IMF Country Report No. 24/79

TOGO

March 2024

REQUEST FOR A 42-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; DEBT SUSTAINABILITY ANALYSIS AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR TOGO

In the context of the Request for a 42-Month Arrangement 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 March 1, 2024, following discussions that ended on December 9, 2024, with the officials of Togo on economic developments and policies underpinning the Fund-supported program under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on February 16, 2024.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the Internal Development Association.
- A **Statement by the Executive Director** for Togo.

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

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PRESS RELEASE

PR24/64

IMF Executive Board Approves a US$390 Million 42-month Arrangement Under the Extended Credit Facility for Togo

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund (IMF) approved a 42-month arrangement under the Extended Credit Facility (ECF) for Togo. The arrangement will provide financing of SDR 293.60 million (about US$390 million), with an immediate disbursement of SDR 51.38 million (about US$68.3 million).
- Togo continues to face headwinds, following a series of shocks in recent years. The ECF-arrangement will help accelerate poverty reduction, maintain macroeconomic stability, and catalyze further external financing, benefitting Togo and thereby contributing to the macroeconomic and external stability in the West African Economic and Monetary Union (WAEMU).
- The authorities' strong reform program aims to help maintain macroeconomic stability and accelerate poverty reduction by (i) making growth more inclusive while strengthening debt sustainability, and (ii) conducting structural reforms to support growth and limit fiscal and financial sector risks.

Washington, DC – **March 1, 2024:** The Executive Board of the International Monetary Fund (IMF) approved today a 42-month arrangement under the Extended Credit Facility of SDR 293.60 million or about US$390 million (200 percent of quota), with an immediate disbursement of SDR51.380 million (about US$68.3 million).

Following a series of shocks in recent years, Togo continues to face headwinds, including more difficult access to financing following monetary policy tightening in advanced economies, a challenging security situation at the northern border, and persistent food insecurity compounded by climate change. Fiscal deficits and debt have increased, reversing the debt reduction achieved during the 2017–20 ECF-arrangement, eroding fiscal space and buffers to absorb shocks, and contributing to regional vulnerabilities.

The authorities' strong reform program aims to help maintain macroeconomic stability and accelerate poverty reduction by (i) making growth more inclusive while strengthening debt sustainability, and (ii) conducting structural reforms to support growth and limit fiscal and financial sector risks. Key policies include a strengthening of social spending and the social safety net, a growth-friendly fiscal consolidation thanks in part to ambitious fiscal revenue mobilization, structural reforms to support growth by enhancing the business environment, and banking sector reform including recapitalization of the remaining state-owned bank.

At the conclusion of the Executive Board's discussion, Mr. Okamura, Deputy Managing Director, and Acting Chair, issued the following statement:

"Following the shocks of recent years (the COVID pandemic, terrorist attacks, and spikes in global food and fuel prices), Togo continues to face headwinds, including more difficult access to financing following monetary policy tightening in advanced economies, a still challenging security situation at the northern border, and persistent food insecurity compounded by climate change. To address these challenges, the authorities have requested a 42-Month Arrangement under the Extended Credit Facility. The program will help accelerate poverty reduction, maintain macroeconomic stability, and catalyze further external financing, benefitting not only Togo but the WAEMU region.

The authorities intend to make growth more inclusive by strengthening social spending and social safety nets as well as enhancing the living conditions of populations in the north of the country, thereby complementing the military response to terrorism with a civilian response. In this context, it will be important to substitute generalized fuel subsidies with more targeted and cost-effective measures to protect the vulnerable, including through cash transfers.
The authorities should continue their efforts at growth-friendly fiscal consolidation to create space for spending on Togo's development needs while strengthening debt sustainability. In this context, the impressive start of fiscal consolidation in 2023 is praiseworthy. The Government's intention to raise tax revenue by an ambitious 0.5 percent of GDP per year is also welcome. For these efforts to succeed, broadening the tax base by streamlining tax expenditures will be critical.

The authorities should continue efforts at enhancing the business environment to support growth—including by strengthening the governance, anti-corruption, and AML/CFT frameworks—along with their commitment to reform the remaining state-owned bank to reduce risks to financial sector stability. The provision of budget resources for the bank's recapitalization to zero regulatory capital is a welcome first step."

Annex

Fiscal deficits and debt have increased, reversing the debt reduction achieved during the 2017–20 ECF-arrangement, eroding fiscal space and buffers to absorb shocks, and contributing to regional vulnerabilities in the West African Economic and Monetary Union (WAEMU). Two undercapitalized banks, one state-owned and the other recently privatized, pose risks to financial sector stability and associated fiscal risks. The authorities are requesting financial support of 200 percent of quota (SDR 293.60 million) under a 42-month ECF-arrangement.

Program Summary

The Fund-supported program aims to help maintain macroeconomic stability and accelerate poverty reduction by (i) making growth more inclusive while strengthening debt sustainability, and (ii) conducting structural reforms to support growth and limit fiscal and financial sector risks. Key policies include a strengthening of social spending and the social safety net, a large fiscal consolidation thanks in part to ambitious fiscal revenue mobilization, and banking sector reform including recapitalization of the remaining state-owned bank. By providing and catalyzing concessional financing for budget purposes, the program will help ease trade-offs between enhancing inclusion through higher social spending and strengthening debt sustainability. It will also help maintain macroeconomic and external stability in the WAEMU.

Make growth more inclusive. The authorities will make growth more inclusive by strengthening social spending and implementing an investment program to improve living conditions in the terrorism-affected Savanes region and neighboring regions, thereby complementing the military response to the terrorist threat with a civilian response.

A medium-term fiscal framework. The authorities will strengthen debt sustainability through a large fiscal consolidation in line with a dual fiscal anchor. The anchor's first element is to reduce the overall risk of debt distress from high to moderate (PV of public debt below 55 percent of GDP) by end-2026, the last full year before the end of the program in mid-2027. The second element is to lower the fiscal deficit to 3 percent of GDP by 2025 to avoid overtaxing the regional market's ability to provide financing, in line with the (currently suspended) regional convergence framework. To create space for priority spending, the authorities are committed to raising revenue by an ambitious 0.5 percent of GDP every year.

Structural reforms. To support growth and limit fiscal and financial sector risks, the authorities will strengthen public financial management, improve the business environment, and ensure the reform of the remaining state-owned bank that was not completed under preceding programs.

Togo: Selected Economic Indicators

	2022	2023	2024	2025
	Estimates		Projections	
National Income and Prices	(percentage change)			
Real GDP	5.8	5.4	5.3	5.3
Real GDP per capita	3.3	2.9	2.8	2.8
Consumer price index (average)	7.6	5.1	2.7	2.0
Money and Credit	(percentage change)			
Credit to nongovernment sector	10.7	2.6	9.2	6.8
Broad money (M2)	14.9	8.2	8.8	8.6
Central Government Finance	(percent of GDP)			
Revenue	15.1	15.5	16.3	16.9
Tax revenue	13.9	14.4	14.9	15.4
Total expenditure and net lending	26.0	24.9	23.3	21.4
Overall balance (cash basis, incl. grants)	-8.3	-6.6	-6.4	-3.0
Basic primary fiscal balance (excl. banking sector operations)	-4.5	-2.5	-0.5	1.2
External Sector				
Current account balance (percent of GDP)	-4.2	-3.3	-3.6	-3.5
Terms of trade (percent change; deterioration = –)	9.7	1.6	-2.2	-1.5
Public Debt	(percent of GDP)			
Total public debt	66.5	67.4	68.8	66.9
External public debt	26.2	25.6	26.9	27.1
Domestic public debt	40.3	41.8	41.9	39.8
	0.0	0.0	0.0	0.0

Sources: Togolese authorities and IMF staff estimates and projections.

TOGO

February 16, 2024

REQUEST FOR A 42-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

EXECUTIVE SUMMARY

Context. Growth has been resilient to the shocks of recent years, but Togo is facing elevated food insecurity and terrorist attacks while development needs remain acute. Fiscal deficits and debt have increased, reversing the debt reduction achieved during the 2017–20 ECF-arrangement, eroding fiscal space and buffers to absorb shocks, and contributing to regional vulnerabilities in the West African Economic and Monetary Union (WAEMU). Two undercapitalized banks, one state-owned and the other recently privatized, pose risks to financial sector stability and associated fiscal risks. The authorities are requesting financial support of 200 percent of quota (SDR 293.60 million) under a 42-month ECF-arrangement.

ECF program objectives and modalities. The Fund-supported program aims to help maintain macroeconomic stability and accelerate poverty reduction by (i) making growth more inclusive while strengthening debt sustainability, and (ii) conducting structural reforms to support growth and limit fiscal and financial sector risks. Key policies include a strengthening of social spending and the social safety net, a large fiscal consolidation thanks in part to ambitious fiscal revenue mobilization, and banking sector reform including recapitalization of the remaining state-owned bank. By providing and catalyzing concessional financing for budget purposes, the program will help ease trade-offs between enhancing inclusion through higher social spending and strengthening debt sustainability. It will also help maintain macroeconomic and external stability in the WAEMU.

Main Policy Commitments

- **Make growth more inclusive.** The authorities will make growth more inclusive by strengthening social spending and implementing an investment program to improve living conditions in the terrorism-affected *Savanes* region and neighboring regions, thereby complementing the military response to the terrorist threat with a civilian response.

- **A medium-term fiscal framework.** The authorities will strengthen debt sustainability through a large fiscal consolidation in line with a dual fiscal anchor. The

anchor's first element is to reduce the overall risk of debt distress from high to moderate (PV of public debt below 55 percent of GDP) by end-2026, the last full year before the end of the program in mid-2027. The second element is to lower the fiscal deficit to 3 percent of GDP by 2025 to avoid overtaxing the regional market's ability to provide financing, in line with the (currently suspended) regional convergence framework. To create space for priority spending, the authorities are committed to raising revenue by an ambitious 0.5 percent of GDP every year.

- **Structural reforms.** To support growth and limit fiscal and financial sector risks, the authorities will strengthen public financial management, improve the business environment, and ensure the reform of the remaining state-owned bank that was not completed under preceding programs.

Staff supports the authorities' request for a 42-month arrangement under the ECF with access of SDR 293.60 million (200 percent of quota).

Approved By
Annalisa Fedelino (AFR) and Fabian Bornhorst (SPR)

Discussions took place virtually during November 20-22, and in person in Lomé during November 29-December 8, 2023. The staff team comprised Mr. H. Weisfeld (head), Ms. G. Li, Ms. M. Rhouzlane, Mr. M. Specht (all AFR), Mr. M. Kaffo (Resident Representative), Mr. J. Fanning (SPR), Mr. I. Sowou (Local Economist), and Ms. E. Boukpessi (ED office). Ms. A. Fedelino (AFR), Mr. F. Sylla (ED office) joined the team during December 5-8. The mission held discussions with Minister of Finance S. Yaya, representatives of the BCEAO, and other senior officials. Prime Minister V. Dogbé also received the team, and the team further met with the donor community. Ms. E. Eckling provided administrative assistance

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ANNEXES

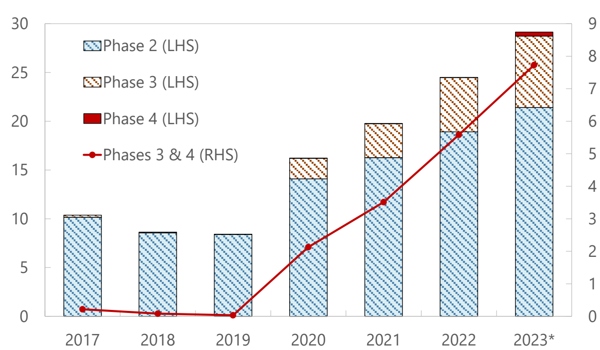
APPENDIX

BACKGROUND AND CONTEXT

1. Growth has been resilient to the shocks of recent years, but Togo now faces food insecurity and terrorist attacks while development needs remain acute (Text Figures 1 and 2). In the context of the COVID pandemic and Russia's invasion of Ukraine, the incidence of food insecurity rose sharply, with close to 30 percent of the population facing at least some degree of food insecurity now (up from less than 10 percent in 2019), and the northern *Savanes* region the most affected. Terrorist attacks in the *Savanes,* thought to be driven by Jihadist groups from the broader Sahel region, started in late 2021 and continue, with the most recent attack in November 2023, causing casualties and material damage. Beyond the terrorist activity, the socio-political situation appears broadly calm at present. Large gaps persist on SDG targets for access to health care, education, drinking water, sanitation, and energy.

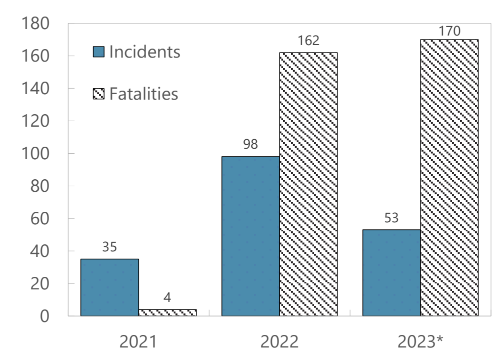
Text Figure 1. Pronounced Food Insecurity and a Growing Terrorist Threat

Text Figure 1a. Prevalence of Food Insecurity,[1] 2017–23
(Percent of analyzed population, rolling averages)



* 2023 values are projections.

Text Figure 1b. Security Incidents, 2021–23*
(Number of incidents and fatalities)

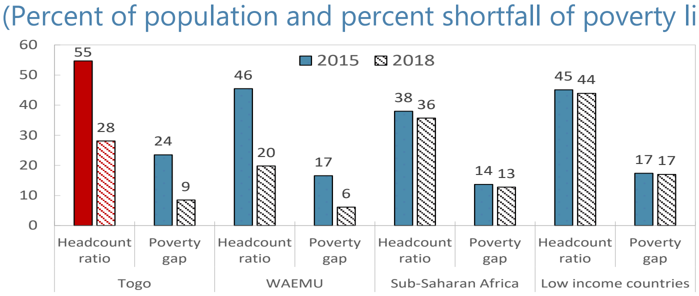


* As of 11/30/2023

Source: Integrated Food Security Phase Classification, ACLED, and IMF staff calculations.
1/ The IPC Acute Food Insecurity (IPC AFI) classification distinguishes levels of severity of acute food insecurity in five distinct phases: (1) Minimal/None, (2) Stressed, (3) Crisis, (4) Emergency, (5) Catastrophe/Famine.

2. Fiscal deficits and debt have increased substantially following the shocks of recent years, reversing the debt burden reduction achieved during the 2017–20 ECF arrangement, eroding buffers, and contributing to WAEMU vulnerabilities. While Togo is not a large WAEMU member (accounting for 5 percent of regional GDP in 2022), its financing needs—mostly covered in the regional debt market so far—contribute to liquidity pressures at the WAEMU level. The region's external

Text Figure 2. Poverty Headcount Ratio and Poverty Gap at $2.15[1] a Day, 2015–18
(Percent of population and percent shortfall of poverty line)



Source: World Bank. 1/ In 2017 PPP. The poverty gap is the ratio by which the mean income of the poor falls below the poverty line.

reserves have declined to 3.2 months of imports coverage (December 2023). Fiscal consolidation in Togo and other WAEMU member countries, as well as Fund-supported programs that catalyze additional financing, are key to reversing this trend.

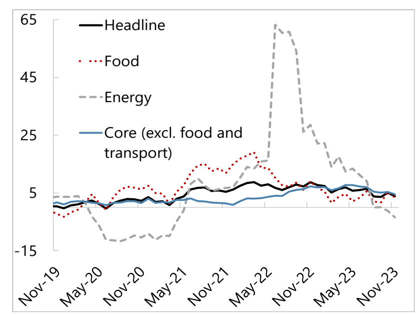
3. **The authorities are requesting an ECF-arrangement that will support efforts to maintain macroeconomic stability and accelerate poverty reduction by (i) making growth more inclusive while strengthening debt sustainability, and (ii) conducting structural reforms to support growth and limit fiscal and financial sector risks.** By providing and catalyzing concessional financing for budgetary purposes in accordance with rules for the use of Fund resources for budget support (EBS/10/55), the Fund-supported program would help ease trade-offs between raising spending to enhance inclusion and strengthening debt sustainability. It would also provide added credibility and impetus to the authorities' reform efforts. Finally, it would help maintain macroeconomic and external stability in the WAEMU region.

RECENT ECONOMIC DEVELOPMENTS

4. **Thanks in part to the fiscal support provided, growth has been resilient to the shocks of recent years, but the cost of living has nevertheless surged.** After slowing to 2 percent in 2020 due the COVID-19 pandemic, growth rebounded to 5¾-6 percent in 2021 and 2022 (Table 1). Less favorably, consumer price inflation also increased substantially, peaking at 7½ percent (annual average) in late 2022 and early 2023, and while on a downward trend, is still running at 5.3 percent in November (annual averages). While food and fuel prices have been prominent drivers of inflation, core inflation is elevated as well, at 5.6 percent in November (annual average, Text Figure 3).

Text Figure 3. Consumer Price Index, 2019–23

(Percent change, year-on-year, EoP)



Sources: Togolese authorities and IMF staff calculations.

5. **At the same time, deficits and public debt have risen sharply, notwithstanding a successful start of fiscal consolidation in 2023.** The overall fiscal deficit including grants widened very substantially in 2020 (to 7.1 percent of GDP) due to COVID-related factors, then narrowed (to 5.6 percent of GDP) with the recovery of the economy in 2021, but rose again sharply (to 8.3 percent of GDP) in 2022, reflecting measures to protect the population's purchasing power, including through weakly targeted fuel subsidies, and security-related outlays in response to terrorist attacks (Text Table 1). Tax expenditure continued to weigh on revenue in recent years (Text Figure 4). In 2023, the authorities lowered the overall fiscal deficit substantially to 6.6 percent of GDP, thanks to an increase in fiscal revenue by 0.5 percent of GDP and strong expenditure discipline. Control over spending also benefited from lower fuel subsidies thanks to domestic fuel price increases implemented in 2022 and lower global fuel prices.[1] Within a well-controlled spending envelope, the

[1] The authorities set fuel subsidies in a discretionary manner, affecting revenue through rebates on customs duties. In 2023, they lowered these subsidies to 0.9 percent of GDP (from 1.4 percent of GDP in 2022).

authorities saw a need to raise security spending to the detriment of other spending, given intensifying terrorist attacks. As a result of the elevated fiscal deficits of recent years, public debt has risen quickly (Text Figure 5), more than offsetting the debt burden reduction achieved during the 2017-20 ECF arrangement.

6. **Financing conditions have become more difficult at a time when the authorities are facing high roll-over needs.** The average yield on Togo government bonds has risen to 7 percent (from 6 percent in 2022), and the average maturity has shortened to 4 years (from 9 years in 2022).[2] Roll-over needs in the regional financial market amount to 18 percent of GDP per year over 2024-27 (assuming an unchanged debt structure). Togo has not yet issued tradable government debt in global capital markets.

Text Table 1. Fiscal Developments, 2019–23

(Percent of GDP)

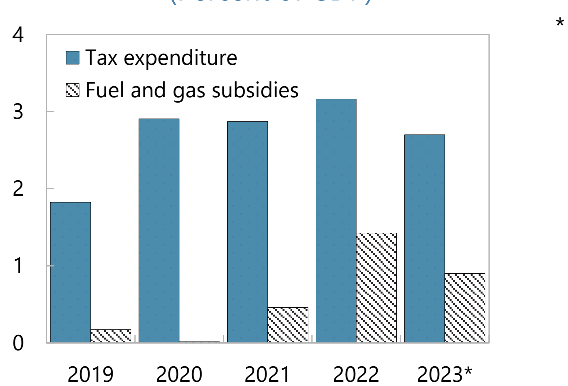
	2019[1]	2020	2021	2022	2023
Revenue and grants	18.2	16.6	17.1	17.6	18.4
Total revenue	15.2	14.1	15.3	15.1	15.5
Tax revenue	13.5	12.5	14.0	13.9	14.4
Nontax revenue	1.8	1.6	1.3	1.2	1.1
Grants	3.0	2.5	1.8	2.5	2.9
Expenditures and net lending	16.6	23.7	21.8	26.0	24.9
Current expenditures	13.4	14.4	13.6	16.2	15.2
of which: Fuel subsidies	0.2	0.1	0.2	1.4	0.9
of which: Social protection cash transfers	…	0.3	0.2	0.1	0.2
Capital expenditures	3.2	9.3	8.2	9.7	9.8
of which: emergency program for Northern regions	…	…	…	0.7	1.2
Overall balance (commitment basis, incl. grants)	1.7	-7.0	-4.7	-8.3	-6.6
Change in arrears	-2.6	0.0	-1.0	0.0	0.0
Overall balance (cash basis, incl. grants)	-0.9	-7.1	-5.6	-8.3	-6.6
Financing	2.9	7.5	7.2	10.8	9.4
Domestic financing (net)	-3.2	0.6	4.5	7.1	4.7
External financing (net)	6.1	6.9	2.7	3.6	4.8
Exceptional financing	1.0	2.1	0.2	0.0	0.0
of which: IMF-ECF	1.0	1.9	0.0	0.0	0.0

Sources: Togolese authorities and IMF staff estimates. Data for 2023 are preliminary.

[1] Excluding transactions with the Social Security Fund, CNSS, in 2019.

Text Figure 4. Tax Expenditure and Fuel and Gas Subsidies, 2019-23

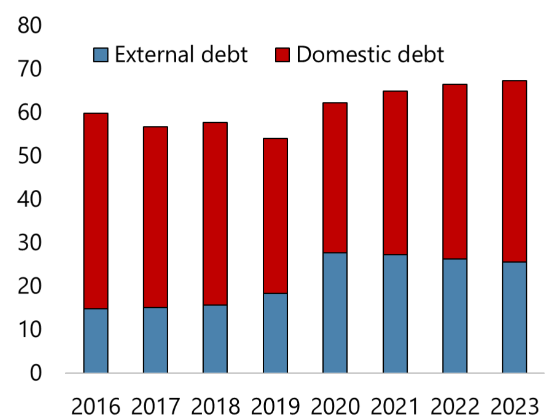
(Percent of GDP)



Values for 2023 are projections based on the 2023 budget and execution as of end-September.

Text Figure 5. Total Public Debt, 2016–23

(Percent of GDP)



Sources: Togolese authorities and IMF staff calculations.

[2] Based on issuances through end-August 2023.

7. With a rising debt burden and more difficult market conditions, buffers to absorb shocks have shrunk. As compared to the last assessment in 2020, the risk of external debt distress remains moderate, and the risk of overall debt distress remains high (attached DSA). But buffers to absorb shocks have fallen to "some space" (from "substantial space") and are most constrained when gauged against fiscal revenue, highlighting the importance of mobilizing revenue. All other indicators have substantial space to absorb shocks.

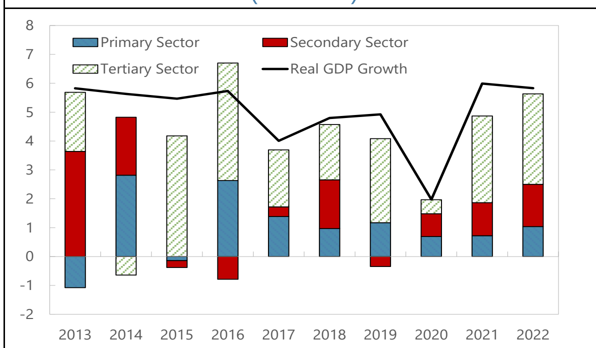
8. Togo's external position is broadly in line with the level implied by fundamentals and desirable policies (Annex I, ESA). The current account deficit is projected to have narrowed to 3.3 percent of GDP in 2023 as a moderate improvement in the terms of trade countered lower exports to Niger, following the military takeover there and ECOWAS sanctions.

9. The soundness of the Togolese banking sector has improved as the impact of the COVID pandemic has lessened. Nevertheless, challenges and related risks remain. In particular, two important banks continue to show negative regulatory capital, creating financial stability risks (see Policy Discussions below).

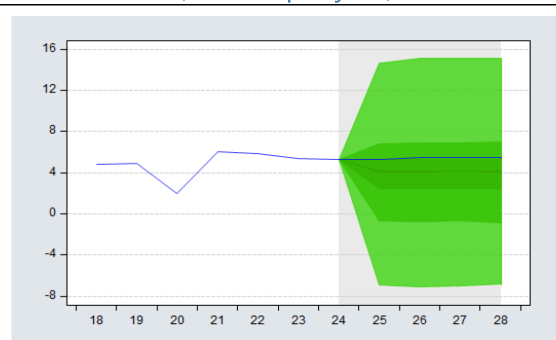
10. While Togo's business environment and governance have improved, there is room for further progress (see Policy Discussions below).

OUTLOOK AND RISKS

Text Figure 6. Contributions to Growth by Sector, 2013–22
(Percent)



Text Figure 7. Forecast Uncertainty around Real GDP Growth[1]
(Percent per year)



Sources: Togolese authorities and IMF staff calculations.
1/ The lightest green band corresponds to 90 percent confidence interval, medium green band corresponds to 60 percent confidence interval, and the darkest green band corresponds to 30 percent confidence interval. The chart was produced in EViews; the data generating process follows an AR(2) process. Errors are bootstrapped.

11. Macroeconomic performance is expected to remain robust over the medium term (Text Table 2). Growth is projected to soften to 5.3 percent over 2024-25 due to fiscal consolidation before recovering to its long-term trend projected at 5.5 percent per year. Growth is likely to be driven mainly by the services sector as in recent years (Text Figure 6), given Togo's strength as a regional logistics and financial services hub, while mining and manufacturing may also contribute. Although core inflation is expected to remain elevated in the near-term, headline inflation is projected to converge back to 2 percent by 2025, in line with the BCEAO's target. The fiscal deficit is projected to converge to the regional deficit ceiling of 3 percent of GDP by 2025 due to the planned consolidation, while the total debt-to-GDP ratio is expected to decline gradually starting in 2025. The current account deficit is projected to converge gradually to 2.8 percent of GDP in line with fiscal consolidation. Regional and parliamentary elections, expected to be held in the next few months, are unlikely to affect the outlook materially.

12. However, the outlook is subject to elevated risks (see Annex II, Risk Assessment Matrix). A key risk to economic performance is a potential intensification or spreading of terrorism to other parts of the country, with possible impacts ranging from a dampening of logistics activities to a severe destabilization of Togo's economy. Further, economic performance is vulnerable to other shocks, such as climate shocks and volatility of global food and fuel prices. Difficulties in obtaining sufficient financing at affordable rates in the regional market are another risk, the materialization of which could adversely affect economic performance through a sudden sharp cut in fiscal spending if external financing is unavailable. Over the medium and longer terms, economic performance is also subject to the risk of a potential erosion of debt sustainability due to a potential failure of efforts to achieve sufficient fiscal consolidation while maintaining robust growth. Further, the fiscal position is vulnerable to the realization of contingent liabilities from SOEs and PPPs and to the realization of risks to financial sector stability, if left unaddressed. On the upside, there is potential for positive surprises on medium-term growth, e.g., in logistics, light manufacturing, and mining.

Text Table 2. Key Macroeconomic Projections, 2022–28

	2022	2023	2024	2025	2026	2027	2028
	Est.		Projections				
Real GDP (percent change)	5.8	5.4	5.3	5.3	5.5	5.5	5.5
GDP deflator (percent change)	3.7	2.8	2.2	2.0	2.0	2.0	2.0
CPI inflation, average (percent)	7.6	5.1	2.7	2.0	2.0	2.0	1.7
			(percent of GDP)				
Overall balance (commitment basis, incl. grants, excl. banking sector operations)	-4.7	-6.6	-4.8	-3.0	-3.0	-3.0	-3.0
Overall balance (commitment basis, incl. grants)	-4.7	-6.6	-6.4	-3.0	-3.0	-3.0	-3.0
Current account balance	-4.2	-3.3	-3.6	-3.5	-3.2	-2.8	-2.8
Total public and publicly guaranteed debt	66.5	67.4	68.8	66.9	65.1	63.4	61.9

Sources: Togolese authorities; and IMF staff projections.

Note: Data for 2023 are preliminary.

PROGRAM OBJECTIVES AND POLICIES

A. Making Growth More Inclusive While Strengthening Debt Sustainability

Making growth more inclusive (1st pillar of the National Development Plan, also known as the 2020-25 Government Roadmap)

13. The authorities plan to strengthen the social safety net and expand social and pro-poor spending.

- The authorities will raise broadly defined social and pro-poor spending (*indicative target, MEFP Table 2)*.[3] To clarify their approach at strengthening the social safety net, the authorities will *adopt a strategy for strengthening the social safety net (by end-June, MEFP Table 3, SB 2.1)*. The authorities are already laying the basis for a targeted cash transfer program by *establishing a biometric identification system and preparing a register of the poor that may benefit from cash transfers (by end-December, MEFP Table 3, SB 2.2)*. Payments will be made through an enhanced version of the *Novissi* platform used in the context of the Covid-19. In 2024, the authorities will test their policy and its implementation with a limited number of beneficiary households before raising the number of households and the volume of transfers from 2025 on, with the goal of reaching 440,000 people (about 5 percent of the Togolese population) by 2028.

- The authorities will make efforts to limit fuel, electricity, and water subsidies. In February 2024, they will adopt a largely automatic fuel price smoothing mechanism[4] and associated fuel price *stabilization* fund (MEFP paragraph 18). The mechanism should help reduce the fuel subsidies over time. While the authorities have kept projections for fuel subsidies for the coming years constant in nominal terms at their 2023 level out of caution, subsidy spending should be lower already in 2024. Further, the authorities are reviewing electricity and water subsidies with the help of the World Bank.

14. The authorities are also continuing to implement an emergency program for the northern part of the country to enhance living conditions for their underserved populations. The emergency program aims to strengthen access to basic services including water, energy, health care, and education; boosting the telecommunications and rural road networks; and supporting agriculture (Annex III). The program was initially aimed at the northernmost *Savanes* region but has since been expanded to the neighboring *Kara* and *Central* regions, and is now projected to cost a cumulative 5.6 percent of GDP. In a context of limited budget resources, 30 percent of this program has been executed so far.

[3] Currently, Togo's social safety net consists of a pension system and limited health care services for civil servants and workers in the formal private sector. In addition, in the past the government has provided subsidies (including for food, fuel products, water and electricity), as well as a small volume of cash transfers, in-kind food transfers, and work programs aimed mainly at workers in the informal sector. The authorities' development plan calls for expanding access to health care services; power, water, and sanitation infrastructure; and education and training.

[4] The new mechanism seeks to ensure that domestic fuel prices will be set at a level that on average allows recovering the cost of providing fuel (including applicable taxation) while at the same time limiting price changes to at most 5 percent per month. Starting from the initial price at the pump, changes in the price at the pump will be made to move towards cost recovery until cost recovery is reached, with monthly price adjustments of at most 5 percent.

Strengthening Debt Sustainability

15. The authorities have adopted a dual fiscal anchor to ensure debt sustainability and tackle financing constraints. The anchor's first element is to reduce the overall risk of debt distress to "moderate" by end-2026 (the last full year before program-end) by bringing the present value of debt below 55 percent of GDP. The second element is to lower the fiscal deficit to 3 percent of GDP by 2025 to avoid overtaxing the regional market's ability to provide financing (this will also bring fiscal policy in line with the currently suspended regional convergence framework).[5] Policy will be driven by the tighter of the two constraints and the need to avoid overly sharp adjustments. In this context, the authorities intend to lower the fiscal deficit to 4.8 percent of GDP in 2024 (Text Table 4). The program includes *QPCs on the basic primary fiscal balan*ce and domestic financing, as well as debt limits, to ensure the fiscal adjustment and debt sustainability - (MEF*P Table 2)*.

Text Table 3. Medium-Term Fiscal Plans, 2023–28

(Percent of GDP)

	2023	2024	2025	2026	2027	2028
Revenue and grants	18.4	18.4	18.4	18.8	19.1	19.6
Total revenue	15.5	16.3	16.9	17.4	17.8	18.3
Tax revenue	14.4	14.9	15.4	15.9	16.4	16.9
Nontax revenue	1.1	1.4	1.4	1.4	1.4	1.4
Grants	2.9	2.2	1.6	1.5	1.3	1.3
Expenditures and net lending	24.9	23.3	21.4	21.8	22.1	22.6
Current expenditures	15.2	15.0	14.8	14.8	14.8	14.6
of which: Fuel subsidies	0.9	0.8	…	…	…	…
of which: Social protection cash transfers	0.2	0.1	…	…	…	…
Capital expenditures	9.8	8.3	6.6	7.0	7.3	8.0
of which: emergency program for Northern regions	1.2	1.0	0.7	0.6	0.6	0.5
Overall balance (commitment basis, incl. grants, excl. banking sector operation)	-6.6	-4.8	-3.0	-3.0	-3.0	-3.0
Overall balance (commitment basis, incl. grants)	-6.6	-6.4	-3.0	-3.0	-3.0	-3.0
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, incl. grants, excl. banking sector operations)	-6.6	-4.8	-3.0	-3.0	-3.0	-3.0
Overall balance (cash basis, incl. grants)	-6.6	-6.4	-3.0	-3.0	-3.0	-3.0
Overall balance (cash basis, excl. grants)	-9.4	-8.5	-4.5	-4.5	-4.3	-4.3
Financing	9.4	7.2	3.4	3.7	3.8	4.3
Domestic financing (net)	4.7	3.1	0.8	0.6	1.2	1.8
External financing (net)	4.8	4.1	2.6	3.0	2.6	2.5
Exceptional financing	0.0	1.3	1.1	0.8	0.5	0.0
of which: IMF-ECF	0.0	1.3	1.1	0.8	0.5	0.0
Memorandum Item:						
Social and pro-poor spending	4.8	5.3	5.1	5.3	5.4	5.5

Sources: Togolese authorities; and IMF staff estimates. Data for 2023 are preliminary.

[5] The ongoing programs with Cote d'Ivoire and Senegal also envisage lowering fiscal deficits to 3 percent of GDP by 2025.

Table 1. Measures to Strengthen Fiscal Revenue in 2024

Measures	Description	Potential Gains in 2024
Tax policy measures		
Elimination of non-statutory exemptions	Streamlining of fiscal expenditure.	CFAF 2.4 billion (0.04 percent of GDP)
Increase in the rate of excise duty on energy drinks and alcoholic beverages	Increase in the excise duty rate on energy drinks from 5 percent to 10 percent; Increase in the excise duty rate on beer from 18 percent to 20 percent; Increase in the excise duty rate on other alcoholic beverages from 50 percent to 60 percent.	CFAF 2.1 billion (0.04 percent of GDP)
New excise duty rate on plastic bags and bouillon cubes	Establishment of an excise duty rate of 5 percent on plastic bags; Establishment of an excise duty rate of 15 percent on bouillon cubes.	CFAF 0.87 billion (0.01 percent of GDP)
Removal of Covid-19 related exemptions reduction of those related to the import of new vehicles.	Removal of the reduced VAT rate of 10 percent on services provided by hotels, restaurants; Removal of tax, duty and tax exemptions related to medical equipment for the fight against COVID-19; Lower deduction for the import of new cars from 90 to 80 percent.	CFAF 2.1 billion (0.04 percent of GDP)
Reorganization of the taxation of used vehicles	Increase of the rate of the minimum flat tax levied on the import of used vehicles from 1 percent to 2 percent; Increase of the rate of the patent tax on the trade of used vehicles.	CFAF 0.88 billion (0.01 percent of GDP)
Higher taxation of the gambling industry	Increase in the tax rate for gambling proceeds from 5 to 7 percent.	CFAF 0.63 billion (0.01 percent of GDP)
Enhancing property taxes	Rationalization of tax exemptions and use of the results of the land survey in Lomé.	CFAF 3.8 billion (0.06 percent of GDP)
Strengthening taxation at customs	Use of tariff specification codes and of minimum values for additional products.	CFAF 2.4 billion (0.04 percent of GDP)
Expansion of the range of public procurement contracts subject to ex-ante taxation	The taxation of public procurement contracts now applies to all public procurement contracts, including those below a previously used threshold.	CFAF 5.0 billion (0.08 percent of GDP)
Revenue administration measures		
Various administration efforts	Improved taxpayer registration and follow-up of thanks in part to digitalization (e.g., expanded digital tax declaration and payment); measures to curb customs fraud, and enhanced recovery of tax arrears.	CFAF 12.7 billion (0.21 percent of GDP)
Total		**CFAF 33.1 billion (0.55 percent of GDP)**

Sources: Togolese authorities and Fund staff.

16. To help achieve the needed consolidation and create space for priority spending, the authorities aim to raise tax revenue by 0.5 percent of GDP per year *(Project 23 of the 3rd pillar of 2020-25 Government Roadmap)*.

- In the near term, tax revenue is expected to reach 14.9 percent of GDP in 2024 *(MEFP Table 2, indicative target)*.

  - In the area of tax policy, among other things, the authorities will broaden the tax base by curtailing various exemptions and ending preferential rates; and raise excise taxation, particularly of goods associated with negative externalities such as alcoholic beverages. With this, tax policy measures account for CFAF 20.2 billion (0.34 percent of GDP, Text Table 4).

  - In the area of revenue administration, the authorities will undertake a range of efforts, including better taxpayer registration; digitalization (e.g., launch of a mobile application for motor vehicle tax declaration and payment; expansion of online financial statement filing to small businesses; introduction of an automated tax risk analysis system); and prepare a corrective action plan for non-compliance with customs procedures on 15 products identified as the most potentially exposed to fraud (*by end-June, MEFP Table 3, SB 1.1*). The authorities will also step up the recovery of tax arrears. The yield of these efforts is estimated at CFAF 12.7 billion (0.21 percent of GDP).

