higher-than-expected grants and restraint on current spending, create some room for growth-supporting public investment. New revenue measures (see section B below) are projected to keep tax and customs collections at 9.7 percent of GDP notwithstanding the loss of the temporary revenue collected in 2018. While this fiscal framework allows higher spending by about 1 percent of GDP compared with previous projections, the authorities are streamlining current spending by 1 percent of GDP through the implementation of measures from an expenditure review assisted by an international advisory firm. Such measures include centralization of public procurement/purchases; benchmarking of costs of goods and services with regional and international prices; rationalization of government consumption (e.g. electricity and maintenance); elimination of ghost workers and other shortcomings in the government payroll; and correction of unduly paid pensions. Although challenging, the new projected level of current spending seems feasible. Togo achieved a lower primary current spending in 2017 relative to the 2019 projections (13.7 and 14.1 percent of GDP, respectively); moreover, current expenditure is still higher than the WAEMU average (Text Figure 5). The streamlining of current expenditure creates room to increase public investment by about 2 percent of GDP compared with previous projections. Overall, the shift from current to capital spending goes in the right direction and is desirable given the recent process to strengthen PFM practices and the infrastructure needs. There is still a risk that the ceiling on primary current spending turns out to be overly ambitious. In this case, upward risk on projected revenues (see below) and, if needed, the potential to restrain capital spending execution provide safeguards that the deficit target under the program can be achieved.[5]

Text Figure 5. Togo: Current Expenditure, 2010–21
(percent of GDP)



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

13. The policies pursued under the current program are leading Togo closer to observance of the WAEMU convergence criteria. The 2019 fiscal framework will contribute to boosting external stability. All WAEMU first-order criteria—on fiscal balance, debt, and inflation—are projected to be met in 2019. Further, policy and administrative reforms are needed to meet the second-order criteria on tax revenue and wages and salaries (Text Table 3). The modest loosening of fiscal targets may have a small negative impact on regional foreign exchange reserves which, however, are at comfortable levels at this juncture.

[5] Investment expenditures were reduced during the initial implementation of the ECF-program with the aim of halting the non-orthodox investment through the so-called prefinancing. As the PFM system is now being reinforced, an increase in investment expenditure is warranted.

Text Table 3. 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)	-8.9	-9.5	-0.3	-1.7	-1.5	-1.2	-1.1	-1.0	-0.8
Average consumer price inflation (≤ 3 percent)	1.8	0.9	-0.7	0.7	1.8	2.0	2.0	2.0	2.0
Total debt/GDP (≤ 70 percent)[1]	69.7	77.7	72.4	71.3	67.5	63.2	59.1	55.3	51.7
Second-order criteria									
Wages and salaries/ tax revenue (≤ 35 percent)	40.1	41.1	42.9	39.4	39.0	38.9	39.0	38.6	38.3
Tax revenue/GDP (≥ 20 percent)	17.3	16.7	16.1	17.4	17.3	17.3	17.4	17.6	17.7

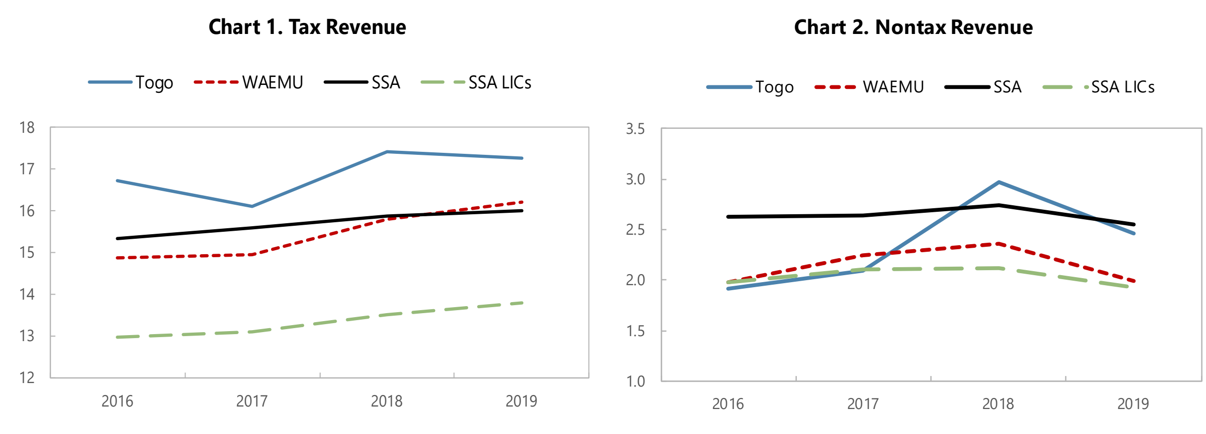
Sources: Togolese authorities and IMF staff estimates and projections.

[1] Includes central government domestic arrears and excludes debt by state-owned enterprises.

B. Revenue Measures: Increase Permanently the Fiscal Space

14. Improving permanent revenue mobilization is key to meeting program targets and creating fiscal space for much needed developmental and social expenditures (MEFP¶12). Although Togo's tax revenue collection appears stronger than in peer countries, a significant part of the revenue boost expected in 2018 comes from non-tax revenue, consisting largely of telecom license fees, dividends, tax debt collection, and penalties (Text Figure 6). As a substantial part of this revenue is temporary in nature, more permanent tax policy measures are needed (Box 1).

Text Figure 6. Togo: Tax and Non-Tax Revenue, 2016-19
(percent of GDP)



Sources: World Economic Outlook; and IMF staff estimates.

15. Although Togo has taken significant positive steps to reform its tax administration, there is room to improve efficiency further (MEFP¶13-14). A bold initiative was taken to create an independent revenue authority, the *Office Togolais des Recettes* (OTR), and bring under this office both tax and customs administrations. However, the reform agenda is not fully completed yet. To push reforms further and fully reap the benefits from the creation of this single and independent revenue authority, another package of measures will be introduced in 2019 (Box 1). Several of these measures have been submitted to Parliament but have not been incorporated in the 2019 fiscal projections yet; hence, they constitute some upside risk on revenues.

Box 1. Revenue Measures

Tax measures—both parametric and administrative—introduced in 2018 are projected to increase tax collections to 17.4 percent of GDP in 2018 from 16.1 percent of GDP in 2017. This increase is partly driven by temporary revenues. To safeguard the tax base and compensate for the future loss of these temporary revenues, the authorities will introduce in 2019 additional, more permanent tax policy measures, as well as durably strengthen tax and customs administration.

Tax policy:

Tax on capital income: (i) the tax code will no longer provide a reduction of 20 percent (for buildings) and 10 percent (for building plots) on capital gains realized more than 5 years after the acquisition of a real estate property; (ii) the general tax credit, or overall reduction, of up to FCFA 300,000 (about $500) a year for the combined capital gains during any given year will be abolished; (iii) the provision authorizing the Minister of Finance to grant exemptions on interest payments to non-residents will be eliminated; and (iv) the tax code will no longer allow the deduction of fees and charges in connection to financial assets under the personal income tax, and interest payments on mortgage loans (at least in part).

Corporate tax: an "earning-stripping-ratio" rule will be introduced to limit the ability of companies to optimize taxes by moving profits to subsidiaries in tax havens. The deductible interest expenses will be restricted to at most 30 percent of the gross operating margin.

Value added tax (VAT): the necessary requisites for broadening the scope of VAT to cover insurance activities will be analyzed. In parallel, to improve the business environment and avoid penalizing companies' cash flow, the VAT refund system will be gradually improved; a list of companies could be identified and revised regularly to benefit from accelerated VAT refund.

Real estate taxes: The registration of land will be completed with a view to settle and recover real estate taxes.

Tax and customs administration:

Cross-check of databases: full compliance is weak, and the provision of adequate information is lacking. Thus, checks will be intensified on discrepancies observed by cross-referencing the statements filed by taxpayers and information from third parties, to detect under-reporting and increase the number of taxpayers (Box Table).

Enforcement powers of the tax administration: the customs administration will (i) require a lump sum deposit of 10 to 15 percent for importers deemed inactive by the tax administration (SB end-June 2019, TMU¶38); and (ii) prohibit the clearance of goods imported by agents and/or owners with outstanding tax debts (SB end-June 2019, TMU¶39).

Box 1. Revenue Measures (concluded)

Customs valuation: the control of customs valuations will be improved by creating a specialized anti-fraud unit to detect valuation anomalies based on supporting documents checks. In case supporting documents are missing, standard transaction valuation on an international comparison basis (i.e., substitution methods to the transaction value) will be applied. This measure will complement the existing valuation framework.

Togo: Reporting Status of Third-Party Transactions for the Large-Taxpayers Unit, 2016–17

	2016	2017 1/ (estimate)
Active taxpayers	554	563
Legally compliant taxpayers	215 38	137 24
Taxpayers having provided TIN-referenced information over 4 quarters	4 0.7	32 5
Recorded information (including procurement)	23,444	22,701
Unusable information (no TIN reference)	5,861 25	4,736 21

Sources: Togolese authorities; and IMF staff calculations.
1/ As of end-Nov 2017
Note: TIN indicates tax identification number.

C. Expenditure Management: Improve Efficiency

16. The recommendations of an expenditure review are being enforced and the process is underway to prioritize investments based on a cost-effectiveness analysis (MEFP¶15). The authorities launched in 2017 an important initiative to identify expenditure areas where efficiency can be improved and, potentially, savings can be made. This expenditure review was assisted by an international firm and its findings are reflected in the 2019 budget, leading to significant savings on current expenditures. In parallel, a new unit was put in place to develop a methodological guide for analyzing public investments based on cost-effectiveness, assisted by IMF technical assistance. Although this methodological guide was not fully completed to serve as a basis for the 2019 budget, some related criteria were already applied. In addition, the budgetary allocation to finance feasibility studies was augmented. The methodological guide will be enforced through a circular (SB end-December 2018, TMU¶34).

17. The authorities are revamping arrears management and reinforcing the expenditure chain (MEFP¶11). Togo will henceforth align the definition of arrears in its PFM system to the WAEMU directive. Accordingly, invoices unpaid beyond 90 days will be categorized as arrears, and unpaid invoices of less than 90 days will be categorized as payment float.[6] The authorities have been preparing since July 2018 data on the stock of payment arrears broken down by age (SB end-December 2018, TMU¶32). They have also produced and are striving to synchronize on a monthly basis the procurement, commitment, and cash plans. They are strengthening accordingly the implementation of the cash plan and the control of commitment authorizations (SB end-December 2018, TMU¶33). In addition, the government is determined to make the treasury single account (TSA) fully operational.

18. The move towards program-based budgeting has started. Program-based budgets are a requirement under a WAEMU directive. In parallel to the usual approach, program-based presentation of the budget was produced for all Ministries in 2019, as an initial step. A program-based budgeting document will be produced for 2020-22 (SB end-June 2019, TMU¶40). The institutional requirements will be put in place to ensure prompt and smooth roll-out of this reform.

D. Debt Management: Strengthen Capacity and Reprofile Debt

19. Strengthening debt management capacity is a priority (MEFP¶16-17). The last debt management performance assessment (DEMPA) completed in 2010 identified significant weaknesses. In response, debt management has been centralized to a new Directorate and a draft manual of procedures has been developed. The Medium-Term Debt Strategy is being updated, with technical assistance from the IMF and the World Bank.

20. The authorities intend to reprofile their debt. As discussed in the staff report for the second review of the ECF-supported program, the reprofiling operation will consist of borrowing externally at more favorable terms to repurchase approximately 8 percent of GDP of outstanding domestic debt, which is more expensive and generally short-term.[7] 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 accounting for all costs such as fees and charges. The safeguards on this operation defined in the context of the 2nd ECF review—which remain valid—ensure that the operation is limited to a magnitude that keeps Togo comfortably at a moderate risk of external debt distress.

E. Financial Sector: Privatize the Public Banks with Adequate Safeguards

21. Instead of the initially planned merger and recapitalization by the State, the authorities have now opted for the privatization of the two public banks (MEFP¶18-19). Several major steps had been completed towards the merger of the banks, including the finalization of a merger/restructuring plan and its approbation by the WAMU Banking Commission in June 2018. The legal transfer was expected to be concluded by end-June 2018 and to be followed by recapitalization estimated at about 1.5 percent of GDP. However, the authorities now consider that it

[6] This new practice will prevent long delays in the payment of invoices, as such delays penalize the cashflow management of the private sector and may lead suppliers to charge higher costs on government purchases.

[7] IMF Country Report No. 18/184 (Staff Report paragraph 17 and MEFP paragraph 15).

would be more suitable to privatize the two banks, from the perspectives of financial stability and fiscal costs. Accordingly, draft laws allowing the privatization of the two banks were adopted in Cabinet and submitted to Parliament.

22. This revised strategy is in line with the long-standing objective to tackle the weaknesses in the banking system, but vigilance is needed to guard against fiscal, governance, and financial stability risks (Annex II). State-owned banks have frequently created costs to the budget due to recurrent recapitalizations, which were not combined with adequate restructuring. Attempts were made in the past to privatize all public banks. The privatization process was successful for two banks in 2012-13 but failed for two others. Subsequently, as an alternative measure, the government opted to merge, restructure, and recapitalize the two remaining public banks. However, the government has modified its stance once more, and is now of the view that the general context is favorable to re-launch the privatization. The government's renewed intention to withdraw from the banking sector can offer an opportunity to ensure long-term financial viability of the banks while minimizing recapitalization costs to the government. The government is taking safeguards measures to address potential risks. The privatization transaction of the smaller bank is in preparation; all legal and regulatory due diligence required for the privatization is expected to be finalized by end-year (SB end-December 2018, TMU¶36). The transaction will be carried out in ways that minimize the cost to the public sector and will be conditional on a positive assessment by the WAMU Banking Commission of the *fit-and-proper* quality of the potential buyer, its ability to absorb losses, as well as the soundness of its business plan.

23. The privatization of the larger bank will be carried out through an open tender following a sound process consistent with international best practices (MEFP¶20). As this bank is of systemic size, the privatization process requires higher level of scrutiny. The privatization process will involve an audit firm that will reassess the economic value of the bank, including an analysis of past financial statements and future financial perspectives. The terms of reference of this audit firm has been completed, in consultation with the Fund staff (prior action). In addition, an international transaction advisor will be hired to assist the government in the preparation of the tendering. The terms of reference of this firm will be finalized this year (SB end-December 2018, TMU¶37). By April 2019, a strategic plan and the terms of the tender will be produced (SB end-April 2019, TMU¶41); should the timeline fall behind schedule for reasons beyond the authorities' control, staff would take such reasons into account when assessing program performance. The tender is planned to be launched by August (SB end-August 2019, TMU¶42). The privatization is expected to be finalized by September 2019, conditional on a positive assessment of the buyer by the WAMU Banking Commission.

24. Banks are managing high (non-performing loan) NPL burdens, which constrains profitability and new lending (MEFP¶21). The NPL ratio is high and rising, reaching 17 percent at end-December 2017. The authorities have committed, in collaboration with the WAMU Banking Commission, to tackle the high NPL ratio.

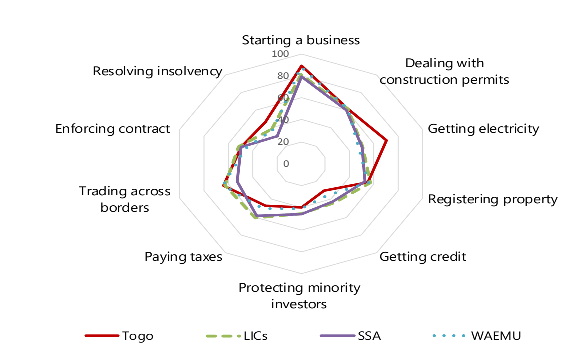
F. Structural Reforms: Foster Sustainable and Inclusive Growth

25. The implementation of measures under the National Development Plan (NDP) and the Compact with Africa (CwA) has been initiated (MEFP¶22-23). The NDP aims at making Togo a major logistic hub (based on the Port of Lomé and the international airport), a dynamic financial center (with several regional banking and insurance groups headquartered in Lomé), and a strong manufacturing base (with industrial parks). Togo is also advancing inclusive and social policies focused on strengthening health and education policies and alleviating poverty, in line with the Sustainable Development Goals. For the CwA, efforts have been made to implement macroeconomic and business-friendly reforms.

26. To achieve these ambitious objectives, it is paramount to develop an inviting business climate. The government is withdrawing from some key sectors of the economy to allow the private sector to increasingly become the driver of economic growth. The government is re-launching the privatization of the two public banks as indicated above and is in an advanced stage on the privatization of the telecom company. To reduce the high number of land conflicts and allow using land as loan collateral, the authorities will put in place mechanisms and procedures to facilitate land registration (SB end-December 2018, TMU¶35). Togo's efforts to ameliorate the business environment were rewarded in the 2019 edition of the World Bank Doing Business Indicators (Text Figure 7).[8] Togo's score improved from 48.57 in 2018 to 55.20 in 2019, surpassing the sub-Saharan African average of 51.61 (out of a maximum of 100). Nonetheless, access to credit remains problematic.

Text Figure 7. Togo: Doing Business Indicators, 2019

(0 = lowest, 100 = best performance)



Source: World Bank Doing Business Report 2019.

27. Togo is making efforts to improve governance and fight corruption (MEFP¶24). The Criminal Code adopted in 2015 strengthened the anti-corruption measures and the new law on anti-money laundering/combating the financing of terrorism (AML/CFT) adopted in 2018 is aiming to make Togo's legislation conform with WAEMU norms and FATF (Financial Action Task Force) standards. The Anticorruption Commission (HAPLUCIA) tasked to prevent and investigate corruption became operational in 2017.[9] On revenue administration, OTR's anti-corruption office is responsible for prevention and investigation of suspicious cases, and the increased cross-checking of databases will help reduce corruption practices. On expenditure management, the cost-benefit analysis of

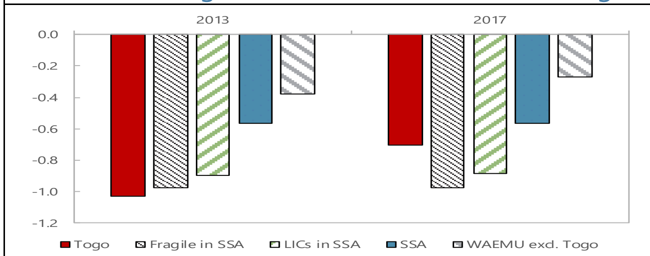
[8] Survey-based indicators reflect investors' perception on the business environment.

[9] Haute Autorité de Prévention et de Lutte contre la Corruption et les Infractions Assimilées (HAPLUCIA).

public investment and the transfer of cash balances to the Treasury Single Account will help limit corruption. On expenditure management, Togo's score on the perceived control of corruption was below the average of its fellow WAEMU members in 2017 but performance appears to have improved in recent years and most likely surpassed the average of LICs and fragile countries in Sub-Saharan Africa (Text Figure 8).

Text Figure 8. Togo: Control of Corruption, 2013 and 2017

(Estimate range from -2.5 (weak) to 2.5 (strong))



Source: Worldwide Governance Indicators.

Note: Estimates of control of corruption are derived from perceptions-based data. A 90 percent confidence interval around the point estimate for Togo would cover a range of -0.77 to -1.29 in 2013 and -0.48 to -0.93 in 2017. Confidence intervals for peer group averages are negligible.

PROGRAM MODALITIES AND OTHER ISSUES

28. The program will continue to be reviewed based on quantitative performance criteria, indicative targets, and structural benchmarks at end-December 2018 and end-June and end-September 2019. At end-December 2018, the adjustment of the QPC on net domestic financing for arrears repayments is proposed to be removed. Instead, an indicative target on net domestic arrears accumulation is proposed; this approach allows for a closer monitoring, distinguishing domestic financing and arrears (MEFP, Table 1). The adoption by the government of a 2019 budget with expenditure in line with the ECF-supported program is a prior action for the completion of the third ECF review, as is the drafting of the terms-of-reference for the auditor that will assess the economic value of the larger bank. These prior actions have been met. More generally, the privatization process for the two banks is monitored by several structural benchmarks (for end-December 2018, end-April 2019, and end-August 2019). The end-September 2018 structural benchmark on public investment is proposed to be redesigned and reset to end-December 2018. The fourth review of the program will be based on the end-December 2018 criteria/targets/benchmarks and is scheduled to be discussed by the IMF Board on or after March 15, 2019. The program is financed with support from development partners including the World Bank, the European Union, and the African Development Bank and others, while ECF disbursements will close the remaining financing needs.

29. 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.

30. Togo's capacity to repay the Fund is strong. Togo's capacity to repay the Fund remains adequate (Table 7). Obligations to the Fund would peak in 2025 at 2.5 percent of government revenue or 0.5 percent of GDP.

31. Technical assistance is focused on revenue administration, public financial management, bank restructuring, and statistics. Technical assistance from the IMF has helped support the reform agenda (Annex III, Capacity Development Strategy).

STAFF APPRAISAL

32. Economic activity shows signs of incipient stabilization in some sectors. After a sharp deceleration in 2017, bottoming out at 4.4 percent, economic growth is projected to accelerate slightly to 4.7 percent in 2018, driven by export-oriented sectors. Inflation was 0.9 percent (year-on-year) in September 2018. Private sector credit has picked up and expanded by 9 percent (year-on-year) in August 2018. The prudent fiscal policy continues; the overall fiscal balance stood at a surplus of 0.7 percent of GDP at end-June 2018.

33. Risks to economic activity are abating but remain tilted to the downside. The violent protests that erupted in mid-2017 have subsided but the dialogue between the government and the opposition is faltering. The socio-political environment remains unpredictable. Particularly, upcoming elections in December 2018 could reignite political tensions and put pressure on the government to expand public expenditure and delay reforms.