- Regarding raising revenue further over the medium-term, the authorities will *prepare and publish their revenue raising strategy, comprising both tax policy and revenue administration measures (by end-October, MEFP Table 3, SB 1.2)*. The strategy will build on Fund technical assistance on this topic in early and mid-2024.

17. Further, non-tax revenue is expected to see a step-increase by 0.3 percent of GDP in 2024, mainly due to new fees on container traffic at the Port of Lomé.

18. The authorities' spending plans balance the goals of effecting priority spending (for security, social, investment, and banking sector repair purposes) and enabling consolidation.

- Current spending is projected to ease from 15.2 percent of GDP in 2023 to around 14.9 percent of GDP in 2024-27 reflecting restraint on the wage bill, the purchase of goods and services, and fuel subsidies.

- Public investment including security spending is projected to decline from 9.8 percent of GDP in 2023 to 8.2 percent in 2024 and 6.5 percent of GDP in 2025 before recovering in later years in line with revenue mobilization. The associated compression of non-security investment through 2025 will weigh on growth and growth prospects, highlighting the importance of structural reforms to support the growth potential.[6]

[6] Also, average public investment over the program period 2024-27 (6.5 percent of GDP), while lower than during 2020-22 (9.1 percent of GDP), would remain higher than during the last ECF arrangement (5.2 percent of GDP), which lowered the debt burden, suggesting that the planned temporary compression of investment is not excessive.

- The fiscal framework also includes entries for the recapitalization of the ailing state-owned bank to the regulatory minimum and the purchase of real estate assets from a former public bank, totaling 1.6 percent of GDP in 2024 (see discussion of banking sector issues below).

19. The authorities also intend to strengthen debt sustainability by rebalancing their debt portfolio from commercial domestic debt to more concessional external debt. In response to tighter domestic market conditions, the authorities plan to increase the share of external borrowing in the stock of debt from about 40 percent to around half in the coming years, market conditions permitting. In line with the Debt Limits Policy, the program provides a limit for the contracting of external debt (*continuous QPC, MEFP Table 2*) that enables this pivot while avoiding excessive external debt accumulation. The limit is specified as a present value to incentivize borrowing on concessional terms and will accommodate the authorities' planned increase in highly concessional borrowing from the World Bank.

B. Conducting Structural Reforms to Support Growth and Limit Risks

Enhancing Public Financial Management (PFM)

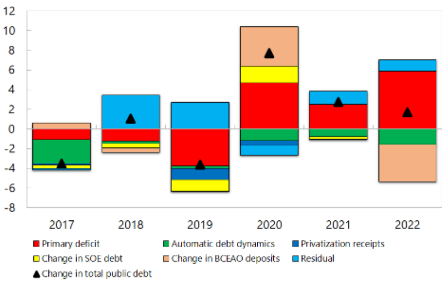
20. The authorities have made progress on PFM in recent years and intend to continue the reform efforts. They have switched to program budgeting and started implementing gender and climate budgeting. To fully entrench program budgeting, the authorities intend to further decentralize spending responsibilities to line ministries while retaining oversight at the Ministry of Finance.

21. The authorities also intend to provide greater clarity on SOE- and PPP-related risks and work towards limiting these risks *(Project 28 of the 3rd pillar of 2020-25 Government Roadmap)*. For this, the authorities aim to strengthen the institutional and legal framework of SOEs, enhance transparency on SOE operations and finances, and strengthen their supervision and control. In this context, the authorities intend to:

- *Strengthen documentation accompanying the draft annual budgets by setting out the portfolio of companies where the state is the majority shareholder with key financial information and commitments under PPP contracts (SB 3.1 for end-December, MEFP Table 3);* and
- *Extend the scope of the public investment program (PIP) to extrabudgetary entities and PPPs and prepare, alongside the PIP, a consolidated annual report on investment projects of state-owned companies (SOEs) and local authorities that exceed CFAF 1 billion for SOEs and CFAF 50 million for local authorities. Share the report with Parliament (SB 3.2 for end-June, MEFP Table 3).*

22. Further, the authorities will work with staff to understand why public debt appears to have risen faster than implied by known drivers of debt (the so-called stock-flow adjustments of debt, SFAs). Preliminary staff analysis finds average annual residuals of 1.3 percent of GDP over the period 2017-22 (reduced to 0.5 percent of GDP over 2020-22), which remain to be explained (Text Figure 8). Unsurprisingly, an alternative DSA scenario finds that continuation of SFAs, even if gradually reduced further, would slow the lowering of debt distress risks. The authorities are committed to working with staff to understand the sources of this discrepancy and integrate necessary actions into their debt management strategy to prevent its recurrence.

Text Figure 8. Change in Total Public Debt, 2017–22
(Percent of GDP)



Sources: Togolese authorities and IMF staff calculations. SOE debt accumulation in 2022 is set to zero due to data not being available yet.

23. The authorities also intend to strengthen fiscal reporting. For this, they intend to provide a breakdown of reporting into central government and other parts of the general government, which will support consistency between revenue, spending, and financing. They will also provide a table establishing consistency between budget execution and the central government's position vis-à-vis the banking system. This will support fiscal transparency and cash management and may also help understand unexplained debt accumulation. Further, with World Bank support, they will publish information on bidders and final investors of bond issuances on the regional debt market.[7]

Supporting growth by enhancing governance and the business environment

24. Over recent years, Togo has made meaningful improvements to its business environment and the governance and anti-corruption framework. Togo's Country Policy and Institutional Assessment (CPIA) by the World Bank has improved to 3.7 in 2022 (from 3.0 in 2013), and exceeds the averages of IDA countries, SSA IDA countries, and West and Central African countries of about 3.2. To improve the business environment, the authorities have been engaged in strengthening commercial courts and digitalizing a broad swath of government functions to lower corruption risks (as well as make the functions more effective and reduce costs). For example, they have created digital platforms for tax declaration and payment and customs procedures, and they are digitalizing the land ownership registry. Togo is also addressing constraints to economic growth with support of the US Millennium Challenge Corporation threshold program and became eligible to develop a 'compact' in 2022.

25. Nevertheless, there appears to be room for further progress on governance and anti-corruption. Key laws of the governance and anti-corruption framework remain in need of amendment and gaps exist. Implementation of existing laws and coordination between agencies with responsibility for delivering on the governance and anti-corruption mandate also shows room

[7] This is a performance and policy action for FY2024 under the World Bank's Sustainable Development Finance Policy.

for improvement. For example, the primary anti-corruption agency – the Higher Authority for Prevention and Fight Against Corruption and Related Offenses has been operational since 2018 but promulgated the first (five-year) National Anti-Corruption Plan only in 2022. It is important that efforts to enhance the governance framework be carefully considered and well-coordinated. Against this background, the benefits of an IMF governance diagnostic assessment are potentially significant.

26. The authorities are strengthening the Port of Lomé, the core of Togo's key logistics sector *(Project 17 of the 2nd pillar of 2020-25 Government Roadmap)*. The natural deep-water port is the largest container port in the region and the 4th largest in the African continent. The port's success has its roots in investments and reforms the authorities have implemented to increase capacity, lower costs, and simplify procedures. The authorities are planning a further port expansion, which could support growth, contribute to cross-border trade, and attract foreign investment.

27. Further, the authorities are making efforts to diversify the economy into light manufacturing *(Projects 20, 21 and 22 of the 2nd pillar of 2020-25 Government Roadmap)*. They have set up an industrial zone that aims at providing early stages of transformation of agricultural products, incentivized by tax breaks. Units engaged in producing soy products and textiles have started. Expanding and diversifying exports is important as more external debt is taken on and to mitigate against debt sustainability risks highlighted in stress-testing.

28. While Togo benefits from a comparatively deep and regionally active banking system, there are ways to further boost credit provision to the Togolese private sector, e.g., by strengthening the land ownership registry and enhancing the functioning of the credit bureau. The authorities are working on both.

29. There is substantial room for improving the AML/CFT legal framework and its implementation (Annex IV). A 2022 report by GIABA notes that Togo faces medium-high terrorism financing risks and that its main money laundering risks include those from tax evasion and corruption. The authorities intend to address the challenges related to (i) the terrorist financing offence, (ii) the implementation of UN Resolutions on terrorism and proliferation financing, and (iii) measures regarding politically exposed persons, and cross-border cash couriers. In addition to addressing corruption risks, efforts in this direction should help increase tax revenue by making tax evasion more difficult and build financial sector resilience.

Reforming the remaining state-owned bank to limit financial sector and related fiscal risks *(Project 29 of the 3rd pillar of 2020-25 Government Roadmap)*

30. At end-June 2023, four of the banking system's eleven banks, accounting for 22 percent of sector assets, violated one or more prudential norms. In particular, the remaining state-owned bank and a former state-owned bank that was privatized in 2021 continued to show large negative capital positions. Together, these two banks account for 18 percent of banking sector assets and show negative regulatory capital of CFAF 104.2 billion (1.8 percent of 2024 GDP). Another small private bank under provisional administration also showed negative capital, while yet another private bank exceeded non-operating asset limits.

31. As a result mainly of the undercapitalization of these two banks, the banking sector as a whole shows weak capitalization (Table 6). The sector-wide solvency ratio was 6.4 percent at end-June 2023 (up from 3.0 percent at end-2020, but still substantially below the required level of 11.25 percent). Further, average asset quality, while improving, remains limited. The ratio of non-performing loans to overall loans reached 8.5 percent (down from 16 percent at end-2020).

32. The violation of prudential norms by parts of the banking sector poses financial sector and fiscal risks. In particular, the two undercapitalized banks pose financial stability risks, even if such risks appear to rarely materialize in low-income countries.

33. The authorities plan to lower these risks by ensuring comprehensive reform of the remaining state-owned bank. They have in recent days provided funds to the bank that will help it raise its regulatory capital to zero at a cost of 0.7 percent of GDP based on an allocation in the 2024 budget (*prior action, MEFP Table 3*). Part of these funds have been used to purchase some of the bank's real estate holdings, priced at their gross book value. (Removing the real estate holdings from the bank's balance sheets lowers the fiscal burden of the recapitalization given that the WAEMU regulation leans strongly against banks holding illiquid assets, particularly when banks are undercapitalized.) The remainder of the funds will be injected into the bank's paid-in capital following completion of necessary legal steps by a notary (expected by end-June 2024). Further, the authorities plan to privatize the bank and request the regional Banking Commission's approval for this in the coming months. If the Commission approves the request after assessing that the proposed purchaser is "fit and proper", it will specify steps for the investor to bring the bank into full compliance with regulatory requirements. In case privatization plans will not come to fruition, the government is committed to taking the necessary measures to bring the bank into compliance with prudential norms well before the end of the ECF-arrangement.

34. The authorities have recently decided to also help the bank privatized in 2021 strengthen its regulatory capital, further lowering risks to banking sector stability. The bank has advanced in strengthening asset quality though with limited progress in strengthening its regulatory capital. For this bank as well, the authorities intend to enable improvements in regulatory capital by purchasing part of its real estate portfolio (at a cost 0.6 percent of GDP). The authorities will buy back the real estate assets at the same price at which they were included in the bank sale in 2021.

PROGRAM MODALITIES

35. Staff propose a 42-month ECF-arrangement with access of SDR 293.60 million (200 percent of quota).

- **Program duration.** The proposed duration allows implementing and consolidating key reforms, including fiscal consolidation.

- **Access and phasing.** Togo faces a protracted balance of payments problem from the need to conduct structural reforms to support growth and development. In addition, Togo faces a balance of payments need from near-term spending pressures related to food insecurity and security challenges, including the emergency program for the northern regions (5.6 percent of GDP in total, of which 0.6 percent of GDP in 2024), banking sector repair (1.6 percent of GDP in 2024), and elevated debt service. In view of these needs and the strength of the program, including substantial fiscal consolidation and banking sector reform prior to and in early stages of the program, the program provides for frontloaded Fund financing, with close to half of disbursements in the first program year, equivalent to shifting disbursements amounting to 0.3 percent of GDP into the first program year compared to even disbursements.

36. Use of Fund resources. The authorities plan to use Fund disbursements for budget financing, which will lower expensive borrowing from the regional market and roll-over risks.

37. The program is fully financed, with firm commitments of financing in place for the first 12 months, and there are good prospects of adequate financing for the remainder of the program period. Budget support of US $150 million from IDA and US$ 13 million from the AfDB is firmly expected for 2024, and there are good prospects for additional budget support over the medium term from both multilateral and bilateral sources (Table 9).

38. Burden sharing. The program will benefit from strong technical and financial support from other development partners. The World Bank has increased its budget support for 2024, helping the authorities maintain social and pro-poor spending in the face of fiscal consolidation. Budget support grants are also expected from the EU, and the authorities expect further contributions from other partners on the back of the ECF arrangement. Using conservative estimates for other partners' financing, the Fund will fill less than half of the financing gap on average (Table 9).

39. Togo's capacity to repay the Fund remains adequate under the baseline but subject to significant risks (Figure 5 and Table 8). Credit outstanding is projected to peak in 2026 at 253.8 percent of quota and total access is currently limited to this request (200 percent of quota). Total Fund credit outstanding remains above the 75th percentile of past PRGT arrangements when measured against GDP and external debt, in part because of the country's limited access to other financing sources. Debt service to the Fund is expected to be high during 2025-27. Risks are mitigated by the authorities' strong history of servicing their debt obligations to the Fund, policy measures envisaged in the program including on banking reform, fiscal consolidation including revenue mobilization, and structural reforms to bolster growth and limit fiscal risks. Progress made in 2023 on revenue mobilization and control over the fiscal deficit also mitigate risks. Finally, while the DSA shows a high risk of overall distress, the risk of external debt distress is assessed as moderate (with the mechanical rating being low), and the program will support the authorities' debt management strategy of reducing domestic debt vulnerabilities and managing actively external debt risks to reduce the overall risk of debt distress to moderate, further limiting risks. Annex V discusses Enhanced Safeguards.

40. Safeguards assessment. The last assessment of the BCEAO, completed in August 2023, found that the central bank continues to have well-established audit arrangements and a strong control environment. The BCEAO is in the process of addressing the safeguards assessment's recommendation to align its Statute with changes in the 2019 cooperation agreement with France.

41. Program conditionality comprises a prior action on the provision of funds for the recapitalization of the state-owned bank to zero, semi-annual quantitative performance criteria, continuous performance criteria, quarterly indicative targets, and structural benchmarks.

- **The quantitative targets focus on strengthening debt sustainability, creating fiscal space through higher tax revenue, and strengthening inclusion (MEFP Table 2).** Targets include quantitative performance criteria (QPCs) on the basic primary fiscal balance, net domestic financing, and new external debt, as well as indicative targets (ITs) on tax revenue and social spending.
- **Structural benchmarks have a similar focus** and concern measures to raise fiscal revenue, enhance inclusion, and strengthen PFM (MEFP Table 3).
- **In addition, the authorities agree not to do the following:** (i) introduce or intensify restrictions on payments and transfers for current international transactions; (ii) introduce or modify multiple currency practices; (iii) enter into bilateral payment agreements that are inconsistent with Article VIII of the IMF Articles of Agreement; and (iv) introduce or intensify import restrictions for balance of payments purposes.

42. Fund capacity development (CD) efforts will support key program objectives, including strengthening fiscal revenue, enhancing the social safety net, and improving public financial management (Annex VI on the CD strategy). CD will also help the authorities strengthen statistical capacity. Further, if requested, CD could help the authorities enhance governance, both through a governance diagnostic and advice on strengthening AML/CFT.

43. Risks to the program are substantial. A key risk is the potential failure to contain terrorism, which as discussed above, could destabilize the Togolese economy, thereby keeping the authorities from reaching the program goals. Further, the authorities may fail to implement sufficiently strong policies to ensure fiscal consolidation while maintaining robust growth, raising debt risks. Staff proposes to address these risks by frontloading the disbursement to support the authorities' debt stabilization efforts and providing substantial technical assistance and capacity building in support of fiscal policy. Following through with the comprehensive reform of the remaining state-owned bank will be important to limit financial sector and related fiscal risks. Further, depending on the evolution of security threats, program design may need to be adjusted such that it allows higher security spending while preserving key program goals.

44. Review schedule. The first review will be based on QPCs for end-June 2024 and the second review on QPCs for end-December 2024 (Table 10).

45. Article IV consultation. The Article IV consultation is currently delayed by 20 months. Staff have agreed with the authorities to conduct a stand-alone Article IV consultation mission in the first half of 2024.

STAFF APPRAISAL

46. Economic prospects are broadly favorable but subject to substantial risks. Opportunities for further growth in various areas exist, including logistics; manufacturing; and mining. But there are risks to growth from terrorism, a volatile international environment, and climate change. Even in the absence of adverse shocks, robust growth will require a minimum level of public investment and social spending to strengthen growth-enhancing infrastructure and support vulnerable communities. Getting this balance right in the context of a fiscal consolidation will require focus to ensure that these risks do not threaten debt sustainability.

47. Against this background, the authorities rightly aim to maintain macroeconomic stability and accelerate poverty reduction by (i) making growth more inclusive while strengthening debt sustainability and, (ii) conducting structural reforms to support growth and limit risks.

48. Success will depend to a high degree on determined program implementation. In the area of enhancing inclusion while strengthening debt sustainability, staff see the following priorities for 2024:

- **After having delivered an impressive start of fiscal consolidation in 2023, the authorities should continue their efforts at revenue mobilization and fiscal consolidation** by implementing the tax policy and revenue administration measures they have identified, and by controlling spending. In case implementation of the identified revenue mobilization measures does not deliver the intended results, the authorities should quickly identify and implement additional measures.

- **The authorities should develop a solid medium-term revenue mobilization strategy.** Broadening the tax base by removing exemptions will likely be key for raising revenue in an efficient and durable manner. In this context, the authorities should be aware that data constraints may limit analyses of the impacts of existing exemptions on investment and growth.

- **The authorities should further develop a solid strategy for raising social and pro-poor spending and enhancing the social safety net.** The authorities may wish to consider raising targeted cash transfers even more than currently envisaged, given the favorable international experience with such transfers. Targeted cash transfers can also facilitate the reform of fuel, electricity, water, and other subsidies by protecting the poorest against the impacts of subsidy reductions. To provide a secure basis for expanding targeted transfers to the poor, the authorities should bring their efforts to establish the social register and the biometric ID to a timely conclusion.

49. On structural reforms to boost growth and limit fiscal and financial sector risks:

- **Continuing the ongoing efforts to strengthen the business environment will be key for boosting further the economy's growth potential** and with it, macroeconomic stability and poverty reduction. Building on the success of the Port of Lomé, trade services and nascent light manufacturing sectors can help boost revenue and exports further, thereby reducing macroeconomic risks and providing more economic opportunity.

- **The authorities should advance their PFM reforms to (i) enhance the effectiveness of budgeting and spending procedures and (ii) limit fiscal risks.** In budgeting, full implementation of program budgeting will support budget execution, and continuing gender and climate budgeting efforts will provide valuable additional information for future budgets. The fiscal consolidation imperative heightens the need for increasing public investment efficiency and attracting private investment. It will be important to deepen understanding of fiscal risks from SOEs and PPPs as a key step towards containing these risks.

- **The authorities are right to pursue comprehensive reform of the remaining state-owned bank,** with the provision of budget resources for the recapitalization to zero regulatory capital as a first step, and subsequent steps to bring the bank into full compliance with regulatory norms to be taken by a new private owner or the government should the bank remain in public ownership. The recapitalization should be undertaken with necessary safeguards. This reform is key for reducing risks to financial sector stability and the government budget.

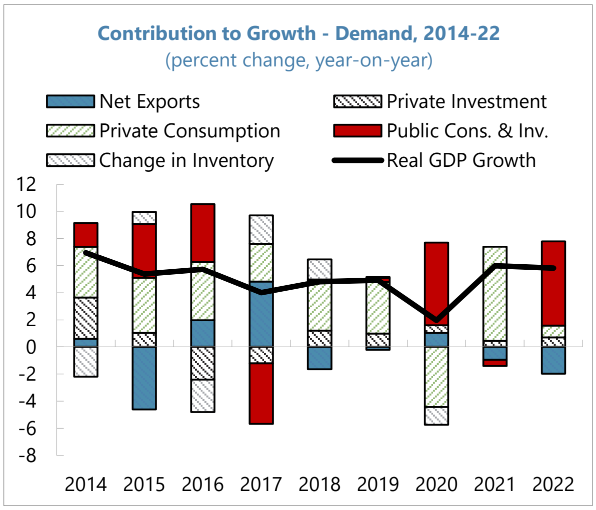
50. The authorities have demonstrated the capacity to implement an upper credit tranche-quality program, including by successfully implementing the 2007-10 PRGT-supported program and the 2017-20 ECF-arrangement. The improvement in their CPIA score over recent years, with the CPIA now substantially exceeding that of comparators, also suggests strong implementation capacity.

51. Nevertheless, the authorities may wish to consider requesting more IMF technical assistance and capacity building than in recent years. For example, IMF advice on revenue generation and fiscal spending, including subsidy reforms and cash transfers, could help not only develop a comprehensive strategy for raising revenue but also integrate revenue and spending strategies into an overarching fiscal strategy that would help meet social inclusion goals while maximizing taxation and spending efficiency. Further, an IMF governance diagnostic could provide insights for strengthening the business environment. Even before the diagnostic has been prepared, commissioning it can provide an important positive signal to investors on the government's commitment to good governance.

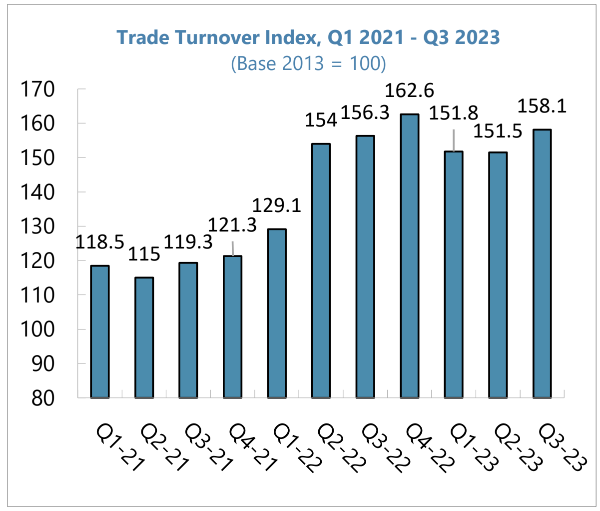
52. In view of Togo's protracted balance of payments problem and large balance of payments needs, and based on the strength of the proposed program, staff supports the authorities' request for a forty-two-month arrangement under the ECF, with SDR 293.600 million access (200 percent of quota) for budgetary support. Staff also supports the authorities' request for a first disbursement of SDR 51.380 million under the proposed ECF arrangement.

Figure 1. Indicators of Economic Activity, 2014–23

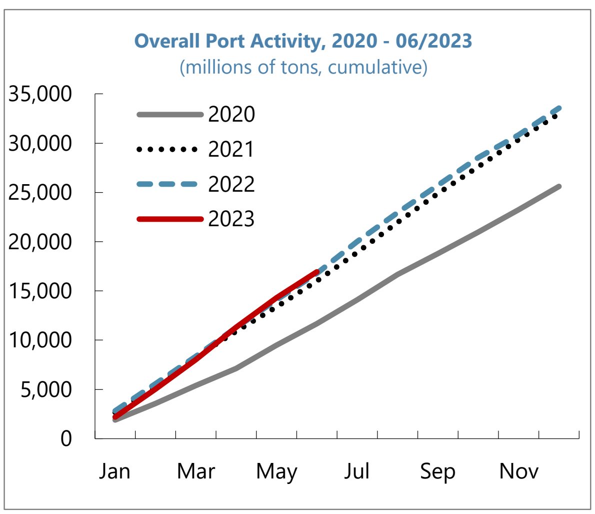
With data for 2023 not yet available, a large fiscal deficit was an important driver of growth in 2022, while ...



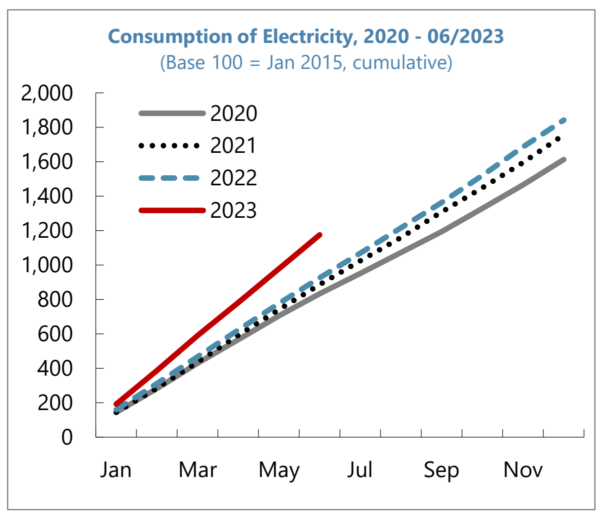
... the service sector, proxied by retail trade, continued its recovery from the COVID-19 pandemic lows.



Activity at Lomé Port remained strong in H1 2023.



Data on the use of electricity also indicates robust growth, with an uptick in H1 2023.

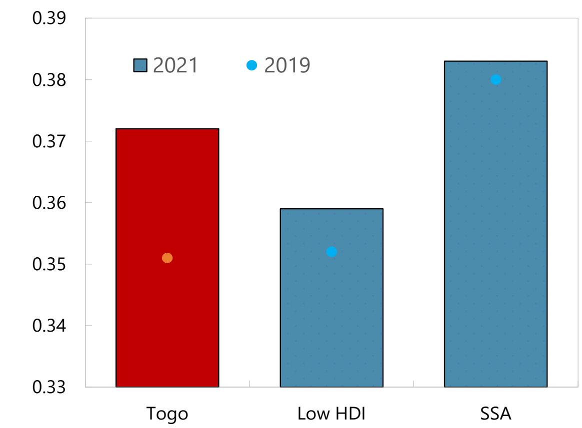


Sources: INSEED; PAL; BCEAO; and CEET.

Figure 2. Social Development Indicators, 2019–21

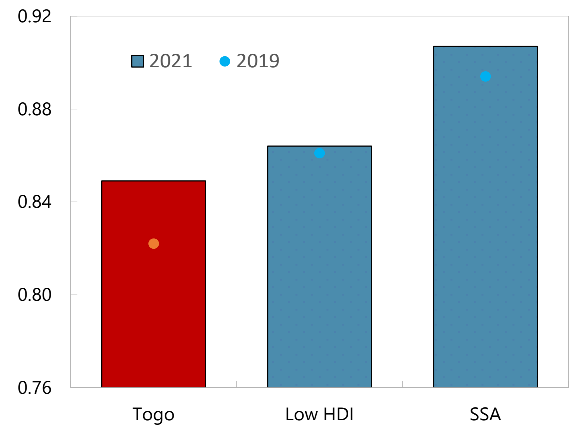
Despite multiple shocks, Togo's inequality-adjusted human development index (HDI) rose during 2019- 21, and more so than in SSA as a whole and in and low HDI countries, but the level remained below the SSA average.

Inequality-Adjusted Human Development Index, 2019–21



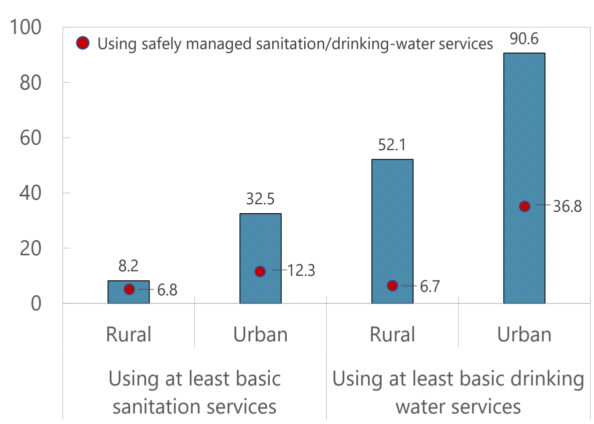
Progress on gender-specific development has also been larger than in comparators, although Togo remains below both low-HDI and SSA averages.

Gender Development Index, 2019–21



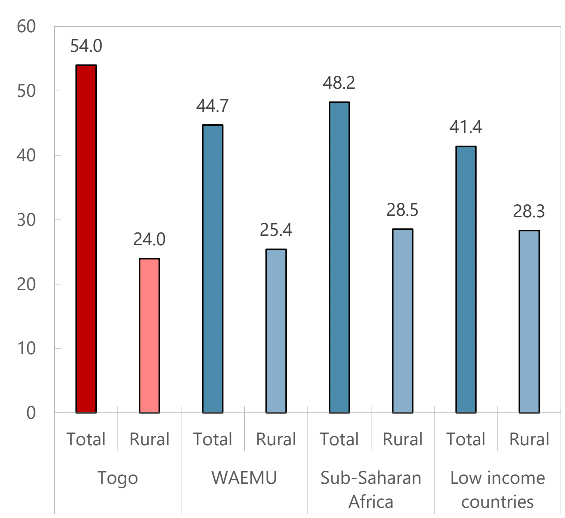
Less than ten percent of Togolese living in rural areas have access to safely managed sanitation and drinking-water services.

Population Using Basic and Safely Managed Sanitation and Drinking-Water Services, 2020
(percent of rural and urban populations)



Access to electricity is somewhat higher in Togo than in comparators, with more than half of the population connected, but rural areas lag far behind.

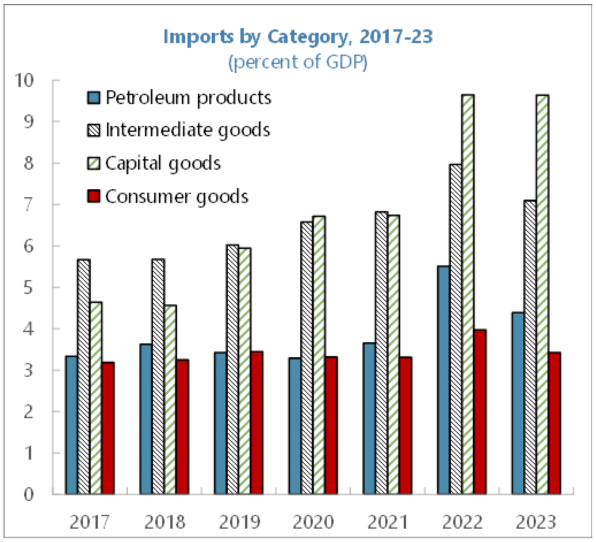
Access to Electricity, 2020
(percent of total and rural populations)



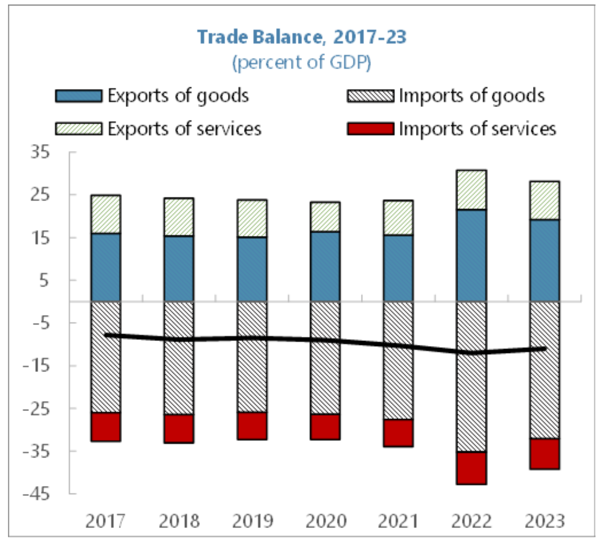
Sources: UNDP, WHO, and World Bank.

Figure 3. External Sector, 2017–23

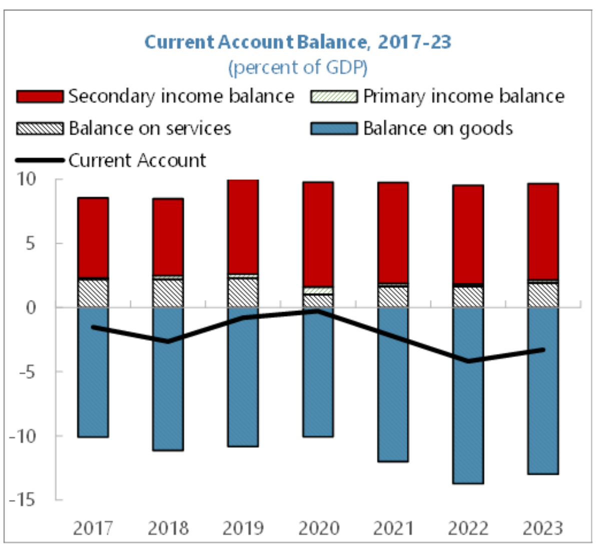
Due to the easing of supply chain disruptions and high global food and fuel prices, the value of all categories of goods imports grew significantly in 2022 before easing somewhat in 2023.



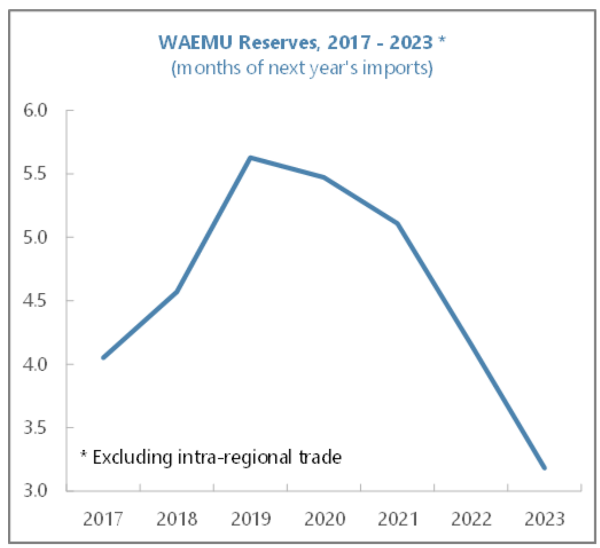
As a result of slightly lower imports, both the trade deficit …



… and the current account deficit improved slightly.



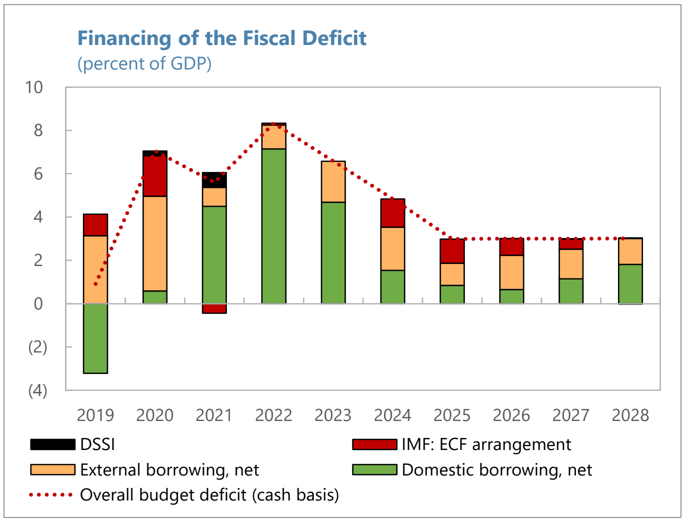
Nevertheless, regional foreign exchange reserves have continued to decline.



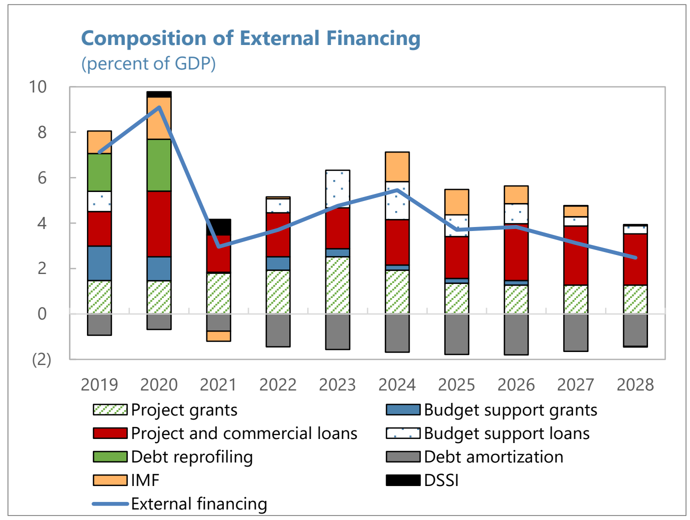
Sources: Togolese authorities; BCEAO, and IMF staff estimates.

Figure 4. Medium-Term Fiscal Developments, 2019–28

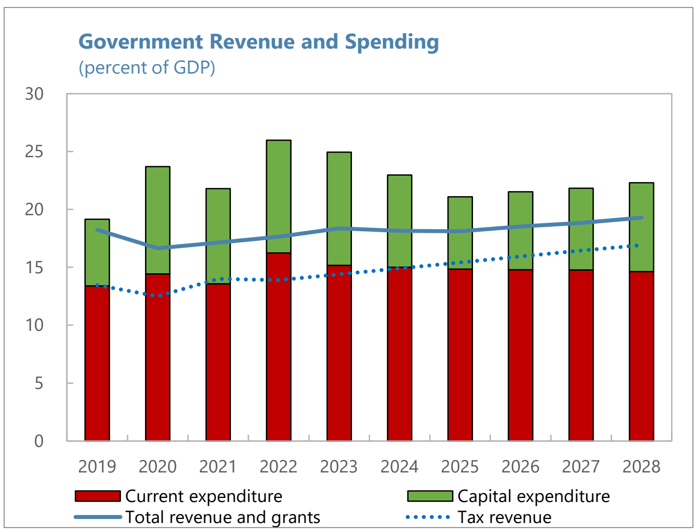
The overall budget deficit is programmed to narrow to 3 percent of GDP by 2025, which should help reduce net domestic borrowing to about 1 percent of GDP.



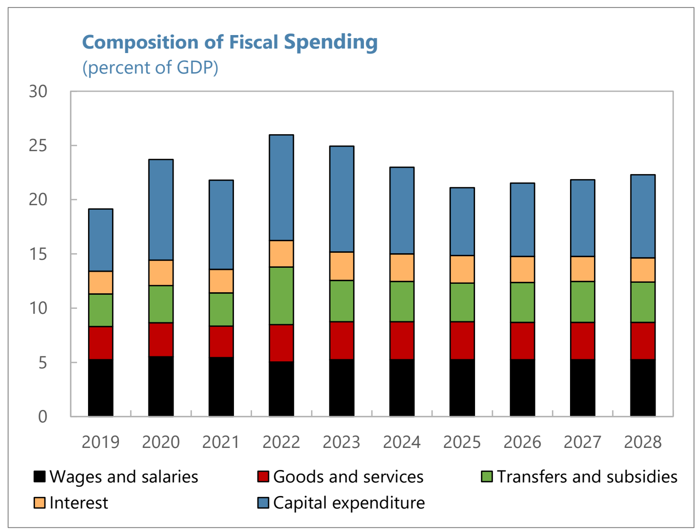
Project grants and project loans (including some commercial loans on non-concessional terms) are likely to be key sources of external financing over the medium term.



It will be essential to create room for higher social and other priority spending through a combination of revenue mobilization …



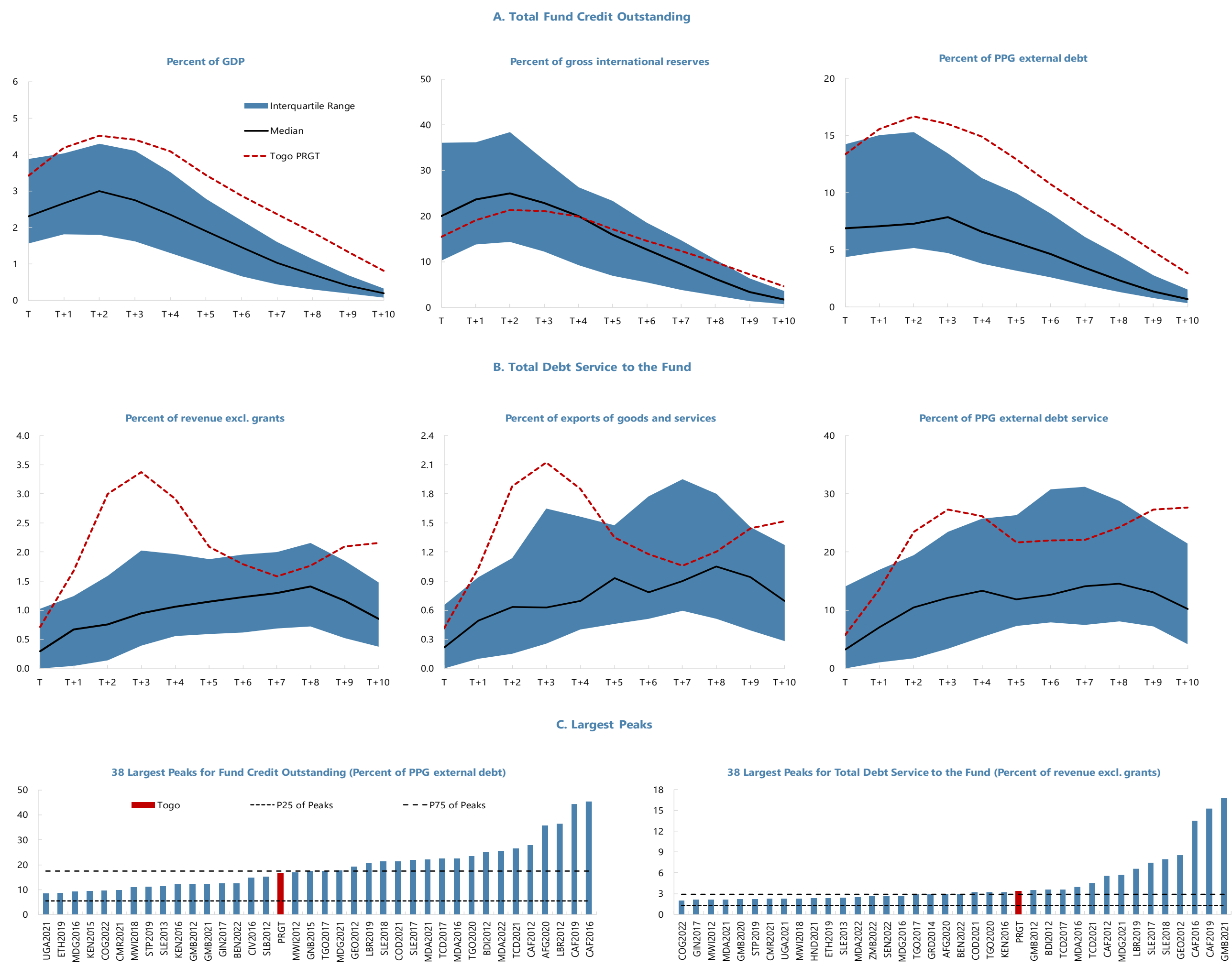
… and effective control of non-priority current spending.



Sources: Togolese authorities and IMF staff estimates and projections.

Figure 5. Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries

(Percent of indicated variables)



Notes:

1) T = date of arrangement approval. PPG = public and publicly guaranteed.

2) Red lines/bars indicate the CtR indicator for the arrangement of interest.

3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2012 and 2022.

4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.

5) Comparator series is for PRGT arrangements only and runs up to T+10.

6) Debt service obligations to the Fund reflect prospective payments, including for the current year.

7) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.

Table 1 . Selected Economic and Financial Indicators, 2020–28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Estimates				Projections				
	(Percentage change, unless otherwise indicated)								
Real GDP	2.0	6.0	5.8	5.4	5.3	5.3	5.5	5.5	5.5
Real GDP per capita	-0.4	3.5	3.3	2.9	2.8	2.8	3.0	3.0	3.0
GDP deflator	1.8	2.5	3.7	2.8	2.2	2.0	2.0	2.0	2.0
Consumer price index (average)	1.8	4.5	7.6	5.1	2.7	2.0	2.0	2.0	1.7
GDP (CFAF billions)	4,253	4,621	5,069	5,491	5,910	6,347	6,830	7,350	7,910
Exchange rate CFAF/US$ (annual average level)	574.8	554.2	622	607	…	…	…	…	…
Real effective exchange rate (appreciation = –)	-2.0	-1.4	2.3	-5.3	…	…	…	…	…
Terms of trade (deterioration = –)	-1.3	6.6	9.7	1.6	-2.2	-1.5	0.1	0.9	0.6
Monetary survey	(Percentage change of beginning-of-period broad money)								
Net foreign assets	14.1	5.6	-0.6	5.3	2.9	1.5	2.5	2.4	2.1
Net credit to government	-1.6	-0.3	8.0	-0.3	-2.9	1.0	1.2	2.0	0.2
Credit to nongovernment sector	0.2	6.0	10.7	2.6	9.2	6.8	5.5	6.5	7.0
Broad money (M2)	11.4	12.3	14.9	8.2	8.8	8.6	8.4	8.2	8.2
Velocity (GDP/end-of-period M2)	2.1	2.1	2.0	2.0	2.0	1.9	1.9	1.9	1.9
Investment and savings	(Percent of GDP, unless otherwise indicated)								
Gross domestic investment	21.4	23.4	25.9	26.3	25.0	23.7	24.3	24.8	25.8
Government	9.3	8.2	9.7	9.8	8.3	6.6	7.0	7.3	8.0
Nongovernment	12.1	15.2	16.2	16.5	16.7	17.1	17.3	17.5	17.8
Gross national savings	21.1	21.2	21.8	23.0	21.4	20.2	21.1	22.0	22.9
Government	2.2	3.6	1.4	3.2	3.4	3.6	4.0	4.3	5.0
Nongovernment	18.9	17.6	20.4	19.8	18.0	16.6	17.1	17.7	18.0
Government budget									
Total revenue and grants	16.6	17.1	17.6	18.4	18.4	18.4	18.8	19.1	19.6
Revenue	14.1	15.3	15.1	15.5	16.3	16.9	17.4	17.8	18.3
Tax revenue	12.5	14.0	13.9	14.4	14.9	15.4	15.9	16.4	16.9
Total expenditure and net lending	23.7	21.8	26.0	24.9	23.3	21.4	21.8	22.1	22.6
Overall primary balance (commitment basis, incl. grants)	-4.7	-2.5	-5.9	-4.0	-3.9	-0.4	-0.6	-0.7	-0.8
Overall balance (commitment basis, incl. grants, excl. banking sector operations)	-7.0	-4.7	-8.3	-6.6	-4.8	-3.0	-3.0	-3.0	-3.0
Overall balance (commitment basis, incl. grants)	-7.0	-4.7	-8.3	-6.6	-6.4	-3.0	-3.0	-3.0	-3.0
Overall primary balance (cash basis, incl. grants)	-4.7	-3.4	-5.9	-4.0	-3.9	-0.4	-0.6	-0.7	-0.8
Overall balance (cash basis, incl. grants, excl. banking sector operations)	-7.1	-5.6	-8.3	-6.6	-4.8	-3.0	-3.0	-3.0	-3.0
Overall balance (cash basis, incl. grants)	-7.1	-5.6	-8.3	-6.6	-6.4	-3.0	-3.0	-3.0	-3.0
External sector									
Current account balance									
Current account balance	-0.3	-2.2	-4.2	-3.3	-3.6	-3.5	-3.2	-2.8	-2.8
Exports (goods and services)	23.3	23.7	30.8	28.2	27.6	27.1	27.8	28.1	28.3
Imports (goods and services)	-32.3	-34.0	-42.8	-39.2	-38.1	-37.0	-36.9	-36.8	-36.9
External public debt[1]	27.6	27.3	26.2	25.6	26.9	27.1	27.5	27.4	26.7
External public debt service (percent of exports)[1]	6.9	5.2	7.2	7.1	7.6	8.0	7.8	7.1	6.2
Domestic public debt[2]	34.6	37.6	40.3	41.8	41.9	39.8	37.6	36.0	35.3
Total public debt[3]	62.2	64.9	66.5	67.4	68.8	66.9	65.1	63.4	61.9
Total public debt (excluding SOEs)[4]	60.1	63.0	65.0	66.1	67.7	65.9	64.3	62.7	61.3
Present value of total public debt[3]	…	56.0	60.4	59.1	59.3	56.8	54.4	52.5	51.0

Sources: Togolese authorities and IMF staff estimates and projections.

[1] Includes state-owned enterprise external debt.

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

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

[4] Includes domestic arrears.

Table 2a. Central Government Financial Operations, 2020–28

(Billions of CFA Francs)

	2020	2021	2022	2023		2024	2025	2026	2027	2028
	Dec.	Dec.	Dec.	Dec.		December				
	Actual	Actual	Actual	Budget	Est.	Projections				
	(Billions of CFA Francs)									
Revenue and grants	708.0	791.8	894.5	1,040.3	1,008.4	1,089.5	1,168.8	1,285.5	1,405.6	1,548.5
Total revenue	600.9	707.2	767.1	825.2	850.8	962.4	1,069.7	1,185.3	1,312.0	1,447.7
Tax revenue	531.5	646.9	704.5	765.1	790.8	880.5	978.4	1,088.0	1,208.4	1,337.3
Tax administration (CI)	287.9	359.3	376.7	420.9	426.7	475.1	529.9	590.9	657.4	744.4
Customs administration (CDII)	243.6	287.6	327.8	344.2	364.1	405.4	448.5	497.1	551.0	592.9
Nontax revenue	69.4	60.3	62.6	60.1	60.1	81.8	91.3	97.2	103.6	110.4
Grants	107.1	84.6	127.4	215.1	157.6	127.1	99.0	100.2	93.6	100.7
Budget support	45.0	1.6	30.0	12.0	19.4	13.6	13.2	13.2	0.0	0.0
World Bank	20.1	0.0	21.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF/CCRT	4.6	0.7	...	...	...	...	...	...	...	...
Others	20.3	0.9	8.2	12.0	19.4	13.6	13.2	13.2	0.0	0.0
Project grants	62.0	83.0	97.4	203.1	138.2	113.5	85.8	87.0	93.6	100.7
Expenditure and net lending	1,007.6	1,006.8	1,316.9	1,407.8	1,369.6	1,375.2	1,358.1	1,491.1	1,626.0	1,786.5
of which: Covid-19 response	96.6	30.0	...	...	...	...	...	...	...	...
of which: Domestic primary expenditure	722.6	747.9	996.2	930.1	989.7	993.7	994.1	1,068.7	1,172.3	1,331.8
Current expenditure	613.5	627.0	823.3	798.2	832.8	886.5	942.2	1,013.4	1,086.4	1,155.9
Primary current spending	513.4	527.2	698.5	655.2	689.9	736.7	781.3	848.8	917.5	979.9
of which: Covid-19 response	36.6	30.0	...	...	...	...	...	...	...	...
Wages and salaries	234.8	251.5	255.3	302.0	287.8	309.7	332.7	358.0	385.3	414.6
Goods and services	133.1	133.8	174.8	155.0	192.8	207.5	222.9	235.0	252.9	272.2
Transfers and subsidies	145.6	141.9	268.4	198.3	209.3	219.5	225.8	255.8	279.3	293.1
of which: Fuel subsidies	4.7	7.9	72.2	47.5	47.5	47.5	...	...	...	...
of which: Cash transfers	11.3	11.3	6.5	0.0	10.2	6.5	...	...	...	...
Interest	100.1	99.8	124.8	142.9	142.9	149.8	160.8	164.6	168.9	176.0
Domestic debt	86.2	84.8	106.3	125.9	125.9	129.8	140.3	144.3	147.7	153.5
External debt	13.9	15.0	18.5	17.0	17.0	20.0	20.5	20.2	21.3	22.5
Public investment	394.2	379.8	493.7	609.6	536.7	488.7	416.0	477.7	539.6	630.6
of which: emergency program for Northern regions	...	...	35.0	65.0	65.0	62.0	44.6	40.9	40.9	40.9
Domestically financed	209.3	220.7	297.8	274.9	299.8	256.9	212.8	219.9	254.9	351.9
Foreign financed	184.9	159.1	195.8	334.7	236.9	231.7	203.2	257.8	284.7	278.7
Banking sector operations	...	...	...	...	...	91.6	...	...	...	...
transfers	...	...	...	...	...	24.6	...	...	...	...
asset purchases	...	...	...	...	...	67.0	...	...	...	...
Net Lending	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears and accounts payable and receivable	-0.4	-44.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, incl. grants, excl. banking sector operations)	-300.0	-259.0	-422.4	-367.5	-361.1	-285.7	-189.4	-205.5	-220.4	-238.0
Overall balance (cash basis, incl. grants)	-300.0	-259.0	-422.4	-367.5	-361.1	-377.3	-189.4	-205.5	-220.4	-238.0
Overall balance (cash basis, excl. grants)	-407.1	-343.6	-549.8	-582.6	-518.7	-504.4	-288.4	-305.8	-314.0	-338.8
Overall primary balance (cash basis, incl. grants)	-199.9	-159.2	-297.6	-224.6	-218.2	-227.5	-28.6	-41.0	-51.5	-62.0
Basic primary fiscal balance (excl. banking sector operations)	-121.7	-40.7	-229.1	-104.9	-138.9	-31.3	75.6	116.6	139.7	116.0
Financing	318.0	332.5	545.6	582.6	518.7	427.6	217.5	252.4	278.3	338.8
Domestic financing (net)	24.8	207.6	362.2	245.6	257.3	182.6	53.7	44.4	84.6	143.3
Repayments of T-Bonds	-274.1	-263.6	-252.4	-329.0	-313.0	-188.0	-388.0	-431.5	-509.8	-536.7
Other domestic financing (net)	299.0	471.2	614.6	574.6	570.3	370.6	441.7	475.9	594.4	680.0
External financing (net)	293.1	124.9	183.4	337.0	261.4	245.0	163.8	208.0	193.7	195.5
Grants	107.1	84.6	127.4	215.1	157.6	127.1	99.0	100.2	93.6	100.7
Budget support loan	0.0	0.0	31.1	60.0	91.0	99.0	60.3	60.2	30.1	29.2
Debt reprofiling	96.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Project loans	122.9	76.1	98.4	131.6	98.7	118.2	117.4	170.8	191.1	178.0
Amortization (incl. IMF repayments)	-29.2	-35.2	-73.5	-69.7	-85.9	-99.3	-113.0	-123.2	-121.1	-113.4
Exceptional financing	89.1	11.1	0.0	0.0	0.0	76.8	71.0	53.4	35.7	0.0
Financing gap/unidentified financing	89.1	11.1	4.2	0.0	0.0	76.8	71.0	53.4	35.7	0.0
Exceptional financing	89.1	11.1	0.0	0.0	0.0	76.8	71.0	53.4	35.7	0.0
IMF-ECF	79.3	0.0	0.0	0.0	0.0	76.8	71.0	53.4	35.7	0.0
DSSI	9.8	11.1	...	...	...	...	...	...	...	...
Residual financing gap/errors and ommissions	0.0	0.0	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Item:										
Nominal GDP (CFAF billions)	4,253.2	4,621.5	5,068.9	5,506.6	5,491.4	5,909.7	6,347.3	6,830.4	7,350.2	7,909.5
Social and pro-poor spending (CFAF billions)	...	214.7	229.8	323.1	263.3	315.4	324.7	360.0	394.8	432.7

Sources: Togolese authorities and IMF staff estimates and projections.

Table 2b. Central Government Financial Operations, 2020–28
(Percent of GDP)

	2020	2021	2022	2023		2024	2025	2026	2027	2028
	Dec.	Dec.	Dec.	Dec.				December		
	Actual	Actual	Actual	Budget	Est.			Projections		
					(Percent of GDP)					
Revenue and grants	16.6	17.1	17.6	18.9	18.4	18.4	18.4	18.8	19.1	19.6
Total revenue	14.1	15.3	15.1	15.0	15.5	16.3	16.9	17.4	17.8	18.3
Tax revenue	12.5	14.0	13.9	13.9	14.4	14.9	15.4	15.9	16.4	16.9
Tax administration (CI)	6.8	7.8	7.4	7.6	7.8	8.0	8.3	8.7	8.9	9.4
Customs administration (CDII)	5.7	6.2	6.5	6.3	6.6	6.9	7.1	7.3	7.5	7.5
Nontax revenue	1.6	1.3	1.2	1.1	1.1	1.4	1.4	1.4	1.4	1.4
Grants	2.5	1.8	2.5	3.9	2.9	2.2	1.6	1.5	1.3	1.3
Budget support	1.1	0.0	0.6	0.2	0.4	0.2	0.2	0.2	0.0	0.0
World Bank	0.5	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF/CCRT	0.1	0.0	…	…	…	…	…	…	…	…
Others	0.5	0.0	0.2	0.2	0.4	0.2	0.2	0.2	0.0	0.0
Project	1.5	1.8	1.9	3.7	2.5	1.9	1.4	1.3	1.3	1.3
Expenditures and net lending	23.7	21.8	26.0	25.6	24.9	23.3	21.4	21.8	22.1	22.6
of which: Covid-19 response	2.3	0.6	…	…	…	…	…	…	…	…
Current expenditures	14.4	13.6	16.2	14.5	15.2	15.0	14.8	14.8	14.8	14.6
Primary current spending	12.1	11.4	13.8	11.9	12.6	12.5	12.3	12.4	12.5	12.4
Wages and salaries	5.5	5.4	5.0	5.5	5.2	5.2	5.2	5.2	5.2	5.2
Goods and services	3.1	2.9	3.4	2.8	3.5	3.5	3.5	3.4	3.4	3.4
Transfers and subsidies	3.4	3.1	5.3	3.6	3.8	3.7	3.6	3.7	3.8	3.7
of which: Fuel subsidies	0.1	0.2	1.4	0.9	0.9	0.8	…	…	…	…
of which: Cash transfers	0.3	0.2	0.1	0.0	0.2	0.1	…	…	…	…
Interest	2.4	2.2	2.5	2.6	2.6	2.5	2.5	2.4	2.3	2.2
Domestic debt	2.0	1.8	2.1	…	2.3	2.2	2.2	2.1	2.0	1.9
External debt	0.3	0.3	0.4	…	0.3	0.3	0.3	0.3	0.3	0.3
Public investment	9.3	8.2	9.7	11.1	9.8	8.3	6.6	7.0	7.3	8.0
of which: emergency program for Northern regions	…	…	0.7	1.2	1.2	1.0	0.7	0.6	0.6	0.5
Domestically financed	4.9	4.8	5.9	5.0	5.5	4.3	3.4	3.2	3.5	4.4
Foreign financed	4.3	3.4	3.9	6.1	4.3	3.9	3.2	3.8	3.9	3.5
Banking sector operations	…	…	…	…	…	1.6	…	…	…	…
transfers	…	…	…	…	…	0.4	…	…	…	…
asset purchases	…	…	…	…	…	1.1	…	…	…	…
Net Lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears and accounts payable and receivable	0.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, incl. grants, excl. banking sector operations)	-7.1	-5.6	-8.3	-6.7	-6.6	-4.8	-3.0	-3.0	-3.0	-3.0
Overall balance (cash basis, incl. grants)	-7.1	-5.6	-8.3	-6.7	-6.6	-6.4	-3.0	-3.0	-3.0	-3.0
Overall balance (cash basis, excl. grants)	-9.6	-7.4	-10.8	-10.6	-9.4	-8.5	-4.5	-4.5	-4.3	-4.3
Overall primary balance (cash basis, incl. grants)	-4.7	-3.4	-5.9	-4.1	-4.0	-3.9	-0.4	-0.6	-0.7	-0.8
Basic primary fiscal balance (excl. banking sector operations)	-2.9	-0.9	-4.5	-1.9	-2.5	-0.5	1.2	1.7	1.9	1.5
Financing	7.5	7.2	10.8	10.6	9.4	7.2	3.4	3.7	3.8	4.3
Domestic financing (net)	0.6	4.5	7.1	4.5	4.7	3.1	0.8	0.6	1.2	1.8
Repayment of T-Bonds	-6.4	-5.7	-5.0	-6.0	-5.7	-3.2	-6.1	-6.3	-6.9	-6.8
Other domestic financing (net)	7.0	10.2	12.1	10.4	10.4	6.3	7.0	7.0	8.1	8.6
External financing (net)	6.9	2.7	3.6	6.1	4.8	4.1	2.6	3.0	2.6	2.5
Grants	2.5	1.8	2.5	3.9	2.9	2.2	1.6	1.5	1.3	1.3
Budget support loan	0.0	0.0	0.6	1.1	1.7	1.7	1.0	0.9	0.4	0.4
Debt reprofiling	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	2.9	1.6	1.9	2.4	1.8	2.0	1.9	2.5	2.6	2.3
Amortization (incl. IMF repayments)	-0.7	-0.8	-1.5	-1.3	-1.6	-1.7	-1.8	-1.8	-1.6	-1.4
Exceptional financing	2.1	0.2	0.0	0.0	0.0	1.3	1.1	0.8	0.5	0.0
Financing gap/unidentified financing	2.1	0.2	0.1	0.0	0.0	1.3	1.1	0.8	0.5	0.0
Exceptional financing	2.1	0.2	0.0	0.0	0.0	1.3	1.1	0.8	0.5	0.0
IMF-ECF	1.9	0.0	0.0	0.0	0.0	1.3	1.1	0.8	0.5	0.0
DSSI	0.2	0.2	…	…	…	…	…	…	…	…
Residual financing gap/errors and ommissions	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Item:										
Nominal GDP (CFAF billions)	4,253.2	4,621.5	5,068.9	5,506.6	5,491.4	5,909.7	6,347.3	6,830.4	7,350.2	7,909.5
Social and pro-poor spending (percent of GDP)	…	4.6	4.5	5.9	4.8	5.3	5.1	5.3	5.4	5.5

Sources: Togolese authorities and IMF staff estimates and projections.

Table 3. Balance of Payments, 2020–28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Estimates				Projections				
	(Billions of CFA Francs)								
Current account balance	-11.9	-103.6	-211.8	-180.9	-211.4	-221.4	-217.9	-208.0	-224.8
Trade balance on goods	-428.2	-554.5	-695.4	-712.7	-766.2	-814.0	-869.3	-911.5	-984.3
Of which: petroleum products, net	-105.3	-128.8	-212.9	-183.8	-188.8	-188.4	-190.1	-194.0	-199.5
Exports	695.0	720.8	1,090.5	1,051.8	1,076.6	1,102.3	1,184.9	1,295.1	1,400.7
Imports	1,123.2	1,275.4	1,785.9	1,764.5	1,842.8	1,916.3	2,054.2	2,206.5	2,385.0
Services, net	43.9	76.9	83.8	105.2	142.1	186.9	248.3	275.1	298.3
Primary income, net	24.6	10.3	9.3	13.1	12.4	14.3	17.2	19.0	20.9
Secondary income, net	347.7	363.8	390.5	413.5	400.2	391.5	385.8	409.3	440.4
Capital account balance	214.5	264.8	276.9	312.7	290.5	256.2	240.6	258.9	278.7
Current and capital account balance	202.6	161.3	65.1	131.8	79.1	34.8	22.7	50.9	53.9
Financial account (- = inflow)	53.1	50.6	81.8	-3.7	75.7	59.3	-5.2	1.3	-24.9
Direct investment, net	-30.5	36.2	-31.7	-32.4	-32.9	-33.2	-34.5	-35.9	-37.4
Portfolio investment, net	48.1	-50.2	-52.8	-54.8	-56.6	-58.2	-59.9	-64.5	-69.4
Other investment, net	35.6	64.6	162.1	83.6	165.1	150.6	89.3	101.8	81.8
Of which: general government, net	-186.1	-40.3	-56.0	-103.8	-117.9	-64.7	-107.8	-100.1	-94.7
Errors and omissions	2.1	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	151.6	113.0	-16.7	135.5	3.4	-24.4	27.9	49.6	78.8
Financing	-240.7	-124.1	12.4	-135.5	-80.2	-46.5	-81.3	-85.3	-78.8
Change NFA[1]	-240.7	-124.1	12.4	-135.5	-80.2	-46.5	-81.3	-85.3	-78.8
Of which: SDR allocation[2]	...	111.7	...	...	...	...	...	...	...
Financing gap	89.1	11.1	0.0	0.0	76.8	71.0	53.4	35.7	0.0
IMF ECF	79.3	0.0	0.0	0.0	76.8	71.0	53.4	35.7	0.0
DSSI	9.8	11.1	...	...	...	...	...	...	...
	(Percent of GDP)								
Current account balance	-0.3	-2.2	-4.2	-3.3	-3.6	-3.5	-3.2	-2.8	-2.8
Trade balance on goods	-10.1	-12.0	-13.7	-13.0	-13.0	-12.8	-12.7	-12.4	-12.4
Of which: petroleum products, net	-2.5	-2.8	-4.2	-3.3	-3.2	-3.0	-2.8	-2.6	-2.5
Exports	16.3	15.6	21.5	19.2	18.2	17.4	17.3	17.6	17.7
Imports	26.4	27.6	35.2	32.1	31.2	30.2	30.1	30.0	30.2
Services, net	1.0	1.7	1.7	1.9	2.4	2.9	3.6	3.7	3.8
Primary income, net	0.6	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Secondary income, net	8.2	7.9	7.7	7.5	6.8	6.2	5.6	5.6	5.6
Capital account balance	5.0	5.7	5.5	5.7	4.9	4.0	3.5	3.5	3.5
Current and capital account balance	4.8	3.5	1.3	2.4	1.3	0.5	0.3	0.7	0.7
Financial account (- = inflow)	1.2	1.1	1.6	-0.1	1.3	0.9	-0.1	0.0	-0.3
Direct investment, net	-0.7	0.8	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5
Portfolio investment, net	1.1	-1.1	-1.0	-1.0	-1.0	-0.9	-0.9	-0.9	-0.9
Other investment, net	0.8	1.4	3.2	1.5	2.8	2.4	1.3	1.4	1.0
Of which: general government, net	-4.4	-0.9	-1.1	-1.9	-2.0	-1.0	-1.6	-1.4	-1.2
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	3.6	2.4	-0.3	2.5	0.1	-0.4	0.4	0.7	1.0
Financing	-5.7	-2.7	0.2	-2.5	-1.4	-0.7	-1.2	-1.2	-1.0
Change in NFA[1]	-5.7	-2.7	0.2	-2.5	-1.4	-0.7	-1.2	-1.2	-1.0
Of which: SDR allocation[2]	...	2.4	...	...	...	...	...	...	...
Financing gap	2.1	0.2	0.0	0.0	1.3	1.1	0.8	0.5	0.0
IMF ECF	1.9	0.0	0.0	0.0	1.3	1.1	0.8	0.5	0.0
DSSI	0.2	0.2	...	...	...	...	...	...	...
Memorandum items:									
BCEAO NFA (in months of next year's WAEMU imports)	5.5	5.1	4.2	3.2	3.0	3.1	3.3	3.7	4.1
BCEAO NFA (in million USD)	21,727	24,172	18,398	15,313	15,276	16,847	18,824	22,078	25,487
BCEAO NFA (in percent of broad money)	33	34	25	19	17	17	18	19	21

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. NFAs are not indicative of the country's impact on WAEMU's aggregate external position or the pooled WAEMU reserves since the data contains intra-WAEMU flows from the current, capital and financial account.

[2] Since the SDR allocation increases both assets and liabilities by the same amount, net foreign assets do not increase.

Table 4. Decomposition of Public Debt and Debt Service by Creditor, 2023–25[1]

	Debt Stock (end of period) 2023			Debt Service 2023	2024	2025	2023	2024	2025
	(In US$)	(Percent total debt)	(Percent GDP)	(In US$)			(Percent GDP)		
Total	**6096**	**100**	**67.4**	**840**	**740**	**1114**	**9.3**	**7.6**	**10.6**
External	**2314**	**38**	**25.6**	**161.2**	**204.0**	**228.2**	**1.8**	**2.1**	**2.2**
Multilateral creditors	1503	25	16.6	63.1	82.1	114.0	0.7	0.8	1.1
IMF	304	5	3.4	0.0	27.3	54.0	0.0	0.3	0.5
World Bank	597	10	6.6	4.2	7.6	8.2	0.0	0.1	0.1
AfDB	76	1	0.8	1.1	1.3	1.3	0.0	0.0	0.0
Other Multilaterals	526	9	5.8	57.8	45.9	50.5	0.6	0.5	0.5
o/w: BOAD	290	5	3.2	25.6	25.2	24.7	0.3	0.3	0.2
Bilateral Creditors	102	2	1.1	6.5	8.7	7.7	0.1	0.1	0.1
Paris Club	42	1	0.5	1.1	2.1	3.0	0.0	0.0	0.0
Non-Paris Club	56	1	0.6	5.4	6.5	4.7	0.1	0.1	0.0
o/w: Kuwait	26	0	0.3	5.4	5.3	2.0	0.1	0.1	0.0
o/w: Saudi Arabia	13	0	0.1	0.0	0.7	1.0	0.0	0.0	0.0
Bonds	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	709	12	7.8	91.6	113.2	106.6	1.0	1.2	1.0
o/w: EXIMBANK-Chine	390	6	4.3	38.8	60.3	53.0	0.4	0.6	0.5
o/w: Societe General	119	2	1.3	25.3	24.5	23.7	0.3	0.3	0.2
o/w: Bank of Tokyo	90	1	1.0	17.2	16.9	17.8	0.2	0.2	0.2
Other international creditors	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	**3782**	**62**	**41.8**	**679**	**535**	**886**	**7.5**	**5.5**	**8.4**
Held by residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Held by non-residents, total	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
o/w: T-Bills	0	0	0.0	0	0	0	0.0	0.0	0.0
o/w: Bonds	3448	57	38.1	672	529	879	7.4	5.4	8.4
Loans	290	5	3.2	7	7	7	0.1	0.1	0.1
Domestic arrears	69	1	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Memo items:									
Collateralized debt[2]	…	…	…	…	…	…	…	…	…
o/w: Related[3]	156	…	…	…	…	…	…	…	…
o/w: Unrelated	…	…	…	…	…	…	…	…	…
Contingent liabilities	…	…	…						
o/w: Public guarantees	0	0	0						
o/w: Other explicit contingent liabilities[4]	…	…	…						
Nominal GDP	9047			9047	9756	10523			

[1] As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

[2] Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

[3] As of end-September 2023

[4] Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Sources: Togolese authorities and IMF staff estimates and projections.

Table 5. Depository Corporations Survey, 2020–28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Actuals		Est.	Projections					
	(Billions of CFA Francs)								
Net foreign assets	982.2	1092.7	1080.2	1215.7	1296.0	1342.5	1423.8	1509.1	1587.9
BCEAO	77.1	-27.0	-407.6	-302.4	-252.6	-238.2	-193.8	-197.5	-212.5
Assets	890.0	1369.1	1300.3	1439.4	1512.2	1545.4	1607.9	1618.9	1618.9
Liabilities	-812.9	-1396.1	-1707.9	-1741.8	-1764.9	-1783.6	-1801.7	-1816.4	-1831.5
Commercial banks	905.1	1119.7	1487.8	1518.1	1548.6	1580.7	1617.6	1706.6	1800.4
Assets	1118.3	1435.3	1811.3	2529.8	3533.2	4934.6	6891.8	9625.4	13443.2
Liabilities	-213.2	-315.6	-323.6	-1011.7	-1984.6	-3353.9	-5274.2	-7918.8	-11642.7
Net domestic assets	1104.1	1222.7	1593.9	1678.8	1853.2	2075.2	2281.5	2498.1	2745.8
Credit to the government (net)[1]	15.5	8.8	185.8	178.5	98.9	129.8	169.5	239.6	246.8
BCEAO	-42.0	70.0	259.0	259.0	167.4	167.4	167.4	167.4	167.4
Commercial banks	57.5	-61.1	-73.2	-80.5	-68.5	-37.6	2.1	72.2	79.4
Credit to nongovernment sector	1305.5	1425.0	1663.5	1730.1	1985.4	2189.0	2370.2	2601.2	2870.4
of which: Credit to private sector	1158.8	1241.7	1433.3	1482.9	1720.6	1906.3	2069.4	2282.1	2532.5
Other items (net)	58.8	14.0	10.0	-36.1	-55.0	-63.8	-72.5	-13.0	-11.5
Shares and other equities	158.1	197.2	245.5	265.9	286.1	307.3	330.7	355.8	382.9
Total broad money liabilities	2086.3	2315.3	2674.2	2894.6	3149.1	3417.7	3705.2	4007.1	4333.7
Money supply (M2)	1980.8	2224.6	2556.3	2766.9	3011.7	3270.2	3546.5	3836.3	4149.9
Currency Outside Depository Corporations	328.0	327.1	371.7	371.0	370.4	369.5	368.2	366.5	364.4
Transferable Deposits	725.6	884.4	1125.8	1290.3	1486.5	1694.2	1917.9	2153.2	2410.2
Other Deposits	927.2	1013.1	1058.8	1105.6	1154.9	1206.5	1260.3	1316.6	1375.3
Non-liquid liabilities (excl. from broad money)	105.4	90.7	117.8	127.6	137.4	147.5	158.8	170.8	183.8
	(Annual change as percent of beginning-of-period broad money)								
Net foreign assets	14.1	5.6	-0.6	5.3	2.9	1.5	2.5	2.4	2.1
BCEAO	-9.7	-5.3	-17.1	4.1	1.8	0.5	1.4	-0.1	-0.4
Commercial banks	23.8	10.8	16.5	1.2	1.1	1.1	1.1	2.5	2.4
Net domestic assets	-2.3	6.0	16.7	3.3	6.3	7.4	6.3	6.1	6.5
Credit to the government (net)[1]	-1.6	-0.3	8.0	-0.3	-2.9	1.0	1.2	2.0	0.2
Credit to nongovernment sector	0.2	6.0	10.7	2.6	9.2	6.8	5.5	6.5	7.0
Other items (net)	0.0	-2.3	-0.2	-1.8	-0.7	-0.3	-0.3	1.7	0.0
Shares and other equities	0.9	2.0	2.2	0.8	0.7	0.7	0.7	0.7	0.7
Total broad money liabilities									
Money supply (M2)	11.4	12.3	14.9	8.2	8.8	8.6	8.4	8.2	8.2
Currency Outside Depository Corporations	-0.6	0.0	2.0	0.0	0.0	0.0	0.0	0.0	-0.1
Transferable Deposits	7.2	8.0	10.8	6.4	7.1	6.9	6.8	6.6	6.7
Other Deposits	4.8	4.3	2.1	1.8	1.8	1.7	1.6	1.6	1.5
Non-liquid liabilities (excl. from broad money)	0.4	-0.7	1.2	0.4	0.4	0.3	0.3	0.3	0.3
Memorandum items:									
Velocity (GDP/end-of-period M2)	2.1	2.1	2.0	2.0	2.0	1.9	1.9	1.9	1.9
	(Percent of GDP)								
Net foreign assets	23.1	23.6	21.3	22.1	21.9	21.2	20.8	20.5	20.1
BCEAO	1.8	-0.6	-8.0	-5.5	-4.3	-3.8	-2.8	-2.7	-2.7
Assets	20.9	29.6	25.7	26.2	25.6	24.3	23.5	22.0	20.5
Liabilities	-19.1	-30.2	-33.7	-31.7	-29.9	-28.1	-26.4	-24.7	-23.2
Commercial banks	21.3	24.2	29.4	27.6	26.2	24.9	23.7	23.2	22.8
Assets	26.3	31.1	35.7	46.1	59.8	77.7	100.9	131.0	170.0
Liabilities	-5.0	-6.8	-6.4	-18.4	-33.6	-52.8	-77.2	-107.7	-147.2
Net domestic assets	26.0	26.5	31.4	30.6	31.4	32.7	33.4	34.0	34.7
Credit to the government (net)[1]	0.4	0.2	3.7	3.3	1.7	2.0	2.5	3.3	3.1
BCEAO	-1.0	1.5	5.1	4.7	2.8	2.6	2.5	2.3	2.1
Commercial banks	1.4	-1.3	-1.4	-1.5	-1.2	-0.6	0.0	1.0	1.0
Credit to nongovernment sector	30.7	30.8	32.8	31.5	33.6	34.5	34.7	35.4	36.3
of which: Credit to private sector	27.2	26.9	28.3	27.0	29.1	30.0	30.3	31.0	32.0
Other items (net)	1.4	0.3	0.2	-0.7	-0.9	-1.0	-1.1	-0.2	-0.1
Shares and other equities	3.7	4.3	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Total broad money liabilities	49.1	50.1	52.8	52.7	53.3	53.8	54.2	54.5	54.8
Money supply (M2)	46.6	48.1	50.4	50.4	51.0	51.5	51.9	52.2	52.5
Currency Outside Depository Corporations	7.7	7.1	7.3	6.8	6.3	5.8	5.4	5.0	4.6
Transferable Deposits	17.1	19.1	22.2	23.5	25.2	26.7	28.1	29.3	30.5
Other Deposits	21.8	21.9	20.9	20.1	19.5	19.0	18.5	17.9	17.4
Non-liquid liabilities (excl. from broad money)	2.5	2.0	2.3	2.3	2.3	2.3	2.3	2.3	2.3

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

[1] Net domestic credit to the government may differ from what appears in the fiscal table, as bonds issued on the WAEMU markets are treated as external financing for the purpose of the monetary survey.