34. Staff commends the authorities' satisfactory performance under the ECF-supported program. Revenue collection improved during the first half of 2018, but the performance decelerated in the third quarter, while expenditure was contained markedly. The domestic primary balance—the fiscal aggregate under the control of the government—exceeded the program target by 2.6 percentage points of GDP at end-June 2018. Net domestic financing overperformed the program target by 2.3 percentage points of GDP. The envisaged revenue administration and PFM measures were implemented, including the reduction of pending customs transit cases, reforms on arrears management, and strengthening of the Treasury Single Account.

35. Staff recommends pursuing debt reduction and persevering with structural reforms. The 2019 fiscal framework is expected to achieve the debt reduction envisaged initially under the program and Togo is projected to comply with the WAEMU convergence criteria, such as the fiscal deficit, by 2019. By that time, the overall fiscal deficit is projected to narrow below 1.5 percent of GDP and debt to decline to about 70 percent of GDP. The composition of spending is shifting in favor of growth-supporting public investment. This shift is desirable but ambitious and subject to some implementation risks; safeguards are in place to allow reaching the program's deficit targets in case such risks materialize. Staff supports in principle the authorities' plan to pursue a debt reprofiling operation with the aim of reducing the present value of total public debt.

36. To ensure a strong fiscal performance in the long term and create fiscal space for much-needed social and infrastructure spending, revenue mobilization needs to increase in a

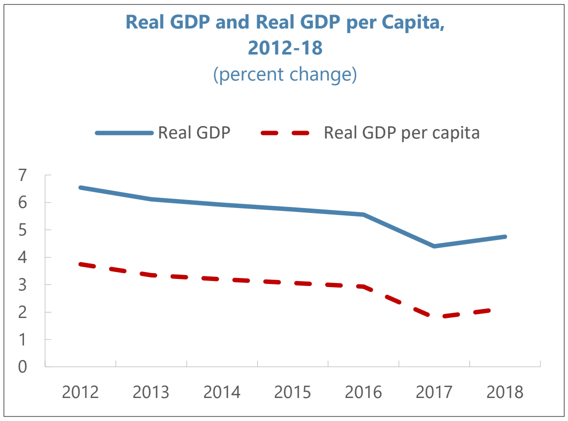
permanent way. Measures could include streamlining exemptions on capital gain tax, tackling cross-border tax optimization, real estate taxes, import valuation controls, and cross-check of taxpayer databases. The ongoing work on the cost-benefit analysis of investment projects should be finalized to complement the comprehensive expenditure review, launched in 2017. The efforts on arrears management should be continued through an enhanced monitoring and coordination between cash plans and commitment plans.

37. Staff welcomes the re-launch of the privatization of the two remaining public banks, provided appropriate safeguards are implemented. State-owned banks in Togo have often put financial stability at risk and weighed on the state budget due to inadequate restructuring and recurrent recapitalizations. The privatization initiatives in the mid-2000s were successful for only two of the four public banks. The two remaining banks were planned to be merged, restructured, and recapitalized by the State. However, the authorities are currently of the view that the general context seems favorable for a re-launch of the privatization. To guard against financial, fiscal, and governance risks, the program contains several safeguards supported by structural conditionality to ensure that the process is in line with international best practices. On the overall business environment, the measures under the National Development Plan and the Compact with Africa need to be implemented to achieve Togo's ambitions to become a major logistical hub, a dynamic financial center, and a strong manufacturing base within an increasingly interconnected region.

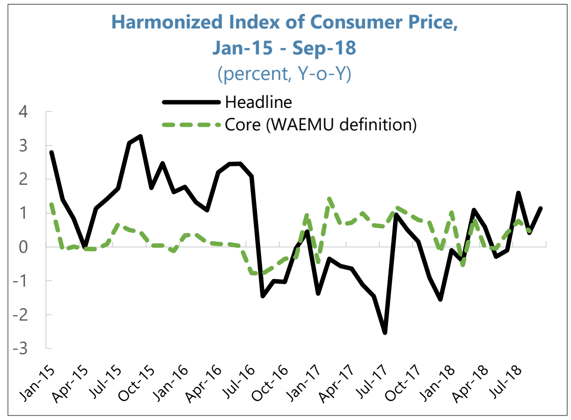
38. Staff recommends the completion of the third ECF review considering the satisfactory implementation of measures under the program. Staff also supports the authorities' request for a modification of the end-December 2018 QPC on net domestic financing.

Figure 1. Togo: Indicators of Economic Activity

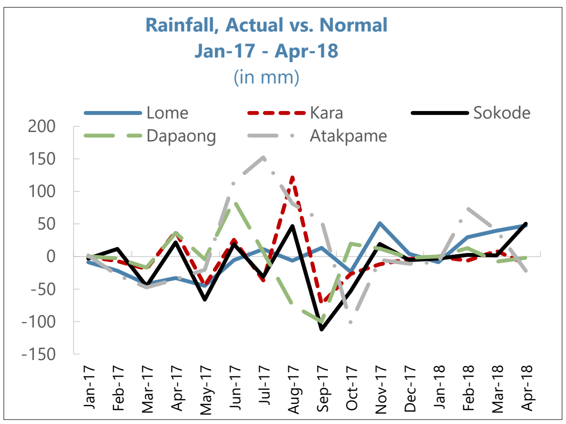
Economic activity seems to have been broadly stabilizing...



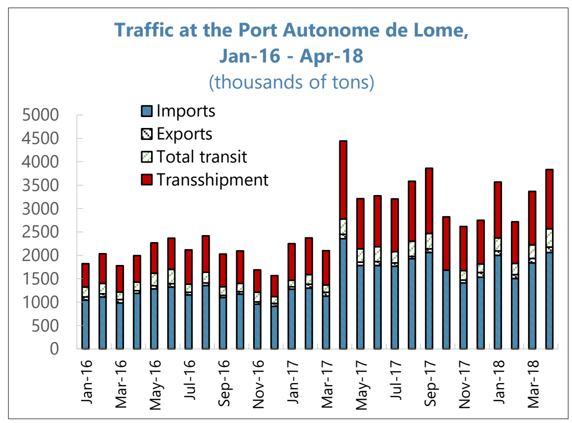
...with inflation gradually entering a positive territory ....



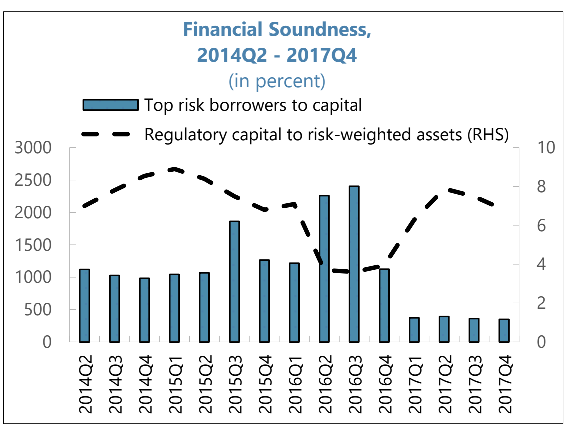
Good rainfall supported agricultural production ...



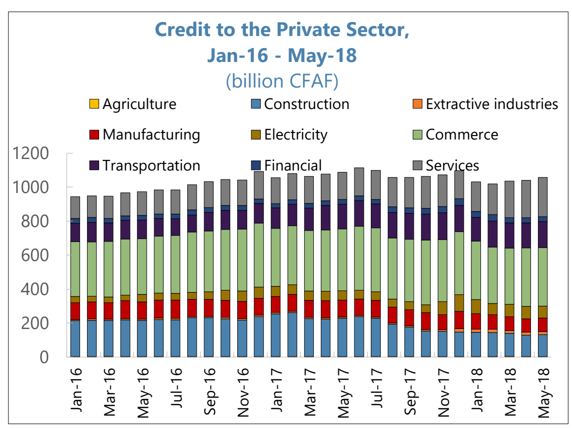
while the traffic at Lomé port has continued to expand...



Banks have started to build buffers to comply with recent regulatory changes...



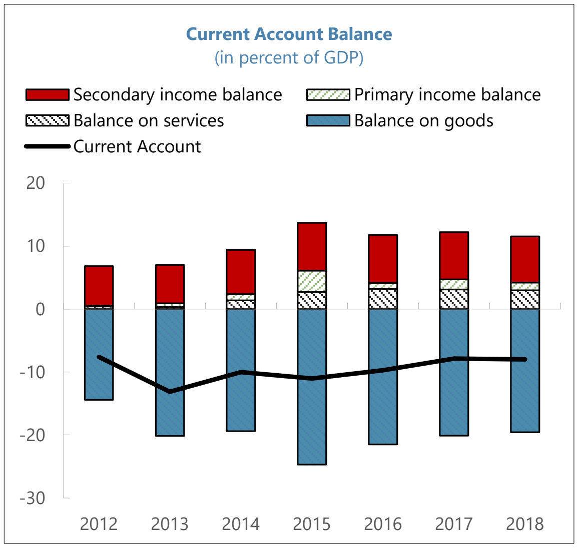
...while shifts in credit portfolio composition (from construction and manufacturing to extractive industries, electricity, transportation, services) posibly reflecting a gradual recomposition of activities.



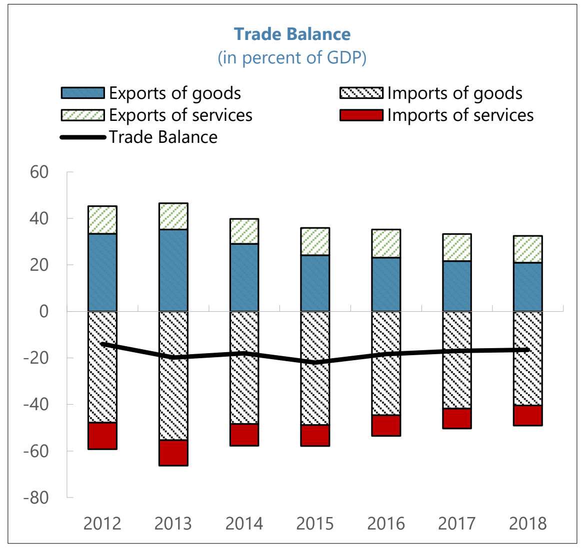
Sources: Togolese authorities; and IMF staff estimates.

Figure 2. Togo: External Sector, 2012–18

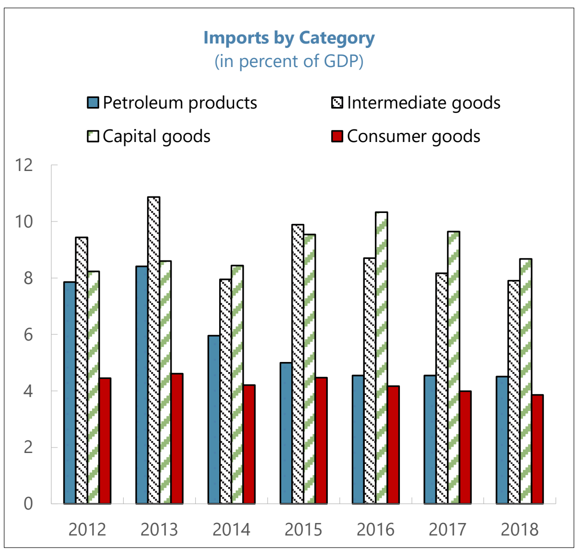
The current account deficit remains high, but is showing some improvement...



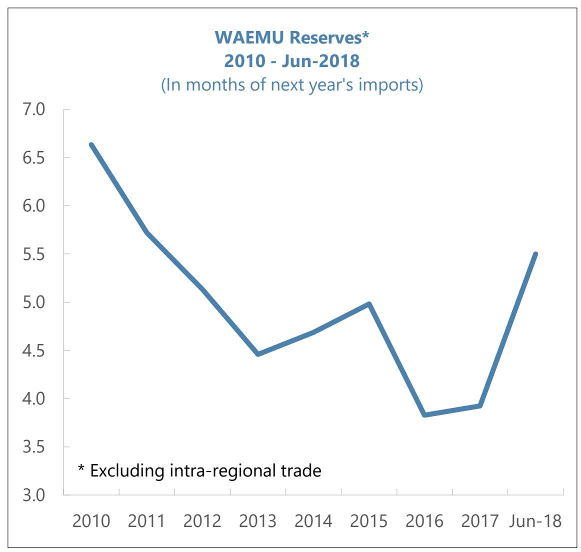
...on the back of a strengthening trade balance, driven by...



...the reduction of intermediate and capital goods imports related to public investments.



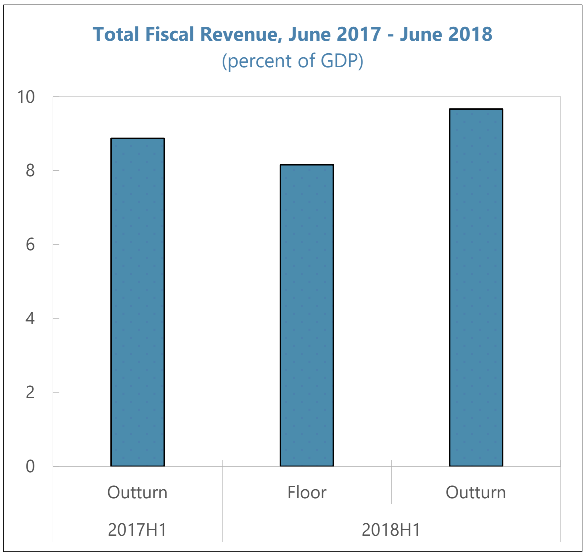
Togo's high current account deficit has contributed to pressures on regional reserves.



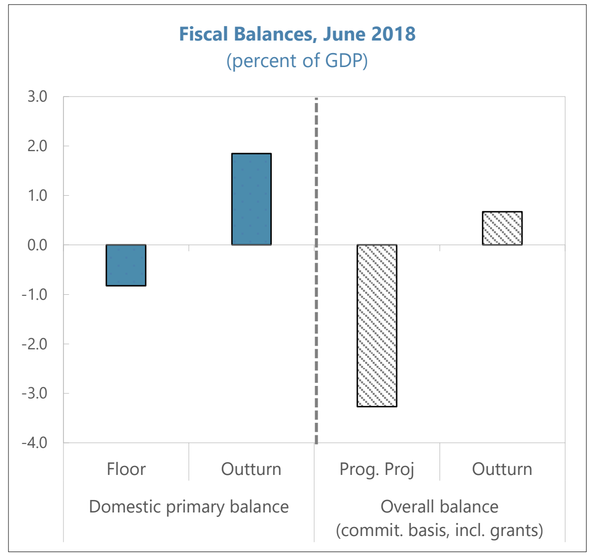
Sources: Togolese authorities; and IMF staff estimates.
Note: 2018 figures are staff projections.

Figure 3. Togo: Fiscal Developments, 2018

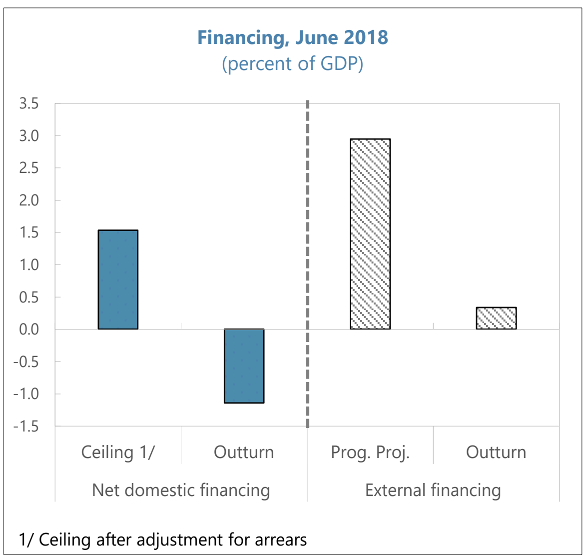
Revenue collection strengthened and outperformed the target...



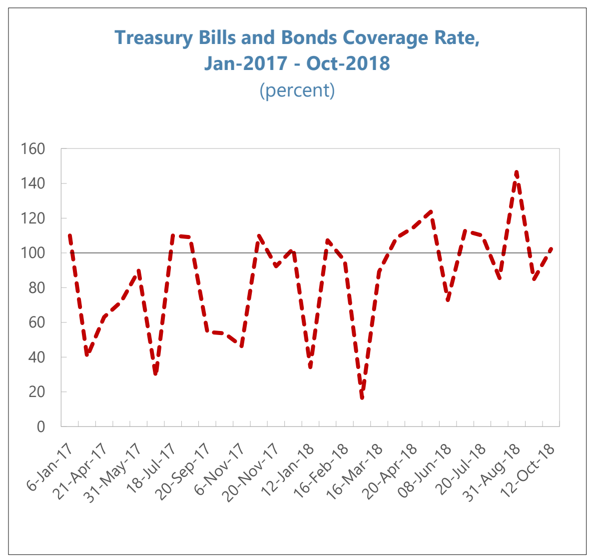
which was accompanied by expenditure containment and led to an overperformance on the fiscal balances...



...and an overperformance on domestic financing, while external financing undershoot significantly projections.



The government's ability to raise funds on the regional market has improved since the spring.

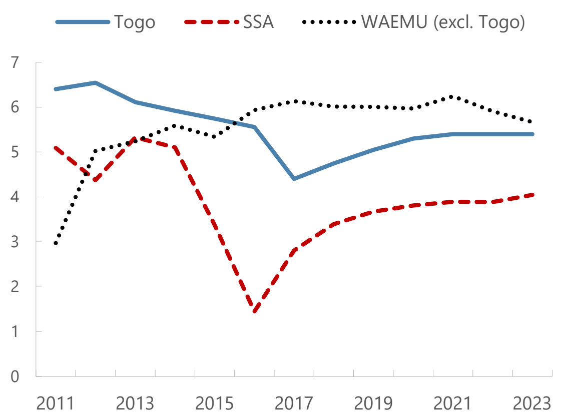


Sources: UMOA Titres; Togolese authorities; and IMF staff estimates.

Figure 4. Togo: Medium-Term Economic Prospects, 2011–23

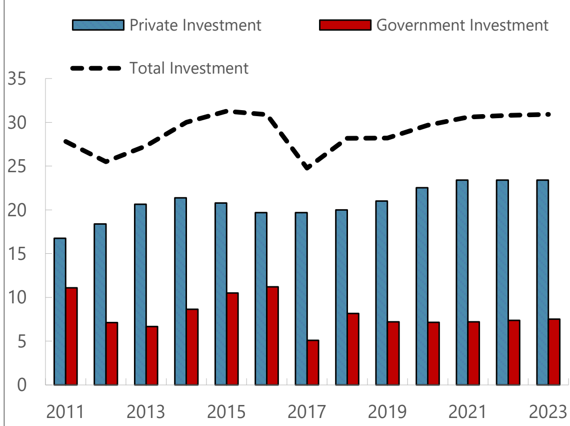
While Togo is expected to continue growing faster than Sub-Saharan Africa, growth is slightly slower than the rest of WAEMU.

Real GDP
(percent change)



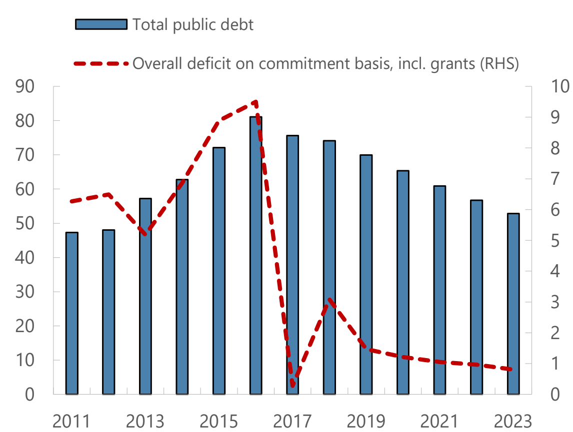
The driver of growth is expected to shift from public to private investment, as the former is returning to its level before the surge.

Public and Private Investment
(percent of GDP)



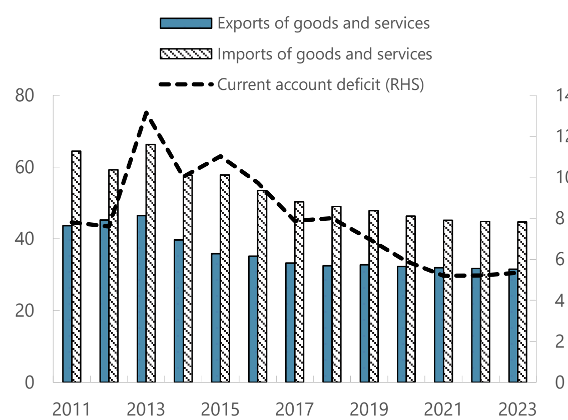
As fiscal consolidation is expected to continue, public debt should follow a downward path.

Overall Budget Deficit and Public Debt
(percent of GDP)



The external current account is expected to converge to its fundamentals as government imports are contained.

Current Account Deficit, Exports and Imports
(percent of GDP)



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	5.6	4.4	4.7	5.0	5.3	5.4	5.4	5.4
Real GDP per capita	3.1	2.9	1.8	2.1	2.4	2.7	2.8	2.8	2.8
GDP deflator	3.5	1.9	0.4	1.9	2.3	3.0	3.0	3.0	3.0
Consumer price index (average)	1.8	0.9	-0.7	0.7	1.8	2.0	2.0	2.0	2.0
GDP (CFAF billions)	2,472	2,659	2,786	2,975	3,198	3,469	3,766	4,089	4,439
Exchange rate CFAF/US$ (annual average level)	591.2	592.8	580.9	…	…	…	…	…	…
Real effective exchange rate (appreciation = –)	6.9	-1.0	0.8	…	…	…	…	…	…
Terms of trade (deterioration = –)	6.8	-2.7	-0.3	-2.3	-1.6	0.9	0.8	3.8	1.1
	(Percentage change of beginning-of-period broad money)								
Monetary survey									
Net foreign assets	-2.9	5.7	-2.4	0.2	0.2	0.2	0.2	0.2	0.2
Net credit to government	-2.1	-2.3	9.5	-13.8	2.3	0.0	0.0	0.0	0.0
Credit to nongovernment sector	18.8	7.5	1.7	9.6	10.5	12.2	13.0	13.6	14.3
Broad money (M2)	20.7	12.6	10.0	6.8	7.5	8.5	10.0	8.6	12.4
Velocity (GDP/end-of-period M2)	2.0	1.9	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	33.5	25.9	30.1	29.9	31.3	32.3	32.5	32.7
Government	12.9	13.8	6.3	10.1	8.9	8.8	8.9	9.1	9.2
Nongovernment	20.8	19.7	19.7	20.0	21.0	22.5	23.4	23.4	23.4
Gross national savings	22.7	23.8	18.1	22.1	22.9	25.4	27.2	27.5	27.6
Government	4.1	4.3	6.0	7.0	7.4	7.6	7.8	8.1	8.4
Nongovernment	18.6	19.4	12.1	15.1	15.5	17.8	19.4	19.4	19.2
Government budget									
Total revenue and grants	21.8	21.5	21.4	24.3	24.0	24.0	24.1	24.3	24.5
Revenue	19.5	18.6	18.2	20.4	19.9	19.9	20.0	20.2	20.4
Total expenditure and net lending	30.7	31.0	21.7	27.4	25.4	25.2	25.2	25.3	25.3
Domestic primary balance[1]	-3.2	-4.5	0.8	2.4	2.8	2.8	2.7	2.7	2.7
Overall primary balance (commitment basis, incl. grants)	-6.5	-7.1	1.5	-0.7	1.0	1.0	1.0	1.0	1.0
Overall balance (commitment basis, incl. grants)	-8.9	-9.5	-0.3	-3.1	-1.5	-1.2	-1.1	-1.0	-0.8
Overall primary balance (cash basis, incl. grants)	-5.3	-7.1	-0.3	-2.9	-0.1	1.0	1.0	1.0	1.0
Overall balance (cash basis, incl. grants)	-7.7	-9.5	-2.1	-5.3	-2.6	-1.2	-1.1	-1.0	-0.8
External sector									
Current account balance	-11.0	-9.7	-7.9	-8.0	-7.0	-5.9	-5.1	-5.0	-5.1
Exports (goods and services)	35.8	35.2	33.3	32.5	32.8	32.6	32.6	33.1	33.3
Imports (goods and services)	-57.8	-53.5	-50.3	-49.0	-47.8	-46.6	-45.8	-46.0	-46.2
External public debt[2]	21.7	20.1	19.7	24.0	25.3	24.6	24.0	23.4	22.7
External public debt service (percent of exports)[2]	4.1	4.9	5.8	4.2	4.0	3.9	3.5	3.6	4.2
Domestic public debt[3]	50.5	60.9	55.9	50.2	44.6	40.7	36.9	33.4	30.2
Total public debt[4]	72.1	81.1	75.6	74.1	69.9	65.3	60.9	56.8	52.9
Total public debt (excluding SOEs)[5]	69.7	77.7	72.4	71.3	67.5	63.2	59.1	55.3	51.7

Sources: Togolese authorities and IMF staff estimates and projections.

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

[2] Includes state-owned enterprise external debt.

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

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

[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
	Dec.	Dec.	Dec.	December		December			Dec.
	Act.	Act.	Est.	Prog.	Proj.	2nd Rev	Budget	Proj.	Proj.
				(Billions of CFA Francs)					
Revenue and grants	539.5	571.3	595.8	723.5	723.5	755.7	800.0	767.0	833.1
Total revenue	482.3	495.7	507.3	606.5	606.5	632.0	668.7	635.8	690.8
Tax revenue	427.6	444.7	449.0	518.3	518.3	553.1	585.1	552.2	600.1
Tax administration (CI)	213.6	238.0	247.2	297.9	291.3	318.0	342.0	309.1	336.5
Customs administration (CDII)	214.0	206.8	201.8	220.4	226.9	235.1	243.1	243.1	263.6
Nontax revenue	54.7	50.9	58.2	88.2	88.2	78.9	83.6	83.6	90.7
Grants	57.2	75.6	88.5	117.0	117.0	123.7	131.3	131.2	142.3
Budget support	9.7	11.3	48.3	41.6	41.6	44.7	20.4	20.4	22.1
Project	47.5	64.3	40.2	75.3	75.3	79.0	110.9	110.9	120.2
Expenditure and net lending	759.1	823.9	603.6	857.3	815.3	772.5	813.9	813.9	875.1
Of which: Dom. primary expenditures	561.5	614.5	484.9	576.3	534.3	539.0	546.5	546.5	593.2
Current expenditure	438.1	456.7	429.0	515.5	515.5	559.4	529.4	529.4	569.7
Primary current spending	379.0	393.8	380.4	444.5	444.5	479.0	451.2	451.2	491.9
Wages and salaries	171.7	182.7	192.8	204.0	204.0	219.7	215.2	215.2	233.6
Goods and services	89.4	100.3	84.3	114.7	114.7	123.3	111.2	111.2	124.2
Transfers and subsidies	115.9	110.8	103.3	125.8	125.8	136.0	124.8	124.8	134.0
Interest	59.1	62.9	48.6	71.0	71.0	80.4	78.2	78.2	77.8
Domestic debt	44.9	54.1	38.7	56.9	56.9	70.6	66.8	66.8	68.1
External debt	14.2	8.8	9.9	14.1	14.1	9.8	11.3	11.3	9.8
Public investment	319.6	367.3	174.5	299.8	299.8	213.1	284.5	284.5	305.4
Domestically financed	181.1	220.8	104.4	89.8	89.8	60.0	95.3	95.3	101.3
Foreign financed	138.5	146.5	70.0	210.0	210.0	153.1	189.2	189.2	204.1
Net Lending[1]	1.4	-0.1	0.1	42.0	0.0	0.0	0.0	0.0	0.0
Domestic primary balance[1]	-79.2	-118.8	22.3	30.2	72.2	93.0	122.2	89.3	97.6
Overall primary balance (commitment basis, incl. grants)[1]	-160.5	-189.7	40.8	-62.9	-20.9	63.6	64.3	31.3	35.8
Overall balance (commitment basis, incl. grants)[1]	-219.6	-252.6	-7.8	-133.9	-91.9	-16.8	-13.9	-46.8	-42.0
Overall balance (commitment basis, excl. grants)[1]	-276.8	-328.2	-96.3	-250.8	-208.9	-140.5	-145.2	-178.1	-184.3
Change in arrears and accounts payable[2,3]	28.3	0.0	-50.4	-64.8	-64.8	-35.4	-35.4	-35.4	0.0
Overall primary balance (cash basis, incl. grants)[1,3]	-132.2	-189.7	-9.6	-127.7	-85.7	28.2	28.9	-4.1	35.8
Overall balance (cash basis, incl. grants)[1,3]	-191.3	-252.6	-58.2	-198.7	-156.7	-52.2	-49.3	-82.2	-42.0
Overall balance (cash basis, excl. grants)[1,3]	-248.5	-328.2	-146.8	-315.6	-273.7	-175.9	-180.6	-213.5	-184.3
Financing[1,3]	369.8	322.6	106.4	275.3	233.4	115.7	120.5	152.8	184.3
Domestic financing (net)[1,3]	235.7	184.4	27.3	48.0	6.0	-58.8	-56.4	-24.0	-8.9
External financing (net)	134.2	138.3	79.1	227.3	227.4	174.5	176.9	176.9	193.2
Grants	57.2	75.6	88.5	117.0	117.0	123.7	131.2	131.2	142.3
Budget support loans	0.0	0.0	0.0	7.9	7.9	7.8	0.0	0.0	0.0
Project loans	91.0	82.2	29.8	134.7	134.7	74.1	78.3	78.3	83.9
Amortization (incl. IMF repayments)	-14.0	-19.5	-39.2	-32.3	-32.3	-31.1	-32.7	-32.7	-33.0
Financing gap/unidentified financing[4]	-121.3	5.6	40.3	40.3	40.3	60.1	60.1	60.6	0.0
IMF-ECF	0.0	0.0	40.3	40.3	40.3	60.1	60.1	60.6	
Memorandum Item:									
Nominal GDP (CFAF billions)	2,471.8	2,659.0	2,785.8	2,957.5	2,974.9	3,179.7	3,198.4	3,198.4	3,469.0

Sources: Togolese authorities and IMF staff estimates and projections.

[1] The original program for 2018 includes FCFA 42 billion (1.4 percent of GDP) of projected cost for the recapitalization of the two merged state owned banks, which is no longer reflected in the current projections as the government is re-launching their privatization.

[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] Data on capital expenditure and financing in 2015-16 are staff estimates to reflect pre-financing agreements with private companies. Staff has not been able to create fully consistent estimates, which explains the gap in 2015-16.

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

(In percent of GDP)

	2015	2016	2017	2018		2019			2020
	Dec.	Dec.	Dec.	December		December			Dec.
	Act.	Act.	Est.	Prog.	Proj.	2nd Rev	Budget	Proj.	Proj.
				(Percent of GDP)					
Revenue and grants	21.8	21.5	21.4	24.5	24.3	23.8	25.0	24.0	24.0
Total revenue	19.5	18.6	18.2	20.5	20.4	19.9	20.9	19.9	19.9
Tax revenue	17.3	16.7	16.1	17.5	17.4	17.4	18.3	17.3	17.3
Tax administration (CI)	8.6	8.9	8.9	10.1	9.8	10.0	10.7	9.7	9.7
Customs administration (CDII)	8.7	7.8	7.2	7.5	7.6	7.4	7.6	7.6	7.6
Nontax revenue	2.2	1.9	2.1	3.0	3.0	2.5	2.6	2.6	2.6
Grants	2.3	2.8	3.2	4.0	3.9	3.9	4.1	4.1	4.1
Budget support	0.4	0.4	1.7	1.4	1.4	1.4	0.6	0.6	0.6
Project	1.9	2.4	1.4	2.5	2.5	2.5	3.5	3.5	3.5
Expenditures and net lending	30.7	31.0	21.7	29.0	27.4	24.3	25.4	25.4	25.2
Of which: Dom. primary expenditures	22.7	23.1	17.4	19.5	18.0	17.0	17.1	17.1	17.1
Current expenditures	17.7	17.2	15.4	17.4	17.3	17.6	16.6	16.6	16.4
Primary current spending	15.3	14.8	13.7	15.0	14.9	15.1	14.1	14.1	14.2
Wages and salaries	6.9	6.9	6.9	6.9	6.9	6.9	6.7	6.7	6.7
Goods and services	3.6	3.8	3.0	3.9	3.9	3.9	3.5	3.5	3.6
Transfers and subsidies	4.7	4.2	3.7	4.3	4.2	4.3	3.9	3.9	3.9
Interest	2.4	2.4	1.7	2.4	2.4	2.5	2.4	2.4	2.2
Public investment	12.9	13.8	6.3	10.1	10.1	6.7	8.9	8.9	8.8
Domestically financed	7.3	8.3	3.7	3.0	3.0	1.9	3.0	3.0	2.9
Foreign financed	5.6	5.5	2.5	7.1	7.1	4.8	5.9	5.9	5.9
Net Lending[1]	0.1	0.0	0.0	1.4	0.0	0.0	0.0	0.0	0.0
Domestic primary balance[1]	-3.2	-4.5	0.8	1.0	2.4	2.9	3.8	2.8	2.8
Overall primary balance (commitment basis, incl. grants)[1]	-6.5	-7.1	1.5	-2.1	-0.7	2.0	2.0	1.0	1.0
Overall balance (commitment basis, incl. grants)[1]	-8.9	-9.5	-0.3	-4.5	-3.1	-0.5	-0.4	-1.5	-1.2
Overall balance (commitment basis, excl. grants)[1]	-11.2	-12.3	-3.5	-8.5	-7.0	-4.4	-4.5	-5.6	-5.3
Change in arrears and accounts payable[2,3]	1.1	0.0	-1.8	-2.2	-2.2	-1.1	-1.1	-1.1	0.0
Overall primary balance (cash basis, incl. grants)[1,3]	-5.3	-7.1	-0.3	-4.3	-2.9	0.9	0.9	-0.1	1.0
Overall balance (cash basis, incl. grants)[1,3]	-7.7	-9.5	-2.1	-6.7	-5.3	-1.6	-1.5	-2.6	-1.2
Overall balance (cash basis, excl. grants)[1,3]	-10.1	-12.3	-5.3	-10.7	-9.2	-5.5	-5.6	-6.7	-5.3
Financing[1,3]	15.0	12.1	3.8	9.3	7.8	3.6	3.8	4.8	5.3
Domestic financing (net)[1,3]	9.5	6.9	1.0	1.6	0.2	-1.8	-1.8	-0.8	-0.3
External financing (net)	5.4	5.2	2.8	7.7	7.6	5.5	5.5	5.5	5.6
Grants	2.3	2.8	3.2	4.0	3.9	3.9	4.1	4.1	4.1
Budget support loans	0.0	0.0	0.0	0.3	0.3	0.2	0.0	0.0	0.0
Project loans	3.7	3.1	1.1	4.6	4.5	2.3	2.4	2.4	2.4
Amortization (incl. IMF repayments)	-0.6	-0.7	-1.4	-1.1	-1.1	-1.0	-1.0	-1.0	-1.0
Financing gap/unidentified financing[4]	-4.9	0.2	1.4	1.4	1.4	1.9	1.9	1.9	0.0
IMF-ECF	…	…	1.4	1.4	1.4	1.9	1.9	1.9	…
Memorandum Item:									
Nominal GDP (CFAF billions)	2,471.8	2,659.0	2,785.8	2,957.5	2,974.9	3,179.7	3,198.4	3,198.4	3,469.0

Sources: Togolese authorities and IMF staff estimates and projections.

[1] The original program for 2018 includes FCFA 42 billion (1.4 percent of GDP) of projected cost for the recapitalization of the two merged state owned banks, which is no longer reflected in the current projections as the government is re-launching their privatization.

[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] Data on capital expenditure and financing in 2015-16 are staff estimates to reflect pre-financing agreements with private companies. Staff has not been able to create fully consistent estimates, which explains the gap in 2015-16.

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

	2015	2016	2017	2018	2019	2020	2021	2022	2023
				Proj.					
				(Billions of CFA Francs)					
Current account balance	-272.6	-258.7	-219.4	-238.0	-223.3	-204.5	-193.3	-203.7	-226.1
Trade balance on goods	-610.8	-571.7	-560.2	-581.8	-577.0	-594.2	-608.6	-650.8	-710.1
Of which: petroleum products, net	-101.8	-95.6	-100.0	-105.9	-106.5	-106.8	-106.4	-110.7	-117.0
Exports	597.7	614.2	603.8	621.8	676.6	727.1	789.6	875.8	955.3
Imports	1,208.5	1,185.9	1,164.0	1,203.7	1,253.5	1,321.3	1,398.2	1,526.5	1,665.4
Services, net	67.8	84.7	86.3	89.6	95.4	107.1	112.1	124.5	134.9
Primary income, net	83.1	25.8	45.0	36.3	33.2	38.6	41.1	43.8	46.9
Secondary income, net	187.3	202.4	209.5	218.0	225.0	244.0	262.2	278.8	302.1
Capital account balance	159.4	163.6	138.5	172.8	208.0	218.0	228.9	240.6	253.3
Current and capital account balance	-113.2	-95.2	-80.9	-65.3	-15.3	13.5	35.7	37.0	27.2
Financial account (- = inflow)	-225.5	-159.8	-3.8	-52.0	15.9	-19.6	-0.7	-1.6	-13.7
Direct investment, net	53.7	179.7	86.6	78.5	51.9	5.9	-12.5	-35.7	-53.6
Portfolio investment, net	-75.5	-160.5	10.0	-12.0	-31.9	-39.0	-49.7	-58.6	-68.8
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	-179.1	-100.4	-118.4	-4.1	13.5	61.6	92.7	108.7
Of which : general government, net	-134.2	-138.3	-79.1	-227.4	-176.9	-193.2	-212.5	-228.9	-239.5
Errors and omissions	2.7	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	115.0	67.1	-77.0	-13.3	-31.2	33.1	36.3	38.5	40.9
Financing	-115.0	-67.1	36.7	-27.0	-29.4	-33.1	-36.3	-38.5	-40.9
Change NFA[1]	-115.0	-67.1	36.7	-27.0	-29.4	-33.1	-36.3	-38.5	-40.9
Financing gap	…	…	40.3	40.3	60.6	0.0	0.0	0.0	0.0
IMF ECF	…	…	40.3	40.3	60.6	…	…	…	…
				(Percent of GDP)					
Current account balance	-11.0	-9.7	-7.9	-8.0	-7.0	-5.9	-5.1	-5.0	-5.1
Trade balance on goods	-24.7	-21.5	-20.1	-19.6	-18.0	-17.1	-16.2	-15.9	-16.0
Of which: petroleum products, net	-4.1	-3.6	-3.6	-3.6	-3.3	-3.1	-2.8	-2.7	-2.6
Exports	24.2	23.1	21.7	20.9	21.2	21.0	21.0	21.4	21.5
Imports	48.9	44.6	41.8	40.5	39.2	38.1	37.1	37.3	37.5
Services, net	2.7	3.2	3.1	3.0	3.0	3.1	3.0	3.0	3.0
Primary income, net	3.4	1.0	1.6	1.2	1.0	1.1	1.1	1.1	1.1
Secondary income, net	7.6	7.6	7.5	7.3	7.0	7.0	7.0	6.8	6.8
Capital account balance	6.4	6.2	5.0	5.8	6.5	6.3	6.1	5.9	5.7
Current and capital account balance	-4.6	-3.6	-2.9	-2.2	-0.5	0.4	0.9	0.9	0.6
Financial account (- = inflow)	-9.1	-6.0	-0.1	-1.7	0.5	-0.6	0.0	0.0	-0.3
Direct investment, net	2.2	6.8	3.1	2.6	1.6	0.2	-0.3	-0.9	-1.2
Portfolio investment, net	-3.1	-6.0	0.4	-0.4	-1.0	-1.1	-1.3	-1.4	-1.6
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	-6.7	-3.6	-4.0	-0.1	0.4	1.6	2.3	2.4
Of which : general government, net	-5.4	-5.2	-2.8	-7.6	-5.5	-5.6	-5.6	-5.6	-5.4
Errors and omissions	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	4.7	2.5	-2.8	-0.4	-1.0	1.0	1.0	0.9	0.9
Financing	-4.7	-2.5	1.3	-0.9	-0.9	-1.0	-1.0	-0.9	-0.9
Change in NFA[1]	-4.7	-2.5	1.3	-0.9	-0.9	-1.0	-1.0	-0.9	-0.9
Financing gap	…	…	1.4	1.4	1.9	0.0	0.0	0.0	0.0
IMF ECF	…	…	1.4	1.4	1.9	…	…	…	…
Memorandum items:									
BCEAO NFA (in months of next year's WAEMU imports)	5.0	3.8	3.9	…	…	…	…	…	…
BCEAO NFA (in million USD)[2]	12,415	10,392	12,963	16,651	…	…	…	…	…
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
				Proj.					
				(Billions of CFA Francs)					
Net foreign assets	37.6	109.4	74.9	78.4	82.4	86.7	91.4	96.4	101.6
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	297.3	440.1	463.4	485.4	509.9	536.9	565.9	596.4	628.6
Assets	600.3	773.5	773.8	773.8	773.8	773.8	773.8	773.8	773.8
Liabilities	-303.1	-333.3	-310.5	-288.4	-263.9	-236.9	-207.9	-177.3	-145.1
Net domestic assets	1259.4	1356.8	1542.2	1634.7	1756.1	1903.4	2094.0	2272.2	2554.9
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	1058.5	1152.5	1176.9	1327.3	1503.0	1721.9	1975.5	2265.9	2598.4
of which: Credit to private sector	992.7	1094.3	1099.3	1240.2	1414.1	1623.9	1868.7	2150.5	2474.7
Other items (net)	-247.7	-303.5	-339.5	-474.4	-381.7	-310.2	-247.2	-135.2	-85.4
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	1297.0	1466.2	1617.0	1713.1	1838.4	1990.1	2185.4	2368.6	2656.5
Money supply (M2)	1260.8	1419.5	1561.5	1667.5	1792.8	1944.5	2139.8	2323.0	2610.9
Currency Outside Depository Corporations	241.5	246.5	299.8	303.7	306.0	308.2	310.3	312.4	314.4
Transferable Deposits	428.4	513.8	539.8	573.2	617.1	636.1	679.3	676.4	748.8
Other Deposits	590.8	659.2	722.0	790.6	869.7	1000.2	1150.2	1334.2	1547.7
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	-2.9	5.7	-2.4	0.2	0.2	0.2	0.2	0.2	0.2
BCEAO	-4.7	-5.6	-4.1	-1.2	-1.3	-1.5	-1.6	-1.6	-1.7
Commercial banks	1.8	11.3	1.6	1.4	1.6	1.7	1.9	2.0	2.1
Net domestic assets	23.8	7.7	13.1	5.9	7.3	8.2	9.8	8.3	12.2
Credit to government (net)	-2.1	-2.3	9.5	-13.8	2.3	0.0	0.0	0.0	0.0
Credit to nongovernment sector	18.8	7.5	1.7	9.6	10.5	12.2	13.0	13.6	14.3
Other items (net)	-8.7	-4.4	-2.5	-8.6	5.6	4.0	3.2	5.2	2.1
Shares and other equities	1.7	1.9	0.7	-1.5	0.0	0.0	0.0	0.0	0.0
Total broad money liabilities									
Money supply (M2)	20.7	12.6	10.0	6.8	7.5	8.5	10.0	8.6	12.4
Currency Outside Depository Corporations	9.0	0.4	3.8	0.3	0.1	0.1	0.1	0.1	0.1
Transferable Deposits	3.0	6.8	1.8	2.1	2.6	1.1	2.2	-0.1	3.1
Other Deposits	8.7	5.4	4.4	4.4	4.7	7.3	7.7	8.6	9.2
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)	2.0	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.7
				(Percent of GDP)					
Net foreign assets	1.5	4.1	2.7	2.6	2.6	2.5	2.4	2.4	2.3
BCEAO	-10.5	-12.4	-13.9	-13.7	-13.4	-13.0	-12.6	-12.2	-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	-15.8	-15.0	-14.6	-14.1	-13.7	-13.2	-12.8
Commercial banks	12.0	16.6	16.6	16.3	15.9	15.5	15.0	14.6	14.2
Assets	24.3	29.1	27.8	26.0	24.2	22.3	20.5	18.9	17.4
Liabilities	-12.3	-12.5	-11.1	-9.7	-8.3	-6.8	-5.5	-4.3	-3.3
Net domestic assets	51.0	51.0	55.4	55.0	54.9	54.9	55.6	55.6	57.6
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	6.3	-1.3	0.0	0.0	0.0	0.0	0.0
Credit to nongovernment sector	42.8	43.3	42.2	44.6	47.0	49.6	52.5	55.4	58.5
of which: Credit to private sector	40.2	41.2	39.5	41.7	44.2	46.8	49.6	52.6	55.8
Other items (net)	-10.0	-11.4	-12.2	-15.9	-11.9	-8.9	-6.6	-3.3	-1.9
Shares and other equities	4.4	4.9	5.0	4.0	3.7	3.4	3.1	2.9	2.6
Total broad money liabilities	52.5	55.1	58.0	57.6	57.5	57.4	58.0	57.9	59.9
Money supply (M2)	51.0	53.4	56.1	56.1	56.1	56.1	56.8	56.8	58.8
Currency Outside Depository Corporations	9.8	9.3	10.8	10.2	9.6	8.9	8.2	7.6	7.1
Transferable Deposits	17.3	19.3	19.4	19.3	19.3	18.3	18.0	16.5	16.9
Other Deposits	23.9	24.8	25.9	26.6	27.2	28.8	30.5	32.6	34.9
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