Table 6. Financial Soundness Indicators of the Banking System, 2016–23
(Percent, unless otherwise indicated)

	2016	2017	2018*	2019	2020	2021	2022	June 2023
Capital adequacy[1]								
Regulatory capital to risk-weighted assets[2]	5.8	8.4	6.0	2.6	3.0	4.0	4.2	6.4
Regulatory Tier 1 capital to risk-weighted assets	4.6	7.4	4.2	2.1	2.5	3.1	3.5	5.5
Common Equity Tier 1 to risk-weighted assets (solvency ratio)[3]	N.A.	N.A.	4.2	2.3	3.2	3.1	3.5	5.5
Provisions to total assets	13.9	16.1	13.5	13.3	11.1	9.1	7.7	7.1
Capital to assets	2.9	4.3	3.4	1.3	1.5	1.8	1.8	2.5
Asset quality and composition								
Loans to total assets	49.1	46.8	47.0	49.5	44.3	43.6	47.5	43.6
Loans to top 5 borrowers to capital	186.0	128.7	169.0	463.9	351.6	283.7	305.2	188.5
Sectoral distribution of credit (percent of total credit)[4]								
Agriculture and fishing	0.3	0.2	0.1	0.1	0.1	0.1	0.1	1.3
Extracting industries	0.8	1.8	1.5	0.9	0.4	0.4	0.4	0.7
Manufacturing	9.2	9.4	8.8	4.5	5.1	3.0	6.3	7.8
Electricity, gas, and water	6.0	8.9	4.6	4.6	6.1	5.1	3.9	3.5
Building and construction	21.4	13.1	13.5	9.1	18.2	19.0	21.6	21.2
Commerce	34.6	33.8	30.7	23.9	30.6	29.1	27.1	25.8
Transport and Communication	10.6	14.1	17.6	16.4	15.3	15.7	12.9	11.5
Insurance, real estate, business services	2.5	3.6	3.0	1.8	3.6	7.1	7.0	8.6
Services	14.8	15.0	20.2	38.7	20.6	20.6	20.6	19.6
Non-performing loans to total gross loans	16.2	19.3	17.8	15.6	16.0	12.0	8.1	8.5
Bank provisions to non-performing loans	77.3	77.8	78.6	75.0	68.4	70.5	74.5	71.4
Non-performing loans net of provisions to total loans	4.2	5.0	4.4	4.4	5.7	3.9	2.2	2.6
Non-performing loans net of provisions to capital	70.8	54.4	61.7	167.6	170.0	96.7	59.3	44.5
Earnings and profitability[5]								
Average cost of funds	3.1	3.3	3.0	0.9	1.3	2.6	2.6	...
Average lending rate	7.8	8.2	7.8	7.3	7.2	6.9	6.6	...
Average interest rate spread[6]	4.7	4.9	4.8	6.4	5.9	4.3	4.0	...
Return on assets (ROA)	2.6	1.1	0.8	1.1	0.6	0.9	0.9	...
Return on equity (ROE)	98.6	28.1	14.3	21.7	11.6	16.6	15.7	...
Non interest expenses to net banking income	64.3	63.8	65.2	61.9	62.1	60.9	59.7	...
Personnel expenses to net banking income	26.7	27.1	27.0	24.3	25.1	25.9	25.1	...
Liquidity								
Liquid assets to total assets (liquid asset ratio)	17.6	19.5	17.1	17.5	14.5	15.6	20.2	18.3
Liquid assets to deposits	28.5	30.9	25.6	26.0	21.6	22.1	29.1	28.8
Loans to deposits ratio	90.6	87.2	82.0	83.3	73.9	67.7	72.9	73.1
Deposits to total liabilities ratio	61.9	63.1	66.7	67.3	67.2	70.4	69.4	63.5
Demand deposits to total liabilities[7]	26.6	25.8	27.0	27.9	26.9	31.2	31.6	28.1
Term deposits and loans to total liabilities	35.3	37.3	39.7	39.4	40.3	39.3	37.8	35.4

Source: BCEAO
* Year of first reporting in accordance with Basel II / III and Revised Chart of Accounts.
[1] Raw data collected from the banking system
[2] FPE/APR ratio excluding banks with negative equity: 16.14% in dec. 2018 (2), 13.18% in june 2019 (3), 12.48% in dec. 2019 (3), 12.75% in june. 2020 (3) et 13.4% in dec. 2020 (3), 13.34% in june. 2021.
[3] Data reported from June 2018
[4] Credits reported to the Central Risk Office
[5] Income statement items at semi-annual frequency
[6] Excluding tax on banking transactions
[7] Including savings accounts

Table 7. Tentative Schedule of Disbursements Under the 42-month ECF-Arrangement, 2024–27

Amount	Availability date	Conditions for disbursement[1]
SDR 51.380 million (35.0 percent of quota)	March 1, 2024	Approval of the ECF arrangement by the Executive Board.
SDR 44.040 million (30.0 percent of quota)	November 15, 2024	Observance of continuous and end-June 2024 performance criteria and completion of the first review under the arrangement
SDR 44.040 million (30.0 percent of quota)	May 15, 2025	Observance of continuous and end-December 2024 performance criteria and completion of the second review under the arrangement
SDR 44.040 million (30.0 percent of quota)	November 15, 2025	Observance of continuous and end-June 2025 performance criteria and completion of the third review under the arrangement
SDR 36.700 million (25.0 percent of quota)	May 15, 2026	Observance of continuous and end-December 2025 performance criteria and completion of the fourth review under the arrangement
SDR 29.360 million (20.0 percent of quota)	November 15, 2026	Observance of continuous and end-June 2026 performance criteria and completion of the fifth review under the arrangement
SDR 22.020 million (15.0 percent of quota)	May 15, 2027	Observance of continuous and end-December 2026 performance criteria and completion of the sixth review under the arrangement
SDR 22.020 million (15.0 percent of quota)	June 15, 2027	Observance of continuous and end-May 2027 performance criteria and completion of the seventh review under the arrangement
SDR 293.600 million (200 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.

Table 8. Indicators of Capacity to Repay the Fund, 2023–37[1]

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
Fund obligations based on existing and prospective credit															
In millions of SDRs															
Principal	0.0	20.1	39.9	49.5	47.0	37.0	34.5	33.2	40.4	52.1	58.7	53.6	35.2	18.4	6.6
Charges and interest	0.0	0.1	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	0.0	20.3	40.0	49.7	47.2	37.1	34.7	33.3	40.5	52.3	58.9	53.8	35.4	18.5	6.8
In billions of CFAF	0.0	16.3	32.3	40.2	38.2	30.2	28.3	27.1	33.0	42.6	48.0	43.8	28.8	15.1	5.5
In percent of government revenue	0.0	1.7	3.1	3.4	3.0	2.1	1.8	1.6	1.8	2.1	2.2	1.8	1.1	0.5	0.2
In percent of exports of goods and services	0.0	1.0	1.9	2.1	1.8	1.4	1.2	1.1	1.2	1.4	1.5	1.3	0.8	0.4	0.1
In percent of debt service[2]	0.0	13.4	23.7	27.5	26.4	21.9	22.1	22.2	24.5	27.5	27.8	22.9	15.1	7.9	2.8
In percent of GDP	0.0	0.3	0.5	0.6	0.5	0.4	0.3	0.3	0.3	0.4	0.4	0.4	0.2	0.1	0.0
In percent of quota	0.0	13.8	27.3	33.9	32.1	25.3	23.6	22.7	27.6	35.6	40.1	36.6	24.1	12.6	4.6
Outstanding IMF credit															
In millions of SDRs	232.6	307.8	356.1	372.6	369.6	332.7	298.1	265.0	224.6	172.5	113.8	60.2	25.0	6.6	0.0
In billions of CFAF	188.2	247.8	286.9	301.0	299.5	270.9	242.8	215.8	182.9	140.5	92.7	49.0	20.3	5.4	0.0
In percent of government revenue	22.1	26.2	27.3	25.8	23.2	19.0	15.6	12.8	9.9	7.0	4.2	2.0	0.8	0.2	0.0
In percent of exports of goods and services	12.2	15.2	16.7	15.9	14.5	12.1	10.1	8.4	6.7	4.8	2.9	1.4	0.6	0.1	0.0
In percent of debt service[2]	173.0	203.3	211.0	206.4	206.9	196.1	190.0	176.9	135.5	90.7	53.7	25.7	10.6	2.8	0.0
In percent of GDP	3.4	4.2	4.5	4.4	4.1	3.4	2.9	2.4	1.9	1.3	0.8	0.4	0.2	0.0	0.0
In percent of quota	158.4	209.7	242.5	253.8	251.8	226.6	203.1	180.5	153.0	117.5	77.5	41.0	17.0	4.5	0.0
Net use of IMF credit (millions of SDRs)															
Disbursements	0.0	95.4	88.1	66.1	44.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	12.6	20.1	39.9	49.5	47.0	37.0	34.5	33.2	40.4	52.1	58.7	53.6	35.2	18.4	6.6
Memorandum items:															
Nominal GDP (in billions of CFAF)	5,491	5,910	6,347	6,830	7,350	7,910	8,511	9,159	9,856	10,606	11,413	12,282	13,217	14,222	15,305
Exports of goods and services (in billions of CFAF)	1,547	1,630	1,721	1,897	2,068	2,236	2,405	2,570	2,749	2,948	3,168	3,404	3,659	3,923	4,185
Government revenue (in billions of CFAF)	851	945	1,051	1,165	1,290	1,425	1,552	1,691	1,842	2,007	2,195	2,394	2,603	2,841	3,088
Debt service (in billions of CFAF)[2 3]	109	122	136	146	145	138	128	122	135	155	172	191	191	190	199
CFAF/SDR (period average)	809	805	806	808	810	814	814	814	814	814	814	814	814	814	814

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 9. External Financing Requirements and Sources, 2020–28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				(Billions of CFA Francs)					
Gross financing requirements (a)	**340.7**	**282.7**	**320.8**	**462.3**	**438.1**	**416.1**	**457.7**	**446.6**	**451.6**
Current account deficit, excl. budget grants (+)	66.2	122.8	259.7	240.9	258.5	256.6	253.2	240.2	259.3
Change in Net Foreign Assets, BCEAO (+) [1]	-182.3	-90.6	-380.5	105.2	49.8	14.5	44.3	-3.7	-15.0
Change in Net Foreign Assets, Other depository institutions (+)	423.0	214.7	368.1	30.3	30.5	32.1	36.9	89.0	93.9
External debt amortization (excl. IMF) (+)	27.4	35.2	71.5	75.9	83.2	80.9	83.1	83.1	83.4
IMF Repurchases / repayment	6.3	0.6	2.1	10.1	16.1	32.2	40.1	38.0	30.0
Available financing (b)	**109.5**	**269.9**	**255.5**	**351.9**	**248.7**	**271.6**	**330.8**	**380.8**	**421.4**
Foreign Direct Investment (net)	30.5	-36.2	31.7	32.4	32.9	33.2	34.5	35.9	37.4
Loan disbursements (public sector)	122.9	76.1	98.4	98.7	118.2	117.4	170.8	191.1	178.0
External grants (public sector)	71.2	100.5	115.4	178.7	147.1	107.8	109.1	125.8	135.3
Project grants	62.0	83.0	97.4	138.2	113.5	85.8	87.0	93.6	100.7
Miscellaneous public transfers	9.2	17.6	18.0	40.5	33.5	22.0	22.1	32.1	34.6
Other capital flows	-117.2	127.2	10.0	42.0	-49.4	13.2	16.5	28.0	70.8
Net errors and emissions	2.1	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap (a)-(b)	**231.1**	**12.8**	**65.3**	**110.4**	**189.4**	**144.5**	**126.8**	**65.8**	**30.2**
Budget support loans	96.9	0.0	31.1	91.0	99.0	60.3	60.2	30.1	30.2
Budget support grants	45.0	1.6	30.0	19.4	13.6	13.2	13.2	0.0	0.0
Exceptional financing	89.1	11.1	4.2	0.0	76.8	71.0	53.4	35.7	0.0
o/w G20 moratorium	9.8	11.1	4.2	0.0	0.0	0.0	0.0	0.0	0.0
o/w IMF ECF	79.3	0.0	0.0	0.0	76.8	71.0	53.4	35.7	0.0
				(Percent of GDP)					
Gross financing requirements (a)	**8.0**	**6.1**	**6.3**	**8.4**	**7.4**	**6.6**	**6.7**	**6.1**	**5.7**
Current account deficit, excl. budget grants (+)	1.6	2.7	5.1	4.4	4.4	4.0	3.7	3.3	3.3
Change in Net Foreign Assets, BCEAO (+) [1]	-4.3	-2.0	-7.5	1.9	0.8	0.2	0.6	-0.1	-0.2
Change in Net Foreign Assets, Other depository institutions (+)	9.9	4.6	7.3	0.6	0.5	0.5	0.5	1.2	1.2
External debt amortization (excl. IMF) (+)	0.6	0.8	1.4	1.4	1.4	1.3	1.2	1.1	1.1
IMF Repurchases / repayment	0.1	0.0	0.0	0.2	0.3	0.5	0.6	0.5	0.4
Available financing (b)	**2.6**	**5.8**	**5.0**	**6.4**	**4.2**	**4.3**	**4.8**	**5.2**	**5.3**
Foreign Direct Investment (net)	0.7	-0.8	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Loan disbursements (public sector)	2.9	1.6	1.9	1.8	2.0	1.9	2.5	2.6	2.3
Budget support loans	2.3	0.0	0.6	1.7	1.7	1.0	0.9	0.4	0.4
External grants (public sector)	1.7	2.2	2.3	3.3	2.5	1.7	1.6	1.7	1.7
Project grants	1.5	1.8	1.9	2.5	1.9	1.4	1.3	1.3	1.3
Miscellaneous public transfers	0.2	0.4	0.4	0.7	0.6	0.3	0.3	0.4	0.4
Other capital flows	-2.8	2.8	0.2	0.8	-0.8	0.2	0.2	0.4	0.9
Net errors and emissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap (a)-(b)	**5.4**	**0.3**	**1.3**	**2.0**	**3.2**	**2.3**	**1.9**	**0.9**	**0.4**
Budget support loans	2.3	0.0	0.6	1.7	1.7	1.0	0.9	0.4	0.4
Budget support grants	1.1	0.0	0.6	0.4	0.2	0.2	0.2	0.0	0.0
Exceptional financing	2.1	0.2	0.1	0.0	1.3	1.1	0.8	0.5	0.0
w/o G20 moratorium	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
w/o IMF ECF	1.9	0.0	0.0	0.0	1.3	1.1	0.8	0.5	0.0
				(Millions of USD)					
Memorandum Items:									
Projected disbursement from the IMF (ECFs)									
SDR million	96.6	0.0	0.0	0.0	95.4	88.1	66.1	44.0	0.0
In percent of quota	65.8	0.0	0.0	0.0	65.0	60.0	45.0	30.0	0.0
IMF credit outstanding (PRGT)									
SDR million	248.5	247.7	245.1	232.6	307.8	356.1	372.6	369.6	332.7
In percent of quota	169.3	168.7	167.0	158.4	209.7	242.5	253.8	251.8	226.6
CFA billion	192.6	200.9	201.8	187.2	247.8	287.3	301.3	300.2	271.5
In percent of GDP	4.5	4.3	4.0	3.4	4.2	4.5	4.4	4.1	3.4

Sources: Togolese authorities and IMF staff estimates and projections.

[1] This is not indicative of the country's impact on WAEMU's aggregate external position or the pooled WAEMU reserves since the data contains intra-WAEMU flows from the current, capital and financial account.

Annex I. External Sector Assessment

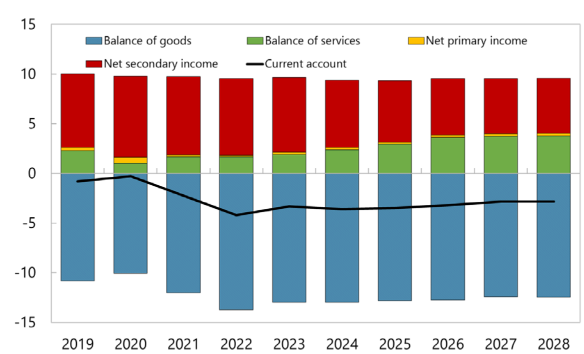
Overall Assessment: *The external position of Togo was estimated to be broadly in line with the level implied by fundamentals and desirable policies in 2023. Despite narrowing slightly compared with 2022, the current account deficit remained elevated, reflecting a number of factors including economic recovery from the pandemic, the impact of the war in Ukraine and security incidence in the northern part of the country. The current account deficit is projected to close gradually in the medium term, as the shocks recede as well as early infrastructure investment and structural reforms start to bolster export.*

Potential Policy Responses: *The planned fiscal consolidation to lower the fiscal deficit to 3 percent of GDP by 2025 is warranted. Fiscal expenditure needs to be prioritized and measures supporting the vulnerable, including through social spending, should be better targeted. This, together with infrastructure investment and structural reforms to promote and upgrade its exports, including agricultural and industrial products, tourism, and reinforcing Togo's role as a regional logistic hub could lower the current account deficit in the medium term.*

Current Account

Background. The current account deficit expanded from the peak of the pandemic in 2020. The latest data in 2021 record a deficit of 2.2 percent of GDP and it is estimated that the deficit increased rapidly to 4.2 in 2022 driven mostly by economic recovery from the pandemic in 2021, the war in Ukraine, and domestic terrorist attacks thereafter. The deficit is projected to moderate to 3.3 percent of GDP in 2023 as exports remained high on the back of improved terms of trade and security-related imports reduced. Whilst falling slightly, remittances have remained above pre-pandemic levels and remain important in financing trade deficits (Text Figure 1).

Text Figure 1. Current Account Decomposition
(Percent of GDP)



Sources: BCEA and IMF Staff

The current account deficit is projected to close gradually, reflecting the moderation of shocks; the authorities' efforts to promote and upgrade its exports, particularly as Togo's role as a regional logistic hub is reinforced; and fiscal consolidation. Remittances to Togo increased from the average level of 4.0 percent of GDP over 2011–19 to 7.0 percent of GDP over 2020-22. They are projected to have declined to 6.4 percent of GDP in 2023 and remain above 6 percent of GDP until 2025. In the medium term, remittances are projected to return gradually to pre-pandemic levels.

Assessment. The EBA-lite models suggest that Togo's external position is broadly in line with fundamentals and desirable policy settings. Using 2023 data, the current account model estimates a current account norm of -4.4 percent of GDP, which is higher than the cyclically adjusted CA balance of -3.7 percent of GDP, resulting in a CA gap of 0.7 percent of GDP (Text Table 1). The estimation includes a standard adjustor on cyclical pattern (-012 percent). An additional ad hoc adjustor of 0.5 percent of GDP is also applied, as staff assess remittances to be at a temporarily high level. The CA gap is 2.4 percent of GDP higher because of policies gaps relative to the world average, driven mostly by health spending being below the world level.

Text Table 1. Model Estimates for 2023 (Percent of GDP)

	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	**-3.3**	
Cyclical contributions (from model) (-)	-0.1	
Additional temporary/statistical factors (-) 2/	0.5	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-3.7**	
CA Norm (from model) 3/	**-4.4**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-4.4**	
CA Gap	**0.7**	**1.0**
o/w Relative policy gap	2.4	
Elasticity	-0.2	
REER Gap (in percent)	**-3.3**	**-5.1**

1/ Based on the EBA-lite 3.0 methodology

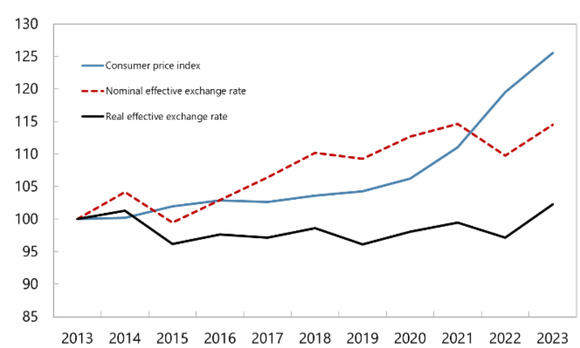
2/ Additional adjustment to account for the surge in remittance inflows since 2019, which is not projected to continue into the medium-term.

3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Togo is part of the WAEMU currency union, with the CFA franc pegged to the euro. The country's real effective exchange rate (REER) appreciated by about 5.3 percent in 2023, which is largely driven by the relative appreciation of the Euro against the USD and reflecting relatively high inflation(Text Figure 2).

Text Figure 2. Effective Exchange Rates

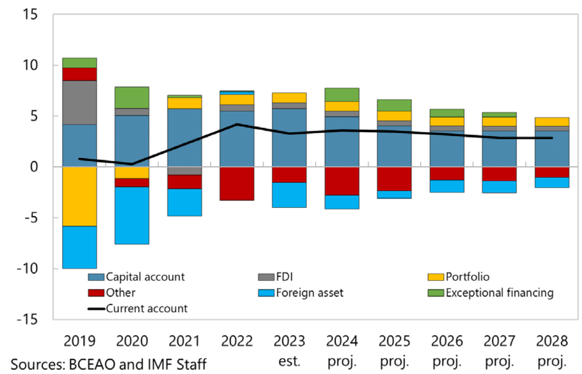


Sources: IMF Information Novice System

Assessment. When applied to 2023 projections, the EBA-Lite Index Real Effective Exchange Rate (IREER) model estimates an undervaluation of about 5 percent with respect to values implied by economic fundamentals and desirable policies. The result is broadly in line with the estimates obtained using the current account model, which under an elasticity of -0.21 implies an undervaluation of 3 percent. Removing the ad hoc adjustment of 0.5 percent of GDP in the CA model will bring the implied undervaluation to 5.8 percent, closer to the IREER estimates.

Capital and Financial Accounts: Flows and Policy Measures

Text Figure 3. Financing Sources
(Percent of GDP)



Sources: BCEAO and IMF Staff

Background. Capital account transfers including project grants have been providing financing in excess of current account deficits since 2017. The surge was driven largely by capital transfers by the private sector. Discussion with the authorities revealed that they reflected mostly remittances used for investment purposes. While the most recent IMF STA TA mission recommended reclassifying the transfers to the current account, the advice has not been taken onboard yet. The capital account balance in 2023 was 5.7 percent, exceeding the current account deficit of 3.3 percent GDP. The excess financing was offset by outflows through the other investment account, which according to the authorities was due to Togo being the host of many regional bank headquarters. In the medium term, over-financing from the capital account (particularly from the private sector) is projected to decrease, consistent with the projection of remittances. Given that, net private capital outflows in the financial account will converge gradually to zero.

Assessment. While staff do not assess immediate risks or vulnerabilities linked to capital flows in 2022, the persistent overfinancing through the capital account and the associated capital outflow from the financial account signals possible structural barriers to the efficient use of available financial resources, which could have been invested domestically. The authorities should continue to prioritize concessional financing in the near term, while seeking more financing through FDI in the medium term e.g., by improving the business environment and investment climate.

Reserves Level

Background. Togo is a currency union member with reserves pooled at the WAEMU level (Figure 3 of the main text) and the same is true for policies on foreign exchange intervention, monetary operations, and capital account openness. The assessment thus refers to that in the 2022 Article IV Consultation Staff Report for the region. The WAEMU pooled reserves remained broadly stable in 2020, increasing mildly from CFAF 11.7 trillion at end-2020 to about CFAF 14.0 trillion at end-2021—equivalent to 5.6 months of 2022 imports or 79.3 percent of the BCEAO's sight liabilities. In 2021, the reserve position was mostly supported by exceptional financial assistance received from the international community during the pandemic. Between January and December 2022 (preliminary data), foreign reserves fell to CFAF 11.4 trillion, due to shocks from (1) increasing food and fuel import prices; (2) continued large fiscal deficits; and (3) declining access to international capital market. Reserves are estimated to have continued to fall in 2023 to CFAF 9.5 trillion ($15.6 billion), equivalent to 3.2 months of imports (December). The reserve import coverage ratio is projected to decrease before stabilizing at around 4.1 months of prospective imports.

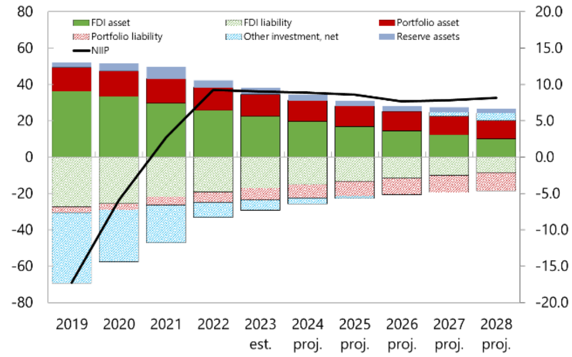
Assessment. Based on the preliminary data for end-2022 level of reserves (4.5 months of imports), the regional team assessed reserves to be adequate. Growth-friendly fiscal consolidation, appropriate monetary policy normalization, and implementation of structural reforms will be key to maintaining reserves within the estimated optimal range.

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) improved rapidly from -17 percent of GDP in 2019 to an estimated level of around 9 percent GDP in 2023. The improvement reflects robust capital transfers and the moderate current account deficit in recent years. With larger current account deficits and a reversion of capital transfers to their pe-pandemic levels, the NIIP is projected to stabilize. Investment position in other investment account is shown on a net basis because the authorities recognize an error in accounting for liability related to Ecobank, making the gross number complicated to interpret.

Text Figure 4. International Investment Position

(Percent of GDP)



Sources: BCEAO and IMF Staff Calculation

Assessment. Under the baseline, the current NIIP and its projected path, do not imply risks to external sustainability. Substantial current account adjustment is therefore not needed. The assessment, however, relies on enough financing from secondary income and the capital account, both related to remittances, to continue to compensate for trade deficits.

Annex II. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood/ Time Horizon	Excepted Impact if Realized	Recommended Policy Response
External Risks			
Intensification of regional conflicts: Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows. **Commodity price volatility:** A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	**High** **ST**	**High** Disrupted trade in food, energy and fertilizer could worsen inflation and food crisis, as well as create social discontent. Higher import bill and lower remittances inflow will stress current account.	Diversify and increase the resilience of critical supply chain. Public investment and structural reforms to boost the competitiveness of exporters.
Abrupt global slowdown or recession: Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs. U.S.: Amid tight labor markets and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing and commercial real estate market correction, and "hard landing". Europe: Intensifying fallout from the war in Ukraine, recurrent energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns, and housing and commercial real estate market corrections. China: Sharper-than-expected slowdown in the property sector, unexpected fiscal tightening due to local government financing stress and decline in investment, and/or rising geopolitical tensions disrupt economic activity.	**Medium** **ST, MT**	**Medium** Widespread slowdown in trade partners would lower growth potential for both exporters and travel and transportation sector. Weak global economy also implies less FDI and grants from foreign countries.	Implementing structural reforms to strengthen the domestic economy. Improving business climate to foster private sector development.
Monetary policy miscalibration: Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen policy stance prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial markets.	**Medium** **ST, MT**	**Medium** Premature monetary easing could risk de-anchoring inflation expectation, raise future disinflation cost, and hurt the vulnerable. Over tightening would dampen economic activity and the resulting high interest rate in the regional market can cause financing pressure to the government.	Increase social spending to support the vulnerable. Improving the targeting of the measures and prioritize other fiscal spendings to mitigate the stress on fiscal deficit. Adopt proactive debt management strategy to address rollover risks.
Systemic financial instability: Sharp swings in real interest rates and risk premia, and asset repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing market dislocations and adverse cross-border spillovers.	**Medium** **ST, MT**	**High** Higher borrowing cost will further elevate debt vulnerabilities. Banks with weak balance sheet could run into liquidity or solvency difficulties.	Implement fiscal consolidation to contain the rise in debt stock and adopt proactive debt management strategy to mitigate rollover risks. Closely monitor the buildup of risks in the financial sector.
Deepening geo-economic fragmentation: Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	**High** **ST, MT**	**Medium** Disrupt trade and FDI flows. Lower availability of resources for growth-enhancing investment. Weaker growth prospect from regional logistic activities.	Implementing structural reforms to strengthen the domestic economy. Improving business climate to foster private sector development. Strengthen trade with other regional partners.
Extreme climate events: Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**Medium** **ST, MT**	**Medium** Adversely affect agricultural output, which could raise inflation pressure, reduce living standard and create social discontent and instability.	Strengthen resilience in agricultural sector by building infrastructure and facilitate technology adoption. Mitigate adverse effects on the most vulnerable through social programs.

Source of Risks	Relative Likelihood/ Time Horizon	Excepted Impact if Realized	Recommended Policy Response
Regional and Domestic Risks			
Intensified food insecurity and terrorist activity	**High** **ST, MT**	**High** Declining private investment (domestic and foreign), tourism and trade activity, as well as slower growth of trading partners. Higher security-related budget spending. Food insecurity will also likely spur terrorist activity.	Ensure prudent budgetary management to contain financing needs. Look for donor support to defray security cost. Implement measures to support the vulnerable, particularly in high-risk regions.
Widespread social discontent and political instability incl. from neighboring countries	**High** **ST**	**High** Economic activity and growth slow down. Higher social spending needs may create budget pressure. Support for policymaking and confidence may dwindle. Terrorist activity from neighboring countries can also spread domestically.	Accelerate measures to enhance inclusion. Facilitate communication with key stakeholders over crucial structural reforms.
Setback in fiscal adjustment and reforms	**Medium** **ST, MT**	**Medium** Delayed fiscal adjustment could fail to improve the fiscal deficit, escalate debt vulnerabilities and crowd out space for private sector credit growth.	Persevere in fiscal consolidation and accelerate structural reforms. Protect spending in social programs to address potential adverse impact on the most vulnerable.
Risks in the public sector	**Medium** **ST, MT**	**Medium** Systemic SOEs, such as the electricity company, the public bank, and the public pension fund are contingent liabilities that could weigh on the budget. The state-owned bank, historically undercapitalized, could also endanger financial stability if left unaddressed.	Accelerate the privatization of the public banks to fit-and-proper buyers. Strengthen PFM and governance by enhancing monitoring the fiscal risks of SOEs and reinforcing accountability.

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.

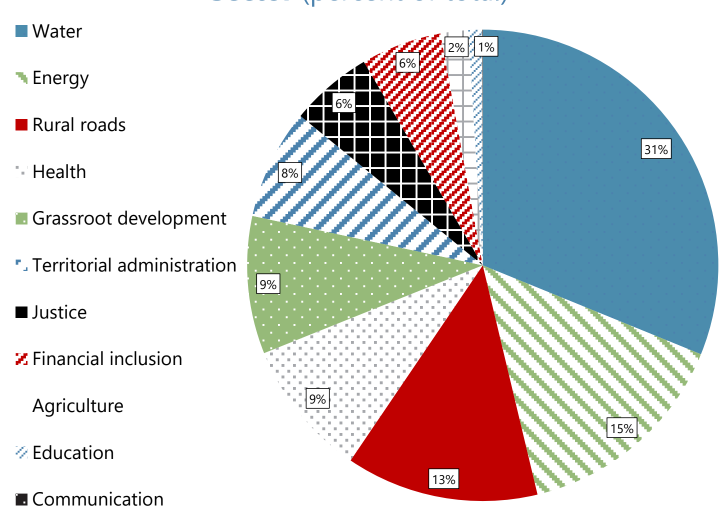
Annex III. The Authorities' Response to the Deteriorating Security Situation

1. The Sahel region has seen a sharp increase of terrorism attacks in recent years, accounting for 43 percent of global fatalities in 2022.[1] Burkina Faso and Mali have particularly witnessed alarming increases, with terrorism-related deaths rising by 50 percent and 56 percent, reaching 1335 and 944 deaths respectively in 2022. Most attacks are attributed to various jihadist groups. The drivers behind this surge are thought to be multifaceted, encompassing the spread of certain militant ideologies, food insecurity, weak governance, political instability, and ethnic tensions (GTI, section 4).

2. Togo, neighboring the Sahel region, has increasingly become a victim of cross-border terrorist attacks. In response, the government increased security spending and adopted a military programming law in 2020 to secure future security-related funding. The growing presence of jihadist groups in the Sahel region prompted the government to deploy additional security forces to the most exposed localities at the border with Burkina Faso in 2018. This led to an increase in security spending to 2.8 percent of GDP in 2019 and 2020 (from 1.6 percent of GDP in 2018). Recognizing that security spending would need to remain higher going forward compared to the largely peaceful past, the government adopted a military programming law in 2020 to secure roughly the same annual security spending allocation as in 2019–20 over 2021–25. The total envelope for the period is CFAF 722 billion (13 percent of GDP), distributed about equally between current and capital spending.

3. This increased security spending was however insufficient to prevent terrorist attacks, **prompting the government to add a civilian approach to fighting terrorism to limit the risk that underserved populations will support terrorists.** Togo suffered its first terrorist attack in November 2021. This was followed by several more attacks, claiming 162 lives in 2022 and 170 lives in 2023 (as of November 30). The authorities believe that so far, the attacks have been carried out by two jihadist groups: Al-Qaeda in the Islamic Maghreb (AQIM) and Islamic State in the Greater Sahara (ISGS). Following the Sanloaga attack,

Text Figure 1. *Savanes* Emergency Program, Allocation by Sector (percent of total)



Source: Togolese authorities.

[1] See the Global Terrorism Index (2023) at https://reliefweb.int/report/world/global-terrorism-index-2023

the authorities decided to combine their security response with a civilian approach to strengthen public support for the government and the existing order.

4. To operationalize their civilian approach, the authorities adopted an emergency program for the *Savanes* region in March 2022. Initially expected to cost CFAF 274 billion (4.5 percent of GDP) over 2022–25, the program has since been expanded to the neighboring *Kara* and *Central* regions and is now estimated to cost CFAF 329 billion (5.6 percent of GDP). The emergency program comes on top of the expenditures planned under the 2020 military programming law. Its objective is to improve access to basic social services and strengthen ties between the population and security forces. The program has three aims and components: (i) improving access to basic social services, (ii) building the capacity of communities to generate wealth, and (iii) strengthening the security and administration of the territory.

5. The government made effective use of limited resources in implementing the emergency program in 2022. Of the CFAF 45.2 billion necessary for implementing the actions planned for 2022, only CFAF 27 billion was mobilized and deployed, with CFAF 21 billion domestically financed and CFAF 5.5 billion foreign-financed. With these limited resources, the government was able to: (i) improve the quality of the network of rural roads in good/fair condition from 15 to 20 percent, (ii) construct four bridges, two clinics, a hospital, and 34 classrooms, (iii) drill more than 100 boreholes and build around 130 autonomous solar-powered stations (increasing access to drinking water from 64 percent in 2021 to 73.5 percent in 2022), (iv) provide electricity to 11 localities and 7 military bases (increasing access to electricity from 22 percent in 2021 to 28 percent in 2022 in the region), and (v) provide cash transfers to over 50,000 households. The execution report for 2023 is not yet available. It is known, however, that the authorities spent 79 percent of the CFAF 43.3 billion projected for 2023 by the end of the third quarter of 2023.

6. The authorities have requested the support of development partners to accelerate the implementation of the program. The program is estimated to cost CFAF 37.2 billion (0.6 percent of GDP) in 2024.

Annex IV. AML/CFT Assessment

1. The assessment of Togo's AML/CFT framework against the FATF standards and methodology identified significant deficiencies. The Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA) conducted a mutual evaluation of Togo's AML/CFT regime which included on-site visit in 2021 and published its report in June 2022. The report analyzes the level of compliance with each of the FATF 40 recommendations and the level of effectiveness of Togo's AML/CFT regime and recommends measures for strengthening the system.

2. The AML/CFT framework was assessed as having a low level of effectiveness. GIABA's June 2022 AML/CFT assessment report also included an assessment of the extent to which the country's implementation of the AML/CFT framework is effective on a range of 11 predetermined outcomes, in view of the country's ML/TF risks. Togo was rated as having a low level of effectiveness on all such outcomes (effectiveness ratings are set out below).

Text Figure 1. Ratings Key

Sufficient ratings	Insufficient ratings
40 Technical Recommendations	
Compliant	Partially compliant
Largely Compliant	Non-compliant
11 Immediate Outcomes	
High level of effectiveness	Moderate level of effectiveness
Substantial level of effectiveness	Low level of effectiveness

11 Immediate Outcomes			
IO.1	Risk, policy and coordination	IO.7	Financial intelligence
IO.2	International cooperation	IO.8	ML investigation and prosecution
IO.3	Supervision	IO.9	Confiscation
IO.4	Preventive measures	IO.10	TF investigation and prosecution
IO.5	Legal persons and arrangements	IO.11	TF preventive measures and financial sanctions
IO.6	Targeted financial sanctions related to terrorism and terrorist financing		

Source: GIABA

3. Gaps in the AML/CFT legal and institutional framework include deficiencies reflecting vulnerabilities in relation to the financial sector. In relation to technical compliance, Togo received partially/non-compliant ratings on 24 out of 40 FATF recommendations (as set out in the chart below). These ratings reflect deficiencies across a broad range of requirements, and specific gaps that also reflect vulnerabilities in relation to the financial sector include notably those in relation to terrorism financing and proliferation financing (as indicated in recommendations 5, 6, 7, and 8), targeted measures for corruption (recommendation 12 on politically exposed persons), and in supervision of the financial sector (recommendation 26).

Figure 1. FATF 40 Technical Recommendations

R.1	Assessing risks and applying a risk-based approach	R.21	Tipping-off and confidentiality
R.2	National cooperation and coordination	R.22	Designated non-financial businesses and professions: Customer due diligence
R.3	Money laundering offense	R.23	Designated non-financial businesses and professions: other measures
R.4	Confiscation and provisional measures	R.24	Transparency and beneficial ownership of legal persons
R.5	Terrorist financing offense	R.25	Transparency and beneficial ownership of legal arrangements
R.6	Targeted financial sanctions related to terrorism and terrorist financing	R.26	Regulation and supervision of financial institutions
R.7	Targeted financial sanctions related to proliferation	R.27	Powers of supervisors
R.8	Non-profit organizations	R.28	Regulation and supervision of DNFBPs
R.9	Financial institution secrecy laws	R.29	Financial intelligence units
R.10	Customer due diligence	R.30	Responsibilities of law enforcement and investigative authorities
R.11	Record-keeping	R.31	Powers of law enforcement and investigative authorities
R.12	Politically exposed persons	R.32	Cash couriers
R.13	Correspondent banking	R.33	Statistics
R.14	Money or value transfer services	R.34	Guidance and feedback
R.15	New technologies	R.35	Sanctions
R.16	Wire transfers	R.36	International instruments
R.17	Reliance on third parties	R.37	Mutual legal assistance
R.18	Internal controls and foreign branches and subsidiaries	R.38	Mutual legal assistance: freezing and confiscation
R.19	Higher-risk countries	R.39	Extradition
R.20	Reporting of suspicious transactions	R.40	Other forms of international cooperation

Sources: GIABA

Annex V. Enhanced Safeguards for Debt Sustainability and Capacity to Repay

This annex discusses the composition and evolution of debt, in particular multilateral debt (ES1A), and the program objective to reduce debt vulnerabilities (ES2). It also provides enhanced Capacity to Repay analysis (ES1B).

ES1A

1. **Togo's de facto senior debt plus other multilateral debt stands at about 60 percent of total external debt and is projected to rise to 76 percent over the medium term under the baseline projection (Text Table 1)**. At the onset of the program, debt held by institutions afforded preferred creditor status—the IMF, World Bank and AfDB—accounts for 34 percent of external debt (59 percent if all multilaterals are included) and 9 percent of GDP. This is projected to rise to 55 percent of external debt and 15 percent of GDP by 2025. The present share of multilateral debt in external debt is roughly at the average of PRGT-eligible countries. It will increase gradually to close to the third quartile by end-2025, where the increase is in part due to frontloaded disbursement of resources from the Fund and the Bank to address near-term challenges. These trends are also due to Togo's limited access to the global capital market. These ratios indicate some buffer of debt that could be restructured if needed.

Text Table 1. Debt Decomposition

	Actual	Projections		
Creditor profile	2022	2023	2024	2025
Total debt	5421.2	6075.0	6704.7	7018.9
External debt	2125.1	2292.7	2608.8	2827.7
Multilateral creditors	1258.4	1502.6	1874.0	2155.2
o/w: IMF	320.2	303.5	403.5	467.4
o/w: World Bank	334.7	597.2	819.4	1013.1
o/w: AfDB	76.8	76.3	75.5	74.8
o/w: Other multilaterals	526.7	525.6	575.6	600.0
Bilateral creditors	96.4	102.3	128.2	146.6
o/w: Paris Club	35.1	41.6	60.0	72.4
o/w: Non-Paris Club	61.3	60.7	68.2	74.1
Private creditors	770.2	687.8	606.5	526.0
Domestic debt	3296.2	3782.3	4095.9	4191.2
Memorandum items				
Collateralized debt[1]	N/A	N/A	N/A	N/A
Nominal GDP	8143.9	9047.4	9755.7	10523.1
Multilateral and collateralized debt				
Multilateral debt	1258.4	1502.6	1874.0	2155.2
Percent of external debt	59.2	65.5	71.8	76.2
Percent of GDP	15.5	16.6	19.2	20.5
o/w: IMF and WB	654.9	900.8	1222.9	1480.4
Percent of external debt	30.8	39.3	46.9	52.4
Percent of GDP	8.0	10.0	12.5	14.1
o/w: AfDB	76.8	76.3	75.5	74.8
Percent of external debt	3.6	3.3	2.9	2.6
Percent of GDP	0.9	0.8	0.8	0.7
o/w: Other multilaterals	526.7	525.6	575.6	600.0
Percent of external debt	24.8	22.9	22.1	21.2
Percent of GDP	6.5	5.8	5.9	5.7

1/ Preliminary data from the authorities suggest outstanding collateralized debt of CFAF 94.7 billion, roughly 1.7% of GDP (end-Septmeber 2023).

ES1B

2. Togo's capacity to repay the Fund is adequate under the baseline scenario, but subject to significant risks as illustrated by a downside scenario.

Under the baseline, total Fund credit outstanding based on existing and prospective drawings remains above the 75th percentile of past PRGT arrangements when measured against GDP and external debt (Figure 5 and Table 8), in part because of the country's limited access to other financing sources. Credit outstanding peaks in T+2 as a share of GDP (4.5 percent) and external debt (16.8 percent). Debt service to the Fund is expected to be high during 2025-27, above the 75th percentile when measured against revenue (excluding grants), exports and total external debt service. Whilst Togo is assessed as high risk of overall debt distress, it is at moderate risk of external debt distress (with the mechanical rating being low). The program aims to reduce the overall risk to moderate before its end and will support the authorities in their debt management strategy of rebalancing the debt portfolio from higher interest and shorter maturity domestic debt to lower interest and longer maturity external debt whilst limiting risks to external debt indicators and deepening understanding of the holders of debt issued on the regional market. This will go some way to mitigating these risks.

Togo's capacity to repay the Fund is subject to significant downside risks, primarily from a further deterioration in the security situation; and from contingent liability risks from SOEs and PPPs. Risks are mitigated by the authorities' strong track record of servicing their debt obligations to the Fund, the fiscal consolidation envisaged in the program including revenue mobilization, measures to ensure adequate capitalization of current and former public banks, and frontloaded Fund disbursements to support the authorities' debt stabilization efforts in the context of security challenges. Structural reforms to bolster growth and exports and limit fiscal risks will also reduce risks. Substantial technical assistance and capacity building in support of fiscal policy will reinforce these risk mitigation efforts (see Annex VI on the CD strategy).

ES2

3. Achieving a moderate risk of overall debt distress by end-program is a key program goal. Togo is assessed to be at high risk of overall debt distress, due in part to rapid debt accumulation to contain the impacts from the compound shocks since the beginning of the pandemic. The main sources of debt vulnerabilities are the elevated level of domestic currency debt and the rollover risks coming with its less favorable terms. Togo's risk of external debt distress is moderate, with some space to absorb shocks. Debt vulnerabilities will be reduced under the program, as indicated by the downward path of all five debt burden indicators over the course of the program period (DSA Figures 1 and 2). The key driver is bringing the overall deficit to 3 percent of GDP by the end of the program through domestic revenue mobilization and expenditure control. Combined with proactive debt management to substitute expensive domestic currency debt with concessional external borrowing and structural reforms to continue to bolster the economy, the PV of debt-to-GDP ratio will fall below the 55 percent threshold by 2026.

Annex VI. Capacity Development Strategy

Fund capacity development (CD) will support key program objectives, including strengthening fiscal revenue, enhancing the social safety net, and improving public financial management. CD will also help the authorities strengthen statistical capacity. CD could also help the authorities enhance governance.

Past capacity development activities in Togo have shown relatively good traction and supported important reforms:

- **Tax and customs administrations have been strengthened in recent years.** For example, the authorities have strengthened taxpayer registration and expanded the use of electronic processing.
- **Important reforms of public financial management (PFM) were implemented,** as discussed in the main text of this Staff Report.
- **Debt management has improved** with support from the Fund, including through the creation a of new debt directorate and the preparation of a new procedure manual. The authorities are now preparing regular updates of their medium-term debt strategy (MTDS).
- **The National Statistics Institute has been strengthened,** enabling a revision of Togo's national accounts in line with best practice.

Fund CD provision will support key program objectives:

- **Raising fiscal revenue through tax policy and tax administration reforms.** The Fund will propose a comprehensive *Medium-Term Revenue Mobilization Strategy*, comprising both tax policy and revenue administration.
- **Strengthening Togo's social safety net to make growth more inclusive.** Fund CD could help the authorities determine the best way to use limited budget resources to support the most vulnerable. Ideally, in case the authorities are interested, this should happen together with the preparation of the *Revenue Mobilization Strategy* to arrive at an integrated *Fiscal Policy Strategy*.
- **Strengthening PFM, including through second-generation PFM reforms.** Ongoing CD aims to entrench the transition toward program-based budgeting and enhance public investment management, including by factoring in climate change-related aspects. Future CD could tackle second generation PFM reforms on the framework for public private partnerships (PPPs) and the management of SOEs. CD will also help further strengthen the medium-term debt strategy.
- **CD will continue helping the authorities enhance statistical capacity.** CD will continue to strengthen capacity to compile statistics on national accounts, government finance, and public sector debt. It could also help to strengthen compilation of external sector data.
- **Fund staff could also provide CD on governance.** Staff could prepare a comprehensive Governance Diagnostic and assist in strengthening the legal and institutional framework for AML/CFT to bring it in line with FATF standards.

Letter of Intent

Lomé, February 16, 2024

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431

Madam Managing Director,

Despite the detrimental impact of a series of shocks in recent years, including the COVID-19 pandemic, the conflict between Russia and Ukraine, and security threats in the north of the country, the Togolese economy has shown resilience and sustained growth.

However, due to measures implemented to mitigate the effects of these shocks on the population, fiscal deficits have risen sharply and the economy's buffers to absorb shocks have shrunk. We also face a challenging external environment, with elevated interest rates on regional and international financial markets and declining official development aid. Also, substantial security and development challenges persist.

The Government is committed to taking all necessary actions to respond to these challenges, in line with the 2020–25 Government Roadmap. In particular, we will aim to (i) make growth more inclusive while strengthening debt sustainability, and (ii) conduct structural reforms to support growth and limit fiscal and financial sector risks. In this context, we have already provided to the remaining state-owned bank the budget resources needed to raise its regulatory capital to zero, and we intend to take further steps to ensure its financial stability.

In support of our efforts, we are requesting an International Monetary Fund (IMF) arrangement under the Extended Credit Facility (ECF) for (a period of) 42 months with access of 200 percent of quota (SDR 293.600 million) to be disbursed as budget support and a first disbursement of 35 percent of quotas (SDR 51.380 million). This IMF-supported program should catalyze additional donor support that will help advance reforms and increase the available resources to finance development by focusing on social and pro-poor spending.

The attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) set out the government's short- and medium-term policies. We believe that these policies are adequate for achieving our overarching objectives outlined above, and we stand ready to take any additional steps that may become necessary. We will consult with IMF staff prior to any revisions to the policies contained in the MEFP, in accordance with IMF policies on such consultations, and we will provide IMF staff with all information needed to monitor the program on a timely basis.

In keeping with our longstanding commitment to transparency, the Government consents to the publication of the IMF staff report, including this letter and the attached MEFP and TMU.

Therefore, we authorize the IMF to publish these documents on its website once the IMF Executive Board approves our request for an ECF arrangement.

Please accept, Madam Managing Director, the assurance of my high regard.

/s/

Sani Yaya
Minister of Economy and Finance

Attachments (2):

I. Memorandum of Economic and Financial Policies (MEFP)
II. Technical Memorandum of Understanding (TMU)

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

Following the achievements of the 2017–20 program, the Togolese economy has been adversely affected by a series of shocks in recent years, notably the COVID-19 pandemic, the war in Ukraine, and security threats in the North of our country. While growth prospects are favorable, Togo remains vulnerable to a range of shocks. With IMF support under the new ECF-arrangement, we intend to maintain macroeconomic stability and accelerate poverty reduction, in line with the 2020–25 Government Roadmap. Our key goals are to (i) make growth more inclusive while strengthening debt sustainability, and (ii) conduct structural reforms to support growth and limit fiscal and financial sector risks.

I. BACKGROUND AND CONTEXT

1. In the context of the 2017–20 ECF-supported program, we strengthened macroeconomic stability substantially. Growth averaged 4.9 percent in 2017–19, the budget deficit shrank by about 6 percent of GDP, the public debt-to-GDP ratio fell to 54.1 percent of GDP (from 59.8 percent of GDP), donor funding increased, and the implementation of structural reforms accelerated. While reform of the two state-owned banks did not advance as quickly as we had hoped, we were able to privatize one of these banks at the end of 2021. We remain committed to finalizing the reform of the remaining state-owned bank under the new program, and we have already provided the budget funds necessary to recapitalize this bank.

2. We countered the impacts of the Covid-19 pandemic and of the war in Ukraine with a vigorous response. Thanks to a rigorous application of health measures, we managed to control the trajectory of the pandemic. To inform citizens about the dangers of the pandemic and the procedure to get tested, we launched the *Dokita* chatbot on social networks. At the same time, the government launched the NOVISSI cash transfer program very quickly at the beginning of the crisis (in April 2020). This innovative program based on mobile money has provided assistance to more than 920,000 informal sector workers for a total of US$33.9 million.[1] According to a global survey conducted by the Lowy Institute, our country's response to the pandemic ranked second-best in Africa and fifteenth in the world.[2] In addition, we took measures to preserve the purchasing power of the population, with a focus on the most vulnerable.

3. To face the growing risks posed by the security threat in the *Savanes* region, we have adopted a strategy that combines a military/security response with a civilian one. The growing presence of terrorist groups in the Sahel region prompted us to deploy additional security forces to the most exposed localities at the border with Burkina Faso in 2018. Nevertheless, we have suffered a series of terrorist attacks, starting in November 2021. Recognizing that security spending would need to remain elevated for several years, we adopted a military programming law in 2020 to secure funding for the period 2021–25, increasing it by approximately 1 percent of GDP annually compared to previous years. More recently, we combined our security response with a civilian approach to strengthen public support in our fight

[1] Source: World Bank, Social Assistance Transformation for Resilience, June 2023.

[2] https://www.theafricareport.com/63232/africa-covid-which-countries-are-responding-best-to-the-crisis/

against terrorism. To this end, we adopted an emergency program for the *Savanes* region in March 2022. This program, extended in 2023 to the Kara and Central regions and initially planned to span the period 2022–25, is now projected to cost a cumulative 5.6 percent of GDP. Its aim is to improve access to basic social services and to strengthen ties between the population and the security forces.

II. RECENT ECONOMIC DEVELOPMENTS

4. Thanks in part to our policy responses, Togo's economy has shown substantial resilience. Unlike the average sub-Saharan African country, which experienced a contraction of 1.7 percent in 2020, Togo's growth remained positive at 2 percent in 2020 and rebounded to 5¾-6 percent in 2021 and 2022. This good performance reflects the gradual easing of containment measures, public sector support measures for SMEs/SMIs and the most vulnerable populations, a temporary increase in generalized fuel subsidies, and an acceleration of public investment.

5. We were, however, unable to avoid a temporary spike in inflation, which is leading to a risk of food insecurity. Inflation rose from 1.8 percent in 2020 and 4½ percent in 2021 to about 7½ percent in 2022 and early 2023, due to soaring food and energy prices. This explains partly the rise in the risk of food insecurity, especially in the *Savanes* region. Inflation has eased to 5.3 percent in November (annual average), owing to the gradual recovery of supply chains, the decline in global commodity prices, and favorable harvests.

6. The shocks of recent years, in combination with the policy responses, have also had a significant adverse impact on the public finances. Falling revenue and rising spending pushed the overall budget deficit to 7 percent of GDP in 2020 (compared to 0.9 percent of GDP in 2019). While we were able to reduce the deficit substantially in 2021, the deficit rose again to 8.3 percent of GDP in 2022 due to spending needs from the surge in living costs and persistent terrorist attacks. The measures taken to mitigate the effects of the crisis in 2020 led to an increase in spending of 4.6 percentage points of GDP in 2020, approximately half of which was allocated to COVID-19-related expenditures (accounting for about 2.2 percent of GDP). As a result, public debt rose to 66.5 percent of GDP in 2022 (from 54.1 percent of GDP in 2019), more than reversing the debt burden reduction achieved during the 2017–20 ECF arrangement.

7. Fiscal deficits, while declining, are still high, and we are facing weaker support from development partners and tighter financing conditions. For example, grants have already declined to 2.3 percent of GDP over 2020–22 (from 2.7 percent of GDP on average over 2017-19), and they are projected to decline further. Additionally, the monetary policy tightening seen in advanced economies and in the WAEMU region in recent months has negatively affected financing conditions on the regional financial market.

8. All this has happened in a context where we still have substantial gaps to fill in human and physical capital. Despite progress towards SDGs in recent years, major challenges remain. Our country ranked 133 out of 163 countries in the 2022 Sustainable Development Report.[3] In particular, the poverty headcount ratio at $2.15/day remains high at 28 percent

[3] Sachs, J., Lafortune, G., Kroll, C., Fuller, G., Woelm, F. 2022. *From Crisis to Sustainable Development: the SDGs as Roadmap to 2030 and Beyond: Sustainable Development Report 2022*. Cambridge: Cambridge University Press.

(above the 20 percent average of the WAEMU region),[4] and the recent shocks have increased inequality. Gaps remain in the areas of access to basic health services, education quality, drinking water and sanitation, and affordable and clean energy.

III. OUTLOOK AND RISKS

9. Macroeconomic performance is expected to remain robust over the medium term. For program purposes, we retain a conservative baseline scenario with prudent growth assumptions. The program forecasts that growth will reach 5.3 percent per year over 2024-25 in a context of fiscal consolidation before recovering to 5.5 percent per year thereafter. Growth is likely to be broad-based, resulting from strengthened logistics activities thanks to the ongoing modernization of the Lomé Autonomous Port; the start of manganese mining; and contributions from efforts to develop value-added chains in the agro-industrial sector. The Adétikopé industrial platform, inaugurated in 2021, will play a key part. Several industrial units at this park have started operations, including wood, cotton, soy processing, and medicines production units. A fertilizer plant is being brought online, which is expected to have positive spillovers to agricultural productivity. Additional units are anticipated to start operations in 2024, including another textile unit as well as footwear, beverages, and aluminum processing units. Thanks to these important new projects, the government remains confident that economic growth will surpass the projections outlined in the program's scenario.

10. However, the outlook entails substantial risks. A key near-term risk is the intensification of terrorist threats or its spreading to other parts of the country, with potential impacts ranging from dampening logistics activities to possibly even destabilizing our social fabric and the Togolese economy. Difficulties in obtaining sufficient financing at affordable rates in the regional market are another near-term risk, with possible negative implications for the program goal of expanding social and pro-poor spending and maintaining a minimum of public investment. Moreover, our country is highly vulnerable to the increasingly severe adverse effects of climate change, such as floods and droughts, with adverse impacts on agricultural productivity, and coastal erosion.

11. Realization of one or more of these risks may require policy adjustments. For example, should the threats to security grow further, we may need to raise spending levels to provide an adequate response, including potentially by raising military spending. Should this become necessary, we will aim to contain the impacts on the fiscal accounts and debt dynamics as much as possible without undermining key program goals.

IV. MACROECONOMIC POLICIES AND STRUCTURAL REFORMS

A. Making Growth More Inclusive

12. We intend to undertake the following actions to strengthen our social safety net and boost social and pro-poor spending:

13. *Create a single social register and establish a biometric identification platform* *(by end-December, Table 3, SB 2.2)*: With the support of the World Bank, we have launched a

[4] World Bank. 2023. Poverty and Equity Database. Washington, D.C.: World Bank.

biometric identification program, and we commit to ensuring that at least 60 percent of residents in Togo have biometric proof of identity by end-June 2024. The combination of the biometric identification platform and the creation of a single social register will strengthen our ability to expand targeted cash transfers for the most vulnerable households going forward.

- *Adopt a social protection policy and expand targeted cash transfers*: The pandemic and the negative effects of the war in Ukraine have highlighted the importance of social protection. We therefore commit to **adopting a social protection strategy that incorporates digital cash transfer measures** *(by end-June, Table 3, SB 2.1)*. To reduce extreme poverty, we will expand targeted social safety net programs, building on the success of the NOVISSI cash transfer program, which will be expanded into a national social protection program to provide support to the most vulnerable. The payment system will be an enhanced version of the Novissi platform used in the context of the Covid-19.

- *Strengthen social and pro-poor spending more generally:* We have refined the definition of social and pro-poor spending. The new, more targeted definition (see TMU Annex I) aims to track, among other things, spending on education, health care, social safety nets (including cash transfers to vulnerable households), access to electricity, water, and sanitation, all of which promote inclusion. This definition of social and pro-poor spending is very selective and only includes spending that has a direct impact on poverty reduction. **We commit to ensure social and pro-poor spending so defined of CFAF 315 billion (5.3 percent of GDP) in 2024, and we intend to lift such spending to CFAF 325 billion (5.1 percent of GDP) in 2025.** Thereafter, with fiscal consolidation complete, we intend to raise this spending as a share of GDP in 2026 and again in 2027.

- *Implement the emergency program in the three northern regions:* The emergency program will be a key element of our strategy to build the population's resilience and consequently fight against terrorism in the three regions. The emergency program objective is to improve access to basic services, including water, energy, health care, and education and telecommunications; strengthening the rural road network; and supporting agriculture.

B. Strengthening Public Debt Sustainability

14. We have adopted a dual fiscal anchor that aims at strengthening debt sustainability and reflecting financing constraints (as well as the regional convergence framework). The first element of the anchor is to reduce the overall risk of debt distress from high to moderate (PV of public debt below 55 percent of GDP) by end-2026, ahead of the end of the program in mid-2027.[5] The second element is to gradually lower the fiscal deficit to at most 3 percent of GDP by 2025, as made necessary by the limited ability of the regional market to provide financing at reasonable rates and maturities and as envisaged by the (currently suspended) regional convergence framework. Policy will be driven by the tighter of the two constraints and the need to avoid overly sharp adjustments.

[5] After taking into account the Government Roadmap, Togo continues to be assessed at a moderate risk of external debt distress, and at high risk of overall debt distress (as assessed in the DSA prepared by the World Bank and the IMF), in particular due to the size of domestic debt and the risks to total public debt.

Creating Fiscal Space to Finance Development

15. The planned fiscal consolidation will result mainly from efforts to raise fiscal revenue, rein in non-priority current spending, and improve the efficiency of public investment, in order to support growth and preserve the integrity of the territory.

16. Raising fiscal revenue. Our objective is to raise tax revenue by 0.5 percent of GDP per year during the program period *(Table 1, indicative target)*.

- With regard to the near term, tax revenue is expected to reach 14.9 percent of GDP in 2024, up from a projected 14.4 of GDP percent in 2023. Gains will come from both tax policy and revenue administration measures.
  - On tax policy, among other things, the 2024 Budget broadens the tax base by curtailing various exemptions and ending preferential rates; and raises excise taxation, particularly of goods associated with negative externalities such as alcoholic beverages. The expected yield of these measures is 0.34 percent of GDP (Table 1).
  - On revenue administration, we will undertake a range of efforts, including better taxpayer registration; and digitalization (e.g., launch of a mobile application for motor vehicle tax declaration and payment; expansion of online financial statement filing to small businesses; introduction of an automated tax risk analysis system). In particular, to focus customs controls on operations with high revenue potential and high degree of fraud suspicion, we will **prepare a corrective action plan for non-compliance with customs procedures on 15 products identified as potentially most exposed to fraud based on a mirror analysis comparing customs and trade data** *(by end-June, Table 3, SB 1.1), and subsequently implement this plan.* The yield of these efforts is estimated at 0.21 percent of GDP. We will also further digitalize procedures and reinforce tax controls, with yields that have not been quantified.
- With regard to the medium term, we will **prepare and publish a report laying out our strategy for raising fiscal revenue over 2024-27, including the planned tax policy and revenue administration measures and their expected yields** *(by end-October, Table 3, SB 1.2)*.
  - In the area of tax policy, this report will take account of IMF technical assistance on tax policy that we expect to receive in two stages in early and mid-2024. Among other things, the report will evaluate the cost and effectiveness of existing tax expenditures. We recognize that broadening the tax base, including by phasing out exemptions, will need to be an important component of the medium-term revenue mobilization strategy.
  - In the area of revenue administration, among other things, we will improve the collection of property taxes by exploiting the land survey data of the Greater Lomé region. We will continue to benefit from the technical assistance provided by the IMF in the field of tax administration.

17. Further, non-tax revenue is expected to see a step-increase by 0.3 percent of GDP in 2024, mainly due to new fees on container traffic at the Port of Lomé.

18. Reining in non-priority current spending. Current spending is projected to ease over the medium term despite the planned increase in social and pro-poor spending, thanks in part to a reduction in fuel subsidies. Concretely, we will start in February 2024 a largely automatic fuel price smoothing mechanism[6] and associated stabilization fund that will see inflows when fuel prices exceed costs and outflows when fuel prices fall short of costs. We will strive to calibrate the mechanism such that except for periods of very large and sudden increases of oil prices, no explicit fuel subsidies from the government budget will be needed in the future, and we will aim to progressively reduce the tax expenditure that has resulted in the past from less than full application of import duties and the VAT on fuel products. Fund CD could help us determine the best way to use limited budget resources to support the most vulnerable. We are also working with the World Bank to identify ways for improving the targeting of water, electricity, and agricultural subsidies and/or for replacing these subsidies with targeted cash transfers, all while ensuring that water and electricity tariffs remain affordable and while seeking budget savings.

[6] The new mechanism seeks to ensure that domestic fuel prices will be set at a level that on average allows recovering the cost of providing fuel (including applicable taxation) while at the same time limiting price changes to at most 5 percent per month. Starting from the initial price at the pump, changes in the price at the pump will be made to move towards cost recovery until cost recovery is reached, with monthly price adjustments of at most 5 percent.

Table 1. Togo: Measures to Strengthen Fiscal Revenue in 2024

Measures	Description	Potential Gains in 2024
Tax Policy Measures		
Elimination of non-statutory exemptions	Streamlining of fiscal expenditure.	CFAF 2.4 billion (0.04 percent of GDP)
Increase in the rate of excise duty on energy drinks and alcoholic beverages	Increase in the excise duty rate on energy drinks from 5 percent to 10 percent; Increase in the excise duty rate on beer from 18 percent to 20 percent; Increase in the excise duty rate on other alcoholic beverages from 50 percent to 60 percent.	CFAF 2.1 billion (0.04 percent of GDP)
New excise duty rate on plastic bags and bouillon cubes	Establishment of an excise duty rate of 5 percent on plastic bags; Establishment of an excise duty rate of 15 percent on bouillon cubes.	CFAF 0.87 billion (0.01 percent of GDP)
Removal of Covid-19 related exemptions reduction of those related to the import of new vehicles.	Removal of the reduced VAT rate of 10 percent on services provided by hotels, restaurants; Removal of tax, duty and tax exemptions related to medical equipment for the fight against COVID-19; Lower deduction for the import of new cars from 90 to 80 percent.	CFAF 2.1 billion (0.04 percent of GDP)
Reorganization of the taxation of used vehicles	Increase of the rate of the minimum flat tax levied on the import of used vehicles from 1 percent to 2 percent; Increase of the rate of the patent tax on the trade of used vehicles.	CFAF 0.88 billion (0.01 percent of GDP)
Higher taxation of the gambling industry	Increase in the tax rate for gambling proceeds from 5 to 7 percent.	CFAF 0.63 billion (0.01 percent of GDP)
Enhancing property taxes	Rationalization of tax exemptions and use of the results of the land survey in Lomé.	CFAF 3.8 billion (0.06 percent of GDP)
Strengthening taxation at customs	Use of tariff specification codes and use of minimum values for additional products.	CFAF 2.4 billion (0.04 percent of GDP)
Expansion of the range of public procurement contracts subject to ex-ante taxation	The taxation of public procurement contracts now applies to all public procurement contracts, including those below a previously used threshold.	CFAF 5.0 billion (0.08 percent of GDP)
Revenue Administration Measures		
Various administration efforts	Improved taxpayer registration and follow-up of thanks in part to digitalization (e.g., expanded digital tax declaration and payment); measures to curb customs fraud, and enhanced recovery of tax arrears.	CFAF 12.7 billion (0.21 percent of GDP)
Total		**CFAF 33.1 billion (0.55 percent of GDP)**

Sources: Togolese authorities and Fund staff.

19. Temporarily cutting back public investment. Public investment is projected to decline over 2024-25 before recovering thanks to revenue mobilization. Some 70 percent of this compression reflects our plan to lower security-related investment spending from the high levels seen in 2022-23. The remaining compression of investment through the middle of the decade will weigh on growth and growth prospects, but this effect is expected to be partially counterbalanced by the impacts of recent and planned structural reforms.

20. The program will take account of the profound aspirations of the population following the legislative and regional elections of 2024. The first half of 2024 will be marked by legislative and regional elections. At the end of this electoral period, which gives the population the opportunity to express its most urgent needs, the government will be called upon to define new budgetary orientations, based on the new general policy statement. In this context, the government may decide to increase social and investment spending to meet the needs of vulnerable populations, while maintaining tax revenue mobilization and budget deficit targets for 2024. The government will also maintain the program's medium-term budget targets, notably convergence of the budget deficit to 3 percent of GDP by 2025, and reduction of the overall risk of debt distress from a high to a moderate level by 2026.

Strengthening Public Financial Management

21. We intend to strengthen public financial management to provide a more secure basis for fiscal policy. To this end:

- *We will continue our efforts to implement program budgeting.* The new program budgeting approach, adopted in 2021, will improve the efficiency and effectiveness of public spending. Climate- and environment-sensitive budgeting is being introduced gradually as well, with the publication of a corresponding budget statement. This said, to fully implement program budgeting, we will need to decentralize budget execution by transferring spending authorization to line ministries' program officers, with control functions remaining at the Ministry of Finance. We must also maintain the momentum of the budget program reform by strengthening the capacities of the sectoral players in results-based management.

- *We will strengthen the framework of public-private partnerships (PPPs),* which is intended to finance half of the investments planned in the Government Roadmap. We recognize the importance of a strong legislative framework for the success and transparency of PPPs, and Parliament adopted a new such framework in 2021. The next step will be to operationalize the PPPs unit.

- *To strengthen the monitoring and strategic management of PPPs and public companies*, we will **prepare a document that will accompany the multi-year economic and budget programming and the draft annual budgets** *(by end-December, Table 3, SB 3.1)*. The document will describe (i) the portfolio of companies where the state is the majority shareholder with key financial information (annual financial results, debt level, guaranteed and unsecured), and (ii) commitments under PPP contracts with information on government liabilities related to these contracts and exposure to guarantees or contingent liabilities. We will also strengthen the oversight and management of SOEs by setting strategic objectives, pursuing the professionalization of boards of directors, and strengthening financial reporting. With the help of IMF TA, we will improve our capacity to analyze the liquidity, solvency, and performance of SOEs.

- *To strengthen the preparation, selection and coordination of public investment projects*, we will extend the scope of the Public Investment Program (PIP) to extra-budgetary entities and PPPs. In addition, we will **prepare a consolidated annual report on investment projects of state-owned companies (SOEs) and local authorities that exceed CFAF 1 billion for SOEs and CFAF 50 million for local communities. Share the report with Parliament** *(by end-June, Table 3, SB 3.2)***.**

- *We also intend to continue enhancing the fiscal reporting by showing the central government's position vis-à-vis commercial banks,* which started at end-2023. For this, we intend to provide a breakdown into central government and other parts of the general government, which will support full consistency between above and below the line reporting as well as between fiscal reporting and changes in the government's position vis-à-vis the banking system. This would support fiscal transparency and cash management and may also help understand the drivers of future debt accumulation.

Strengthening Debt Management

22. We will continue to implement a dynamic debt management policy. The 2022 Debt Management Performance Assessment found that we have made progress in developing a comprehensive debt management strategy, strengthening debt monitoring and reporting, and improving debt transparency. To facilitate further progress, we are committed to updating and expanding our Medium-Term Debt Strategy (MTDS), including by preparing monthly domestic issuance plans and funding targets. We will also publish data on external debt by creditor at the beginning of the program, in line with IMF's new debt limits policy. We will also work with staff of the IMF and World Bank to deepen our understanding of the residency of holders of domestic debt.

23. We will prioritize concessional financing over domestic financing. Funding from the Fund will surely catalyze funding from other development partners. Relying primarily on concessional financing will help prevent an excessive accumulation of domestic debt and reduce the dependence on the regional market. The initial disbursements from the ECF arrangement will provide the necessary budgetary flexibility to address the high needs associated with the current shocks, as well as compensate for the lack of flexibility in short-term concessional external financing.

24. We may complement concessional financing with more commercial financing that is less expensive than domestic debt, within the limits set by the program. In addition, to finance essential productive investments and as an alternative to costly domestic debt, we may consider non-concessional external borrowing. We note that such borrowing will be restricted during the program's duration to an amount that aligns with achieving an overall moderate risk of debt distress by the program's end *(Table 2, performance criterion)*, without letting the external risk of debt distress deteriorate from "moderate" to "high" **(see Technical Memorandum of Understanding)**.

25. We will continue to actively manage our debt to extend the average maturity and avoid spikes in debt service requirements in any given year or consecutive years.

26. The fiscal plans in combination with the above debt management strategy should allow us to contain net domestic financing. This will free up domestic banking sector resources, increasing its financing potential and supporting credit growth to the private sector of at least 5 percent per year, slightly higher than before the pandemic.

C. Conducting Structural Reforms to Support Growth and Limit Fiscal Risks Stemming from the Financial Sector

Structural Reforms to Support Growth

27. We were able to improve Togo's business environment significantly in recent years. The final edition of the World Bank's Doing Business ranking found that Togo climbed 59 places during 2017–19, making it the fastest-reforming country in Africa. These reforms included the acceleration of procedures and the abolition of registration and stamp duties for business creation, as well as an improved access to public procurement for young people. The reforms have made it easier and cheaper for businesses to operate in Togo, and have helped to attract foreign investment, as reflected by strong announcements of foreign direct investments during the pandemic in the Adetikopé industrial platform. Further, the Lomé Commercial Court, established in 2019, has streamlined the resolution of commercial cases. We are committed to continuing reforms to strengthen the business environment.

28. We have firmly established a partnership with the Millennium Challenge Corporation (MCC) and have adopted the scorecard as its guiding roadmap. Indeed, our unwavering commitment to reform has propelled our country's performance from achieving seven out of twenty indicators in 2015 to fourteen out of twenty in 2023. This remarkable achievement, reaching a peak of fifteen indicators out of twenty in 2021 and 2022, has earned Togo eligibility for the Threshold Program, currently in its implementation phase. This program focuses on two key areas: (i) the reform of information and communication technologies (ICT) and (ii) land reform to accelerate agricultural productivity. Additionally, Togo has been selected to participate in the Compact Program, currently under development. To further enhance its performance in future cycles, we have prioritized specific indicators and developed an action plan that outlines critical reforms that, upon implementation, will lead to the attainment of even more indicators. It is worth noting that the twenty indicators encompass three overarching domains: economic freedom, good governance, and investment in human capital.

29. In addition to enhancing the business environment, we are aiming to enhance private sector participation in agriculture, infrastructure, and mining. Agriculture will remain a key driver of economic recovery, with modernization efforts aimed at establishing SMEs in processing industries. One key goal is to enhance agricultural productivity and yields, strengthen agro-food processing industries, and develop high-value-added agriculture. Key initiatives include the 2024-28 master plan for irrigated agriculture, the Agricultural Development Areas program, the establishment of agricultural training centers, the expansion of the *Kara Agropole*, and the operationalization of the Agricultural Transformation Agency. Energy sector goals include extending the electricity supply network and deploying decentralized energy generation systems to reach 75 percent electrification by 2025. Industry will benefit from infrastructure investments and accelerated procedures for exploring natural resources.

30. We will continue our efforts to promote digital technology in support of the country's digital transformation and inclusive growth. These efforts have already yielded tangible results, with mobile phone penetration reaching 83.8 percent and 3G/4G penetration reaching 45.7 percent in the third quarter of 2023. However, we recognize that more work is needed. In the coming years, we aim to accelerate progress in both mobile and fixed connectivity, particularly through the deployment of fiber-optic networks across the national territory. This will be further bolstered by the installation of Google's "Equiano" submarine cable, which became operational in August 2023 and is expected to provide about 20 times more network capacity than previous structures. Additionally, we are committed to enhancing the digitization of public services, with 75 percent of administrative procedures now digitalized. Our goal is to achieve full digitalization of public services by 2025. These efforts build on the liberalization of the telecommunications sector, including the opening of the capital of *Togocom* in 2019, and the strengthening of the telecommunications regulatory agency in 2020.