(In 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: Quantitative Performance Criteria and Indicative Targets, June 2018

(Billions of CFA Francs)

	2018			
	End-June			
	Performance Criteria	Adjusted	Actual	Status
Performance criteria				
Domestic primary fiscal balance (floor)	-24.5		54.9	Met
Non-accumulation of arrears on external public debt[1]	0.0		0.0	Met
Net domestic financing (ceiling)[2]	68.6	45.6	-34.0	Met
Government contracting or guaranteeing of nonconcessional external debt (ceiling)[1]	0.0		0.0	Met
Government guaranteeing of domestic loans to suppliers and contractors (ceiling)[1]	0.0		0.0	Met
Government guarantees on bank prefinancing for public investments (ceiling)[1]	0.0		0.0	Met
Indicative targets				
Total fiscal revenue (floor)	242.6		287.6	Met
Total domestically financed social spending (floor)	109.6		78.6	Not met
Memorandum Item				
Overall primary balance[3]	-94.2		44.1	
Government contracting or guaranteeing of nominal concessional external debt	57.1		27.3	
NPV of new non-concessional external debt contracted as a result of debt management operations (maximum)	260.3		0.0	

Sources: Togolese authorities; and IMF staff estimates.

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

[2] Performance criteria and indicative targets for 2018 are adjusted upwards to offset deviations from projected external program financing, subject to a cap of CFAF 10 billion. If net arrears repayments in June and September 2018 are less than programmed (CFAF 32.4 billion at end-June and CFAF 48.6 billion at end-September), the end-June performance criterion and end-September indicative target for net domestic financing will be adjusted downwards by the difference between the arrears repayment outturn and programmed repayments. The current performance criteria and indicative targets shown are consistent with a net arrears repayment in 2018 of CFAF 64.8 billion.

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

Table 7. Togo: Indicators of Capacity to Repay the Fund, 2017–29[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	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total obligations based on existing and prospective credit													
In millions of SDRs	19.2	17.9	11.2	7.6	1.9	2.7	12.8	22.8	35.4	35.4	32.9	22.8	12.7
In billions of CFAF	15.5	14.1	8.8	6.0	1.5	2.1	9.9	17.7	27.5	27.5	25.5	17.7	9.9
In percent of government revenue	3.1	2.3	1.4	0.9	0.2	0.3	1.1	1.8	2.5	2.3	2.0	1.3	0.6
In percent of exports of goods and services	1.7	1.5	0.8	0.5	0.1	0.2	0.7	1.1	1.6	1.5	1.2	0.8	0.4
In percent of debt service[2]	16.6	18.9	11.9	7.5	1.9	2.3	8.6	12.4	15.9	14.6	13.0	9.4	5.3
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	13.1	12.2	7.6	5.2	1.3	1.8	8.7	15.5	24.1	24.1	22.4	15.5	8.7
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	94.9	146.1	139.1	137.4	135.0	125.1	107.5	80.1	52.8	27.4	9.8	0.0
In percent of government revenue	14.0	15.7	23.0	20.1	18.2	16.3	13.8	10.8	7.4	4.4	2.1	0.7	0.0
In percent of exports of goods and services	7.7	9.8	13.9	12.3	11.2	10.0	8.5	6.7	4.6	2.8	1.3	0.4	0.0
In percent of debt service[2]	76.4	127.9	196.6	174.3	176.3	150.4	108.4	75.5	46.3	28.0	13.9	5.2	0.0
In percent of GDP	2.6	3.2	4.6	4.0	3.6	3.3	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	22.6	12.6
Memorandum items:													
Nominal GDP (in billions of CFAF)	2,786	2,975	3,198	3,469	3,766	4,089	4,439	4,819	5,231	5,679	6,165	6,693	7,266
Exports of goods and services (in billions of CFAF)	927	966	1,048	1,130	1,227	1,355	1,476	1,604	1,743	1,894	2,058	2,236	2,431
Government revenue (in billions of CFAF)	507	606	636	691	754	826	903	991	1,086	1,191	1,299	1,415	1,542
Debt service (in billions of CFAF)[2 3]	93	74	74	80	78	90	115	142	173	188	196	188	187
CFAF/SDR (period average)	805	785	788	782	780	777	776	776	776	776	776	776	776

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 8. Togo: Schedule of Disbursements Under ECF Arrangement 2017–19

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 review 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
SDR 176.16 million (120 percent of quota)	Total amount of 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			
Sharp tightening of global financial conditions (ST).	*High*	*High* • The government may not be able to fully raise financing . • 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 (MT).	*Medium/Low*	*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.
Rising protectionism and retreat from multilateralism (ST, MT).	*High*	*High* • Reduced global policy collaboration and regional integration may limit international aid, FDI, trade flows, 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/High*	*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* • 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. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex II. Bank Privatization

1. **Set up with a public interest mandate, state-owned banks (SOBs) have often been associated with weak performance, competition distortions, and stability concerns**. SOBs have been created to promote the development of certain sectors or regions that the private sector is unable or unwilling to finance (development view, Gerschenkron, 1962). By helping to overcome market failures and taking advantage of externalities, SOBs would promote socially desirable welfare enhancing investments (social view, Atkinson and Stiglitz, 1980). In contrast, government bank ownership can lead to resource misallocation and inefficiencies, related to the conflict of interest between government and the bureaucratic managers (agency view, Banerjee, 1997, Hart et al., 1997) or the use of SOBs for the pursuit of own goals by politicians (political view, Shleifer and Vishny, 1994). Cross-country experiences show that the SOBs have a significantly lower return on loans and higher rates of loan default despite lower deposit costs in developing countries (Mian, 2003; Micco et al., 2007); and that bank privatization raises bank profitability and efficiency over time to levels in excess of pre-privatization bank performance, even when the acquirer is a foreign bank (Boubakri et al., 2005; Berger et al., 2009).

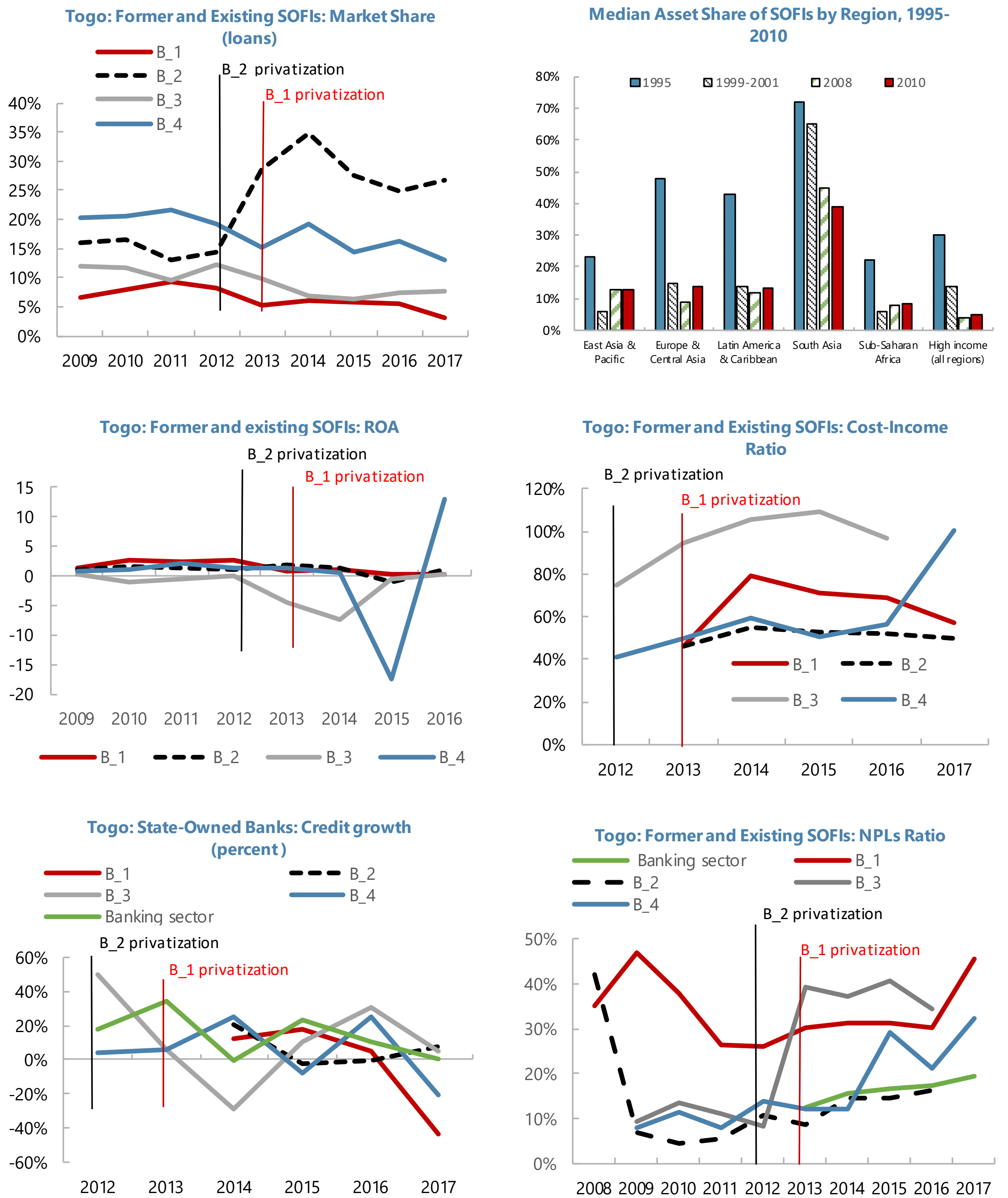
2. **Togo's state-owned banks have encountered similar financial difficulties.** The volatile economic activity during the 1980s-90s often translated into widespread bank insolvencies. In 2006, following another domestic crisis, the banking system became almost entirely insolvent, with elevated levels of NPLs to state-owned enterprises. Some private banks were bailed out by the government and remained public (e.g., BIA). The SOBs were recapitalized several times. The 2004 bank recapitalization costed 4.4 percent of GDP but proved insufficient. The government recapitalized the three largest state-owned banks (BTCI, UTB and BIA) a second time in late 2008 through NPLs securitization for 5.9 percent of GDP. However, as the financial restructuring was not followed by operational restructuring, the difficulties persisted.

3. **Togo's share of SOBs has diminished following privatization initiatives from the mid-2000s but remains higher than the sub-Saharan African average.** Bank privatization efforts were initiated in 2004, with the sale of a smaller public bank, SNI, to Financial Bank (which became Orabank in 2011). The privatization of the four remaining public banks was stepped up under the 2008-11 ECF-supported program. The objective was to restore confidence in the Togolese financial sector, reduce the risk of new macro instability linked to the large loss-making SOBs (46 percent of total assets of the banking system), and promote financial sector development and expansion of financial intermediation. At the time, the banking system was characterized by low financial intermediation, with the loans-to-deposit ratio lower than the WAEMU, SSA, and LIC averages. NPL ratios in 2008 stood at 20 percent for SOBs and 7 percent for private banks. Following a public tender for the four banks, at end-2012, Orabank, a large regional group, bought 56 percent of BTD capital and in September 2013, the State further sold 55 percent of its shares in BIA to Attijarwafa banking group. SOBs accounted for 20.5 percent of the total assets of the banking system at end-2017, which is higher than the sub-Saharan African median (8 percent in 2010, Figure 1).

4. Togo's experience of bank privatization was positive for one case (BTD) and broadly neutral for another (BIA). The privatization of BTD and subsequent merger with Orabank yielded 0.6 percent of GDP to the government. The new bank became the biggest Togolese bank, with 29 percent of loans and 23.5 percent of deposits in 2013. Lending has expanded at a fast pace, and earnings and profitability indicators have continued to improve. Its market share has stabilized and was around 27 percent of total loans at end-2017. The privatization of BIA yielded 0.7 percent of GDP to the government. Lending expanded immediately following the privatization (2014-15) but the upward trend did not continue. BIA has experienced profitability difficulties and a declining market share, possibly related to imperfect cost adjustments (as shown by the relatively high cost-income ratio, 0.66 on average, after privatization, compared with 0.54 for BTD). The NPL ratio at Orabank has been lower or close to the banking sector; whereas BIA has experienced a deterioration of asset quality over time. Both banks have comfortable core capital cushions and satisfy the new Basel 2-3 regulations.

5. The other two public banks (UTB, BTCI) could not be privatized and their financial situation has continued to deteriorate. The process of privatizing UTB in 2012 failed on procedural grounds and was not renewed. Following the recapitalization in 2008, net income has been somewhat volatile but was on average negative in the subsequent years. As a result, the bank currently requires another potential recapitalization of about 0.9 percent of GDP. BTCI's difficulties are more severe and long-lasting. The privatization attempts in early 2013 were also unsuccessful, due to governance issues and the inadequate risk management capacity discovered during the due diligence process. The bank did not meet most prudential requirements including capital adequacy, liquidity, and borrower concentration and was placed under temporary administration which lasted until September 2017. Following the recapitalization, net income has mostly been negative in subsequent years. Due to these accumulated losses, the bank currently requires a potential recapitalization of about 0.6 percent of GDP. For the two banks, the loan portfolio expanded by 14-15 percent per year during 2014-16 despite BTCI's provisional administration and the Banking Commission's close surveillance of UTB. NPL ratios at the two banks have systematically been higher than the banking sector average (Figure 1).

Figure 1. Togo: Selected Indicators for Former and Existing State-Owned Financial Institutions (SOFIs), 2009-17



Sources: BCEAO; Cull et al (2017), "Bank Ownership: Trends and Implications", IMF WB; and IMF staff estimates.

Annex III. 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

OFFICE OF THE MINISTER

N°………………/MEF/CAB

REPUBLIC OF TOGO
Travail-Liberté-Patrie

Lomé, November 20, 2018

To

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

Dear Ms. Lagarde:

1. The government requests the completion of the third review under Togo's ECF arrangement based on the satisfactory implementation of the program. All quantitative performance criteria and three out of five structural benchmarks were met, as well as one of two indicative targets. We made good progress on the structural benchmark related to the cost-effectiveness analysis of public investment projects, with support from IMF technical assistance. We request a revision of the structural benchmark on the two public banks as we are revisiting our strategy and are relaunching their privatization. We completed the prior action related to the approval of the 2019 budget by the government; we also finalized the prior action on a step in the privatization process of one of the two banks.

2. In line with the ECF-supported program, the fiscal consolidation has continued during the first half of 2018. Revenue collections exceeded projections by 1.5 percentage points of GDP and expenditure outturn was 3.4 percentage points of GDP lower than budgeted, primarily due to lower than projected foreign-financed capital expenditure. Structural fiscal reforms are also progressing. The revenue administration took measures to reduce the pending customs transit cases; the procurement, commitment, and cash management plans were updated monthly; circulars were issued to financial services to help prevent arrears; and steps are taken to strengthen the Treasury

Single Account (TSA). As regards external debt management, we did not contract non-concessional debt, and adhered to all our debt servicing obligations. Moreover, we did not issue any guarantees to domestic suppliers or contractors, nor did we pre-finance any public investment.

3. The government remains committed to pursuing the fiscal consolidation going forward. Our fiscal adjustment efforts will focus on strengthening revenue collection through permanent tax policy and tax administration measures as well as streamlining non-priority outlays through an expenditure review. This will help us meet the fiscal targets set under the ECF and ensure that Togo adheres to the regional convergence criteria and contribute to the joint WAEMU countries' efforts to maintain strong regional reserves. Accordingly, the government has adopted the 2019 budget consistent the thrust of the ECF-supported program. The budget targets an overall fiscal deficit of at most 1.5 percent of GDP, largely within the WAEMU ceiling of 3 percent of GDP.

4. As part of the continuation of the program, in addition to the structural reforms in the second half of 2018, we will implement the following measures as structural benchmarks for the first half of 2019: (i) set up a lump sum deposit of 10 to 15% on imports made by agents deemed by OTR to be inactive in connection with other taxes; (ii) prohibit the customs clearance of imported merchandise by agents and/or owners who have outstanding tax arrears; (iii) develop a document for program-based budget covering 2020-22; (iv) draft a strategic plan and the terms for the tender of UTB, in consultation with IMF staff; and (v) by end-August 2019, launch the tender for the sale of UTB.

5. 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 in connection with progress in implementing our economic and financial policies. We authorize the publication of the staff report for the third 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

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

1. This Memorandum informs on recent economic developments, reports on performance under the program supported by the ECF arrangement, and describes the authorities' policies going forward. It takes stock of performance criteria, structural benchmarks at end-June and end-September 2018 and sets targets for end-December 2018, end-March, end-June, and end-September 2019.

RECENT ECONOMIC DEVELOPMENTS

2. Overall economic activity is showing some signs of incipient stabilization despite continuing weaknesses in some sectors. Following the sharp decline in the second half of 2017 due to the socio-political crisis, growth strengthened in the first half of 2018. Agricultural production registered an uptick thanks to abundant rains, and port traffic increased by 25 percent between January and June 2018. However, electricity consumption was down by more than 1 percent. Credit to the private sector picked up again and increased by 9 percent year-on-year. Nonetheless, the services sector continues to show weak performance. Inflation reverted back to mildly positive figures, hinting at a more resilient underlying demand from consumers. The current account is expected to deteriorate slightly in 2018, due largely to an adverse evolution of the terms of trade; but the stable underlying volumes of exports and imports (especially capital goods) continue to support a gradual economic stabilization.

3. For 2018, fiscal outturns are slated to remain in line with the path envisaged under the ECF arrangement. The overall balance showed a surplus of 0.7 percent of GDP in 2018H1, thanks to solid revenue performance and a prudent spending level. We addressed poor revenue collection in 2017 with meaningful improvements in the customs departments that allowed for significant improvements is tax and customs revenue. This resulted in a revenue outturn 2018H1 higher by 16 percent relative the 2017H1, leading to the overperforming of the program target by 1.5 percentage points of GDP. However, revenue collection weakened in the third quarter of 2018. To achieve the revenue target under the program for the whole of 2018, we are undertaking important efforts in the areas of tax collection and disputed tax files. In that connection, the Office of Revenue assembled a multidisciplinary team dedicated to the recovery of tax arrears and disputed tax balances. With regard to expenditures, we executed only 33 percent of our budget in 2018H1, thanks to a prudent spending policy. We plan to execute our budget in full for the whole year, to help reverse the economic difficulties of 2017 while ensuring adherence to program targets. Despite our prudent fiscal stance, we were not able to reduce arrears as planned in 2018H1. Going forward, we expect to achieve the targeted arrears clearance of about 2 percent of GDP for the full year, as we plan to strengthen our arrears management, expect disbursements in external financing, and consider bond issuances in the regional market.

PROGRAM IMPLEMENTATION

4. All end-June 2018 quantitative performance criteria (QPCs) have been met; as well as one of two indicative targets (ITs). We achieved a domestic primary fiscal balance that was 0.5 percent of GDP higher than the QPC floor. The IT on social spending was not met due to difficulties in budget execution. Our execution rate for social spending nevertheless remains higher than the average, since it remains a top priority. Despite shortfalls in arrears clearance that automatically tightened the QPC on net domestic financing, we managed to contain the latter to under the adjusted ceiling and thus met the QPC. As regards external debt management, we did not contract non-concessional debt, and adhered to all our debt servicing obligations. Moreover, we did not issue any guarantees to domestic suppliers or contractors, nor did we pre-finance any public investment.