31. Strengthening governance will be another priority. We have taken significant steps to enhance transparency and accountability in recent years. In 2019, we adopted a law requiring high-level officials to declare their assets, and the first declarations have already been filed. We also adopted a National Strategy for Combating Corruption in 2022. In February 2023, the Court of Auditors published a special audit report on pandemic-related expenditures in 2020. Looking forward, we may also request a governance diagnostic study by the IMF, as our neighbors Ghana and Benin have already done. The diagnostic's results can help us strengthen our National Strategy for Combating Corruption, and requesting the diagnostic will help us signal to domestic and foreign investors that we wish to be a governance leader. Finally, we intend to enhance our AML/CFT regime by addressing challenges related to terrorist financing, UN Resolutions on terrorism and proliferation financing, and politically exposed persons, non-profit organizations, and cross-border cash couriers. We have already drafted an AML/CFT law (as well as seven implementation decrees) aimed at aligning Togo's legal framework with the latest international standards and addressing the shortcomings identified in the 2022 GIABA report. The law introduces several innovative measures, including criminalizing the financing of foreign terrorist fighters and bringing virtual asset service providers under the scope of AML/CFT regulations.

Strengthening the Stability and Development of the Financial Sector

32. Although some longstanding challenges remain, banking sector soundness indicators have improved over 2020-23H1. Sector-wide asset quality improved strongly, with the share of non-performing loans (NPLs) in overall loans dropping to 8.5 percent at end-June 2023 (from 15.6 percent in 2019) thanks in part to the writing off of longstanding NPLs, while the share of net non-performing loans fell to 2.6 percent of total loans at end-June 2023 (from 4.4 percent in 2019), helped by greater provisioning on the back of a rebound in profitability (profits nearly doubled in 2021 from the COVID-related low point in 2020 and held firm in 2022). The sector-wide solvency ratio also improved to 6.4 percent at end-June 2023 (from 2.6 percent in 2019).

33. We are committed to bringing two banks into regulatory compliance.

- **For the first publicly held bank that has already undergone privatization**, a recapitalization plan is being implemented with significant government involvement. This plan aims to strengthen the bank's core capital in accordance with prevailing prudential requirements. We intend to help this bank improve its regulatory capital by purchasing part of its real estate portfolio (at a cost 0.6 percent of GDP). We may, if deemed necessary, continue to support this bank in fully executing this plan.

- **Concerning the second publicly held bank**, it possesses higher-quality assets, but its capital adequacy level falls short of current regulations. Due to the reforms we have implemented, the bank has generated modest yet consistently increasing profits over the past three years. However, recognizing that commercial banks can be managed more effectively by the private sector, we aspire to finalizing the privatization of this bank in the coming months. As a preparatory measure, we have provided the funds necessary to lift the regulatory capital of the bank to zero at a cost of 0.7 percent of GDP based on an allocation in the 2024 budget (*prior action*). This was done via the provision of marketable government bonds. The funds have been used in part to purchase some of the bank's real estate holdings (worth CFAF 31 billion, priced at their book value) since WAEMU regulation leans strongly against banks holding illiquid assets. The remaining portion (CFAF 12.6 billion) will be used for a supplementary capital injection. We remain committed to taking the necessary measures to safeguard the stability of the financial sector, even if the proposed privatization does not materialize. We understand that the IMF deems adherence to this commitment as crucial for the program's success.

V. FINANCING AND MONITORING OF THE PROGRAM

34. The ECF-arrangement will facilitate the achievement of our objectives and policies laid out above over the next three and a half years. The program has a duration of 42 months and will cover the period February 2024 – August 2027. We request that the bulk of disbursements be made during the first 18 months of the program when we need them most. The frontloaded phasing of access to IMF resources also reflects the strength of our policy measures, which include frontloaded fiscal consolidation and measures to strengthen the banking sector.

35. The government will privilege concessional financing over commercial financing. The government will make every effort to mobilize financing from other partners, including but not limited to the World Bank, the International Monetary Fund, the African Development Bank, the French Development Agency, and the European Union. As needed the government will also take up debt in the regional and international financial markets.

36. The program will be reviewed every six months through quantitative performance criteria, indicative targets, and structural benchmarks.

- The first review will take place no earlier than November 15, 2024, based on quantitative performance criteria for end-June 2024 and the second review will take place no earlier than May 15, 2025 based on quantitative performance criteria for end-December 2024. The final review will be based on quantitative performance criteria for and structural benchmarks for end-May 2027. The quantitative performance criteria, indicative targets, and structural benchmarks are set out in Tables 2 and 3.

- We agree not to: (1) introduce or intensify restrictions on payments and transfers for current international transactions; (2) introduce or modify multiple currency practices; (3) enter into bilateral payment agreements that are inconsistent with Article VIII of the IMF Articles of Agreement; and (4) introduce or intensify import restrictions for balance of payments purposes.

- We commit to promptly transmit to IMF staff any data revisions as well as other information necessary to monitor the arrangement. Data to be transmitted to IMF staff as well as performance criteria and structural benchmarks are defined in a Technical Memorandum of

Understanding. Our Strategy Committee will ensure the technical monitoring of the program and produce progress reports. It will also coordinate technical assistance requests.

Table 2. Togo: Proposed Quantitative Performance Criteria and Indicative Targets 2023-24

(Billions of CFA Francs)

	2023	2024			
	End-December	End-March	End-June	End-September	End-December
	estimates	Indicative Targets	Performance Criteria	Indicative Targets	Performance Criteria
A. Quantitative performance criteria[1]					
Basic primary fiscal balance (excl. banking sector repair transactions, floor)[2]	-139	-38	-50	-38	-31.3
Net domestic financing (ceiling)[3]	257	13	123	147	183
B. Continuous quantitative performance criteria (ceilings)[4]					
Accumulation of arrears on external public debt	0.0	0.0	0.0	0.0	0.0
Government guarantees on bank prefinancing for public investments and domestic loans to suppliers and contractors	0.0	0.0	0.0	0.0	0.0
Present value of new external debt contracted or guaranteed by the government[5]	218	480	480	480	480
C. Indicative targets (floors)[1]					
Tax revenue	791	161	345	519	880.5
Social and pro-poor spending[6]	263	88	105	210	315
Memorandum item					
Projected external program financing[1]	110	1	39	43	113
Social spending (including external project grants and loans)	460	139	166	333	499

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

[1] Cumulated from the beginning of the calendar year.

[2] The basic primary fiscal balance is defined as the difference between (i) the government's total fiscal revenue on a cash basis (tax and nontax) excluding grants and (ii) basic primary fiscal expenditure, excluding the banking sector repair transactions of up to CFAF 91.6 billion. The balance will be calculated cumulatively from the beginning of the calendar year. The floor will be adjusted downwards by the amount of additional external budget support (grants and loans) that exceeds the projected external budget support for the program, up to a maximum of CFAF 18 billion.

[3] The ceiling will be adjusted downwards (upwards) depending on external budget support (grants and program loans). (i) The net domestic financing ceiling will be adjusted downward by the amount of the surplus of external budget support projected under the program, less 18 billion CFA francs. (ii) The net domestic financing ceiling will be adjusted upward by the amount of the deficit between the external budget support projected under the program and that which will be realized, up to a maximum of 50 billion CFA francs.

[4] Cumulated from January 1, 2024.

[5] Including debt owed to BOAD, and excluding IMF resources.

[6] Social and pro-poor spending as defined includes expenditure executed from the Government budget (from both domestic and external budget support), relating mainly to public interventions in the areas of education, health and nutrition, the establishment of social safety nets, access to electricity, water and sanitation, microfinance (small and medium enterprises), as well as security and to civil protection.

Table 3. Togo: Proposed Prior Action and Structural Benchmarks for February 2024-February 2025

Measures	Rationale	Proposed Deadline / Status
Prior Action		
PA 1. Based on a budget allocation, provide CFAF 43.6 billion in cash or marketable government debt titles of the same market value to a public bank.	Enable the bank to raise its core capital (*fonds propres effectifs*) to zero, based on end-April 2023 estimates, to start addressing the risks created by this bank.	Completed
Structural Benchmarks		
1. Raising fiscal revenue:		
1.1 Based on a mirror analysis comparing customs and trade data, prepare a corrective action plan for non-compliance with customs procedures on 15 products identified as potentially being the most exposed to fraud.	Focus customs controls on operations with high revenue potential and high degree of fraud suspicion.	End-June 2024
1.2 Prepare and publish a report identifying the revenue mobilization strategy for the period 2024-27, comprising both tax policy and revenue administration measures, together with a quantification of their expected yields.	Support revenue mobilization efforts over the medium term.	End-October 2024
2. Making growth more inclusive:		
2.1 Adopt a strategy for strengthening the social safety net (including steps to adopt a national digital cash transfer program),	To provide clarity on the overarching strategy for expanding the social safety net.	End-June 2024
2.2 Establish the biometric identification system and prepare a register of the poor that may benefit from cash transfers.	Strengthen the foundations for targeting social and pro-poor spending.	End-December 2024

Table 3. Togo: Proposed Prior Action and Structural Benchmarks for February 2024-February 2025 (Concluded)

Measures	Rationale	Proposed Deadline / Status
3. Strengthening public financial management to reduce fiscal risks:		
3.1 Strengthen the budgetary risk analysis report accompanying the draft annual budgets by setting out (i) the portfolio of companies where the state is the majority shareholder with key financial information (annual financial results, debt level, guaranteed and unsecured), and (ii) commitments under PPP contracts with information on government liabilities related to these contracts and exposure to guarantees or contingent liabilities.	Strengthening the supervision of public enterprises and PPPs and improving budget information.	End-December 2024
3.2 Extend the scope of the public investment program (PIP) to extrabudgetary entities and PPPs and prepare, alongside the PIP, a consolidated annual report on investment projects of state-owned companies (SOEs) and local authorities that exceed CFAF 1 billion for SOEs and CFAF 50 million for local authorities. Share the report with Parliament.	Strengthening control over the public investment process and its efficiency.	End-June 2024

Attachment II. Technical Memorandum of Understanding

This Technical Memorandum of Understanding (TMU) sets out understandings regarding assumptions and the definitions of the prior action, performance criteria (PCs), and indicative targets (ITs) that will be applied under Togo's program supported by a 42-month Extended Credit Facility (ECF) arrangement. It also specifies the periodicity and deadlines for the transmission of data to IMF staff for program monitoring purposes.

PROGRAM ASSUMPTIONS

1. **Exchange rates under the program.** For the purposes of this TMU, the value of transactions denominated in foreign currencies will be converted into the domestic currency of Togo (the CFA franc, or CFAF), based on the key exchange rates below as of end-December 2023 (Table 1).

Table 1. Exchange Rates. (End of period, 2023)

CFAF/US$	607.04
CFAF/€	655.96
CFAF/SDR	804.80

DEFINITIONS

Definition of Government and Public Entities

2. **Government.** Unless otherwise specified, the term "government" is defined in this TMU as the central administration of the Togolese Republic and does not include local governments, social security funds, the Central Bank of West African States (BCEAO), nonfinancial public enterprises, or any other public or government-owned entity with autonomous legal status not included in the table detailing the financial operations of the state (TOFE).

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

Definitions of Debt

4. **Debt.** 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. 16919(20/103), adopted on October 28, 2020.[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 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 above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

5. **Public debt** includes obligations of the central government and public entities. It excludes non-guaranteed debt of Port Autonome de Lomé.

6. **Guaranteed debt.** For program purposes, a 'guaranteed debt' is an explicit promise by the public sector to pay or service a third-party obligation (involving payments in cash or in kind) in the event of the debtor's default.

[1] IMF Policy Paper, *Reform of the Policy on Public Debt Limits in IMF-Supported Programs—Proposed Decision and Proposed New Guidelines*, November 2020.

7. **Contracted Debt.** For program purposes, a debt is considered contracted when all conditions for its entry into effect have been met, including approval by the Minister of Finance whenever necessary. Contracting of credit lines (which can be drawn at any time and entered into effect) with no predetermined disbursement schedule or with multiple disbursements will also be considered as contracting of debt.

8. **Domestic debt** is defined as debt contracted or serviced in the franc of the Financial Community of Africa (CFAF) except for borrowing from the West African Development Bank (BOAD), which is considered external debt despite being denominated in CFAF.

9. **External debt** is defined as debt contracted or serviced in a currency other than the CFAF. Borrowing from the West African Development Bank (BOAD) is considered external debt despite being denominated in CFAF.

10. **Present value (PV). The PV of a debt will be calculated as follows**:
The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. A single discount rate of 5 percent is used for this purpose as set forth in IMF Executive Board Decision No. 15248-(13/97). The grant element of a debt is the difference between its nominal value and its PV value, expressed as a percentage of the nominal value of the debt. A debt is considered concessional if, at the date of its conclusion, the ratio between its present value and nominal value is below 65 percent (equivalent to a grant element of at least 35 percent). For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt.

For debts carrying a variable interest rate in the form of a benchmark interest rates plus a fixed spread, the PV of the debt will be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rates and spreads are based on the "average projected rate" for the six-month USD Secured Overnight Financing Rate (SOFR) as projected in the October 2023 World Economic Outlook for the ten-year period end-2023 to end-2033. The program reference rate for the six-months USD SOFR is presently 3.05 percent; the spread of the six-month Euro Financial Institution Repo Facility (FIRF) over six-month USD SOFR is -50 basis points; the spread of six-month GBP Sterling Overnight Index Average (SONIA) over six-month USD SOFR is 150 basis points; for interest rates on other currencies, the spread over six months USD SOFR is 50 basis points. These interest rates and spread will be updated at end-2024. Where the variable rate is linked to a benchmark interest rate other than the six-month USD SOFR, a spread reflecting the difference between the benchmark rate and the six-month USD SOFR (rounded to the nearest 50 bps) will be added.

PRIOR ACTION

11. **The determination of the market value of any marketable government debt title provided to the public bank will be based on recent conditions in the WAEMU regional financial market.** Concretely, the prior action will be deemed met if the government provides to

the bank cash; marketable immediately callable bonds; or marketable debt titles that will mature in no more than 8 years and come with interest payment obligations equivalent to an annual interest rate of 6.5 percent. The cash and the face value of the debt titles must add to CFAF 43.6 billion.

QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

12. **The first and second reviews under the ECF arrangement will be based on quantitative performance criteria (PCs) for end-June and end-December 2024, respectively.** The program establishes quantitative PCs for the following variables:

Basic Primary Fiscal Balance (**Floor**); and
Net Domestic Financing (**Ceiling**).

13. **The program establishes continuous quantitative PCs for the following variables:**

Accumulation of Arrears on External Public Debt (**Zero Ceiling**);
Government Guarantees on Bank Prefinancing for Public Investments and Domestic Loans to Suppliers and Contractors (**Zero Ceiling**); and
PV of New External Debt Contracted or Guaranteed by the Government (**Ceiling**).

14. ITs are established for end-March, end-June, end-September, and end-December 2024 for the following variables:
Tax Revenue (**Floor**);
Social and Pro-Poor Spending (**Floor**).

A. Performance Criterion on Basic Primary Fiscal Balance (Floor)

Definition

15. **The basic primary fiscal balance** is defined as the difference between (i) the government's total fiscal revenue on a cash basis (tax and nontax) excluding grants and (ii) basic primary fiscal expenditure. Basic primary fiscal expenditure is defined as fiscal (current and capital) expenditure minus (a) interest payments on domestic and external debt; and (b) capital expenditure financed by external project grants or project loans. Spending on banking sector repair transactions of up to CFAF 91.6 billion (MEFP paragraph 33) are excluded from expenditure. Expenditure is assessed on a payment order basis.

16. **The balance will be calculated cumulatively from January 1, 2024.** The balances at end-June 2024 and end-December 2024 (performance criteria) and the balances at end-March 2024 and end-September 2024 (indicative targets) must be equal to or greater than the amounts indicated in MEFP Table 2. The data are sourced from the Government Financial Operations Table (*Tableau des opérations financières de l'État* – TOFE), prepared monthly by the Directorate-General of the Treasury and Public Accounting of the Ministry of Economy and Finance.

17. **Adjustor.** The floor on the basic primary fiscal balance will be adjusted *downwards* by the amount of additional external budget support (grants and loans) that exceeds the projected external budget support for the program (MEFP Table 2), up to a maximum of CFAF 18 billion.

Reporting deadlines

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

B. Performance Criterion on Net Domestic Financing (Ceiling)

Definition

19. **Government net domestic financing** is defined as the sum of (i) net credit from the banking sector to the government; (ii) net domestic nonbank financing of the government; and (iii) unidentified financing. Net domestic financing will be calculated cumulatively from January 1, 2024. Net domestic financing at end-June and end-December 2024 (PCs) and net domestic financing at end-March and end-September 2024 (ITs) must be equal to or less than the amounts indicated in MEFP Table 2.

Net credit from the banking sector to the government is equal to changes in the balance of government claims and debts to national banking institutions in Togo. Government claims include balances in the Togolese Treasury, Treasury deposits at the central bank, Treasury deposits in commercial banks (excluding the deposits of other arms of government, such as deposits from projects financed with external resources and CNSS accounts), and blocked accounts. Government debts to the banking system include assistance from the central bank (excluding BCEAO credits to the government tied to IMF financing), assistance from commercial banks (including government securities denominated in CFAF held by commercial banks calculated based on the primary issuance not including transactions in the secondary market), and deposits in postal checking accounts.

Net domestic nonbank financing of the government is calculated as reported in the Government Financial Operations Table (statistical TOFE): (i) changes in the balance of government securities issued in CFA francs (including on the WAEMU regional financial market) not held by Togolese investors, 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.

Unidentified financing is the difference between total financing—net external financing (the sum of grants, budget support loans, project loans, other external loans minus amortization), net domestic financing, and exceptional financing—and the overall balance on a cash basis (including grants and changes in arrears).

20. **Adjustor.** The ceiling on the net domestic financing of the State will be adjusted downwards (upwards) depending on external budget support (grants and program loans).
The net domestic financing ceiling will be adjusted *downward* by the amount of the surplus of external budget support projected under the program, less 18 billion CFA francs.
The net domestic financing ceiling will be adjusted *upward* by the amount of the deficit between the external budget support projected under the program and that which will be realized, up to a maximum of 50 billion CFA francs.

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

Reporting deadlines

22. Data concerning net domestic financing of the government will be reported monthly within eight weeks of the end of the month. Similarly, data concerning any domestic borrowing via issuance of negotiable debt titles and the taking up of bank loans by the government will be reported every month within eight weeks of the end of the month. Data on domestic borrowing will be categorized as short term (less than one year) and medium and long term (one year or more). Data on domestic borrowing will be primarily based on the estimates of the Debt unit.

C. Performance Criterion on Arrears on External Public Debt (Ceiling)

Definition

23. The government will not **accumulate payment arrears on external public debt** (continuous PC). 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 or an agreed debt service suspension. This criterion excludes arrears on debts subject to dispute or renegotiation. The source of the data is the Public Debt Directorate. The government will report accumulation of any new external payment arrears immediately to Fund staff.

D. Performance Criterion on Government Guarantees of Bank Prefinancing for Public Investments and Domestic Loans to Suppliers and Contractors (Zero Ceiling)

Definition

24. The government undertakes not to guarantee any new bank pre-financing for public investments and not to provide any new financial guarantees for domestic loans to its suppliers or contractors (continuous PC). The concept of "government" used for this performance criterion includes the definition of government in paragraph 3, 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.

25. 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 principal and interest, which are paid automatically from the Treasury account at the BCEAO.

E. Performance Criterion on the PV of New External Debt Contracted or Guaranteed by the Government (Ceiling)

Definition

26. A performance criterion (continuous ceiling) applies to the **PV of new external debt contracted or guaranteed by the government**. The ceiling applies to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. Use of IMF resources and import-related trade debts ("trade credits") with a *maturity* of less than 365 days are excluded from the ceiling. External borrowing for debt management operations will not be subject to this ceiling provided that (i) the full terms must be communicated to IMF staff; and (ii) IMF staff analysis must confirm that the operations improve the present value of the overall debt (both internal and external) and do not worsen external debt indicators significantly before the borrowing is contracted.

27. For the purposes of this PC, "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) excluding Port Autonome de Lomé, 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.

28. The present value of new external debt contracted or guaranteed by the Government in 2024 must not exceed a cumulative amount of CFAF 480 billion (MEFP Table 2). For information,

Table 2 shows the authorities' external borrowing plan. Changes to this ceiling may be made (subject to approval by the IMF Executive Board) based on the results of the public debt sustainability analysis prepared jointly by the staffs of the World Bank and the IMF.

29. **Adjustors.** Two adjusters will apply:

a. An adjustor of up to 5 percent of the external debt ceiling set in PV terms applies to this ceiling, in case deviations from the performance criterion on the PV of new external debt are prompted by a change in the financing terms (interest, maturity, grace period, payment schedule, upfront commissions, management fees) of a debt or debts. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed.

b. For 2024, the ceiling on the present value of new External debt contracted or guaranteed by the government (cumulative from January 1, 2024) will be adjusted upward by the present value equivalent of the amount of additional concessional budget support beyond the programmed CFAF 113 billion. The ceiling will be adjusted downward by the present value equivalent of the amount of any World Bank project loans included in the borrowing plan up to a maximum of CFAF 304.4 billion that are not contracted in 2024.

30. Standard continuous performance criteria are also binding and include: 1) prohibition on the imposition or intensification of restrictions on making payments and transfers for current international transactions; 2) prohibition on the introduction or modification of multiple currency practices; 3) prohibition on the conclusion of bilateral payment agreements that is inconsistent with Article VIII; and 4) prohibition on the imposition or intensification of import restrictions for balance of payments reasons.

Table 2. External Borrowing Plan (billions of CFA Francs)

PPG external debt	Volume of new debt in 2024		PV of new debt in 2024 (program purposes)	
	CFAF billion	Percent	CFAF billion	Percent
By sources of debt financing	**754.1**	**100**	**473.6**	**100**
Concessional debt, of which	**394.0**	**52**	**123.1**	**26**
Multilateral debt	394.0	52	123.1	26
Bilateral debt	0.0	0	0.0	0
Other	0.0	0	0.0	0
Non-concessional debt, of which	**360.1**	**48**	**350.5**	**74**
Semi-concessional	208.3	28	198.8	42
Commercial terms	151.8	20	151.8	32
By Creditor Type	**754.1**	**100**	**473.6**	**100**
Multilateral	576.1	76	304.4	64
Bilateral - Paris Club	26.2	3	17.4	4
Bilateral - Non-Paris Club	0.0	0	0.0	0
Other	151.8	20	151.8	32
Uses of debt financing	**754.1**	**100**	**473.6**	**100**
Infrastructure	182.1	24	181.4	38
Social Spending	289.7	38	87.6	19
Budget Financing	91.1	12	27.6	6
Other	191.2	25	177.0	37
Memo Items				
Indicative projections [1]				
Year 2	**267.7**		**168.2**	
Year 3	**323.9**		**227.4**	

1/ The authorities have ambitions to issue an international bond in 2025, subject to market conditions. A smoother borrowing profile is presented here, and it will be updated based on discussions with the Authorities. Future ceilings will be calibrated using the results of the public debt sustainability analysis prepared jointly by the staff of the World Bank and the IMF. The amounts shown in Table 1 are preliminary and will be updated to reflect the signing of new financing, within the limit of the PC related to the present value of new borrowing.

Sources: Togolese authorities; and IMF staff calculations.

Indicative Targets

A. Indicative Target on Tax Revenue (Floor)

Definition

31. **Tax revenue** includes revenues collected by the tax administration (*Commissariat des impôts*) and customs (*Commissariat* des *douanes et droits indirects*). The data are reported in the Government Financial Operations Table (statistical TOFE) prepared monthly by the Directorate-General of the Treasury and Public Accounting of the Ministry of Economy and Finance. The revenue is reflected on a cash basis.

32. The revenue will be calculated cumulatively from the beginning of the calendar year. Tax revenue collections at end-March, end-June, end-September, and end-December 2024 must be equal to or greater than the amounts indicated in Table 2 attached to the MEFP. The revenue floor is an IT for the entire duration of the program.

Reporting deadlines

33. This information will be reported monthly to the IMF within eight weeks of the end of the month.

B. Indicative Target on Social and Pro-Poor Spending (Floor)

Definition

34. Social and pro-poor spending as defined in this TMU includes expenditure executed from the Government budget (from both domestic and external resources), relating mainly to public interventions in the areas of education, health and nutrition, the establishment of social safety nets, access to electricity, water and sanitation, microfinance (small and medium enterprises), as well as security and to civil protection, as laid out in the Table in Annex I.

35. This indicative target will be monitored through the table of quarterly expenditure provided by the Ministry of Economy and Finance.

Reporting deadlines

36. Social and pro-poor spending will be monitored on a payment order basis under the program. The indicative target for social and pro-poor spending will be calculated cumulatively from January 1, 2024.

INFORMATION FOR PROGRAM MONITORING

The authorities will report to the IMF staff any information needed for effective monitoring of the implementation of economic policies.

Annex I. Definition of Social and Pro-Poor Spending

	Ministries and institutions			Programs	
From previous ECF	Primary, secondary, technical and craft education (MEPSTA)	Preschool and primary education	General secondary education	Technical education and vocational training	Arts and craft
	Higher education and research (MESR)	Higher education			
	Health, Public Hygiene and Universal Access to Care	Provision of quality health services and disease control	Universal health coverage	Response to health emergencies	
	Social Action, Promotion of Women and Literacy (MASPFA)	Promotion of social action	Child protection	Gender and women promotion	Literacy and informal education
	Development from the base, Youth and Youth Employment (MDBJEJ)	Development	Youth		
	Agriculture, Livestock and Rural Development (MAEDR)	Organization of agricultural space and the agricultural and animal sector	Food security and population resilience	Improved productivity and product enhancement	
	Village Water and Hydraulics	Integrated water resources management	Drinking water's supply	Collective sanitation of rainwater, used water and excreta	
	Mines and energy	Energy			
	Ministry of Economy	Support Program for Vulnerable Populations (PAPV)	Vulnerable populations		
	Ministries and institutions		**Programs**		**Justification**
Programs to consider due to the 2020-25 Roadmap and crisis context	Digital economy and digital transformation (MENTD)	Digital and postal infrastructure	Digitalization of economic and social activities		Necessary for the implementation of social measures such as biometric identification and the expansion of the Novissi program.
	Urban Planning, Housing and Land Reform (MUHRF)	Decent housing			Key element of the national development strategy to promote inclusive growth. The most vulnerable particularly affected.
	Justice and Legislation (MJL)	Access to law and justice			Fight inequalities and enable the most vulnerable to participate in legal processes that promote inclusive growth
	Opening up and Rural Roads (MDPR)	Development and extension of the rural network roads			Connect with the rural population, which is among the most vulnerable and promote inclusive growth

Execution of Social and Pro-Poor Spending (2021–23)
(Cumulative Annually, Billions of CFAF)

	Initial Proj.	Q1	Q2	Q3	Q4
2021	**260**	69	81	155	215
2022	**266**	64	97	150	230
2023	**327**	63	112	196	263

Sources : Authorities data ; 2023 data are provisional.

INTERNATIONAL MONETARY FUND

TOGO

February 16, 2024

REQUEST FOR A 42-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
Annalisa Fedelino and Fabian Bornhorst (IMF), and Manuela Francisco and Abebe Adugna (IDA)

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[2]
Overall risk of debt distress	High
Granularity in the risk rating	Some space to absorb shocks on external debt
Application of judgment	Yes. High exposure to domestic currency debt.

The Debt Sustainability Analysis (DSA) assesses Togo to be at moderate risk of external debt distress and high overall risk of public debt distress—unchanged from the DSA published in April 2020. While the mechanical results point to a low risk of external debt distress, judgement was applied given Togo's elevated exposure to domestic currency debt and limited information about the residency of its holders. The overall risk of debt distress remains high, as the present value (PV) of the public debt-to-GDP ratio exceeds 55 percent and is projected to stay above the threshold until end-2025 under the baseline. Credible fiscal consolidation and robust economic growth remain key to reducing debt vulnerabilities, while a prudent medium-term debt strategy aimed at reducing the cost of debt and lengthening maturities would make an important contribution. A prudent debt strategy is even more important given the risks to the outlook, including terrorist attacks and food insecurity, rollover risks from the relatively short maturity of Togo's large domestic currency debt, and contingent liabilities related to the financial sector, state-owned enterprises (SOEs) and public-private partnerships (PPPs).

[1] This DSA was prepared jointly with the World Bank and in collaboration with the Togolese authorities.

[2] Togo's Composite Indicator is 2.99, which corresponds to a medium debt-carrying capacity as confirmed by the October 2023 WEO data and the 2022 Country Policy and Institutional Assessment released in August 2023.

PUBLIC DEBT COVERAGE

1. Togo's public debt includes obligations of the central government and public entities. Debt data cover external and domestic obligations of the central government, including arrears to suppliers and guaranteed debt, as well as external and domestic debt of SOEs (Text Table 1).[3] The authorities have reported collateralized debt amounting to 1.7% of GDP in relation to the airport. Local authorities cannot contract new debt. The central government has repaid most of the domestic arrears and residual local debt identified in recent years, including those to local authorities and the national electricity company. The central bank of the currency union (BCEAO) does not issue debt on behalf of its member countries. Domestic debt is defined as debt denominated in franc de la Communauté Financière d'Afrique (CFAF), except for debt owed to the West African Development Bank (BOAD).[4] External debt is then 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. Work will begin to expand the monitoring and publication of debt data broken down by creditors, in line with the new requirements introduced by the Fund's revised Debt Limits Policy. Work to get a more granular understanding of the holders of domestic currency debt issued on the regional market is supported by a performance and policy action (PPA) under the World Bank's Sustainable Development Finance Policy (SDFP).

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	X
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 plus social security, government-guaranteed debt, 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	2.0	
4	PPP	35 percent of PPP stock	6.7	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)		13.7	

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%.

[3] Following the LIC-DSF Guidance Note (GN), non-guaranteed debt from the Port of Lomé is excluded because it is able to borrow without a guarantee from the government, does not carry out uncompensated quasi-fiscal activities, and has an established track record of positive operating balances and hence poses limited fiscal risk.

[4] BOAD debt was reclassified from domestic to external debt in 2020 for all countries in the WAEMU region. The reclassification is based on (i) the GFSM principles stating that international organizations are not considered as being resident of any country; (ii) the LIC-DSF guidance requesting that debt should be based on the residency of the creditor, whenever information is available; and (iii) the significant shift in BOAD's funding strategy in recent years, with an increasing share of BOAD's liabilities due to non-WAEMU creditors.

BACKGROUND ON DEBT

2. **The re-basing of GDP in 2020 has reduced previous debt indicators compared to the last published DSA, but the overall downward trend remains.** Togo undertook a GDP rebasing exercise in September 2020, as did several other countries in the region. The GDP rebasing resulted in an approximately 35-percent increase in the estimated GDP level, which resulted in a mechanical downward revision of past debt ratios compared to those reported in the last published DSA in April 2020. Under the new GDP series, total public debt decreased from a peak of 60 percent of GDP at end-2016 to 54 percent of GDP at end-2019 (Text Table 2) compared to a reduction from 81 percent of GDP to 70 percent of GDP under the old GDP series. The impacts of the rebasing exercise on other macroeconomic indicators are discussed in Box 1.

3. **Public debt reduction during the previous ECF-arrangement was anchored on rapid fiscal consolidation.** In 2016, three-quarters of the public debt was domestic. This large domestic debt burden reflected the legacy of high fiscal deficits and recognition of accumulated liabilities from the financing of off-budget investment projects (called pre-financing), liquidating loss-making SOEs, and the accumulation of arrears to domestic suppliers. Challenges in public financial management, including limited debt management capacity, played a role in the accumulation of these liabilities. Under the previous ECF, the overall deficit was reduced from 7 percent of GDP to 0.9 percent between 2016 and 2019. This enabled a rapid decrease in domestic debt after 2016, from 41.5 percent of GDP in 2017 to 35.7 percent of GDP in 2019. The decrease reflected mainly the clearance of domestic arrears (including arrears owed to the CNSS in 2019) and early repayment of the most expensive domestic obligations. The composition of domestic debt has evolved, with new debt primarily in the form of Treasury bonds (emprunts obligataires). The authorities also implemented two debt reprofiling operations in total of EUR 250 million, both supported by the African Trade Insurance Agency (ATI), to pay back expensive domestic debt. This, along with multilateral borrowing, contributed to a slight increase in external debt between 2017 and 2019 from 15 percent to 18 percent of GDP.

4. **Higher fiscal deficits due to compound shocks since 2020 have reversed the downward trend of the public debt burden.** The pandemic, rising security incidents and measures to contain the impact from inflation have led to significant increases in the fiscal deficit in recent years. The overall deficit is estimated to have averaged 7 percent of GDP between 2020-22, which led the public debt-to-GDP ratio to increase by 12.2 percentage points since 2019. Excluding the reclassified BOAD loans, external debt increased by 5.1 percent of GDP in 2020 reflecting higher borrowing from official sources (including from an augmentation to the IMF ECF arrangement in 2020) and from commercial banks to repay domestic debt. Other than support from the World Bank, including a DPO of USD 100 million approved in March 2022, financing needs in 2021 and 2022 were met almost entirely by domestic bond issuances. As a result, close to two-thirds of the total debt are in domestic currency. In line with the WAEMU-wide agreement, the 2021 SDR allocation is treated as domestic debt with a 20-year maturity (with possibility of rollover) at a fixed interest rate of 0.05 percent. The present value of the loan is used to reflect its highly concessional nature and as such, its impact on the public debt profile is small. The authorities notified staff that 93 percent of the SDR allocation was used for budget support in 2022. Togo also received a CFAF 20.9 billion deferral of debt

service through the DSSI, though this was lower than the projected CFAF 34 billion. In August 2022, China announced that it will provide debt relief to 17 African countries including Togo; staff has not received details regarding any transaction from the authorities.

Text Table 2. Togo: Composition of Public Debt, 2019–22

	End-2019			End-2020			End-2021			End-2022		
	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	**2215**	**100.0**	**54.1**	**2646**	**100.0**	**62.2**	**2998**	**100.0**	**64.9**	**3372**	**100.0**	**66.5**
Total Central Government	2198	99.2	53.6	2555	96.6	60.1	2912	97.2	63.0	3292	97.6	65.0
Total SOEs	17	0.8	0.4	91	3.4	2.1	85	2.8	1.8	79	2.4	1.6
External Debt	**751**	**33.9**	**18.3**	**1175**	**44.4**	**27.6**	**1260**	**42.0**	**27.3**	**1330**	**39.4**	**26.2**
Central Government	**751**	**33.9**	**18.3**	**1135**	**42.9**	**26.7**	**1223**	**40.8**	**26.5**	**1296**	**38.4**	**25.6**
Multilateral	332	15.0	8.1	632	23.9	14.9	680	22.7	14.7	760	22.5	15.0
o/w IMF	128	5.8	3.1	201	7.6	4.7	200	6.7	4.3	198	5.9	3.9
Bilateral	32	1.5	0.8	36	1.3	0.8	47	1.6	1.0	60	1.8	1.2
Paris Club	6	0.3	0.1	6	0.2	0.1	12	0.4	0.3	22	0.6	0.4
Non-Paris Club	26	1.2	0.6	29	1.1	0.7	35	1.2	0.8	38	1.1	0.7
Commercial Banks	387	17.5	9.5	467	17.7	11.0	496	16.6	10.7	477	14.1	9.4
SOEs	**-**	**-**	**-**	**40**	**1.5**	**0.9**	**36**	**1.2**	**0.8**	**34**	**1.0**	**0.7**
Multilateral	-	-	-	21	0.8	0.5	21	0.7	0.5	20	0.6	0.4
Commercial	-	-	-	19	0.7	0.4	15	0.5	0.3	14	0.4	0.3
Domestic Debt	**1463**	**66.1**	**35.7**	**1471**	**55.6**	**34.6**	**1738**	**58.0**	**37.6**	**2042**	**60.6**	**40.3**
Central Government	**1446**	**65.3**	**35.3**	**1421**	**53.7**	**33.4**	**1689**	**56.3**	**36.5**	**1996**	**59.2**	**39.4**
T-Bills (Bons du Tresor)	51	2.3	1.3	71	2.7	1.7	0	0.0	0.0	0	0.0	0.0
Bonds (Emprunts Obligataires)	1070	48.3	26.1	1252	47.3	29.4	1524	50.8	33.0	1834	54.4	36.2
Domestic Arrears	85	3.9	2.1	85	3.2	2.0	42	1.4	0.9	42	1.2	0.8
KPMG (Pre-2006)	49	2.2	1.2	49	1.9	1.2	5	0.2	0.1	5	0.2	0.1
Post-2006	-	-	-	-	-	-	-	-	-	0	-	-
Liquidated SOEs	36	1.6	0.9	36	1.4	0.9	36	1.2	0.8	36	1.1	0.7
Banking System	240	10.8	5.9	12	0.5	0.3	123	4.1	2.7	121	3.6	2.4
SOEs	**17**	**0.8**	**0.4**	**50**	**1.9**	**1.2**	**49**	**1.6**	**1.1**	**46**	**1.4**	**0.9**

5. **Contingent risks could arise from the financial sector, non-financial SOEs, and the increasingly large PPP portfolio.** From the financial sector, the authorities could incur fiscal costs related to current and formerly state-owned banks that have been undercapitalized.[5] Recapitalization costs have been included in the baseline projection. Additional financial sector contingent liabilities that might materialize are accounted for in the contingent liability stress test, which assumes a value of 5 percent of GDP. Contingent fiscal risk could also come from non-financial SOEs which operate with tariffs below cost recovery levels (energy and water companies) and the public pension fund (CRT), to which the state has accumulated social contribution arrears. Although the SOEs are already included in the overall debt perimeter, a 2 percent of GDP stress test on SOEs debt is used because of lags in receiving debt data. While Togo has a high stock of PPPs at 20 percent of GDP, half of this is linked to the Port of Lomé and they do not create contingent fiscal risk as the port is a highly profitable business. Nevertheless, a PPP stock shock of 6.7 percent GDP (the standard 35 percent shock applied to the 20 percent of GDP PPP stock) is included in the DSA.

6. **Debt stock changes unexplained by the primary deficit and automatic debt dynamics (stock-flow adjustment, SFA) suggest that quasi-fiscal spending could be another source of**

[5] The remaining state-owned bank, UTB, and the recently privatized bank IB Togo continue to show large negative capital positions that total just under 2 percent of GDP.

contingent risk. During the period of 2017 to 2022, staff estimate the increase in public debt to be 7.5 percent of GDP higher than can be explained by fiscal deficits and other identified transactions (Text Table 3).[6] While public deposits in the commercial banks reported in the monetary survey have increased by about the same amount, it is unlikely that accumulation of these deposits can explain more than a fraction of the residual because they include deposits by entities outside the boundary of central government, for instance the revenue authority (OTR), the armed forces, CNSS, CRT, and a special program to support vulnerable households (PAPV).[7] The Authorities will to work with Staff in identifying the sources of these residuals to reduce the gap. An alternative scenario is included to account for possible debt accumulation due to positive stock-flow adjustment.

Text Table 3. Togo: Stock Flow Adjustment, 2017–22

	2017	2018	2019	2020	2021	2022	2017-22
	(Percent of GDP)						
Change in total public debt	**-3.5**	**1.1**	**-3.6**	**7.7**	**2.8**	**1.7**	**6.1**
Expected change in debt	**-3.4**	**-2.4**	**-6.3**	**8.7**	**1.4**	**0.5**	**-1.4**
Primary deficit	-1.1	-1.2	-3.8	4.7	2.5	5.9	7.0
Automatic debt dynamics	-2.4	-0.3	-0.2	-1.2	-0.8	-1.6	-6.4
Privatization receipts	-0.2	0.0	-1.2	-0.5	0.0	0.0	-1.9
Change in SOE debt	-0.3	-0.4	-1.1	1.7	-0.3	0.0	-0.5
Change in BCEAO deposits	0.6	-0.4	0.0	4.0	0.0	-3.8	0.4
Residual	**-0.1**	**3.4**	**2.7**	**-1.0**	**1.3**	**1.2**	**7.5**

Note: Change in SOE debt in 2022 is set to zero artificially because data are not available yet.

BACKGROUND ON MACRO FORECASTS

7. **Near-term macroeconomic dynamics are driven by enduring impacts of the pandemic and Russia's war in Ukraine, while in the medium- to long-run, the trends of DSA indicators in the baseline rely on sustainable growth (Box Table 1)**. Real GDP growth dropped sharply in 2020 to 2.0 percent due to the pandemic. It rebounded strongly to 6.0 percent in 2021 and 5.8 percent in 2022. Growth is projected to average 5.5 percent in 2023–33 reflecting Togo's objective to promote and upgrade its exports, such as agricultural and industrial products, expand tourism, and reinforce the role of the Port of Lomé as a logistics hub. The private sector is expected to play an increasing role in the economy, supported by comprehensive structural reforms. In the opposite direction, the envisaged fiscal consolidation lowers the growth rate in the next few years.

8. **Disciplined fiscal consolidation in the face of expenditure pressures will play an important role in reducing overall debt risks.** The Authorities plan a large fiscal consolidation to gradually lower the

[6] See also the Selected Issue Papers of the WAEMU regional consultation (IMF Country Report 23/102). The difference between the results here and therein is driven by updated macroeconomic framework and the fact that exchange rate depreciation (which contributes to automatic debt dynamics) is computed using EUR while here USD is used for cross-country comparability.

[7] In addition, part of these deposits could reflect quasi-fiscal spending recorded as financial assets. For instance, account receivable of public entities due to central government spending will fall into the category.

fiscal deficit to 3 percent of GDP, in line with the regional convergence framework. In 2023, the fiscal deficit was lowered to 6.6 percent of GDP, thanks to an increase in fiscal revenue by 0.5 percent of GDP and expenditure discipline, including by lowering fuels subsidies and a moderation of security spending. In the medium-term, the deficit target will be achieved by continued spending restraint and an ambitious revenue mobilization strategy that seeks to raise tax revenue by 0.5 percent of GDP every year to 2027. These measures will help reduce the PV of public debt below 55 percent of GDP by end-2026. Risks are primarily from additional pressure on security spending and commodity price shocks.

9. Changes in key commodity prices are the driving force behind inflation and external sector dynamics. While inflation was already on the rise in 2021 as the economy recovered, higher food and energy prices emanating from the war in Ukraine pushed it up further to 7.6 percent in 2022. Inflation is estimated to have moderated in 2023 and projected to stabilize at about 2 percent in the long run. The uncertainty surrounding the projection is sizable, however, with downside risks dominating. Similarly, the trade deficit expanded as food and energy imports became more expensive. Imports of military equipment related to the security situation in the north also contributed. The current account deficit measured in percent of GDP is estimated to have widened by 2.1 percentage points to 4.2 percent in 2022, as security-related imports outweighed a large increase in exports, driven in part by higher commodity exports reflecting higher prices (notably phosphate). A moderation in imports and a slight improvement to the terms of trade are expected to underpin a narrowing of the deficit to 3.3 percent in 2023; the deficit is projected to narrow further in the medium term as earlier infrastructure investment begins to bear fruit by supporting production and exports. Remittance inflows are an important source of current account financing and were resilient in recent years, with levels being consistently above 5 percent of GDP.

10. Togo's financing needs in the medium term will be driven mostly by debt service and are expected to be financed primarily by borrowing from the regional market. Gross financing needs in the next five years are projected to stem from primary deficits (16 percent) and, most prominently, debt service (84 percent). As fiscal consolidation proceeds, the ratio will further shift to almost entirely servicing debt between 2028-33. Throughout the next decade, external borrowing is projected to provide 1/3 of the financing, with the remaining 2/3 being expected to be sourced from the regional market. The authorities have indicated as their medium-term debt management strategy to seek an equal contribution from domestic and external financing, with the latter mostly on concessional terms. This strategy has not been built into staff's baseline framework. The assumptions of financing shares and terms in the baseline framework are based on those of the loans that the authorities' contracted between 2018 and 2023. Specifically:

- **External borrowing** is assumed to come from the following sources with their relative shares in parenthesis: IMF ECF (20 percent), IDA (63 percent), BOAD (5 percent), bilateral (3.5 percent from Paris Club and 4.5 percent from non-Paris Club), other multilateral sources (2 percent) and commercial banks (2 percent). The financing terms for the IMF ECF loans and IDA loans are their respective official terms under various facilities.[8] The assumed financing terms of other loans are as

[8] Togo is currently classified as a non-small state, IDA-only country at moderate risk of external debt distress. As such, 88 percent of the country allocation would be as 50-year credits. The remaining 12 percent is in the form of Shorter-

follows: BOAD (6 percent interest rate, 4-year grace period and 15-year maturity), bilateral Paris Club (1.5 percent interest rate, 5-year grace period and 20-year maturity), bilateral non-Paris Club (1.5 percent interest rate, 5-year grace period and 25-year maturity), other multilateral sources (1 percent interest rate, 7-year grace period and 30-year maturity) and commercial sources (6 percent interest rate, 3-year grace period and 10-year maturity). No debt reprofiling operation is assumed in the framework. The overall grant element of external borrowing will decline over time as more commercial debt is taken on and reflecting tighter financing conditions compared to recent years.

Box 1. Main Assumptions in the Macroeconomic Framework

The main driving forces behind the debt dynamics in the baseline scenario—sustainable economic growth and fiscal consolidation—are explained in the main text (¶7-¶9). This box focuses on the comparison with the framework in the last published DSA. Where relevant, the comparison is made against GDP levels after adjusting for the rebasing exercise.

The real GDP growth rate is largely unchanged. It, however, reflects the balance of upside and downside forces rather than an unchanged outlook. On the upside, recent public investment and structural reforms under the 2020-25 National Development Roadmap are expected to bring more favorable growth outcomes. Notable contributing factors include the upgrade in value-added activities in the agro-industrial sector, the digitalization of port activities and export opportunities for the manufacturing sector, the inauguration of the Adétikopé industrial park—a flagship project—and several industrial units. These will also increase the vitality of the private sector in the economy and boost exports. On the downside, fiscal consolidation and the growing number of security incidents and their impact on trade will contribute to a dip to around 5.3 percent in 2024-25; and the increasingly felt impact of climate change which, among others, reduces the predictability of rainfall; will all put downward pressure on growth.

Public investment is temporarily higher due to a surge in military spending in 2022 and the need to upgrade key infrastructure. The share is projected to decrease in the coming years. The trend in the medium and long term remains at around 10 percent of GDP. Domestic revenue mobilization efforts (see below) will be the main source of financing whilst the composition of financing will shift gradually from project grants to loans.

The Roadmap and the war in Ukraine explain the revision in the current account projections. Key commodity price projections (i.e., for food, oil, cotton, cocoa, and coffee) are based on the January 2024 WEO. The current account deficit is larger in the near term, reflecting the impacts from higher food and energy prices, increasing import of military and upfront infrastructure investment. It is projected to drop to around 2.5 percent of GDP in the medium-term and average 2.2 percent of GDP in the long-term, smaller than the 3.4 percent of GDP in the previous framework on the back of better long-term prospects.

Average inflation is significantly higher at 7.6 percent in 2022 compared to the long-run level of 2 percent before, due to unanticipated shocks. The upward revision in the near term is mostly caused by the global commodity price hike. Inflation continues to be projected to moderate and stabilize around 2 percent in the medium term, in line with the WAEMU convergence criterion, as was the case in the previous DSA.

Maturity Loans (PBA-SMLs) with 12-year maturity, 6-year grace period, zero interest or service charge and a grant element of 36 percent.

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

(Last Versus Current DSA Vintage)

	2021	2022	2023	2024	2025	2026	2027	2028-33
Real GDP Growth (Percent)								
Current DSA	6.0	5.8	5.4	5.3	5.3	5.5	5.5	5.5
6th ECF Review	4.0	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Inflation (Average, percent)								
Current DSA	4.5	7.6	5.1	2.7	2.0	2.0	2.0	1.7
6th ECF Review	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total Revenue (incl. grants, percent of GDP)								
Current DSA	17.1	17.6	18.4	18.4	18.4	18.8	19.1	20.0
6th ECF Review	23.9	24.1	24.3	24.5	25.1	25.5	25.9	26.7
Adjust for GDP Rebasing	19.2	19.4	19.6	19.9	20.4	20.8	21.2	22.2
Primary Balance (Commitment basis, incl. grants, percent of GDP)								
Current DSA	-3.4	-5.9	-4.0	-3.9	-0.4	-0.6	-0.7	-0.5
6th ECF Review	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.5
Adjust for GDP Rebasing	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.4
Exports of Goods and Services (Percent of GDP)								
Current DSA	23.7	30.8	28.2	27.6	27.1	27.8	28.1	28.0
6th ECF Review	28.4	28.5	28.6	28.8	29.0	29.1	29.2	29.3
Adjust for GDP Rebasing	22.8	22.9	23.1	23.4	23.6	23.8	23.9	24.4
Current Account Balance (Percent of GDP)								
Current DSA	-2.2	-4.2	-3.3	-3.6	-3.5	-3.2	-2.8	-2.3
6th ECF Review	-4.3	-4.4	-4.3	-4.1	-3.9	-3.7	-3.7	-4.1
Adjust for GDP Rebasing	-3.5	-3.6	-3.5	-3.3	-3.1	-3.1	-3.1	-3.4

Sources: Togolese authorities and IMF Staff calculations.

Medium-term projections of total revenue including grants are about 2.5 percent of GDP lower than expected in the previous framework. A downward revision of projected grants is the main contributing factor. Whilst tax-to-GDP increased in 2023, it is below previous projections because of reform delays, recent shocks, and efforts to catch up. A sustained annual improvement in tax revenue performance of around 0.5 percentage point of GDP is projected until 2027 on the back of sustained reforms of the tax and customs policy and administration. After these relatively quick wins, the improvement after 2027 is projected to be more modest and average around 18 percent of GDP.

The overall primary fiscal balance (commitment basis, including grants) deteriorated from a surplus of 1.2 percent of GDP in 2019 to an estimated deficit of 5.9 percent of GDP in 2022 due to the realization of multiple shocks. The long-run level of the overall primary fiscal balance is projected to converge to -0.5 percent of GDP.

- **Domestic borrowing** is classified into three groups by maturity: 1-3 years, 4-7 years and 8-years and beyond. Though the authorities were able to issue several long-maturity bonds in recent years, the tightening of the global and regional financial markets is likely to limit their capacity to extend the borrowing maturity in the coming years.[9] It is thus assumed that for domestic currency borrowing, 35 percent will be from 1-3 years bonds, 45 percent from 4-7 years bonds and 20 percent from long-term bonds. The interest rates are assumed to be 6.0, 6.2 and 6.4 percent, respectively.

[9] For instance, the authorities issued four 10-year bonds in total of 163 billion CFAF and one 15-year bond of 55 billion CFAF in 2021. They were not able to issue a 15-year bond up to September 2023.

11. The realism of the baseline scenario for external and public debt does not flag any misalignment compared to cross-country distributions or Togo's historical experience.

i. **Drivers of debt dynamics (Figure 3).** Taking the rebased GDP as a denominator, the projections of **total public debt-to-GDP ratio** in the current DSA are substantially higher than in the previous DSA vintage (bottom left panel). The difference is driven by higher deficits and the increased borrowing between 2020 and 2023 following the compound shocks of the pandemic, spillovers from the war in Ukraine and rising security risks domestically (bottom right panel). Almost all factors performed worse and thus contributed to debt creation compared to the projection 5 years ago. The forecast error falls beyond the interquartile range, reflecting the extraordinary global shocks that have characterized this period. In the past five years, growth was the main driver of debt reduction, while debt service created sizable financing needs (bottom middle panel). The positive residual reflects in part the asset accumulation and other SFA drivers mentioned above (¶5). Projecting forward, growth will be a stronger driver of debt reduction reflecting robust growth projections, while short-term debt service obligations remain significant. The main difference from the last DSA is the greater contribution of primary deficits, reflecting elevated levels during recent shocks, their persistence, and more gradual unwinding.

ii. **External debt projections** in the current DSA are higher than in the previous DSA, mainly due to the reprofiling operation that took place in May 2020 and the reclassification of the BOAD loans as external (Figure 3 top left panel). These developments also explained the five-year forecast errors (top right panel). On top of that, the positive residual also reflects the augmentation of the last tranche of the previous ECF and the negative error from the current account is due to weak external activity. In terms of debt dynamics, growth is again the main factor in decreasing debt, for both historical and projection years (top middle panel). The current account deficit is anticipated to create large external financing needs following infrastructure investment plans in the Roadmap and security-related imports in response to heightened insecurity. The relatively large residuals come from the statistical discrepancy as the DSA is evaluated on a currency basis while the balance of payments is based on residency criteria; they should, therefore, be interpreted with caution.

iii. **Planned fiscal adjustment.** The three-year adjustment in the primary balance is equal to 5.4 percent of GDP, reflecting expected fiscal consolidation efforts to bring the overall deficit below the regional convergence criterion (Figure 4 top left panel). While it is in the upper quartile of fiscal adjustment in typical Fund-supported program for LICs, much of the factors that pushed spending levels up, such as COVID measures and subsidies in response to the war in Ukraine, are expected to retreat soon, whilst security spending is expected to moderate. Notable tax policy reforms include fully unwinding measures introduced during the pandemic; raising and introducing new taxes and excise tariffs; and curtailing exemptions.[10] These measures will be supported by TA from both the IMF and World Bank.

[10] Improving the cost-benefit analysis of tax exemptions is a PPA under the World Bank's SDFP.

Recovering arrears, increasing digitalization, and increasing use of audits and risk-based analyses, such as cross-checking of taxpayer data by the tax and customs administrations will improve tax administration. In addition, the authorities have demonstrated a strong track record in achieving consolidation during the previous Fund-supported program.

iv. **Fiscal adjustment and possible growth path**. Estimated economic growth of 5.4 and 5.3 percent in 2023 and 2024 are consistent with the projection under a fiscal multiplier of 0.2 (Figure 4 top right panel). The observation confirms the findings in earlier studies which suggest that the plausible range of fiscal multiplier in LICs is between 0.1 and 0.2. The disconnect between growth and fiscal spending reflects the one-off nature of recent fiscal adjustments in response to exogenous shocks. For Togo, historical data suggest a correlation, albeit weak, between fiscal spending and growth; meanwhile, the impact of infrastructure investment on growth often materializes with a time lag.

v. **Public investment and growth.** The sharp changes in investment as percent of GDP are primarily because of the GDP rebasing exercise. This increased the implicit deflator for private investment more than the deflators for public investment and overall GDP. As a result, in percent of real GDP, real private investment is significantly lower under the current DSA, while that of real public investment has increased. The contribution of government spending to growth in the current DSA (7.0 percent) is broadly the same as the previous vintage (7.6 percent). The difference with the historical value is because public investment was lower because of the fiscal consolidation during the previous ECF program, while growth remained robust. The generally small contribution from investment, as explained above, is also due to the fact that infrastructure investment usually takes place with a lag in low-income countries and that much of the growth in Togo has been driven by private sector activity.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

12. Togo's debt carrying capacity remains unchanged at "medium" (Text Table 4). The composite indicator, which captures the impact of several factors through a weighted average of an institutional indicator, real GDP growth, remittances, international reserves, and world growth, increased compared to the latest published DSA (from 2.98 to 2.99) and remains within the band in which the debt carrying capacity is classified as "medium."[11] The debt carrying capacity, in turn, determines the PPG external debt thresholds and total public debt benchmarks (Text Table 5).

[11] A country's debt-carrying capacity is assessed to be medium when the Composite Indicator is between 2.69 and 3.05 (inclusive).

Text Table 4. Togo: Debt Carrying Capacity

Debt Carrying Capacity	Medium

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium 2.99	Medium 2.96	Medium 2.98

13. Standardized stress tests are run to determine Togo's debt sustainability rating. The six standardized tests used to assess Togo's sustainability rating are assuming default shocks to: real GDP growth, the primary balance, exports, other financial inflows from current transfers and FDI, and the exchange rate; plus one with the shocks combined. In addition, the contingent liability stress test assumes a shock of 13.7 percent of GDP, which includes the default value of 5 percent of GDP for financial markets, 6.7 percent of GDP for risks associated with PPPs and 2 percent for SOE debt.[12,13] The baseline debt projections and the projections under these standardized stress tests are assessed against the thresholds of medium debt carry capacity. Togo has no prominent economic features such as natural disasters, high reliance on commodity exports, market financing, or others that would require additional tailored stress tests.

Text Table 5. Togo: Applicable Thresholds for "Medium" Debt-Carrying Capacity

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

14. The model signals a low risk of external debt distress, with all external debt indicators staying below their respective thresholds under both the baseline and stress-test scenarios (Tables 1, 3 and Figure 1). The PV of PPG external debt is assessed at 20 percent of GDP in 2022 and is

[12] Staff view the 5 percent default value to financial sector contingent liability test as adequate. Excluding banks with negative equity, the ratio of regulatory capital to risk-weighted assets remained stable at 14 percent, well above the WAEMU minimum level of 9.5 percent. This indicates that systemic risks in the financial sector are low. The 2 percent of GDP bank recapitalization cost is smaller than the size of the shock.

[13] As explained above in ¶5, the additional 2 percent of GDP shock is used to assess the contingent fiscal liability from SOEs charging below-cost tariff.

projected to decrease to around 17 percent of GDP by 2028 in the baseline scenario. The PV of PPG external debt-to-exports ratio is assessed at 66 percent in 2022 and is projected to decrease to 59 percent by 2028. The two debt service indicators (in percent of export and revenue) are projected to be first worsening (more so for exports) over the medium term and improving thereafter, as the share of concessional borrowing increases gradually. Near-term debt service obligations are mostly due to servicing loans having commercial terms, with BOAD, EXIM Bank of China, Société Générale and Bank of Tokyo being a few notable creditors.[14] Payments of SDR 20, 40 and 50 million against previous IMF ECF arrangements are due from 2024 to 2026 respectively.

15. Results of stress-test scenarios are consistent with Togo's economic fundamentals. Export shocks have the largest impact on the PV of debt stock-to-GDP ratio, reflecting the size of exports in the economy and the key role growth plays in debt reduction. Export shocks also have the largest impact on the PV of debt-to-export and debt service-to-export ratios, which is not surprising since exports feature in the denominator. Since new external borrowing is assumed to be mostly concessional, debt service is less sensitive to changes in the volume of borrowing, though currency depreciation will directly affect the real burden on domestic resources. The risk is contained, however, as the CFAF is pegged to the Euro and most of the external currency debt is in Euros.

16. The model signals the debt service-to-revenue ratio has much less space than other indicators under their respective thresholds. The debt service-to-revenue ratio has some space to absorb shocks whilst all other indicators have substantial space. Revenue underperformance may therefore restrict borrowing space and strengthening revenue mobilization is a priority recommendation to contain debt risks. Improving debt management capacity, including under technical assistance provided by the World Bank, would also increase resilience to shocks on external debt. Given the importance of export shocks, efforts to increase and diversify the export base, including through the development of value chains and trade logistics centered around the port, would be important to further mitigate risks.

17. The diverging paths between the baseline and historical scenarios are due to three changes in the structure of Togo's macroeconomy: higher economic growth, increasing importance of domestic private sector economic activity, and strengthening revenue mobilization. The historical scenario sets macroeconomic parameters to their 10-year historical averages and all four external debt stock indicators worsen, with the two debt stock indicators on a consistently upward trend. As external debt is assumed to grow at the same rate as the economy, lower growth of the economy, exports and revenue would worsen debt indicators further, with the gap expanding over time.

OVERALL PUBLIC DEBT SUSTAINABILITY ANALYSIS

18. While the public debt ratio was reduced through the GDP rebasing in the second half of 2020, it remains above its benchmark currently in the baseline (Tables 2, 4 and Figure 2). Under the baseline, the PV of the PPG debt ratio is estimated to have increased to 60.4 percent in 2022 which is above

[14] As stated in ¶4, the announced debt relief by China has not been reflected in the current DSA as data are not available yet.

the benchmark of 55 percent of GDP. The model thus signals a high risk of overall debt distress. Due to near term spending pressures to address the various shocks, the indicator will remain above the benchmark until end-2025, before dropping down to 54.4 percent in 2026. By 2033, favorable growth and rapid fiscal consolidation are expected to gradually reduce its level to 42.4 percent of GDP. Since the PV of total debt-to-GDP ratio assesses the overall indebtedness of the economy, the combined contingent liability shock has the largest impact. Under that scenario, the ratio of PV of overall public debt-to-GDP would sharply rise in 2024 and decline gradually below the indicative benchmark in 2032. Under the historical scenario, this ratio remains above the indicative threshold during the entire projection period, as primary deficits remained elevated in recent years.

19. Elevated risks emanate from the cost of servicing domestic debt. Domestic currency debt amounts to 61 percent of Togo's total public debt in 2022. In 2022, it accounted for 85 percent of the interest payments of existing debt and 78 percent of the reimbursement of principal. In total, public debt service is projected to about two-thirds of tax revenues in 2023. While the authorities attempted to extend the maturity of domestic borrowing in recent years (¶10), this is now more challenging with tightening global and regional markets. Since currency risk is mitigated to some extent by the pegged currency, rollover and interest rate risks on domestic debt are the main vulnerabilities. The authorities have identified these risks in their medium-term debt strategy for 2021–25 and their objectives are to increase the overall maturity of their portfolio over the medium term and to continue to seek borrowing from concessional sources. Given the challenging domestic financing environment and uncertainties about the availability of external financing, risks are assessed to be tilted to the downside.

20. The PV of public debt would decrease to below the benchmark of 55 percent of GDP in 2026 under the baseline, which will improve Togo's overall risk rating to moderate. Given the significant uncertainty around the baseline, the analysis reinforces the need for fiscal consolidation and enhanced revenue mobilization efforts, improved debt management capacity to implement a proactive medium-term debt strategy to reduce the costs and risks associated with domestic debt, and sound macroeconomic policies, to ensure this goal can be achieved by the end of the IMF program.

21. The stock flow adjustment, if not closed, is expected to cause debt to marginally breach the regional bound of 70 percent of GDP in 2024 and 2025 and will delay the decrease of PV of public debt-to-GDP ratio to below 55 percent until 2028. The average SFA amounts to 0.6 percent of GDP between 2020-22 (and the average becomes larger at 1.3 percent of GDP if extended to 2017-22). To account for the possible impact from such SFA, staff constructed another scenario in which a 1.3 percent of GDP SFA is added for 2023 with the size decreasing by 0.2 percent of GDP each year until it reaches zero in 2029, reflecting among others, better fiscal discipline under a Fund-supported program; the authorities have indicated their willingness to work with staff on addressing the issue. In this scenario, debt will continue to rise to 70.9 percent of GDP until 2024 and start to decrease thereafter. The drop of PV of public debt-to-GDP ratio to below 55 percent will be delayed to 2028 (see Table 5 and Figure 6).

RISK RATING AND VULNERABILITIES

22. Togo remains at moderate risk of external public debt distress and high risk of overall public debt distress:

- Togo's overall public debt stood at 67 percent of GDP at end-2022 (65 percent of GDP excluding SOE debt). The ratio of PV of overall public debt-to-GDP is expected to stay above the indicative benchmark until 2025, leading to a ***high risk of overall debt distress.***
- For the external debt, all PPG external debt sustainability indicators are expected to remain below their indicative thresholds throughout the projection period (2023–43) in the baseline and stress-tests scenarios. While the model indicates a mechanical rating of low risk of debt distress, judgement is applied to downgrade the risk to ***moderate risk of external debt distress***. The reason is that there is a currently unquantified amount of debt denominated in domestic currency that is held by other countries in the region, which may mean that the overall level of external debt (if measured on a residency basis) is higher, with a corresponding drop in domestic debt.[15] Should such risks materialize, borrowing of debt in foreign currency could increase and significant amount of income can end up being transferred outside the country. It also reflects the possible increase in domestic debt should rollover risks grow such that the Government decides to shift even more than is currently planned towards external financing.

23. A more detailed understanding of the holders of domestic currency debt, SFAs, and a more detailed and transparent medium-term borrowing plan could remove the need for judgement. As the Government develops its understanding of the holders of its debt, this may allow a re-evaluation of both domestic and external debt risks. As part of its SDFP framework, the World Bank has included in its PPAs for FY24 a request to publish in the quarterly debt bulletin a table on domestic debt composition by category of investors based on a new database that tracks bidders and final investors of bond issuances on the regional debt market. This will help identify the residency of domestic currency debt holders and how much is held outside of Togo. A more detailed borrowing plan would also provide more certainty about the Government's intentions and, therefore, reduce the risk of large and unexpected switches of domestic debt with external debt.

24. Togo is considered to have "some" space to absorb shocks to external debt (Figure 5). Under the granularity module used for countries rated at moderate risk of external debt distress, Togo is considered to have some space (rather than substantial space, as in the previous DSA) to absorb shocks. The external debt service-to-revenue ratio has now risen closer to its threshold, such that shocks smaller than the upper quartile of the observed distribution of shocks could put Togo at high risk of debt distress. This

[15] According to the LIC DSF GN (¶¶28, 81), external debt risk should take into consideration domestic currency debt owed to foreigners as it can lead to transfer of resources to other countries. While lacking adequate data to quantify the size of such debt properly, the 2022 FSSA of WAEMU (IMF Country Report 22/136, text figure ¶15) suggests that it can be quantitatively important.

reassessment highlights an increased debt vulnerability, reflecting the impact of the pandemic on Togo's debt profile and debt reprofiling operations which substitutes domestic with external debt.[16]

25. Given the significant uncertainty around the baseline scenario and the risks associated with the elevated domestic debt vulnerabilities, there is a need for continued fiscal consolidation and sound macroeconomic policies, improved debt management, and a proactive medium-term debt strategy. An update and further elaboration of the medium-term debt strategy, including a more detailed medium-term issuance plan and financing mix objectives (as recommended in the Staff Report) could help ensure a reduction of the cost of and risks associated with domestic debt. Overall, this would also help ensure that the objective of getting back to a moderate risk of overall debt distress can be achieved by the end of the program. In the meantime, identifying and controlling for future stock-flow adjustment needs will mitigate the downside risk of a debt surprise.

AUTHORITIES' VIEWS

26. The Authorities concurred with the need for fiscal consolidation to reduce overall debt risks to moderate but questioned the use of judgement to raise the risk of external debt distress from "low" to "moderate". The authorities considered that risks emanating from domestic currency debt are already captured in the assessment of the overall risks of debt distress. This said, they agreed to work with staff to deepen the understanding of the residency of the holders of domestic currency debt to reduce the uncertainty that gave rise to the application of judgment. They also remain committed to reducing overall debt vulnerabilities through their MTDS, which seeks to rebalance the portfolio to external debt on more favorable terms than available on the regional market.

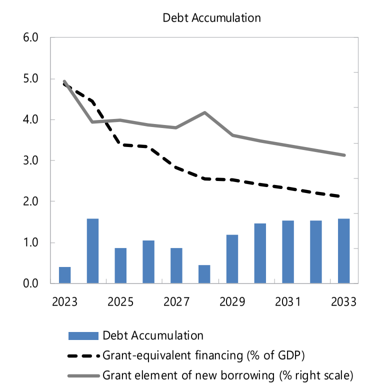
[16] Though raising external debt vulnerabilities, debt reprofiling operations improved overall debt vulnerabilities as domestic currency debt is more expensive to service.

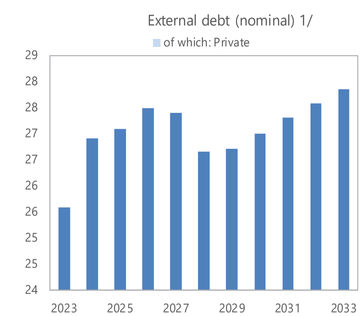
Table 1. Togo: External Debt Sustainability Framework, Baseline Scenario, 2020–43

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	27.6	27.3	26.2	25.6	26.9	27.1	27.5	27.4	26.7	27.9	32.8	**18.4**	**27.1**
of which: public and publicly guaranteed (PPG)	27.6	27.3	26.2	25.6	26.9	27.1	27.5	27.4	26.7	27.9	32.8	**18.4**	**27.1**
Change in external debt	9.3	-0.4	-1.0	-0.7	1.3	0.2	0.4	-0.1	-0.7	0.3	0.4		
Identified net debt-creating flows	-1.4	-0.1	4.2	1.4	1.8	1.6	1.3	0.9	1.0	0.4	0.0	**4.0**	**0.9**
Non-interest current account deficit	-0.1	1.8	3.7	2.9	3.2	3.1	2.9	2.5	2.5	2.0	1.5	**3.9**	**2.4**
Deficit in balance of goods and services	9.0	10.3	12.1	11.1	10.6	9.9	9.1	8.7	8.7	7.9	7.7	**11.1**	**8.9**
Exports	23.3	23.7	30.8	28.2	27.6	27.1	27.8	28.1	28.3	27.8	26.4		
Imports	32.3	34.0	42.8	39.2	38.1	37.0	36.9	36.8	36.9	35.7	34.1		
Net current transfers (negative = inflow)	-8.2	-7.9	-7.7	-7.5	-6.8	-6.2	-5.6	-5.6	-5.6	-5.4	-5.2	**-6.4**	**-5.9**
of which: official	-1.3	-0.4	-0.9	-1.1	-0.8	-0.6	-0.5	-0.4	-0.4	-0.3	-0.1		
Other current account flows (negative = net inflow)	-1.0	-0.6	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.9	**-0.9**	**-0.6**
Net FDI (negative = inflow)	-0.7	0.8	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	**0.5**	**-0.5**
Endogenous debt dynamics 2/	-0.6	-2.7	1.2	-0.9	-0.9	-1.0	-1.1	-1.1	-1.1	-1.0	-1.0		
Contribution from nominal interest rate	0.4	0.4	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.4	0.6		
Contribution from real GDP growth	-0.3	-1.5	-1.6	-1.3	-1.3	-1.3	-1.4	-1.4	-1.4	-1.4	-1.7		
Contribution from price and exchange rate changes	-0.7	-1.6	2.3	...	...	...	...	...	...	...	...		
Residual 3/	10.7	-0.3	-5.2	-2.1	-0.4	-1.5	-0.9	-1.0	-1.7	-0.2	0.4	**-2.3**	**-0.7**
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	...	...	20.2	18.6	18.7	18.1	17.8	17.4	16.6	17.4	23.0		
PV of PPG external debt-to-exports ratio	...	...	65.8	66.0	67.8	66.9	64.2	61.8	58.7	62.8	87.0		
PPG debt service-to-exports ratio	6.9	5.2	7.2	7.1	7.6	8.0	7.8	7.1	6.2	5.5	6.3		
PPG debt service-to-revenue ratio	11.3	8.1	14.6	13.0	12.8	12.9	12.4	11.1	9.6	7.8	7.6		
Gross external financing need (Billion of U.S. dollars)	0.1	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.6	1.1		
Key macroeconomic assumptions													
Real GDP growth (in percent)	2.0	6.0	5.8	5.4	5.3	5.3	5.5	5.5	5.5	5.5	5.5	**5.0**	**5.5**
GDP deflator in US dollar terms (change in percent)	3.8	6.3	-7.7	5.4	2.4	2.4	2.1	1.9	1.9	2.0	2.0	**-0.6**	**2.4**
Effective interest rate (percent) 4/	2.3	1.7	1.8	1.7	1.6	1.4	1.3	1.2	1.2	1.4	2.0	**1.8**	**1.3**
Growth of exports of G&S (US dollar terms, in percent)	3.5	14.4	27.0	1.8	5.5	6.0	10.4	8.9	8.0	7.5	7.3	**4.1**	**7.0**
Growth of imports of G&S (US dollar terms, in percent)	5.8	18.5	23.1	1.8	4.8	4.6	7.4	7.3	7.9	7.4	7.1	**5.0**	**6.2**
Grant element of new public sector borrowing (in percent)	...	...	...	57.5	46.0	46.4	45.0	44.2	48.6	36.6	29.4	**...**	**44.0**
Government revenues (excluding grants, in percent of GDP)	14.1	15.3	15.1	15.5	16.3	16.9	17.4	17.8	18.3	19.5	21.8	**14.3**	**17.9**
Aid flows (in Billion of US dollars) 5/	1.0	1.0	1.1	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.9	4.4	3.4	3.3	2.8	2.6	2.1	1.5	**...**	**3.0**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	76.8	62.3	61.7	59.3	59.1	65.3	49.7	36.6	**...**	**59.4**
Nominal GDP (Billion of US dollars)	7	8	8	9	10	11	11	12	13	19	39		
Nominal dollar GDP growth	5.8	12.7	-2.3	11.1	7.8	7.9	7.7	7.5	7.5	7.6	7.6	**4.4**	**8.0**
Memorandum items:													
PV of external debt 7/	...	...	20.2	18.6	18.7	18.1	17.8	17.4	16.6	17.4	23.0		
In percent of exports	...	...	65.8	66.0	67.8	66.9	64.2	61.8	58.7	62.8	87.0		
Total external debt service-to-exports ratio	6.9	5.2	7.2	7.1	7.6	8.0	7.8	7.1	6.2	5.5	6.3		
PV of PPG external debt (in Billion of US dollars)			1.6	1.7	1.8	1.9	2.0	2.1	2.2	3.3	9.1		
(PVt-PVt-1)/GDPt-1 (in percent)				0.4	1.6	0.9	1.1	0.9	0.4	1.6	2.2		
Non-interest current account deficit that stabilizes debt ratio	-9.4	2.2	4.7	3.5	1.9	3.0	2.5	2.6	3.3	1.7	1.2		

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	No





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.