5. We achieved meaningful progress in fiscal reforms and expect to build on this momentum. All three fiscal structural benchmarks (SBs) for end-June 2018 were met. The revenue administration took measures to reduce by 60 percent the number of pending customs transit cases (SB), leading to the revenue increase while combatting fraud. We updated the procurement, commitment, and cash management plans monthly (SB) to guide the pace of commitment authorizations and help prevent arrears accumulation; circulars were issued to financial services accordingly. We closed the accounts of general government entities in commercial banks (SB) as envisaged under the ECF-supported arrangement and transferred the balance to the Government's Treasury Single Account (TSA). While we did not fully complete the cost-effectiveness analysis of public investment projects (SB for end-September 2018), we made significant progress. A workgroup was appointed within the Public Investment Program (PIP) committee, and it has elaborated a methodological guidance note to rank investment projects accordingly. Improvements to the guidance note were made with the support of an IMF FAD technical assistance mission in August 2018. The selection of projects in the 2019 budget was made based on the following criteria drawn from the cost-benefit analysis: top priority was given to projects under implementation; no new project was added lest it be part of the National Development Plan (NDP) ; moreover, each project must have been the object of a feasibility study. We have also increased the level of funding to the study fund to ensure that this measure supporting the analysis of investment projects. A circular will be sent to all spending departments to mandate the use of the methodological guidance and require that henceforth, only projects subjected to, and ranked under, this methodological guidance be included in the PIP (SB end-December 2018).

6. We have taken steps toward the implementation of the agenda on bank restructuring. We completed the merger and restructuring plan of the two public banks and secured the approval of the WAMU Banking Commission in June 2018. However, the legal transfers—which are a part of the end-June SB—have not been completed as we are revisiting our strategy. We intend to re-launch the privatization of the two banks.

ECONOMIC AND FINANCIAL POLICIES FOR 2019

Macroeconomic Framework

7. The economy seems to have stabilized after a challenging year. We expect growth to pick up and average 5 percent over the medium term, underpinned by recent infrastructure improvements and strong regional growth. We will continue to focus our public investment program on critical infrastructure, with a view to enable over time Togo to become, among other objectives, a regional commercial and transportation hub. Inflation is expected to remain well under the ceiling of 3 percent indicated by the WAEMU convergence criteria. The current account deficit is expected to narrow, on account of a stronger exports and fewer imported investment goods by the Government.

Fiscal Policy

8. Our strong fiscal performance at end-June should allow us to achieve the end-December 2018 fiscal target: a domestic primary surplus of 2.4 percent of GDP. This will lead to an overall deficit of 3.1 percent of GDP (excluding potential bank recapitalization costs) and puts Togo on track to reach the relevant WAEMU convergence criterion: a deficit of up to 3 percent of GDP. Despite a slight risk connected to general revenue performance, our efforts to recover tax arrears and disputed tax balances, together with our resolve to contain public expenditure, should allow us to achieve this fiscal target at end-2018. The expenditure review has helped us focus more efficiently on our key public service delivery priorities and should yield savings in 2018 and onwards.

9. Our fiscal framework for 2019 is in line with the ECF-supported program target. We made all necessary efforts to ensure that the budget, adopted by the Cabinet, aims at reaching a domestic primary surplus of 3.9 percent of GDP, which exceeds the program target by 1 percentage point of GDP. This fiscal target corresponds to an overall fiscal deficit of 0.5 percent of GDP, consistent with the program objective. This fiscal framework includes additional one-off revenue of around 1 percent of GDP. If the latter are excluded, on grounds of long-term permanent revenue, the overall balance would be 1.5 percent of GDP.

10. This 2019 fiscal framework preserves the fiscal and external sustainability objectives originally foreseen under the EFC-supported program. The overall fiscal deficit, with or without the one-off revenues, is well within the WAEMU convergence criterion ceiling of 3 percent. Even if the above-mentioned one-off revenues are excluded, it improves by 1.6 percentage point of GDP relative to 2018. Debt is projected to decline by about 10 percentage points of GDP over the program period (2017-19) – to 71 percent of GDP by the end of the program period in 2019 (including debt of state-owned enterprises). This debt reduction path is in line with our objectives at program inception. Our fiscal framework is consistent with the WAEMU regional policies, as part of the joint efforts of member countries to maintain strong regional reserves.

11. We will reinvigorate our efforts to repay arrears and mobilize concessional external financing. Recognizing the adverse impacts of arrears on the private sector's activities, we intend to fully clear the stock of arrears by end-2019. To strengthen further our expenditure management and help prevent accumulation of new arrears, we are monitoring basis the stock of payment arrears by age, and producing a statement thereof on a monthly basis (SB end-December 2018). Furthermore, we will bolster the implementation of the cash plan and the control of commitments. We set a new indicative target on domestic arrears to help monitor developments and enforce their non-accumulation.

Fiscal Management and Institutions

12. After a strong revenue outturn in the first half of 2018, performance softened in the third quarter. Revenue collection increased by 16 percent in the first half of 2018, relative to the same period in 2017. It exceeded program target by 1.5 percentage points of GDP. In the third quarter, the pace of revenue collection weakened. Revenue in 2018 is supported partly by one-off non-tax revenues, consisting primarily of telecom license fees and dividends,

13. For 2019 onwards, we will accelerate our efforts on timely implementation of sustainable revenue collection measures to finance expenditure for development and social needs. The revenue measures implemented under the second review of the ECF-supported program will be supplemented with new and sustainable policy reforms to offset the higher volatility of non-tax revenue. Starting from 2019, we intend to (i) eliminate the granting of exemptions on capital gains taxes on the resale of real estate acquired more than 5 years earlier; (ii) eliminate provisions pertaining to the CFAF 300,000 tax credit for the combined capital gains during any given year; (iii) eliminate provisions authorizing the Minister of Finance to grant exemptions on interest payments to non-residents; (iv) eliminate provisions pertaining to the deduction of fees and charges in connection to financial assets under the personal income tax, and interest payments on mortgage loans (at least in part); (v) limit to 30 percent of the gross operating margin the deductibility of interests charged to connected persons who effectively or legally control a company (with a view to preempt profit transfers toward fiscal havens); and (vi) consider broadening the scope of VAT to cover insurance activities. OTR intends to pursue and complete the registration of land with a view to settling and recovering real estate taxes. In parallel, to improve the business environment, we plan to implement a strategy to improve the refunding of VAT credits, consistent with the provisions of the General Tax Code.

14. We will leverage revenue policy reforms with administrative measures to strengthen our revenue stream sustainability, in line with TA recommendations from the IMF. To bolster the ECF-supported program's credibility, we will implement measures with a near-term impact, such as an intensification of efforts to recover tax arrears. The following additional measures will be taken in other areas: (i) increasing the number of verifications of declarations through methodical cross-checks against third-party information; (ii) the introduction of an import lump sum deposit for importers deemed to be inactive pertaining to corporate taxation (SB for end-June 2019); (iii) a rigorous control of customs valuations; and (iv) the prevention of customs clearance for merchandise of importers with outstanding tax arrears (SB end-June 2019).

15. As part of our drive to improve public sector efficiency, we are improving the cost-effectiveness of our expenditure programs. To that end, we will continue implementation of optimization measures identified through the expenditure review initiated in 2017 with the support of an external consulting firm. We have also designed and will implement a new methodological guidance note for prioritizing public investment projects. This methodology will be enforced through a decree (for instance by the Prime Minister) (SB end-December 2018). We will also continue to strengthen cash management by making the TSA fully operational. In parallel, we will press ahead with the design of a multi-year program budgeting process to improve our ability to deliver results over the medium term. We have developed a program-based budget for 2019-21 for the whole of government, which has been presented for information to Parliament in June 2019. We are contemplating the development of a document for program budgeting and economic planning covering 2020-22 and that will be adopted by Government and forwarded to Parliament (SB end-June 2019). Tests on the information systems concerning the implementation of program budgeting will commence under the 2020 budget. To that end, we undertake to make all appointments to the financial controller positions in line ministries and institutions; we will finalize all new components for the re-coding of the SIGFiP that are necessary to the implementation of program-based budgeting; and we will launch discussions on budget orientations in Parliament.

Borrowing Policies and Debt Management

16. **Our commitment remains anchored primarily on reducing public debt.** We expect to approach a level of 70 percent of GDP by end-2019, and to remain on track to reduce the NPV of debt to less than 35 percent by 2027. Adherence to these objectives is made possible by the strong fiscal consolidation and helped partly by more favorable exchange rate projections and the prevailing low interest rate environment. We are committed to improve our debt risk rating.

17. **We are continuing to strengthen the institutional framework with which to steer debt management.** The new debt management unit has been set up and is clearly identified within the ministry's organizational chart. It has been tasked with the recording and monitoring of all debt and its analysis. The Department for Public Debt and Financing has been staffed by 35 civil servants. We undertake to staff the remaining positions gradually. We are updating our medium-term debt strategy, with technical assistance from the IMF and World Bank. Furthermore, we are considering a debt reprofiling operation as early as 2019 to take advantage of more favorable conditions on the international market; this reform may be supported by a policy-based guarantee from our development partners.

Financial Sector Policies

18. **We are revisiting our strategy regarding the two weak public banks and are relaunching the privatization process.** While a merger and restructuring plan was approved by the WAMU Banking Commission in June 2018, the current context seems opportune to revert to our long-standing strategy to privatize the two banks. The privatization process of the four public banks in 2012-2013 was successful for two banks but could not be completed for the two others. The financial situation of the two banks that have remained under government ownership continually deteriorated. Each of the two banks currently requires recapitalization. To ensure long-term viability of these banks and avoid burdening government finances, we are opting for privatization. This

strategy is also consistent with the government's vision to withdraw from key sectors of the economy and allow the private sector to drive economic growth. The government intends to retain only a small shareholding in these two banks to guarantee a smooth transition in areas such as personnel.

19. We aim to finalize all legal and regulatory due diligence required for the privatization of one of the public banks and have a draft sale contract that could be submitted to the Banking Commission, pending agreement with the prospective buyer (end-December 2018 structural benchmark). An important step was taken; the draft law allowing the privatization of this bank was adopted in Cabinet and submitted to Parliament. This draft law is required to apply the 2010 privatization law to the case of this bank. A positive assessment of the buyer by the WAMU Banking Commission will be sought, including with regard to fit-and-proper criteria as well as the capacity to absorb losses and recapitalize the bank. The sale will be effective and definitive only after receiving the Banking Commission's approval. We will ensure that the sale minimizes the cost to the state budget.

20. We intend to privatize the other public bank through an open bidding process in line with the Togolese legal framework and international best practices, and in consultation with key stakeholders, including IMF staff. We will ensure that the transaction minimizes the cost to the state budget and proceeds in line with principles of good governance. In this context, the draft law allowing the privatization of this bank was recently adopted in Cabinet and submitted to Parliament. The key steps in this process are as follows:

- We plan to hire an audit firm to evaluate the economic value of this bank, with a view to guiding decisions on the range of offers that can be accepted. We will also hire an international transaction advisor to assist in the privatization process. We have finalized the terms of reference for hiring the audit firm in mid-November (prior action) and for hiring the transaction advisor by end-year (structural benchmark for end-December 2018). Soon thereafter we will hire both firms.
- Based on the proposals of the transactions advisor, we plan to finalize a strategic plan for the sale of this bank and the terms of the tender (structural benchmark for end-April 2019). The plan will indicate how the auction will be executed, and how we will prioritize non-financial components of the bids – e.g. with regard to depositors and other liability holders, the work force, possible plans to expand the balance sheet, or the modernization of systems—relative to the financial component of the bids. In the interest of securing a strategically and financially sound privatization, a delay to this timeline could occur, depending on the transaction advisor's evaluation and capacity to assist with swiftly advancing this work. In this case we would consult with IMF staff on adjusting the timeline.
- We intend to launch the tender for this bank in August 2019 (structural benchmark for end-August 2019).
- Once a winning bid is identified, we plan to complete all contractual preparations swiftly in order to bring this bank to the point of sale, tentatively planned for September 2019. Finalization of the sale will be conditional on a positive assessment by the WAMU Banking Commission, including with respect to the financial capacity and compliance with fit-and-proper requirements of the buyer.

21. We will tackle the high and raising ratio of non-performing loans. We are confident that the above strategy to privatize the two public banks will contribute to reduce NPLs given the weak portfolio of these banks. In addition, we will inquire on the factors underlying the high NPLs and produce a resolution plan, including measures and time-bound reduction targets.

Structural Reforms and Inclusive Growth

22. The National Development Plan for 2018-22 aims at making Togo a regional commercial and transportation hub. Our relatively small economy, and our central location in the sub-region make regional integration an imperative for Togo. Assessments of the business climate by the World Bank point to some deficiencies, particularly in the areas of infrastructure connection; roads and railways; telecommunications and web access; and administrative trade facilitation.

23. We are making considerable efforts to address these deficiencies through reforms outlined in the NDP and Compact with Africa. A dedicated working group on Doing Business is steering these reforms. Several improvements have been achieved, including the setting up of a one-stop-shop for land titling and a dedicated office for land ownership transfer. Our new methodical selectivity for investment projects will prioritize the ones contributing to the PND. Improvements that can be driven by commercial initiatives with basic regulations, are being promoted: Togo launched the first nationwide e-payment system (TogoPay) in September, and we plan on inviting investors to rejuvenate other sectors. We secured technical assistance and financing from the World Bank to one-stop shops at borders and in the harbor – with a view to enhancing our position as maritime gateway to the hinterland and transshipment center for the sub-region. Under the guidance of the WAEMU Commission, we launched a working group that will make recommendations on the region-wide adoption of unified technical standards and tax rates and tariffs. We are committed to meeting our undertakings under the program, in particular the development of mechanisms and procedures to facilitate land registration (structural benchmark for end-December 2018) and the georeferencing of existing land property titles.

24. We are undertaking efforts to address governance. We set up a unit under the presidency of the republic to monitor the business environment and streamline administrative procedures. Several other governance measures that enhance accountability have been taken, including the phasing out of pre-financing schemes - an unorthodox means of financing public investments - and the setting up of an independent revenue authority. However, some important weaknesses persist, including in the banking sector (AML/CFT) and the judiciary. We have therefore moved to increase the pace of renewal of judges for commercial courts to improve the qualifications of staff. We have also set up an agency tasked with the prevention of, and fight against, corruption. This agency aims at sensitizing all stakeholders and facilitating legal due process as needed.

PROGRAM MONITORING AND DATA PRODUCTION ISSUES

25. The program will continue to be reviewed semi-annually based on quantitative performance criteria, indicative targets, and structural benchmarks (Tables 1 and 2a-b). We propose a new indicative target on non-accumulation of domestic arrears. We propose quantitative performance criteria for end-June and end-September 2019 and indicative targets for end-March 2019, end-June, and end-September 2019. The performance criteria and indicators are defined in the attached Technical Memorandum of Understanding (TMU), along with the relevant adjustors. The fourth, fifth, and sixth reviews of the program will be based on performance criteria for end-December 2018, end-June 2019, and end-September 2019 respectively, and discussions of the program by the IMF Board will take place on or after March 15, 2019, September 15, 2019, and December 15, 2019 respectively.

26. 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. We recognize 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. We will continue to improve data quality. 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.

27. 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 payment 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 2018 – September 2019

(billion CFA Francs)

	2018	2019		
	End-December Performance Criteria	End-March Indicative Targets	End-June Performance Criteria	End-September Performance Criteria
Performance criteria				
Domestic primary fiscal balance (floor)[1]	72.2	-21.9	0.4	35.2
Non-accumulation of arrears on external public debt[2]	0.0	0.0	0.0	0.0
Net domestic financing (ceiling)[3]	6.0	75.0	70.0	51.0
Government contracting or guaranteeing of nonconcessional external debt (ceiling)[4]	0.0	0.0	0.0	0.0
Government guaranteeing of domestic loans to suppliers and contractors (ceiling)[2]	0.0	0.0	0.0	0.0
Government guarantees on bank prefinancing for public investments (ceiling)[2]	0.0	0.0	0.0	0.0
Indicative targets				
Total fiscal revenue (floor)	606.5	127.2	286.1	445.1
Total domestically financed social spending (floor)	219.3	37.2	109.3	164.0
Net domestic arrears accumulation (ceiling)[5]	0.0	0.0	0.0	0.0
Memorandum Item				
Overall primary balance[6]	-85.7	-41.5	-38.8	-23.6
Government contracting or guaranteeing of nominal concessional external debt[7]	142.6	19.6	39.2	58.8
NPV of new non-concessional external debt contracted as a result of debt management operations (maximum)	260.3	260.3	260.3	260.3

Sources: Togolese authorities; and IMF staff estimates.

[1] Performance criteria and indicative targets will be adjusted downwards by the actual amount spent on bank recapitalization as defined in paragrah 16 of the MEFP attached to the staff report for the second review of the ECF arrangement.

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

[3] Performance criteria and indicative targets will be adjusted upwards by the actual amount spent on bank capitalization as defined in paragraph16 of the MEFP attached to the staff report for the second review of the ECF arrangement. 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 will be adjusted upwards as well to offset deviations from projected external program financing, subject to a cap of CFAF 10 billion.

[4] Continous performance criterion. Performance criteria and indicative targets 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.

[5] Indicative target calculated cumulatively from the beginning of each calendar year. Indicative targets will be adjusted for one half of the deviation from projected external program financing.

[6] Before bank recapitalization.

[7] Calculated cumulatively from the beginning of each calendar year.

Table 2a. Togo: Prior Actions and Structural Benchmarks for the 3rd Review			
Measures	**Rationale**	**Deadline**	**Status**
Prior actions			
Adopt by the government a FY2019 budget in line with the revised fiscal framework under the ECF-supported program.	Ensure fiscal and debt sustainability.		Met
Draft the terms of reference for hiring an audit firm to assess the economic value of the second public bank, in consultation with IMF staff.	Ensure financial stability and prevent risks to the budget		Met
Revenue administration			
Reduce by 60 percent the number of pending customs transit cases.	Improve revenue collection	End-June 2018	Met
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	Met
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	Met
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 (reset from end-June 2018)	Not met
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	Not met (to be redesigned)

Table 2b. Togo: Structural Benchmarks for the 4th and 5th Reviews		
Measures	**Rationale**	**Deadline**
Fourth Review		
Send to IMF staff, starting from July 2018, monthly data on the stock of payment arrears by age (TMU¶32).	Improve analysis and monitoring of budget execution	End-December 2018
Strengthen the implementation of the cash plan and the control of commitment authorizations (TMU¶33).	Prevent accumulation of new arrears	End-December 2018
Send a circular to all line ministries to mandate the use of the methodological guidance on investment project selection, and henceforth include in the public investment plan and the budget only those that have been evaluated and selected based on this methodological guidance note (TMU¶34).	Improve the effectiveness of public investment.	End-December 2018 (redesigned and reset from September 2018)
Put in place mechanisms and procedures to facilitate land registration (TMU¶35).	Improve the business environment	End-December 2018
Finalize all legal and regulatory due diligence required for the privatization of the first public bank and have a draft sale contract that could be submitted to the Banking Commission, pending agreement with the prospective buyer (TMU¶36).	Ensure financial stability and prevent risks to the budget	End-December 2018 (proposed structural benchmark)
Draft the terms of reference for hiring a transaction advisor for the sale of the second public bank, in consultation with IMF staff (TMU¶37).	Ensure financial stability and prevent risks to the budget	End-December 2018 (proposed structural benchmark)
Fifth Review		
Set up a lump sum deposit of 10 to 15 percent on imports made by agents deemed by OTR to be inactive in connection with other taxes (TMU¶38).	Improve tax revenue collection	End-June 2019 (proposed structural benchmark)
Prohibit the customs clearance of imported merchandise by agents and/or owners who have outstanding tax arrears (TMU¶39).	Improve tax collection	End-June 2019 (proposed structural benchmark)
Develop a document for program-based budget covering 2020-22 (TMU¶40).	Improve public expenditure efficiency and effectiveness.	End-June 2019 (proposed structural benchmark)

Measures	Rationale	Deadline
Draft a strategic plan and the terms for the tender of the second public bank, in consultation with IMF staff (TMU¶41).	Ensure financial stability and prevent risks to the budget	End-April 2019 (proposed structural benchmark)
Launch the tender for the sale of the second public bank (TMU¶42).	Ensure financial stability and prevent risks to the budget	End-August 2019 (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 from the completion of the third review through the end of the arrangement. It also specifies the periodicity and the deadlines for the transmission of data to Fund staff for program monitoring purposes.

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

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

DEFINITION OF TERMS

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

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

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

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

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

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

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

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

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

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

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

6. For program monitoring purposes, periodic quantitative performance criteria (PCs) are set for end-December 2018, end-June 2019, and end-September 2019, and indicative targets (ITs) are set for end-March 2019.

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;
(c) a ceiling on net domestic arrears accumulation.

A. Domestic Primary Fiscal Balance (floor)

Definition

7. **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 balance will be calculated cumulatively from the beginning of the calendar year. The balances at end-December 2018, end-June 2019, and end-September 2019 (performance criteria) and the balances at end-March (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 ¶16 of the MEFP attached to the staff report for the second review of the ECF arrangement.

Reporting deadlines

8. 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

9. 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 (ceiling)

Definition

10. **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. The net domestic financing will be calculated cumulatively from the beginning of the calendar year. Net domestic financing at end-December 2018, end-June 2019, and end-September 2019 (performance criteria) and net domestic financing at end-March 2019 (indicative targets) must be equal to or less than the amounts indicated in Table 1 appended to the MEFP.

11. Adjustors. The ceiling on net domestic financing shall be adjusted upwards by the amount spent on bank recapitalization as defined in ¶16 of the MEFP attached to the staff report for the second review of the ECF arrangement. 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 19, 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.

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

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

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

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

Reporting deadlines

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

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

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

Definition

18. 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 rescheduling 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.

19. 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 as 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

20. The government is committed to not providing any 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 Pre-financing for Public Investments

21. The government undertakes not to guarantee any new bank pre-financing for public investments (continuous performance criterion). In a typical pre-financing 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 (Floor)

Definition

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

23. The revenue will be calculated cumulatively from the beginning of the calendar year. Revenue collections at end-December 2018, end-March 2019, end-June 2019, and end-September 2019 must be equal to or greater than the amounts indicated in Table 1 attached to the MEFP. The revenue floor is an indicative target for the entire duration of the program.

Reporting deadlines

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

H. Domestically-Financed Social Spending (Floor)

Definition

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

26. Social spending will be calculated cumulatively from the beginning of the calendar year. Social spending financed with domestic resources at end-December 2018, end-March 2019, end-June 2019, and end-September 2019 must be equal to or greater than the amounts indicated in Table 1 attached to the MEFP. The data provided by the Budget Directorate and the Directorate of Economy will take precedence for program purposes. The floor on (current and capital) social expenditure financed with domestic resources is an indicative target for the entire program period.

Reporting deadlines

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

I. Net Domestic Arrears Accumulation (Ceiling)

Definition

28. Domestic payment arrears consist of 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 data (taking into account any contractual grace periods). This definition includes, but is not limited to: (i) old domestic financial and commercial arrears (to domestic private-sector suppliers); (ii) old arrears to CNSS (*Caisse Nationale de Sécurité Sociale*) and CRT (*Caisse de Retraite du Togo*); (iii) outstanding debts of liquidated companies (TOGOPHARMA, SOTOCO, OTP, IFG, FER, FICAO, and LIMUSCO); and (iv) balances of accounts payable (*instances de paiements*) reported in the Government Financial Operations Table (statistical TOFE) that have not been paid 90 days after the due date.

29. The net accumulation of domestic arrears will be calculated cumulatively from the beginning of each calendar year. The amounts at end-December 2018, end-March 2019, end-June 2019, and end-September 2019 must be less or at most equal to the amounts indicated in Table 1 attached to the MEFP. The arrears ceiling is an indicative target for the entire duration of the program after the completion of the third review.

30. **Adjustors.** The ceiling on net accumulation of domestic arrears will be adjusted upward by one half of the amount of any shortfall between the actual and the programmed level of external financing for the program. In the event that actual external financing for the program exceeds programmed levels, the ceiling will be adjusted downward by one half of the amount of any excess financing.

Reporting deadlines

31. The data on net accumulation of domestic arrears will be reported every month within four weeks of the end of the month.

STRUCTURAL BENCHMARKS

32. For 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.

33. For the end-December 2018 structural benchmark on 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.

34. For the end-December 2018 structural benchmark on improving the effectiveness of public investment, the authorities will establish formal procedures for the preparation of investment projects. A circular will be sent to all line ministries to mandate the use of the methodological guidance on ex-ante appraisal, selection, and ranking of the investment projects. Only projects that have been selected and ranked based on this methodological guidance note will be included in the PIP and the budget.

35. 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.

36. For the end-December 2018 structural benchmark on the first public bank, the authorities will finalize all legal and regulatory due diligence required for the privatization, which can include the law allowing the privatization of this bank. The authorities will aim at having a draft sale contract that could be submitted to the Banking Commission, pending agreement with the prospective buyer.

37. For the end-December 2018 structural benchmark on the second public bank, the authorities will produce draft the terms of reference for hiring a transaction advisor for the sale, in consultation with IMF staff.

38. For the end-June 2019 structural benchmark on strengthening customs controls during the customs clearance process, a lump sum deposit of 10 to 15 percent will be levied on imports made by taxpayers deemed inactive by OTR (i.e., those that are excluded from the list of the Tax Administration, *Commissariat des Impôts*) with the objective of limiting the loss of tax revenue (and VAT in particular) due to false invoicing, unjustified invoicing, and imports of goods through screen persons, "groupings" or multiple identifiers. The lump sum deposit is based on the assessed value determined at the customs border, it is payable on all imports of goods for commercial purposes in the domestic market, and it is directly transferred to taxes. The deposit will be deducted from the profit tax at the time of the submission of financial statements.

39. For the end-June 2019 structural benchmark on strengthening tax administration powers to collect tax debts, using the fiscal identification number, the customs administration will prohibit the customs clearance and take control of the goods imported by agents and/or owners with outstanding tax debts (e.g., debt related to VAT, profit tax, and employer contributions to social security). A blocking field at customs clearance will be activated for importers with tax debt.

40. For the end-June 2019 structural benchmark on strengthening budget preparation and the performance orientation of budget decision-making, the authorities will develop a document for program-based budget covering 2020-22. The authorities will also make all necessary efforts to undertake the following actions:

(1) Regulatory framework: make appointments to the financial controller positions in line ministries and institutions;

(2) Information systems: finalize the three new re-coding components (development, execution, and accounting) of the information system (SIGFiP) that are necessary to the implementation of program-based budgeting;

(3) Parliamentary approval: launch discussions in Parliament on budget orientations.

41. For the end-April 2019 structural benchmark on the second public bank, the authorities will draft a strategic plan and the terms for the tender of this bank, in consultation with IMF staff. The plan will indicate how the auction will be executed, and how we will prioritize non-financial components of the bids – e.g. with regard to depositors and other liability holders, the work force, possible plans to expand the balance sheet, or the modernization of systems—relative to the financial component of the bids.

42. For the end-August 2019 structural benchmark on the second public bank, the authorities will launch the tender for the sale of the bank.

Reporting deadlines

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

INTERNATIONAL MONETARY FUND

TOGO

November 20, 2018

THIRD 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

Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	Moderate[1]
Overall risk of debt distress	High
Granularity in the risk rating	Substantial space to absorb shocks on external debt
Application of judgment	Yes: Vulnerabilities from high public domestic debt

Togo is assessed to be at high overall risk of debt distress, unchanged from the previous Public Debt Sustainability Analysis (DSA) published in June 2018. Togo's risk of external debt distress continues to be moderate; while the mechanical results point to a low risk, judgement was applied given vulnerabilities from high domestic debt. Togo's domestic public debt burden remains high and reflects, among others, high deficits, contingent liabilities, and accumulated arrears. There is very little space to absorb shocks on total public debt. Baseline projections show that Togo's PV of total PPG debt (external plus domestic)-to-GDP ratio will decline below the new benchmark of 55 percent starting in 2021, down from 71.2 percent in 2017—with the bulk constituting domestic debt obligations. This analysis highlights the need for sustained fiscal consolidation, improved debt management, and strong macroeconomic policies to reduce the level of public debt to prudent levels over the medium term.

[1] Togo's Composite Indicator (CI) is 2.89, which corresponds to a medium debt-carrying capacity under the new current LIC DSF as confirmed by the October 2018 WEO data and the 2017 Country Policy and Institutional Assessment (CPIA).

PUBLIC DEBT COVERAGE

1. Togo public debt includes obligations of the central government and public entities. 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), while external debt is defined as debt contracted or serviced in a currency other than the CFAF. 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.

Text Table 1. Togo: Public Debt Coverage

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	X

1	**The country's coverage of public debt**	The central government, non-guaranteed SOE debt		
		Default	**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	0.0	
4	PPP	35 percent of PPP stock	6.8	
5	Financial market (a minimum starting value of 5 percent of GDP)	5 percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)		11.8	

1/ The default shock of 2% of GDP will be triggered for countries, whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND ON DEBT

2. Public debt increased substantially during 2010-16, reflecting public infrastructure investments financed by both domestic and external borrowing. Total public debt exceeded 80 percent of GDP in 2016, up from 47 percent of GDP in 2010. A key driver of the increase in public debt was the rise in recourse to the regional financial market and investment pre-financing. The stock of government securities in 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, remained relatively high during this period, amounting to CFAF 334 billion (12.6 percent of GDP) by end-2016.[2]

[2] 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.

3. The government halted investment pre-financing and replaced the related obligations with bonds at more favorable conditions. Beginning in 2013, the government 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 (instead of 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. The profile of domestic debt has been revised accordingly.

4. Following the fiscal consolidation started with the ECF program, total public debt begun to decline in percent of GDP in 2017, which continued in the first half of 2018. The fiscal consolidation initiated in 2017 was aimed at putting the debt-to-GDP ratio on a downward trajectory. By end-2017, total public debt dropped by 5.8 percentage points of GDP from the previous year, reaching 75.3 percent, and the domestic debt stock fell by 5.5 percentage points from 2016, reaching 55.5 percent.[3] By June 2018, total public debt declined to 75 percent of GDP. However, Togo still has the highest levels of total debt-to-GDP and domestic debt-to-GDP ratios within the WAEMU.[4]

Text Table 2. Togo: Composition of Public Debt, 2013 - 2018

	End-2013			End-2016			End-2017			End-June 2018		
	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	Billions of CFAF	Percent of public debt	Percent of GDP
Total Public Debt	**1,189**	**100.0**	**55.7**	**2,157**	**100.0**	**81.1**	**2,097**	**100.0**	**75.3**	**2,231**	**100.0**	**75.0**
Total Central Government	1,074	90.3	50.3	2,067	95.8	77.7	2,007	95.7	72.0	2,140	96.0	72.0
Total SOEs	116	9.7	5.4	90	4.2	3.4	90	4.3	3.2	90	4.0	3.0
External Debt	**306**	**25.7**	**14.3**	**535**	**24.8**	**20.1**	**550**	**26.2**	**19.7**	**583**	**26.1**	**19.6**
Central Government	**295**	**24.8**	**13.8**	**519**	**24.1**	**19.5**	**538**	**25.7**	**19.3**	**571**	**25.6**	**19.2**
Multilateral	147	12.3	6.9	168	7.8	6.3	192	9.1	6.9	224	10.0	7.5
o/w IMF	69	5.8	3.2	42	2.0	1.6	69	3.3	2.5	80	3.6	2.7
Bilateral[1]	25	2.1	1.2	43	2.0	1.6	41	1.9	1.5	41	1.8	1.4
Paris Club	7	0.6	0.3	6	0.3	0.2	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	35	1.6	1.2
Commercial Banks[1]	123	10.3	5.8	308	14.3	11.6	306	14.6	11.0	306	13.7	10.3
SOEs	**11**	**0.9**	**0.5**	**16**	**0.7**	**0.6**	**12**	**0.6**	**0.4**	**12**	**0.5**	**0.4**
Multilateral	1	0.1	0.1	3	0.1	0.1	2	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	9	0.4	0.3
Domestic Debt	**883**	**74.3**	**41.4**	**1,622**	**75.2**	**61.0**	**1,547**	**73.8**	**55.5**	**1,648**	**73.9**	**55.4**
Central Government	**779**	**65.5**	**36.5**	**1,548**	**71.8**	**58.2**	**1,469**	**70.0**	**52.7**	**1,570**	**70.4**	**52.8**
T-Bills (Bons du Tresor)	111	9.4	5.2	189	8.7	7.1	148	7.0	5.3	138	6.2	4.6
Bonds (Emprunts Obligataires)[2]	213	17.9	10.0	574	26.6	21.6	797	38.0	28.6	910	40.8	30.6
Domestic Arrears	290	24.4	13.6	334	15.5	12.6	310	14.8	11.1	310	13.9	10.4
Pre-2006	249	21.0	11.7	173	8.0	6.5	173	8.3	6.2	173	7.8	5.8
Post-2006	-	0.0	0.0	122	5.6	4.6	100	4.8	3.6	100	4.5	3.4
Liquidated SOEs	41	3.5	1.9	39	1.8	1.5	36	1.7	1.3	36	1.6	1.2
Banking System	164	13.8	7.7	452	21.0	17.0	214	10.2	7.7	212	9.5	7.1
SOEs	**105**	**8.8**	**4.9**	**74**	**3.4**	**2.8**	**79**	**3.7**	**2.8**	**79**	**3.5**	**2.6**

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.

5. Togo's external debt sustainability has been assessed as moderate in recent past with high overall risk of debt distress. While the external debt burden indicators have been below the thresholds in

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

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

the baseline scenario, stress tests have indicated that thresholds could be breached if there are external shocks or abrupt changes in macroeconomic policies. The risk of overall public debt distress has been high because of Togo's large public domestic debt.

BACKGROUND ON MACRO FORECASTS

6. **The baseline macroeconomic assumptions for the present DSA rely on sustainable real GDP growth, price stability with inflation below the WAEMU criterion of 3 percent, improvement in external current account balance, and continuing fiscal discipline.** The short-term growth projections have been lowered due to socio-political tensions putting the economy on an annual average growth rate of 4.7 percent over 2017-19. However, the recent public infrastructure investments are expected to enhance competitiveness and support growth, notably by helping increase productivity and fostering stronger private sector activity. This would drive potential growth over 2020-38 to reach an annual average of 5.4 percent. The overall primary balance (commitment basis, including grants) is anchored on a surplus of 1 percent of GDP over 2019-28, after which it would decrease and approach a deficit of 2 percent of GDP by 2038. Total PPG debt declines below the new benchmark (NPV of debt-to-GDP ratio of 55 percent) in 2021.[5] The current account deficit is projected to converge at around 5 percent of GDP over the medium term, reflecting reduced imports related to public investments, and increase again to over 6 percent of GDP over the long term in line with growing public investment. Inflation is projected to remain well below the WAEMU regional convergence criterion of 3 percent.[6]

7. **Togo's debt is financed through a mix of domestic, regional and external markets.** The authorities aim to deepen and diversify the domestic and regional creditor base, including through working with the regional institutions to develop the secondary bond market. In the regional market, the government has extended the range of debt instruments by placing Sukuk bonds. In 2017, for instance, budget financing needs were covered through recourse to regional money and financial markets, particularly through bond borrowing and Sukuk bonds, and to assistance from international development partners. The ECF program sets a zero ceiling on the contracting or guaranteeing of new non-concessional external debt. As of June 2018, given the 'moderate' risk of external debt distress, and to alleviate the heavy debt service burden, the program conditionality on non-concessional borrowing was modified on the basis that Togo can accommodate non-zero non-concessional borrowing limits if they are related to debt management operations and do not lead to an external risk rating downgrade. Even assuming a debt reprofiling operation in 2019, the program still aims at keeping Togo's external debt burden indicators comfortably below 40 percent of GDP at end-December 2019. Nonetheless, despite any debt management operation, the ongoing fiscal consolidation needs to be preserved to fundamentally address the debt burden.

[5] The originally programmed threshold of NPV of debt-to-GDP ratio of 38 percent under the previous LIC Debt Sustainability Framework (DSF) was expected to be reached by 2026. Under the new LIC DSF and following the upward adjustment of Togo's debt carrying capacity, the threshold has been increased from 35 percent of GDP to 55 percent currently.

[6] Comparing to the June 2018 DSA, the fiscal balance in the current DSA is loosened by 1 percent of GDP during 2019-28; the other key macroeconomic assumptions remain broadly unchanged.

Box 1. Main Assumptions in the Macroeconomic Framework

- Real GDP growth is currently expected to be lower in the medium term while reverting gradually to its potential. Growth projections for 2017-19 were lowered 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.

- Public investment is estimated to have dropped to 6.3 percent of GDP in 2017 and is projected to reach 8 to 10 percent of GDP in the medium and long terms. External financing is expected to remain around current levels.

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

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

- Projections of total revenue including grants are broadly the same compared to the previous DSA and expected to be 23.2 percent of GDP for 2017-19. Provided that the effect of recent socio-political tensions on growth dissipate, revenue is projected to increase to 25 percent in the long term.

- The overall primary fiscal balance (commitment basis, including grants) is expected to reach a deficit of 0.7 percent of GDP in 2018 down from a surplus of 1.5 percent in 2017, but with fiscal consolidation resuming in 2019. Over 2019-28, the overall primary fiscal balance (commitment basis, including grants) is anchored on a surplus of 1 percent of GDP, after which it would decrease and approach a deficit of 2 percent of GDP by 2038.

- The current account deficit remains broadly the same as in the previous DSA at 8 percent of GDP in 2018. The balance will continue narrowing over the medium term, reflecting reduced imports of capital goods, reaching a deficit of about 5 percent of GDP in 2021.

  Foreign direct investment, which has been very volatile, is expected to stabilize around an inflow of 1.5 percent of GDP per year in the long run. However, these flows, as well as grants, are subject to significant risks, which may consequently alter the debt dynamics assumed in the baseline.

Box 1. Main Assumptions in the Macroeconomic Framework (concluded)

Togo: Key Macroeconomic Assumptions
(DSA December vs DSA June 2018)

	2017-19	2020-28
Real GDP Growth (percent)		
DSA December 2018	4.7	5.4
DSA June 2018	4.7	5.4
Total Revenue (percent of GDP)[1]		
DSA December 2018	23.2	24.7
DSA June 2018	23.2	24.7
Exports of goods and services (percent of GDP)		
DSA December 2018	32.8	33.1
DSA June 2018	31.2	30.6

Sources: Togolese authorities and Staff calculations.
[1] Total revenue, including grants.

8. The realism of baseline scenarios for external and public debt do not indicate any peculiarity compared to cross-country distributions or Togo's historical experience.

i. Drivers of debt dynamics. The evolution of projection of external and public debt to GDP ratios are consistent for the current and previous DSA vintages, while they reflect major deviations from the DSA from 5 years past. This is due to the fact that public debt ratio increased significantly post-2013 and reached the highest level by 2016 which raised sustainability concerns. In terms of projections, the ECF program which aims at putting debt on a sustainable path is the main driver of divergence between the current and previous DSA vintages, and the DSA prepared in 2013. The debt creating flows for external debt is mostly comparable with respect to projections and historical change, as well as distribution across LICs. However, the debt creating flows and unexpected change in debt stands out for Togo due to the structural changes required as part of the program which aims at significant fiscal adjustment, improvement in potential growth and major debt reduction. Going forward, primary balance and real GDP growth are key contributing factors for the change in the debt ratio (Figure 3).

ii. Planned fiscal adjustment. In comparison to the LICs that have requested Fund-supported programs, as these countries generally have faced a need to adjust their fiscal positions, Togo's planned primary fiscal adjustment during 2018-20 is around the median of distribution implying that this realism do not flag any potential optimism (Figure 4).[7]

[7] The fiscal stance in the PN refers to the program period (end-2016 to end-2019), with a very strong consolidation during 2017. The fiscal stance in this DSA realism check refers to the period of end-2017 to end-2020, which excludes the strong fiscal consolidation during 2017.

iii. Fiscal adjustment and possible growth path. While the ongoing program conditionality includes ambitious fiscal consolidation, both economic activities and the fiscal balance are projected to be weaker in 2018 than initially envisaged. In 2019, despite fiscal consolidation, growth performance is expected to slightly improve supported by the recent infrastructure upgrade that may boost productivity and encourage private investment. Therefore, the current-year fiscal expansion and projected consolidation do not lead to a significant deviation of the growth rate from its potential under a range of plausible fiscal multipliers (Figure 4).

iv. Public investment and growth. Public and private investment projections under the previous DSA and the current DSA do not deviate while projected contribution of public investment to growth is slightly lower than the historical average. The ongoing program aims at streamlining public investment while growth-enhancing structural reforms, including opening up some key sectors to foreign investors and improvement of the business environment, are expected to enhance domestic and foreign private investments (Figure 4).

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

9. Togo's debt carrying capacity is medium. The introduction of a composite indicator (CI), which captures the impact of various factors through a weighted average of an institutional indicator[8], real GDP growth, remittances, international reserves, and world growth, shows that the debt carrying capacity has improved from 'weak' to 'medium' from the previous to the current DSA vintages. Following two consecutive designations in the new category, Togo's debt carrying capacity is now reclassified to 'medium' in this DSA. The debt carrying capacity, in turn, determines the PPG external debt thresholds and total public debt benchmarks.

10. Standardized stress tests indicate that external debt is resilient while public debt is under distress. Under standardized stress tests, all PPG external debt indicators remain below the policy relevant thresholds in the external DSA (Table 3 and Figure 1). However, using the benchmark of 55 percent, PV of public debt to GDP only falls below the threshold in 2021 in the public DSA (Table 4 and Figure 2). Togo does not have prominent economic features such as natural disasters, significant reliance on commodity exports, market financing, etc. that require additional tailored stress tests or other modules. Regarding the contingent liability stress test, we use a default value of 5 percent for financial markets, but we tailor private-public partnership (PPP) debt at 6.8 percent of GDP and SOE debt at 0 percent of GDP given that it is already included in public debt (Text Table 1).

[8] The World Bank's Country Policy and Institutional Assessment (CPIA).

Text Table 3. Togo: Debt Carrying Capacity and Applicable Thresholds

Debt Carrying Capacity and Thresholds

Country	Togo
Country Code	742

Debt Carrying Capacity	Medium

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium	Medium	Weak
	2.89	2.86	3.00

Applicable Thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

Baseline

11. **Under the baseline scenario, all Togo's external debt indicators continue to remain below their indicative policy-relevant thresholds (Table 1, Figure 1).** The present value of PPG external debt is projected at 17.2 percent of GDP in 2018 and should decrease to 12.9 percent by 2038. The ratio will remain below the 40 percent threshold under the baseline throughout the projection period.[9] Similarly, debt service measures remain well below their respective 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).[10]

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

[10] The large historical and projected residual in figure 1 is partly the result of an inconsistency in the definition used by the debt sustainability framework (DSF) and the balance of payment (BOP) statistics. The definition of external debt is based on the currency of the debt in the DSF, while all BOP data is based on the residency of the agents involved. As a result, net external debt creating flows identified from BOP statistics will not be reported as external debt in the DSF when such flows are financed by borrowing in CFA francs from creditors in other WAEMU countries.