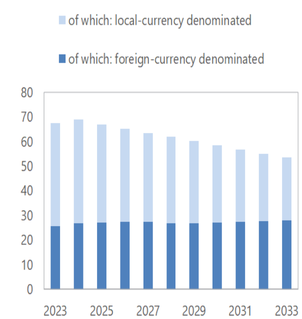
Table 2. Togo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020–43

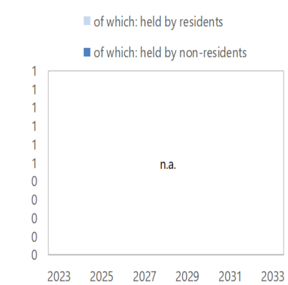
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	62.2	64.9	66.5	67.4	68.8	66.9	65.1	63.4	61.9	53.4	39.1	56.0	61.5
of which: external debt	27.6	27.3	26.2	25.6	26.9	27.1	27.5	27.4	26.7	27.9	32.8	18.4	27.1
Change in public sector debt	8.2	2.7	1.7	0.9	1.4	-1.9	-1.8	-1.6	-1.5	-1.6	-1.4		
Identified debt-creating flows	3.5	1.7	4.3	1.2	1.7	-1.7	-1.6	-1.9	-1.6	-1.7	-1.6	1.9	-1.2
Primary deficit	4.7	2.5	5.9	4.0	3.9	0.5	0.6	0.7	0.8	0.4	0.4	2.7	1.1
Revenue and grants	16.6	17.1	17.6	18.4	18.4	18.4	18.8	19.1	19.6	20.4	22.3	16.6	19.4
of which: grants	2.5	1.8	2.5	2.9	2.2	1.6	1.5	1.3	1.3	0.9	0.4		
Primary (noninterest) expenditure	21.3	19.6	23.5	22.3	22.3	18.9	19.4	19.8	20.4	20.8	22.7	19.3	20.5
Automatic debt dynamics	-1.1	-0.8	-1.6	-2.8	-2.2	-2.1	-2.2	-2.6	-2.4	-2.1	-2.0		
Contribution from interest rate/growth differential	0.5	-3.2	-4.1	-2.8	-2.2	-2.1	-2.2	-2.6	-2.4	-2.1	-2.0		
of which: contribution from average real interest rate	1.6	0.3	-0.5	0.6	1.2	1.3	1.2	0.8	0.9	0.8	0.1		
of which: contribution from real GDP growth	-1.0	-3.5	-3.6	-3.4	-3.4	-3.5	-3.5	-3.4	-3.3	-2.9	-2.1		
Contribution from real exchange rate depreciation	-1.7	2.5	2.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	4.6	0.9	-2.7	-0.3	-0.3	-0.2	-0.2	0.3	0.1	0.1	0.2	1.4	0.0
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	60.4	59.1	59.3	56.8	54.4	52.5	51.0	42.4	29.3		
PV of public debt-to-revenue and grants ratio	...	...	342.5	321.9	321.9	308.5	288.9	274.3	260.3	207.5	131.7		
Debt service-to-revenue and grants ratio 3/	70.1	57.5	57.2	54.0	41.0	57.5	56.7	57.6	53.9	44.4	18.9		
Gross financing need 4/	16.4	12.3	16.0	13.9	11.4	11.0	11.3	11.7	11.3	9.5	4.6		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	2.0	6.0	5.8	5.4	5.3	5.3	5.5	5.5	5.5	5.5	5.5	5.0	5.5
Average nominal interest rate on external debt (in percent)	2.4	1.6	1.9	1.7	1.6	1.4	1.3	1.2	1.2	1.4	2.0	1.8	1.3
Average real interest rate on domestic debt (in percent)	3.9	3.1	2.0	2.9	3.5	3.7	3.7	3.8	3.8	4.1	3.8	3.1	3.8
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.1	9.8	10.2	...	...	...	...	...	...	...	...	3.7	...
Inflation rate (GDP deflator, in percent)	1.8	2.5	3.7	2.8	2.2	2.0	2.0	2.0	2.0	2.0	2.0	1.2	2.1
Growth of real primary spending (deflated by GDP deflator, in percent)	50.4	-2.5	26.8	0.1	5.1	-10.9	8.6	7.7	8.4	6.8	6.5	9.4	4.4
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-3.5	-0.2	4.2	3.1	2.4	2.4	2.4	2.3	2.3	2.0	1.8	0.2	2.3
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?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security, 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, 2023–33

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio											
Baseline	19	19	18	18	17	17	17	17	17	17	17
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	19	20	21	23	24	25	27	29	32	34	36
B. Bound Tests											
B1. Real GDP growth	19	19	19	19	18	17	17	18	18	18	18
B2. Primary balance	19	19	19	19	19	18	18	19	19	19	20
B3. Exports	19	21	25	25	24	23	23	23	23	23	22
B4. Other flows 3/	19	22	25	24	24	23	22	22	22	22	22
B5. Depreciation	19	24	20	19	19	18	18	18	19	19	20
B6. Combination of B1-B5	19	24	24	23	23	22	22	22	22	22	22
C. Tailored Tests											
C1. Combined contingent liabilities	19	21	21	21	21	20	20	21	21	21	22
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	66	68	67	64	62	59	58	60	61	62	63
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	66	74	78	81	85	88	95	104	113	122	129
B. Bound Tests											
B1. Real GDP growth	66	68	67	64	62	59	58	60	61	62	63
B2. Primary balance	66	70	72	69	67	65	65	67	68	69	70
B3. Exports	66	88	121	115	111	106	105	105	106	105	105
B4. Other flows 3/	66	81	91	87	84	80	79	80	80	79	79
B5. Depreciation	66	68	57	55	53	50	50	52	53	55	56
B6. Combination of B1-B5	66	87	82	92	88	84	84	84	85	85	85
C. Tailored Tests											
C1. Combined contingent liabilities	66	77	76	74	73	71	72	74	76	77	78
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	7	8	8	8	7	6	5	5	5	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	7	8	9	9	8	8	7	7	7	8	9
B. Bound Tests											
B1. Real GDP growth	7	8	8	8	7	6	5	5	5	5	5
B2. Primary balance	7	8	8	8	7	6	6	5	5	6	6
B3. Exports	7	9	11	11	10	9	8	7	8	9	9
B4. Other flows 3/	7	8	8	8	8	7	6	5	6	7	7
B5. Depreciation	7	8	8	8	7	6	5	5	5	5	5
B6. Combination of B1-B5	7	8	10	10	9	8	7	6	7	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	7	8	8	8	7	6	6	5	5	6	6
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	13	13	13	12	11	10	8	7	7	8	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	13	13	14	14	13	12	11	10	11	12	13
B. Bound Tests											
B1. Real GDP growth	13	13	13	13	12	10	9	8	8	8	8
B2. Primary balance	13	13	13	13	11	10	8	7	8	8	8
B3. Exports	13	13	14	14	12	11	9	8	9	10	10
B4. Other flows 3/	13	13	13	13	12	10	9	8	9	10	10
B5. Depreciation	13	16	16	15	14	12	10	9	9	9	9
B6. Combination of B1-B5	13	14	14	14	13	11	9	8	9	10	10
C. Tailored Tests											
C1. Combined contingent liabilities	13	13	13	13	11	10	9	8	8	8	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 2023–33

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	PV of Debt-to-GDP Ratio										
Baseline	**59**	**59**	**57**	54	52	51	49	47	46	44	42
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**60**	**61**	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**60**	**60**
B. Bound Tests											
B1. Real GDP growth	**60**	**62**	**62**	**60**	**58**	**57**	**56**	55	54	52	51
B2. Primary balance	**60**	**64**	**64**	**61**	**59**	**57**	**55**	53	51	49	47
B3. Exports	**59**	**62**	**63**	**60**	**58**	**57**	55	53	51	49	47
B4. Other flows 3/	**59**	**63**	**63**	**61**	**59**	**57**	55	53	51	49	47
B5. Depreciation	**60**	**61**	**57**	53	49	47	44	41	38	36	33
B6. Combination of B1-B5	**60**	**60**	**58**	54	52	50	48	46	45	43	42
C. Tailored Tests											
C1. Combined contingent liabilities	**60**	**73**	**70**	**67**	**64**	**62**	**60**	**57**	**55**	53	51
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.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
	PV of Debt-to-Revenue Ratio										
Baseline	322	322	308	289	274	260	249	238	228	218	208
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	329	328	327	317	311	304	301	298	296	294	291
B. Bound Tests											
B1. Real GDP growth	329	337	334	317	305	293	284	275	267	259	251
B2. Primary balance	329	345	348	326	309	293	280	267	255	244	232
B3. Exports	322	334	343	321	305	289	277	265	253	241	228
B4. Other flows 3/	322	341	345	323	307	291	279	267	254	242	229
B5. Depreciation	329	335	310	282	260	240	223	207	192	178	163
B6. Combination of B1-B5	329	329	317	288	273	258	246	234	225	215	204
C. Tailored Tests											
C1. Combined contingent liabilities	329	394	379	355	336	318	303	289	276	264	251
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	54	41	57	57	58	54	55	47	55	47	44
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	54	42	59	59	62	59	61	53	62	54	53
B. Bound Tests											
B1. Real GDP growth	54	42	60	60	62	59	60	53	62	54	52
B2. Primary balance	54	41	58	61	65	61	62	53	60	52	49
B3. Exports	54	41	58	57	58	55	55	47	56	49	46
B4. Other flows 3/	54	41	58	57	58	55	55	47	56	49	46
B5. Depreciation	54	40	58	57	57	53	53	45	53	45	43
B6. Combination of B1-B5	54	40	56	56	57	53	54	46	55	47	44
C. Tailored Tests											
C1. Combined contingent liabilities	54	41	61	71	71	68	70	55	64	55	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.

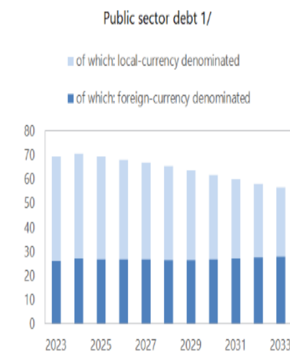
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

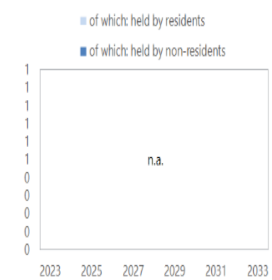
Table 5. Togo: Public Sector Debt Sustainability Framework, Stock-flow Adjustment, 2020–43

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	61.8	64.6	66.3	69.6	70.5	69.4	68.1	66.8	65.4	56.5	41.6	55.9	64.5
of which: external debt	27.2	26.9	26.0	26.1	27.0	26.8	26.8	26.7	26.3	27.7	33.4	18.3	26.8
Change in public sector debt	7.7	2.8	1.7	3.4	0.9	-1.1	-1.3	-1.3	-1.4	-1.7	-1.4		
Identified debt-creating flows	3.5	1.7	4.3	3.2	0.9	-1.0	-1.3	-1.8	-1.7	-1.8	-1.6	1.9	-1.0
Primary deficit	4.7	2.5	5.9	4.1	2.2	0.5	0.6	0.7	0.8	0.4	0.4	2.7	1.0
Revenue and grants	16.6	17.1	17.6	17.4	17.2	17.2	18.3	18.8	19.3	20.1	22.0	16.6	18.8
of which: grants	2.5	1.8	2.5	2.0	1.2	0.7	1.3	1.3	1.3	0.9	0.4		
Primary (noninterest) expenditure	21.3	19.6	23.5	21.6	19.4	17.8	18.9	19.5	20.1	20.5	22.4	19.3	19.8
Automatic debt dynamics	-1.2	-0.8	-1.6	-2.8	-2.2	-2.2	-2.3	-2.7	-2.5	-2.2	-2.0		
Contribution from interest rate/growth differential	0.5	-3.2	-4.0	-2.8	-2.2	-2.2	-2.3	-2.7	-2.5	-2.2	-2.0		
of which: contribution from average real interest rate	1.5	0.3	-0.5	0.6	1.3	1.4	1.3	0.9	1.0	0.8	0.2		
of which: contribution from real GDP growth	-1.0	-3.5	-3.5	-3.4	-3.5	-3.5	-3.6	-3.5	-3.5	-3.0	-2.2		
Contribution from real exchange rate depreciation	-1.7	2.4	2.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	1.9	1.0	0.6	0.4	0.2	0.0	0.0	0.0	0.0	0.4
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	0.9	0.2	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	1.0	0.8	0.6	0.4	0.2	0.0	0.0	0.0		
Residual	4.2	1.0	-2.6	0.1	0.0	-0.1	0.0	0.4	0.3	0.1	0.2	1.3	0.1
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	59.3	60.6	60.6	58.9	56.9	55.1	53.5	44.7	31.9		
PV of public debt-to-revenue and grants ratio	...	...	336.3	347.5	352.1	342.0	310.7	292.6	277.5	222.4	145.3		
Debt service-to-revenue and grants ratio 3/	69.7	57.0	57.0	56.6	44.4	63.3	59.8	61.6	59.2	48.5	21.5		
Gross financing need 4/	16.3	12.3	15.9	15.9	10.8	12.0	12.0	12.5	12.2	10.2	5.1		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	2.0	6.0	5.8	5.4	5.3	5.3	5.5	5.5	5.5	5.5	5.5	5.0	5.5
Average nominal interest rate on external debt (in percent)	2.3	1.6	1.9	1.6	1.5	1.3	1.1	1.0	0.9	1.2	2.1	1.8	1.2
Average real interest rate on domestic debt (in percent)	3.9	3.1	2.0	2.9	3.5	3.7	3.7	3.7	3.8	4.0	3.8	3.1	3.7
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.1	9.7	10.2	...	...	...	...	...	...	...	...	3.7	...
Inflation rate (GDP deflator, in percent)	1.8	2.5	3.7	2.8	2.2	2.0	2.0	2.0	2.0	2.0	2.0	1.2	2.1
Growth of real primary spending (deflated by GDP deflator, in percent)	50.4	-2.5	26.8	-3.3	-5.3	-3.5	12.4	8.8	8.4	6.8	6.5	9.4	4.3
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-3.0	-0.3	4.2	0.8	1.3	1.6	1.9	2.0	2.1	2.1	1.8	0.3	1.9
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?	No





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security, 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.

Figure 1. Togo: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2023-2033

Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	No	
Natural disaster	n.a.	n.a.
Commodity price 2/	n.a.	n.a.
Market financing	n.a.	n.a.

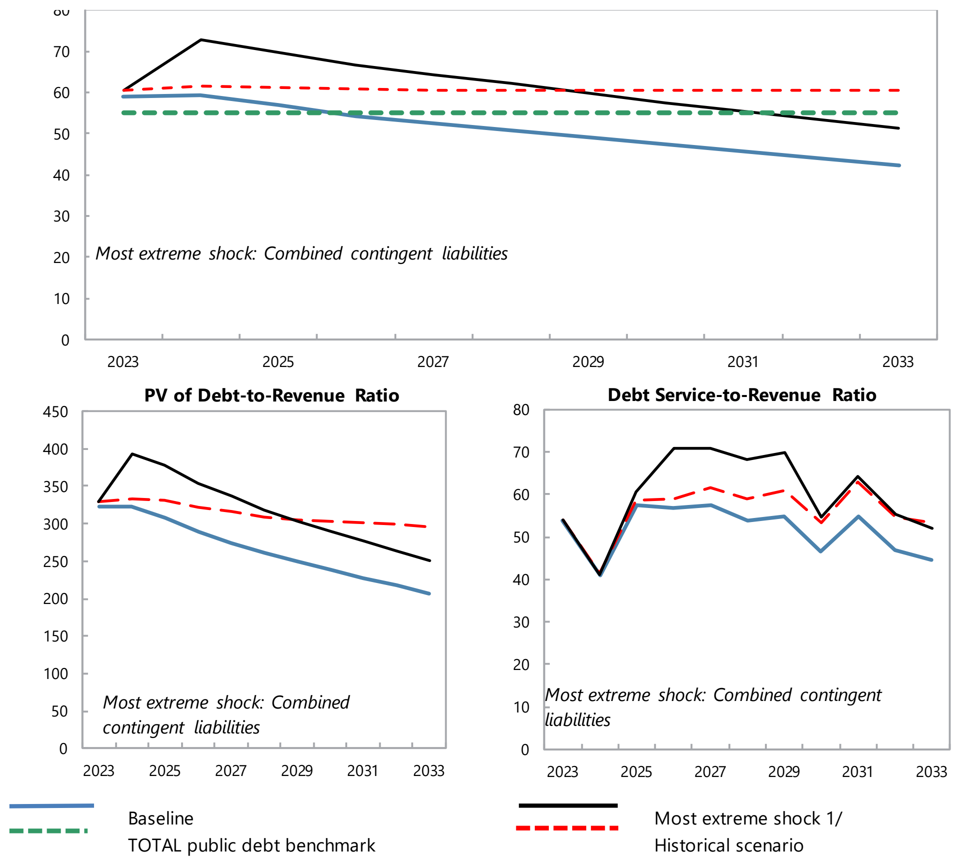
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the 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	1.5%	1.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	6	6

* 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 2033. 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.
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, 2023–33



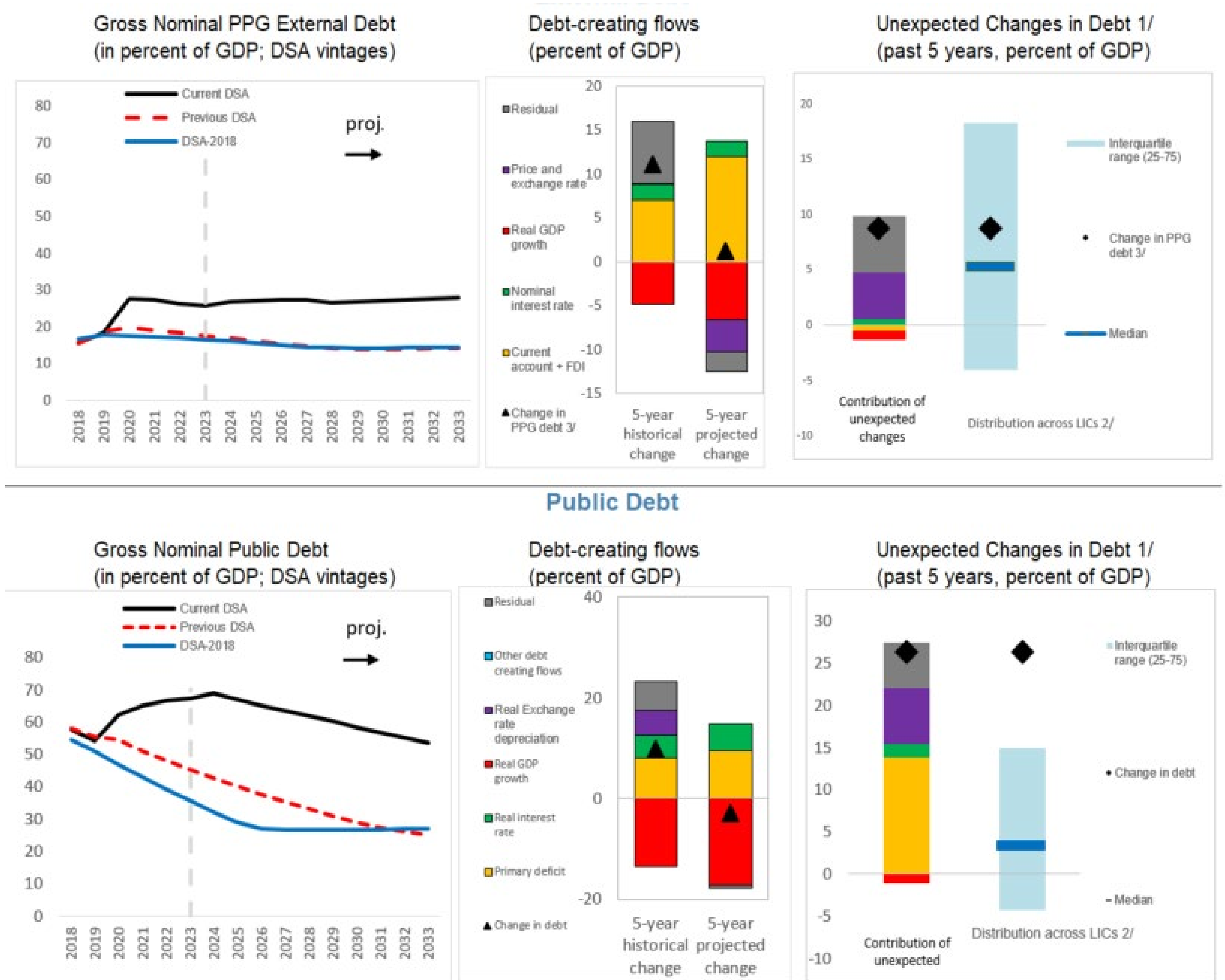
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	33%	30%
Domestic medium and long-term	67%	70%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.5%	1.5%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.1%	4.1%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

* 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 2033. 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



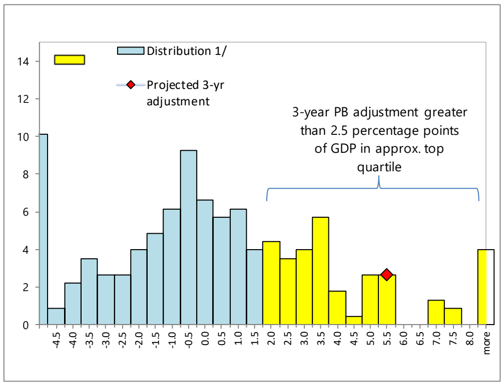
1/ Difference between anticipated and actual contributions on debt ratios.

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.

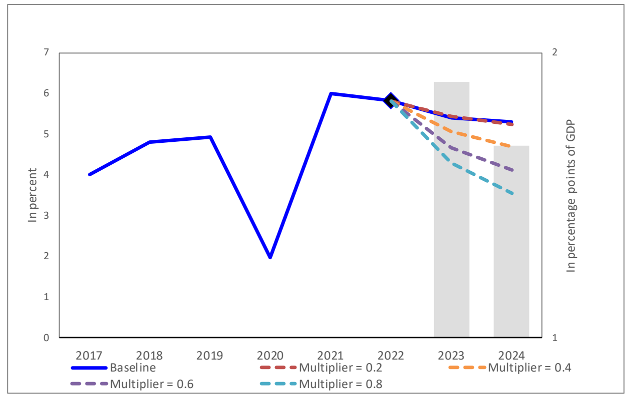
Figure 4. Togo: Realism Tools

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



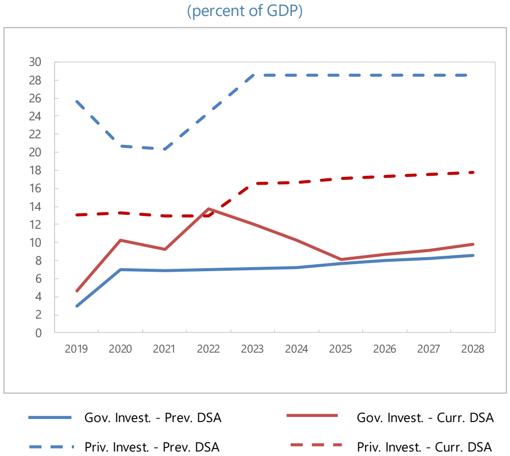
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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
(percent of GDP)



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

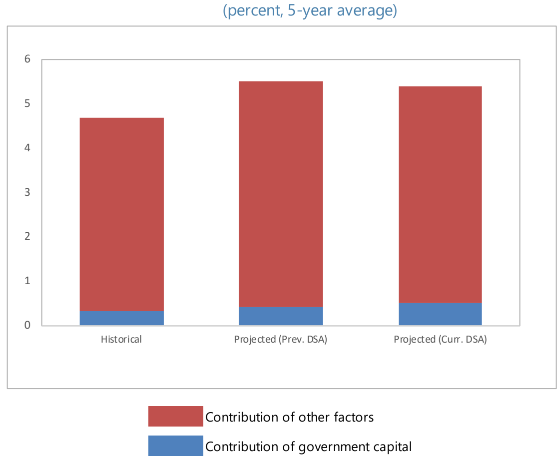
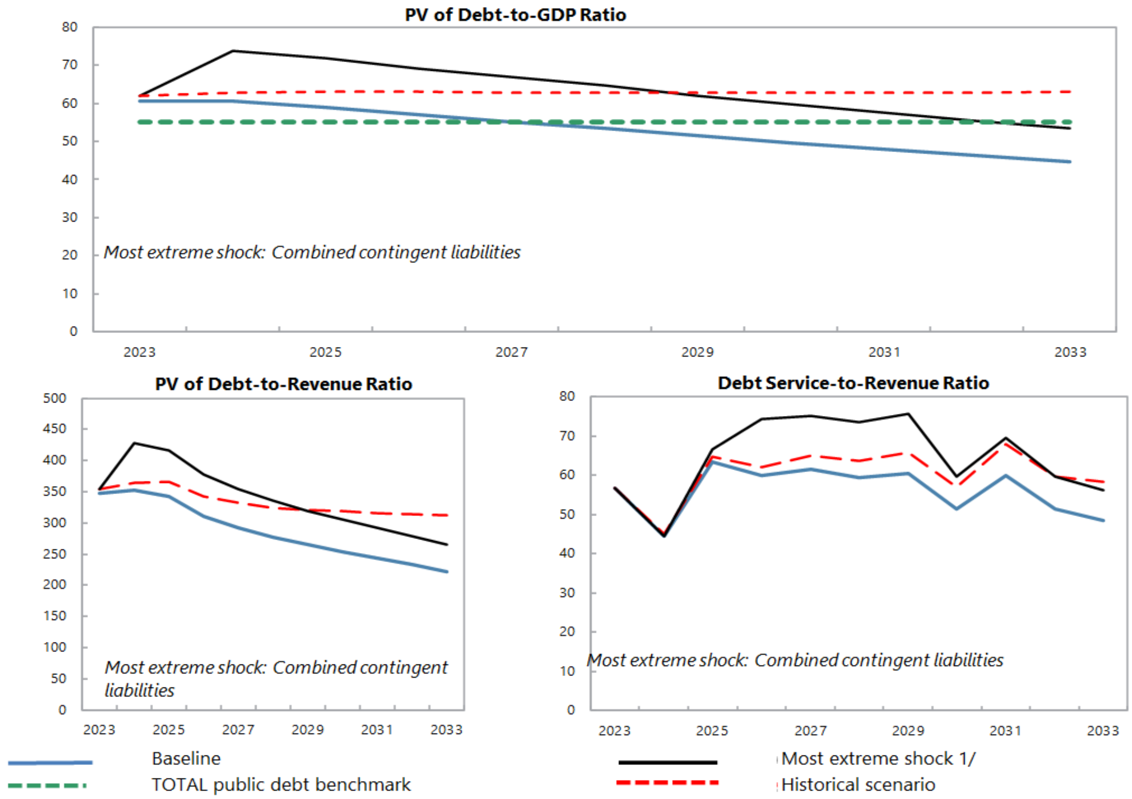


Figure 5. Togo: Qualification of the Moderate Category, 2023–33[1/]

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.

Figure 6. Togo: Indicators of Public Debt Under Stock-flow Adjustment, 2023–33



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	29%	30%
Domestic medium and long-term	71%	70%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
Avg. maturity (incl. grace period)	31	31
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.0%	4.0%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

* 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 2033. 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.

Statement by Mr. Facinet Sylla, Executive Director for Togo Mr. Regis O. N'Sonde, Alternate Executive Director and Mrs. Boukpessi, Advisor to the Executive Director

Friday, March 1st, 2024

I. Introduction

1. On behalf of our Togolese authorities, we would like to thank the IMF Executive Board, Management and Staff for the Fund's engagement with Togo. We particularly thank Staff for the tireless efforts and constructive dialogue leading to the Board's consideration of the authorities' request for an IMF support under the Extended Credit Facility (ECF).

2. Togo successfully implemented its 2017-20 ECF-supported program, achieving significant progress in reinforcing macroeconomic stability and promoting sustainable and inclusive growth. However, since the completion of that program, Togo has been hit hard by a series of significant shocks, including the Covid-19 pandemic, spillovers of the war in Ukraine, increased food insecurity as well as a deteriorating security situation in the northern part of the country since 2021 due to repeated terrorist attacks in the Sahel region. Nonetheless, the authorities' strong policy responses have helped mitigate the impact of those shocks on the Togolese population and economy. Togo's response to the Covid-19 pandemic was highly ranked globally thanks to major innovative features including the *Novissi* cash transfer program. On the security issue, considering the devastating consequences of terrorist attacks, an emergency program combining both civilian and military/security approach has been adopted to effectively tackle these threats. All those shocks and policy responses, coupled with development needs, are causing wide financing gaps over the near to medium term which the authorities plan to bridge through fiscal consolidation efforts as well as financing.

3. The Togolese authorities are requesting a 42-month arrangement under the ECF in the amount of SDR 293.6 million (200 percent of Togo's quota). The ECF arrangement will support the implementation of the Government's economic and financial policies outlined in the ongoing 2020–25 Government Roadmap—*Feuille de route gouvernementale*—and will sustain efforts to (i) make growth more inclusive while strengthening debt sustainability, and (ii) advance structural reforms to support growth and contain financial sector and associated fiscal risks. Amid the challenging context, the authorities have completed the prior action related to the banking sector reform, as a demonstration of their strong commitment to the objectives of the proposed ECF program. The authorities are confident that the IMF support would also help catalyze much-needed concessional financing for development and social spending. Moreover, Togo's ECF-supported program should make a positive contribution to maintaining macroeconomic and external stability in the Western African Economic and Monetary Union (WAEMU).

II. Recent Economic Developments and Outlook

4. Real GDP growth in Togo was positive at 2 percent in 2020 and is estimated to have strongly rebounded to figures above 5 percent in the period 2021-23 thanks essentially to robust counter-cyclical fiscal policy. With the gradual recovery in supply chains, the decline in global commodity prices, and favorable harvests, inflation (yoy) eased to 5.3 percent in November 2023 from a high 7½ percent in 2022 and early 2023 driven by rising food and energy prices. Regarding the fiscal performance, the overall budget deficit is estimated to have stood at 6.6 percent of GDP in 2023 because of higher spending in response to shocks amidst lower revenue, lower support from development partners and tighter financing conditions. Efforts to strengthen the banking sector have shown positive results, with improvements in asset quality and solvency ratios while the share of non-performing loans (NPLs) has declined by almost half since 2020. On the external front, the current account deficit is estimated to have narrowed to 3.3 percent of GDP on the back of improved terms of trade.

5. The economic outlook is positive despite uncertainty stemming from the risks of a possible intensification of terrorist threats, heightened spillovers from geopolitical tensions, increased food insecurity and social pressures. The challenge of securing affordable financing in the regional market also presents a significant risk. Furthermore, Togo is vulnerable to the effects of climate change, such as floods, droughts, and coastal erosion. Under conservative assumptions and prudent growth projections, the authorities still see growth as remaining above 5 percent over 2024-25 and the following few years. Headline inflation is expected to align with the regional central bank *Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO)'s* target of 2 percent by 2025 while fiscal deficit is projected to converge to the regional deficit ceiling of 3 percent of GDP by 2025 and the total public debt-to-GDP ratio is anticipated to decrease gradually starting in 2025. Growth is expected to be broad-based, driven by the expansion of the logistics sector following the modernization of the *Port Autonome de Lomé*, increased activity in manganese mining, along with efforts to develop value-added chains in the agro-industrial sector. In the same vein, the authorities also look forward to the outcomes of the *Plateforme Industrielle d'Adétikope (PIA),* a public-private partnership launched in 2021.

6. Should downside risks materialize, including a potential escalation in, and broadening of, security threats, the authorities stand ready to make the necessary policy adjustments, in coordination with IMF staff. They intent to do so by managing as much as possible the impact on fiscal accounts and debt dynamics while remaining in line with the key program objectives.

III. Medium-Term Macroeconomic Policies and Structural Reforms

7. The Fund-supported ECF program would aim to preserve macroeconomic stability and hasten poverty reduction by (i) enhancing debt sustainability and mitigating fiscal and financial sector risks while ensuring inclusion, and (ii) implementing structural reforms to boost growth. To this end, key measures comprise boosting revenue mobilization, prioritizing expenditures, improving public financial management (PFM), strengthening social spending and safety nets, and pursuing pro-growth structural reforms including in the banking sector, governance, and the business environment.

Medium-Term Fiscal Framework to Reduce Deficits and Strengthen Debt Sustainability

8. The authorities have adopted a dual anchor to their fiscal policy to improve debt sustainability, guided by the WAEMU convergence framework. The key objectives are to reduce the risk of debt distress to moderate levels by the end of 2026 and to gradually decrease the fiscal deficit to 4.8 percent in 2024 and 3 percent of GDP by 2025.

Broad-based Fiscal Consolidation

9. Fiscal consolidation will be achieved through intensified efforts to boost revenue, reduce non-priority current spending, and improve the efficiency of public investment. *On the revenue side*, the ambition is to raise additional 0.5 percent of GDP per year until the end of the program. In 2024, this would be attained through gains expected from tax policy and revenue administrative measures amounting to 0.55 percent of GDP, bringing tax revenues to 14.9% of GDP. A strategy to raise tax and non-tax revenues will be developed by end October 2024 to guide the country's revenue mobilization efforts over the medium-term. Amongst others, this strategy will entail phasing out tax exemptions and increasing property tax collection. The country will benefit from IMF TA in this endeavor.

10. *Regarding expenditure*, it is the authorities' plan to reduce non-priority current spending as well as lower temporarily public investment. Containing the wage bill, reducing goods and services spending, and cutting fuel subsidies are integral parts of the current expenditure containment strategy. In particular, with the view to reducing fuel subsidies, the authorities are in the process of putting in place a fuel price smoothing mechanism, along with a stabilization fund. At the same time, a comprehensive review of electricity and water subsidies is also underway with the support of the World Bank.

Public Financial Management

11. Steady progress in advancing PFM reforms was made during the previous ECF arrangement. The authorities intend to sustain the momentum of program budgeting reform, including by progressively introducing climate and environment-sensitive budgeting. The government plans to enhance the framework for public-private partnerships (PPPs) to finance half of the projects in the Government Roadmap. The operationalization of the PPPs unit is envisioned, following the adoption of the legal framework for PPPs in 2021. Furthermore, a document that will provide key financial information on state-owned enterprises (SOEs) and commitments under PPP contracts will be prepared to help improve the monitoring and oversight of PPPs and SOEs. Other actions being taken include the improvement of fiscal reporting as well as the expansion of the Public Investment Program to include extra-budgetary entities and PPPs, with the view to improving the preparation, selection, and coordination of public investment projects.

Debt Management

12. The authorities are resolved to preserve debt sustainability. In this respect, beyond the fiscal consolidation efforts, an active debt management policy will be pursued, building on progress identified in the 2022 Debt Management Performance Assessment. This will also entail enhancing the Medium-Term Debt Strategy (MTDS) with monthly domestic issuance plans, funding targets, and increased debt transparency. Concessional external financing will be prioritized.

Fostering Inclusion and Enhancing Social Safety Net

13. The authorities are striving to improve the social safety net and boost social and pro-poor spending, in line with the first pillar of the government roadmap. A social protection strategy will be adopted by June 2024 and a biometric identification system along with a registry of eligible poor individuals are being prepared as basis for a targeted cash transfer program to the most vulnerable population building on the previously successful *Novissi* platform for payments. The Government commits to increase pro-poor spending to a floor amounting to 5.3 percent of GDP in 2024 and this will be increased further in the following years. A more precise and highly selective definition of social spending has been agreed between the authorities and Staff and will allow efficient and proper tracking.

14. The roll out of an emergency program across the three northern regions affected by terrorist attacks—*Savanes, Kara,* and *Region centrale*—is part of the authorities' efforts to strengthen social protection by enhancing the population's resilience and combatting terrorism in these areas. The emergency program allows expanded access to essential services such as water, energy, healthcare, education, and telecommunications. Additionally, it aims to improve the rural road network and support agricultural activities.

Strengthening Financial Sector Stability

15. Within the framework of the WAEMU monetary union, securing financial stability is of paramount importance to both national and regional authorities. The Government acknowledge the vulnerabilities in the banking sector identified in the IMF staff report and particularly the risks to financial stability and related fiscal risks from two undercapitalized banks: one that was recently privatized and the second one which is the remaining state-owned bank (SOB).

16. To mitigate these risks, the authorities reiterate their firm commitment to ensuring that the banks adhere to regulatory capital requirements. They have implemented the prior action aimed at providing the SOB with the needed funds— equivalent of about US$ 72 million, representing 0.7 percent of GDP, through cash and marketable government bonds— with the view to bringing its regulatory capital to zero and to facilitate its privatization. The authorities are resolved to ensuring compliance with regulatory and prudential norms. Regarding the bank privatized in 2021, actions are being taken to support the bank in implementing its recapitalization plan.

Improving Governance and the Business Environment

17. Togo's efforts to enhance its business environment and governance have yielded results, as seen in the World Bank's Country Policy and Institutional Assessment (CPIA) rating improvements to 3.7 in 2022 from 3.0 in 2013, surpassing averages of peer countries. These efforts include strengthening commercial courts and digitalizing government functions to reduce corruption risks, enhance effectiveness, and lower costs. This is exemplified by digital tax and customs platforms and the digitization of the land ownership registry. Work to tackle constraints to growth is also in train, with the support of the US Millennium Challenge Corporation threshold program. Actions are also underway to reinforce private sector participation in the agriculture, infrastructure, and mining sectors. Pursuing the digital transformation of the economy, expanding the port, diversifying exports with the industrial zone PIA would also help sustain growth, increase trade with neighboring countries, and attract more foreign investment. The African Continental Free Trade Area presents a great opportunity for Togo in this regard.

18. Another priority is strengthening governance, with recent efforts concentrated on boosting transparency and accountability. The authorities take good note of Staff's call for an IMF governance diagnostic assessment building on the reforms achieved so far and with support from IMF TA to help them refine their National Strategy for Combating Corruption. Regarding the AMF/CFT regime, advancements—including the drafting of an AML/CFT law with related implementation decrees—are being made in line with the findings of the 2022 report of the Intergovernmental Action Group Against Money Laundering in West Africa (GIABA).

IV. Conclusion

19. Togo is currently facing significant challenges, striving to restore macroeconomic stability and ensure debt sustainability while preserving growth and making it more inclusive. Extraordinary global and regional shocks and domestic vulnerabilities, including the security situation in the Sahel and in Togo and climate change weigh on the country's growth prospects and financing needs. The authorities are confident that the proposed Fund-supported ECF program will be critical to sustain their efforts to enhance the buffers and economic resilience and transform macroeconomic gains into stronger social safety nets and inclusion to alleviate poverty. Given the strength of Togo's policy and reform agenda, the authorities' unwavering commitment to program objectives, along with their track record of satisfactory program implementation, we would appreciate the Executive Board's approval of the ECF program, which is also expected to unlock additional financing from development partners.