Alternative Scenarios and Stress Tests

12. Alternative scenarios do not reveal any breaches of relevant thresholds (Figure 1). Under the most extreme shock scenario, the present value of PPG external debt-to-GDP as well as PPG external debt-to-exports ratio remain below the relevant thresholds over the projected period. This is also the case for debt service-to-export and to-revenue ratios. A tailored stress test for the combined contingent liability shock also does not cause breach of relevant thresholds. Under the historical scenario, which sets key macroeconomic parameters to their 10-year historical averages, all indicators remain below their relevant policy dependent thresholds. except that the present value of debt-to-GDP breaches the threshold after 2024. These outcomes highlight the importance of sound macroeconomic policies.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

13. The inclusion of Togo's domestic public debt in the analysis emphasizes the vulnerability of the baseline scenario and leads to an assessment of high overall risk of debt distress for total public debt (Table 2, Figure 2). Togo's domestic debt burden reflects persistent high deficits in recent years, recognition of government debt of accumulated liabilities from liquidated loss-making SOEs and arrears accumulation. Weak public fiscal 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 percent of GDP in 2016. By the end of the projection period, repayment of arrears coupled with significant fiscal consolidation is expected to substantially reduce domestic debt and total PPG debt.

Baseline Scenario

14. Under the baseline and alternative scenarios, indicators of the overall public debt burden (external plus domestic) show significant vulnerabilities. The PV of public debt–to-GDP in 2017 stands above the benchmark level of 55 percent. The authorities' ECF-supported program includes a substantial fiscal adjustment with a combination of spending restraint and revenue mobilization. The overall fiscal primary balance will reach 1 percent of GDP by 2019 and, if maintained, would allow Togo's PV of total public debt-to-GDP to reach the new 55 percent benchmark by 2021 and to decline gradually below this benchmark thereafter (Figure 2). However, under the historical scenario and several standardized stress tests, the PV of public debt-to-GDP stays above the benchmark throughout all or most of the projection period as the country accumulates more debt to finance larger fiscal deficits. Such scenarios (essentially positing minor change from historic and present performance) highlight the risks to debt sustainability facing the authorities in the absence of needed policy reforms. A significant shock to SOEs could also result in the realization of contingent liabilities that could increase debt levels notably, though such risks are difficult to quantify.

RISK RATING AND VULNARABILITIES

15. Togo is assessed to remain at moderate risk of external public debt distress and high risk of overall public debt distress. Togo had the largest overall debt-to-GDP ratio in WAEMU in 2017, at 75.3 percent of GDP (72.1 percent excluding SOEs' debt). The ratio of NPV of overall public debt-to-GDP stands above the prudential levels, remaining above such indicative benchmark through 2021—but on a steady declining trend, on the assumption of a continued fiscal consolidation path and substantial reduction in the domestic debt. For the external debt, under the baseline scenario, all PPG external debt sustainability indicators are expected to remain well below their indicative thresholds throughout the projection period (2018–28). However, the final rating of external debt distress is also influenced by the risk of overall public debt distress, which is judged to be high, and the external debt distress rating is therefore assessed to be moderate. The reason is that public debt distress and high overall debt service costs could lead to situations when the payment of external debt service is crowded out by priority primary spending and payment of domestic debt service.

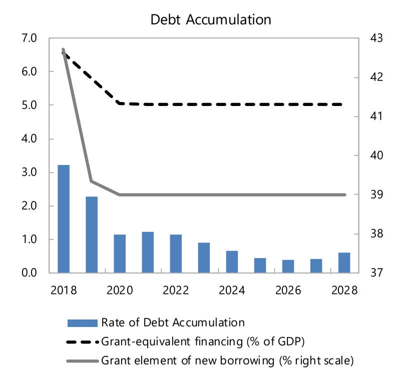
AUTHORITIES' VIEWS

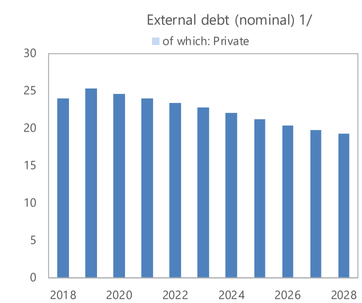
16. The authorities broadly agreed with staff's assessment of Togo's public debt situation and recommendations on debt management policy. They concurred with staff that progress has been made in reducing the total public debt (as a share of GDP) since the inception of the ECF-supported program. Nonetheless, they recognized that Togo's current level of debt is still the highest among WAEMU members and the overall risk of debt distress continues to be high, and hence, the fiscal consolidation must continue to bring public debt down to sustainable level. While the authorities highlighted the progress on debt management, they recognized that more improvements are called for. They intend to make full use of IMF technical assistance and training resources to strengthen their capacity in this area. The authorities reiterated that they would prefer to exclude public institutions from public sector debt considering that this debt does not represent a fiscal risk to the central government. Staff will review the definition of Togo's public debt to ensure that the classifications used are in line with Fund guidelines.

Table 1. Togo: External Debt Sustainability Framework, Baseline Scenario, 2015–38
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
External debt (nominal) 1/	21.7	20.1	19.7	24.0	25.3	24.6	24.0	23.4	22.7	19.3	20.0	24.4	22.4
of which: public and publicly guaranteed (PPG)	21.7	20.1	19.7	24.0	25.3	24.6	24.0	23.4	22.7	19.3	20.0	24.4	22.4
Change in external debt	3.6	-1.5	-0.4	4.2	1.3	-0.7	-0.6	-0.6	-0.7	-0.4	0.1		
Identified net debt-creating flows	14.9	15.0	9.7	9.8	7.5	4.8	3.6	2.9	2.7	2.5	2.7	9.5	4.0
Non-interest current account deficit	10.7	9.4	7.5	7.7	6.7	5.6	4.8	4.6	4.7	4.7	4.9	8.2	5.3
Deficit in balance of goods and services	22.0	18.3	17.0	16.5	15.1	14.0	13.2	12.9	13.0	12.9	12.1	17.6	13.6
Exports	35.8	35.2	33.3	32.5	32.8	32.6	32.6	33.1	33.3	33.4	33.9		
Imports	57.8	53.5	50.3	49.0	47.8	46.6	45.8	46.0	46.2	46.3	46.0		
Net current transfers (negative = inflow)	-7.6	-7.6	-7.5	-7.3	-7.0	-7.0	-7.0	-6.8	-6.8	-6.8	-5.7	-7.9	-6.9
of which: official	-1.8	-1.6	-1.7	-2.1	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-1.0		
Other current account flows (negative = net inflow)	-3.7	-1.3	-2.0	-1.5	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.5	-1.5	-1.4
Net FDI (negative = inflow)	2.2	6.8	3.1	2.6	1.6	0.2	-0.3	-0.9	-1.2	-1.5	-1.5	3.3	-0.5
Endogenous debt dynamics 2/	2.1	-1.1	-0.9	-0.6	-0.8	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7		
Contribution from nominal interest rate	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3		
Contribution from real GDP growth	-1.1	-1.1	-0.8	-0.8	-1.1	-1.2	-1.2	-1.2	-1.2	-1.0	-1.0		
Contribution from price and exchange rate changes	2.8	-0.3	-0.5	...	...	...	...	...	...	...	...		
Residual 3/	-11.3	-16.6	-10.1	-5.6	-6.1	-5.6	-4.2	-3.5	-3.4	-2.9	-2.6	-15.3	-4.0
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	16.1	17.2	18.4	17.8	17.4	16.9	16.4	12.8	12.9		
PV of PPG external debt-to-exports ratio	...	...	48.5	53.1	56.1	54.5	53.4	51.1	49.2	38.4	37.9		
PPG debt service-to-exports ratio	4.1	4.9	5.8	4.2	4.0	3.9	3.5	3.6	4.2	4.6	2.9		
PPG debt service-to-revenue ratio	7.5	9.3	10.7	6.8	6.5	6.4	5.7	5.9	6.9	7.2	4.4		
Gross external financing need (Billion of U.S. dollars)	0.6	0.8	0.6	0.6	0.5	0.4	0.4	0.4	0.4	0.6	1.2		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.7	5.6	4.4	4.7	5.0	5.3	5.4	5.4	5.4	5.4	5.4	5.6	5.3
GDP deflator in US dollar terms (change in percent)	-13.6	1.6	2.4	7.1	1.0	4.4	3.6	3.9	3.5	3.0	3.0	0.7	3.5
Effective interest rate (percent) 4/	1.7	1.8	2.0	1.5	1.3	1.3	1.4	1.5	1.6	1.8	1.7	1.4	1.6
Growth of exports of G&S (US dollar terms, in percent)	-17.5	5.3	1.1	9.5	7.1	9.2	9.2	11.4	9.5	8.7	8.7	6.6	9.0
Growth of imports of G&S (US dollar terms, in percent)	-8.5	-0.7	0.5	9.4	3.5	7.1	7.2	10.1	9.5	8.5	8.9	6.7	8.2
Grant element of new public sector borrowing (in percent)	...	...	...	42.7	39.3	39.0	39.0	39.0	39.0	39.0	39.0	...	39.4
Government revenues (excluding grants, in percent of GDP)	19.5	18.6	18.2	20.4	19.9	19.9	20.0	20.2	20.4	21.1	22.1	17.3	20.5
Aid flows (in Billion of US dollars) 5/	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.6	0.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	6.6	5.8	5.0	5.0	5.0	5.0	5.0	2.7	...	5.2
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	65.1	68.8	77.4	77.9	77.9	77.9	77.9	65.6	...	75.8
Nominal GDP (Billion of US dollars)	4	4	5	5	6	6	7	7	8	12	28		
Nominal dollar GDP growth	-8.6	7.3	6.9	12.2	6.1	9.9	9.2	9.5	9.0	8.6	8.6	6.4	9.0
Memorandum items:													
PV of external debt 7/	...	...	16.1	17.2	18.4	17.8	17.4	16.9	16.4	12.8	12.9		
In percent of exports	...	...	48.5	53.1	56.1	54.5	53.4	51.1	49.2	38.4	37.9		
Total external debt service-to-exports ratio	4.1	4.9	5.8	4.2	4.0	3.9	3.5	3.6	4.2	4.6	2.9		
PV of PPG external debt (in Billion of US dollars)			0.8	0.9	1.0	1.1	1.2	1.3	1.3	1.6	3.6		
(PVt-PVt-1)/GDPt-1 (in percent)				3.2	2.3	1.1	1.2	1.1	0.9	0.6	1.2		
Non-interest current account deficit that stabilizes debt ratio	7.1	10.9	7.9	3.5	5.3	6.3	5.4	5.2	5.4	5.1	4.8		

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	Yes





Sources: Country authorities; and staff estimates and projections.

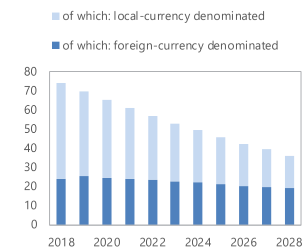
1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Current-year interest payments divided by previous period debt stock.
5/ Defined as grants, concessional loans, and debt relief.
6/ 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).
7/ Assumes that PV of private sector debt is equivalent to its face value.
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

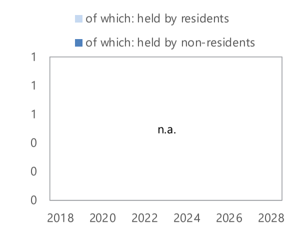
Table 2. Togo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015–38
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
Public sector debt 1/	72.1	81.1	75.6	74.1	69.9	65.3	60.9	56.8	52.9	36.3	36.0	66.3	53.9
of which: external debt	21.7	20.1	19.7	24.0	25.3	24.6	24.0	23.4	22.7	19.3	20.0	24.4	22.4
Change in public sector debt	9.3	9.0	-5.5	-1.5	-4.2	-4.6	-4.4	-4.1	-3.9	-3.0	0.4		
Identified debt-creating flows	5.5	5.2	-5.3	-1.3	-3.6	-4.3	-4.1	-3.8	-3.6	-2.9	0.4	-7.2	-3.3
Primary deficit	6.5	7.1	-1.5	0.7	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	2.0	3.5	-0.9
Revenue and grants	21.8	21.5	21.4	24.3	24.0	24.0	24.1	24.3	24.5	25.3	23.9	19.7	24.6
of which: grants	2.3	2.8	3.2	3.9	4.1	4.1	4.1	4.1	4.1	4.1	1.8		
Primary (noninterest) expenditure	28.3	28.6	19.9	25.0	23.0	23.0	23.1	23.3	23.5	24.2	25.9	23.2	23.7
Automatic debt dynamics	-1.0	-1.9	-3.8	-2.0	-2.6	-3.3	-3.1	-2.8	-2.7	-1.9	-1.7		
Contribution from interest rate/growth differential	-2.9	-2.4	-2.0	-2.4	-2.3	-2.8	-2.7	-2.5	-2.4	-1.3	-1.1		
of which: contribution from average real interest rate	0.6	1.4	1.4	1.0	1.3	0.7	0.7	0.7	0.6	0.7	0.7		
of which: contribution from real GDP growth	-3.4	-3.8	-3.4	-3.4	-3.6	-3.5	-3.3	-3.1	-2.9	-2.0	-1.8		
Contribution from real exchange rate depreciation	1.9	0.5	-1.8	...	...	...	...	...	...	...	...		
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	-7.4	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 contingent liabilities (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		
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 debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	3.8	3.7	-0.2	0.2	-1.0	-0.8	-0.7	-0.6	-0.5	-0.7	-0.6	4.5	-0.6
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	71.2	67.7	62.9	58.5	54.2	50.3	46.5	29.7	28.8		
PV of public debt-to-revenue and grants ratio	...	...	333.1	278.6	262.2	243.5	225.0	206.8	190.2	117.7	120.7		
Debt service-to-revenue and grants ratio 3/	58.3	55.5	95.4	39.0	37.6	36.7	35.5	30.1	30.5	20.2	16.3		
Gross financing need 4/	19.2	19.1	18.9	10.2	8.0	7.8	7.6	6.3	6.5	4.1	5.9		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	5.7	5.6	4.4	4.7	5.0	5.3	5.4	5.4	5.4	5.4	5.4	5.6	5.3
Average nominal interest rate on external debt (in percent)	1.9	1.8	2.1	1.5	1.4	1.3	1.4	1.5	1.6	1.8	1.7	1.4	1.6
Average real interest rate on domestic debt (in percent)	1.0	2.6	2.4	2.2	3.2	2.0	2.0	2.1	2.0	1.8	2.5	0.4	2.1
Real exchange rate depreciation (in percent, + indicates depreciation)	10.7	2.3	-9.5	...	...	...	...	...	...	...	...	1.6	...
Inflation rate (GDP deflator, in percent)	3.5	1.9	0.4	1.9	2.3	3.0	3.0	3.0	3.0	3.0	3.0	2.4	2.8
Growth of real primary spending (deflated by GDP deflator, in percent)	15.1	6.7	-27.3	31.6	-3.4	5.2	5.9	6.4	6.1	5.8	5.6	8.2	7.5
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-2.8	-1.8	4.0	2.2	3.2	3.6	3.4	3.1	2.9	2.0	1.7	-0.2	2.7
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central government, government-guaranteed debt, non-guaranteed SOE debt. Definition of external debt is Currency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ 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 and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Togo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018-2028

(In percent)

	Projections 1/										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of debt-to GDP ratio											
Baseline	17	18	18	17	17	16	16	15	14	13	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	17	21	24	29	34	39	**44**	**48**	**52**	**57**	**61**
B. Bound Tests											
B1. Real GDP growth	17	19	18	18	17	17	16	15	14	14	13
B2. Primary balance	17	21	22	22	21	21	21	21	20	19	18
B3. Exports	17	22	28	27	26	25	24	23	22	21	19
B4. Other flows 3/	17	24	31	30	29	27	26	25	24	22	21
B5. One-time 30 percent nominal depreciation	17	23	18	18	17	17	16	15	14	13	13
B6. Combination of B1-B5	17	25	27	26	26	25	24	22	21	20	19
C. Tailored Tests											
C1. Combined contingent liabilities	17	22	21	21	20	20	20	19	18	18	17
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	53	56	55	53	51	49	47	45	42	40	38
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	53	63	75	89	103	117	131	144	157	170	**182**
B. Bound Tests											
B1. Real GDP growth	53	56	55	53	51	49	47	45	42	40	38
B2. Primary balance	53	63	69	67	64	64	64	62	59	57	55
B3. Exports	53	76	113	110	104	100	96	91	86	81	77
B4. Other flows 3/	53	75	94	91	86	82	79	75	71	67	63
B5. One-time 30 percent nominal depreciation	53	56	43	43	41	40	38	36	34	32	31
B6. Combination of B1-B5	53	78	79	91	86	83	79	75	71	67	64
C. Tailored Tests											
C1. Combined contingent liabilities	53	67	66	64	61	61	61	58	55	53	52
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	4	4	4	3	4	4	5	5	5	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	4	4	4	4	5	6	7	9	9	10	10
B. Bound Tests											
B1. Real GDP growth	4	4	4	3	4	4	5	5	5	5	5
B2. Primary balance	4	4	4	4	4	5	5	6	6	6	6
B3. Exports	4	5	6	6	6	7	8	8	8	8	8
B4. Other flows 3/	4	4	4	5	5	5	6	6	6	7	7
B5. One-time 30 percent nominal depreciation	4	4	4	3	3	4	5	5	5	5	4
B6. Combination of B1-B5	4	4	5	5	5	6	6	7	7	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	4	4	4	4	4	5	5	6	6	6	5
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	7	7	6	6	6	7	8	9	9	8	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	7	7	7	7	8	10	12	14	14	15	16
B. Bound Tests											
B1. Real GDP growth	7	7	7	6	6	7	8	9	9	8	7
B2. Primary balance	7	7	7	6	7	8	8	9	9	9	9
B3. Exports	7	7	7	7	7	8	9	10	10	10	10
B4. Other flows 3/	7	7	7	8	8	9	9	10	10	10	11
B5. One-time 30 percent nominal depreciation	7	8	8	7	7	8	9	10	10	10	8
B6. Combination of B1-B5	7	7	8	7	7	8	9	10	10	10	10
C. Tailored Tests											
C1. Combined contingent liabilities	7	7	7	6	6	7	8	9	9	9	8
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

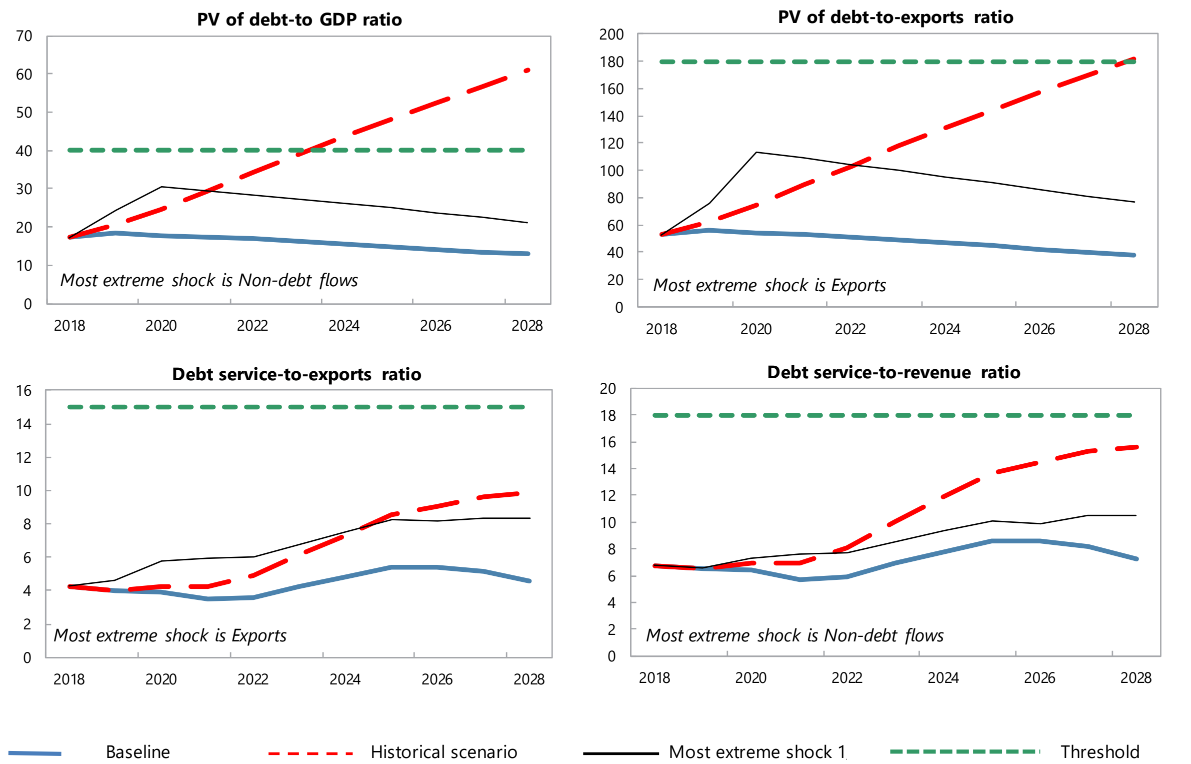
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Togo: Sensitivity Analysis for Key Indicators of Public Debt 2018-2028

	Projections 1/										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
						PV of Debt-to-GDP Ratio					
Baseline	**68**	**63**	**58**	**54**	**50**	**47**	**43**	**39**	**36**	**33**	**30**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	**68**	**66**	**65**	**64**	**62**	**61**	**60**	**59**	**58**	**58**	**57**
B. Bound Tests											
B1. Real GDP growth	**68**	**64**	**61**	**57**	53	50	46	43	40	37	34
B2. Primary balance	**68**	**69**	**71**	**66**	**62**	**58**	54	50	46	42	39
B3. Exports	**68**	**66**	**68**	**63**	**58**	54	50	47	43	39	36
B4. Other flows 3/	**68**	**69**	**71**	**66**	**62**	**58**	53	50	46	42	38
B5. One-time 30 percent nominal depreciation	**68**	**63**	**57**	52	47	42	37	33	28	24	20
B6. Combination of B1-B5	**68**	**66**	**62**	53	49	45	42	38	34	31	28
C. Tailored Tests											
C1. Combined contingent liabilities	**68**	**73**	**68**	**64**	**59**	**55**	51	47	43	40	36
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
						PV of Debt-to-Revenue Ratio					
Baseline	279	262	243	225	207	190	174	159	144	130	118
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	279	275	270	263	257	250	244	238	232	228	223
B. Bound Tests											
B1. Real GDP growth	279	266	251	234	217	202	187	172	159	146	134
B2. Primary balance	279	288	295	275	255	237	217	199	183	168	153
B3. Exports	279	275	281	261	241	222	204	188	171	156	141
B4. Other flows 3/	279	287	297	275	254	235	217	199	183	167	150
B5. One-time 30 percent nominal depreciation	279	267	241	218	195	173	153	133	115	97	81
B6. Combination of B1-B5	279	278	261	222	204	187	171	153	137	125	113
C. Tailored Tests											
C1. Combined contingent liabilities	279	304	284	264	244	225	206	189	173	158	144
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
						Debt Service-to-Revenue Ratio					
Baseline	39	38	37	36	30	30	28	27	25	22	20
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	39	37	37	36	31	34	32	30	27	25	24
B. Bound Tests											
B1. Real GDP growth	39	38	37	36	31	32	30	29	27	24	22
B2. Primary balance	39	38	38	39	33	39	42	35	27	26	27
B3. Exports	39	38	37	37	31	31	29	28	25	24	22
B4. Other flows 3/	39	38	37	37	32	32	29	28	26	24	23
B5. One-time 30 percent nominal depreciation	39	36	36	35	30	30	27	27	25	23	20
B6. Combination of B1-B5	39	36	36	35	30	30	30	29	24	23	21
C. Tailored Tests											
C1. Combined contingent liabilities	39	38	39	38	32	42	39	29	27	26	25
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

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



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices 2/	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.2%	2.2%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	7	7

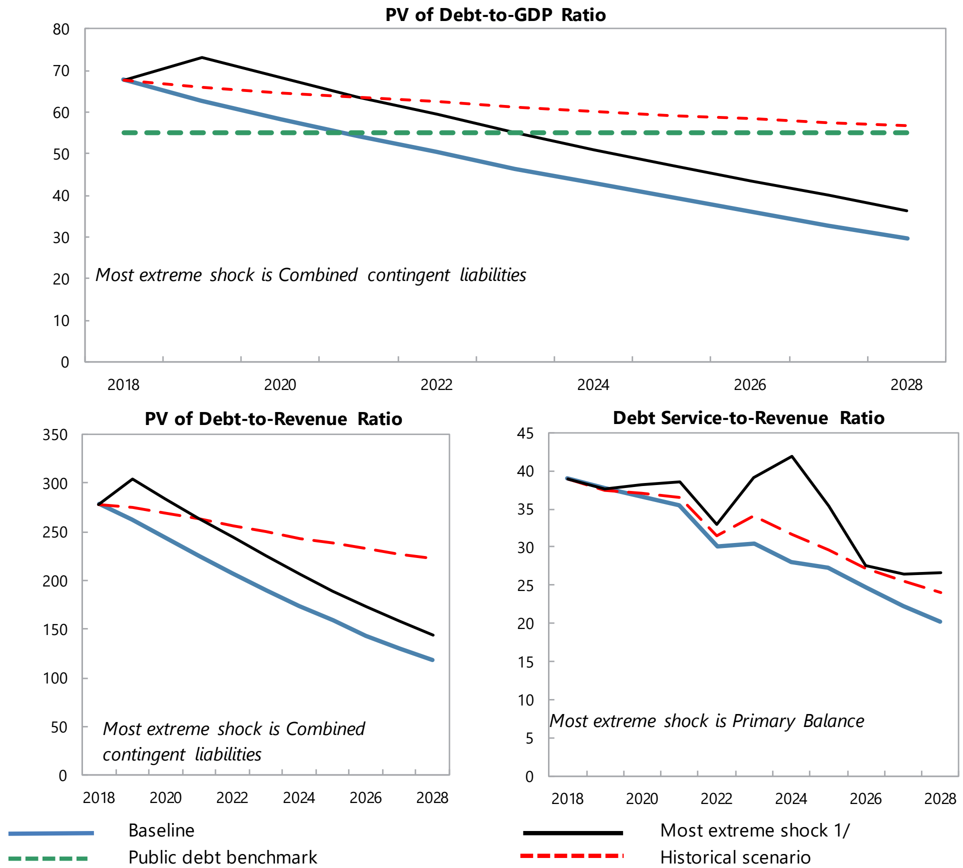
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

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



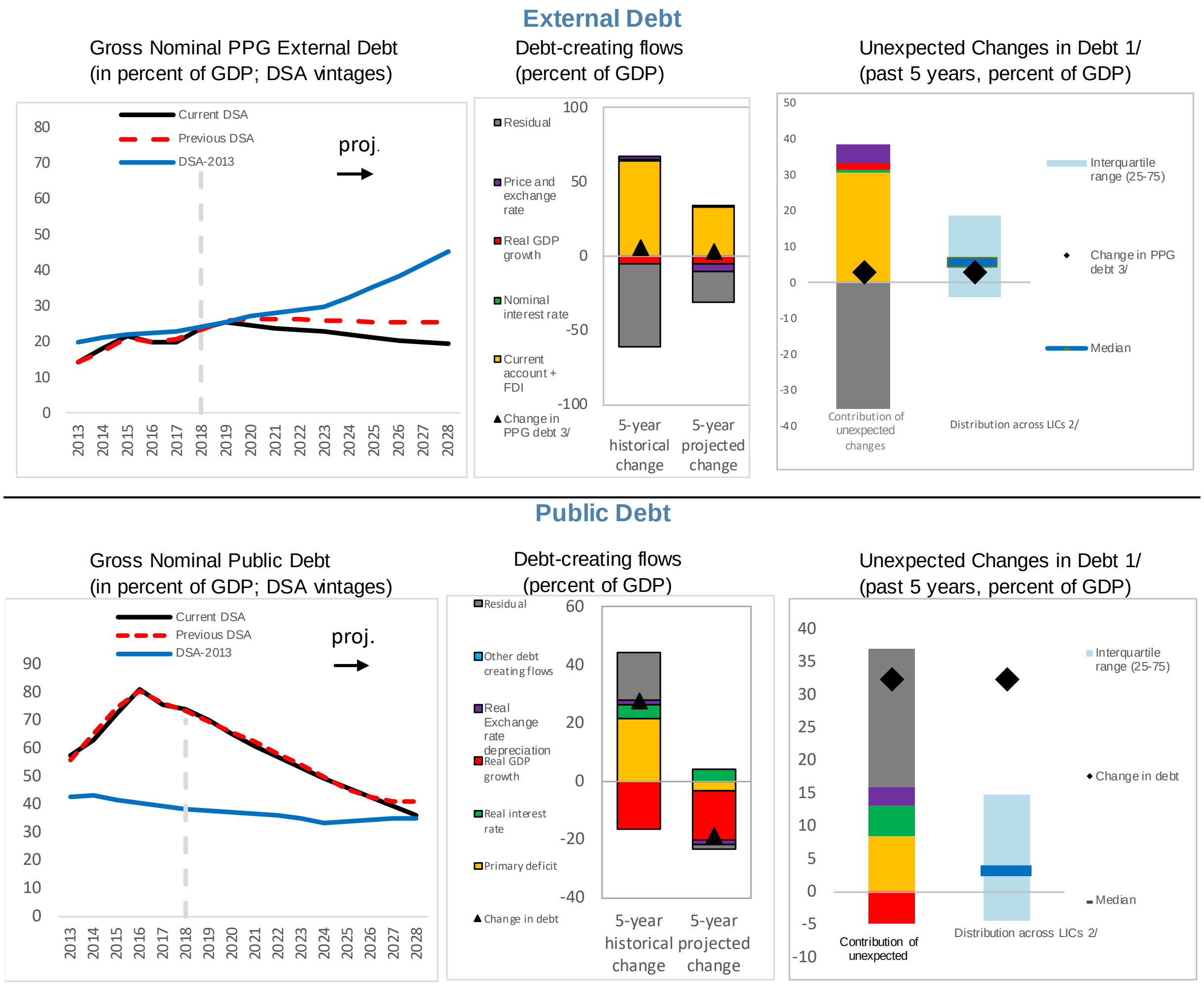
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	46%	46%
Domestic medium and long-term	54%	54%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.2%	2.2%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.6%	3.6%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	3.7%	3.7%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Togo: Drivers of Debt Dynamics – Baseline Scenario



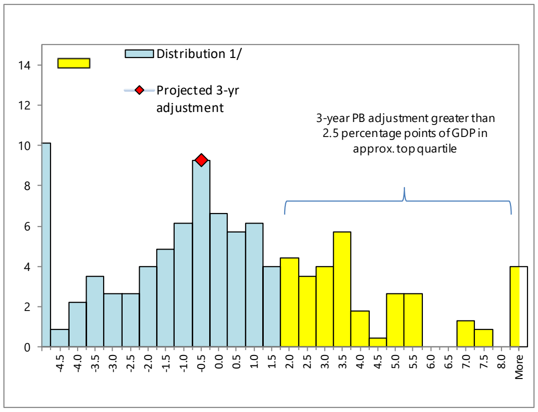
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

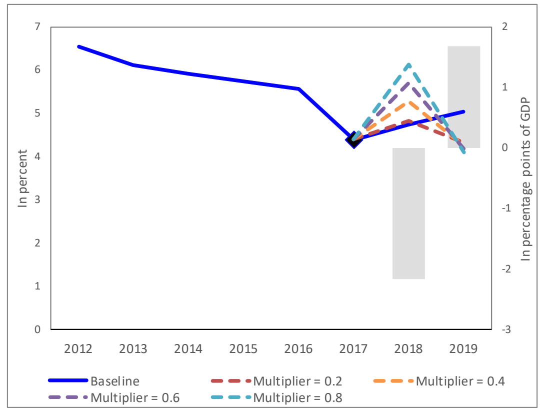
Figure 4. Togo: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



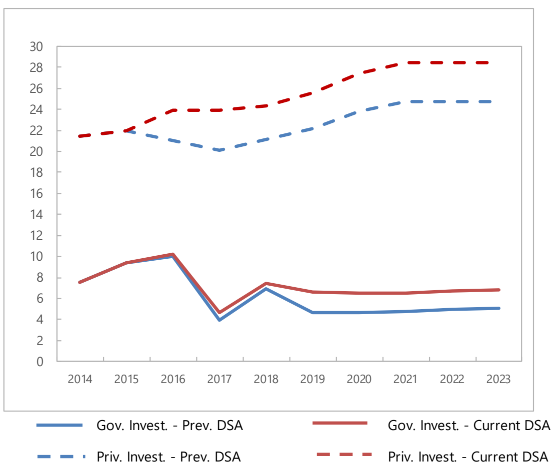
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

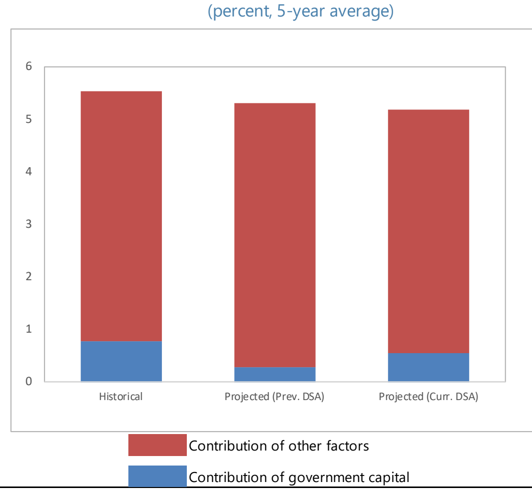


Figure 5. Togo: Qualification of the Moderate Category, 2018-2028 1/

Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Statement by Mr. Mohamed-Lemine Raghani,
Executive Director for Togo and Mrs. Esso Solim Boukpessi,
Advisor to the Executive Director,
December 10, 2018

Introduction

On behalf of our Togolese authorities, we would like to thank staff for their candid report and the constructive policy dialogue held in the context of the third ECF program review.

The authorities value Fund's continued engagement with Togo. The ECF-supported program continues to be instrumental in helping Togo maintain macroeconomic and financial sector stability, bring public debt on a sustainable downward path and advance the needed reform agenda under the country's National Development Plan (NDP) --*Plan National de Développement*-- for 2018-22. Recent encouraging progress on all these fronts have been achieved amid a challenging domestic environment. Going forward, the authorities are determined to pursue efforts aimed at achieving the broad objectives of the ECF program which are outlined in their MEFP and anchored by their NDP, including the promotion of a sustainable and inclusive growth.

We broadly agree with staff's assessment of the macroeconomic and structural challenges as well as risks facing the country and welcome the policy recommendations laid out in the staff report.

Recent Economic Developments, Program Performance and Outlook

After slowing amidst socio-political tensions in 2017, economic activity in Togo is recovering with growth projected at 4.7 percent in 2018 thanks to strong performance in the agricultural (cotton) and mining (phosphate) sectors and increased activity in the Port of Lomé. The rebound —albeit a sluggish recovery of the service sector—is being sustained by an increase in credit to the private sector. Inflation turned positive to 0.9 percent in September 2018 (year-on-year) and the current account is expected to widen somewhat in 2018, mostly on the back of adverse terms of trade. The robust fiscal consolidation undertaken in 2017 has continued and yielded remarkable results, with notably a strong performance on revenue collection which increased by 16 percent compared to the first half of 2017 and stands well above projections in the first half of 2018. Moreover, the slower-than-expected execution of capital expenditures contributed to maintaining spending below targets. As a result, the overall fiscal balance on commitment basis improved and reached 0.7 percent of GDP in the first half of 2018 while public debt-to-GDP ratio has continued to decline, notably by about 5 percentage points of GDP during 2017-18, and is estimated at 71.3 percent in 2018. The authorities have pursued efforts to prevent payment delays exceeding 90 days—which constitutes arrears accumulation—thereby bringing down the stock of arrears.

This good policy implementation helped meet macroeconomic objectives. Performance under the EFC-supported program continues to be solid with all end-June 2018 quantitative performance criteria (QPCs) and one out of two indicative targets (ITs) met. It should be noted that some QPCs including the floor on the domestic primary balance and the ceiling on the net domestic financing as well as the IT on revenue collection were observed with significant margins. Although the IT on domestically-financed social spending failed to meet the target owing to difficulties in budget execution, the authorities are swiftly taking the needed corrective measures to mitigate it. On the structural front, all but two structural benchmarks (SBs) were implemented. One of the missed SBs became meaningless in the context of the change of strategy regarding the two public banks—which now are set for privatization. The other missed SB, related to the cost-effectiveness analysis of public investment projects is about to be completed with the support of the IMF Technical Assistance. The two prior actions on the adoption by the Cabinet of the 2019 budget consistent with the program's objectives as well as the drafting of the terms of reference to retain an audit firm to assess the economic value of one of the two public banks have also been met.

Togo's near-to-medium term outlook is favorable. Real GDP is projected to grow at around 5 percent in 2019, and this momentum is expected to continue over the medium term, underpinned by the recent infrastructure improvements and strong activity in main trading partners in the region. The current account deficit will narrow on the back of stronger exports and reduced imports of public capital goods. Inflation will remain well below the WAEMU convergence criterion of 3 percent. Public debt-to-GDP ratio is projected to decline below 60 percent by 2022 thanks to the strong consolidation efforts and economic growth. Our authorities recognize that this outlook remains subject to significant downward risks, notably a prolonged challenging socio-political context; a deterioration of the external economic or financial environment; and a shortfall in power supply. To mitigate those risks, the authorities remain committed to taking necessary actions to enhance economic resilience, strengthen buffers, foster the development of the private sector, and promote inclusive growth. In this vein, they appreciate the close engagement with the Fund and multiform assistance from development partners.

Macroeconomic Policies and Structural Reforms Going Forward

Looking forward our Togolese authorities intend to implement macroeconomic policies geared towards long-term fiscal and debt sustainability and strengthening financial sector stability in close collaboration with the regional banking supervisor. They will advance their structural reform agenda with the aim to boost competitiveness, foster a conducive business environment and attract private investors, building on the encouraging progress made in infrastructure development, governance and ease of doing business. They also reiterate their commitment to continue contributing to foreign reserve buildup in the West African Monetary Union (WAMU) through the implementation of sound policies consistent with foreign exchange regulation.

Fiscal Policy and Reforms

The authorities have developed tax policy and administrative measures aimed at enhancing domestic revenue mobilization, rationalizing expenditures while protecting social spending, and enhancing controls to prevent the accumulation of domestic payment arrears. Accordingly, steps have been taken in the context of the 2019 fiscal framework to bring the overall fiscal balance including grants to a deficit of 1.5 percent of GDP next year from 9.5 percent of GDP in 2016. The unprecedented fiscal consolidation efforts will help bring debt-to-GDP ratio to 70 percent in 2019 from 77.7 percent in 2016. As a result, all first-order WAEMU convergence criteria on fiscal balance, debt and inflation should be met in 2019.

Beyond 2019, the authorities aim at increasing durably the fiscal space needed to accommodate social and infrastructure needs. On the revenue side, key policy measures include enhancements in the effectiveness of tax on capital income; corporate and property taxes; broadening of the VAT. Structural reforms are also envisaged to strengthen the efficiency of tax and customs administrations, notably cross-check of taxpayers' transactions; and stricter collection and valuation of customs.

On the expenditure side, the authorities will pursue current spending cuts based on the recommendations of the 2017 comprehensive expenditure review that has been undertaken with the support from an international consulting firm. Moreover, they are developing a guide for an enhanced public investment program based on a cost-effectiveness analysis of all public investment projects. The expenditure chain is being reinforced, including through a monthly synchronization of the procurement, commitment and cash plans, while the treasury single account is being made operational. In addition, following a WAEMU directive, the authorities are transitioning to a program-based budgeting.

Debt Management

The Togolese authorities broadly concur with staff's assessment of Togo's debt and their recommendations on debt management policy. They reiterate their commitment on resolutely and swiftly bringing public debt to sustainable level by pursuing their fiscal consolidation efforts, taking advantage of the low interest rate environment and favorable exchange rate forecasts, reprofiling debt, and enhancing the debt management capacity and unit with the technical assistance of IMF and World Bank. As a result of this multifaceted strategy, beginning next year the WAEMU convergence criterion of 70 percent of GDP for public debt will be met by Togo, with the country's ratio falling to 67.5 percent in 2019.

Financial Sector

Preserving financial sector stability and resilience remains a key priority for the authorities, as they plan to position Togo as a financial center hub in the sub-region in the context of their NDP. In this regard, they are resuming the privatization process for the two remaining public banks. The authorities are strongly committed to this new strategy and are taking the necessary safeguards measures to its steadfast implementation. They will continue to build on the Togolese legal framework and international best practices, consultations with IMF staff and on the WAMU Banking Commission's assessment of the potential buyers to select new shareholders. Finally, as the government is cognizant of the potential impact of these privatizations - especially on banks' employees - it plans on keeping a small shareholding in these two banks for a smooth transition.

The authorities will continue to take steps to further strengthen the financial system and address the remaining weaknesses, including the high non-performing loans (NPLs), in close collaboration with regional authorities. In addition, they will pursue efforts to boost access to credit and enhance financial inclusion.

Structural Reforms

Economic transformation stands at the center of the authorities' NDP for 2018-2022. The NDP evolves around making Togo a logistic hub, a sub-regional business and financial center as well as a robust agricultural, manufacturing and extractive industries base. These will help achieving stronger and more inclusive growth, creating jobs, and improving living conditions. The authorities are making important strides for greater private sector involvement in the economy given its paramount role in financing the NDP. Along with the State's divestment from key economic areas, including financial and telecommunication sectors, the authorities will pursue efforts to enhance the business climate and promote a private-sector led growth. Furthermore, investments in social sectors notably health and education rank high in the authorities' priorities, with the view to foster productivity while reducing poverty and inequalities.

The 2019 World Bank's Doing Business report has ranked Togo the top reformer in Africa in the areas of business creation, building permit, electricity connection, payment of taxes, transfer of property and execution of contracts, moving 19 places up in the overall ranking. Other important structural reforms to facilitate business creation and activity include the new investment project selection mechanism that prioritizes the projects contributing to the NDP, the new one-stop shop for land titling, the new office for land ownership transfer, and the establishment of a nationwide e-payment system TogoPay. Work on the areas of land registration facilitation and georeferencing of existing land property titles, is underway with the support of development partners.

The authorities will push ahead the necessary reforms to tackle remaining structural challenges facing the economy, including addressing infrastructure bottlenecks in roads and railways, internet and telecommunications as well as electricity. Togo's participation in the G20 Compact with Africa Initiative (CwA) should help promote reforms in the business environment and attract foreign private investment.

The authorities are also undertaking measures to enhance governance and fight corruption. These include the Criminal Code and the 2018 law on anti-money laundering/combating the financing of terrorism (AML/CFT) which are aligned with the WAEMU and FATF norms. Other actions to curb corruption include the recent operationalization of the Anticorruption Commission --*Haute Autorité de Prévention et de Lutte contre la Corruption et les Infractions Assimilées (HAPLUCIA)--,* prevention and investigation activities within the revenue administration (OTR)'s anti-corruption office, and the transfer of cash balances to the Treasury single account.

Conclusion

Despite a still challenging domestic and external environment, Togo has sustained a strong economic performance under its ECF-supported program. The authorities are committed to continuing their macroeconomic policy and reform agenda while pursuing social and economic transformation objectives. Against this backdrop, they would appreciate the Board's completion of the Third Review under the ECF arrangement and approval of their request for modification of performance criteria on net domestic financing to accommodate a closer monitoring.