

## **Togo—Assessment Note for the World Bank**

This note provides the IMF staff assessment of recent macroeconomic developments in Togo and progress under the Fund-supported three-year Poverty Reduction and Growth Facility program (PRGF) starting from January 2008 based on preliminary information through end-December 2008.

### **Performance under the PRGF-supported program**

A staff mission is currently visiting Togo to conduct the second review under the PRGF arrangement and discussions under the Article IV consultation. Based on preliminary data, performance through end-December 2008 has been strong; all quantitative fiscal targets were met, some with an ample margin, and good progress has been achieved in planned structural reforms, with all program benchmarks met on or ahead of schedule, except for a three month delay in initiating the strategic audit of the phosphate sector.

This performance confirms a strong track record, starting from the beginning of the program in January 2008. On September 22, 2008, the IMF Board concluded the first PRGF review, welcoming government's resolve in meeting the quantitative targets and advancing structural reforms, in particular in the area of public financial management. To help Togo cope with the impact of the global price shocks and the consequences of the severe flooding that hit the country in summer 2008, the Board also augmented the PRGF arrangement by an amount equivalent to 25% of quota (SDR 18.35 million). Against this background, Togo's success in remaining on track with its PRGF arrangement has been commendable.

Fiscal performance was particularly strong in 2008, although the over-performance is partly due to underspending on emergency infrastructure repairs that highlights capacity limitations. Revenue collection was strong, particularly for customs, reflecting improved administration and enhanced computerization. Although the needs arising from the flooding were pressing, the combination of government prudence in project spending and excessively complex procurement procedures hampered expedited start-up of identified repair projects. As a result, the projected domestic primary balance will be about +½ percent of GDP, compared with the program target of -½ percent. The target on net domestic financing is expected to be met by a wide margin, with a corresponding accumulation of government deposits in the banking system.

Fund staff supports the authorities' plans to shift the unspent part of the identified emergency spending into early 2009, which will loosen the fiscal stance, with the understanding that increased spending will focus on remaining repairs. The authorities are pursuing an action plan to enhance project spending capacity, consistent with adequate controls, through such means as transparent and streamlined procurement rules. The limited capacity for managing projects, however, will continue to pose risks to full execution of the budget in 2009. The authorities concur that there are risks to growth and revenue due to the global slowdown, and Fund staff are advising a prudent approach to budget execution in the first half of 2009, with close monitoring of revenue performance.

The global financial crisis poses the most serious risks for Togo's economic revival and the program that supports it. The PRGF-supported program should continue to provide a sound and flexible framework to help the country cope with shocks. In the near term the program aims to mitigate macroeconomic risks and lay the groundwork for broader reforms. In the medium term it seeks to create the preconditions for a revival of economic growth and external and fiscal sustainability. While the program design remains substantially valid for fulfilling these goals under current circumstances, the global financial crisis may delay key elements of an economic revival, especially finding strategic investors for restructuring state owned banks and enterprises. In the current global environment, the projected modest rebound in the economic activity in 2009 depends on realization of increased donor support and addressing Togo's capacity constraints in project identification and execution.

### **Growth-enhancing structural reforms**

Reforms implemented during the preceding Staff Monitored Program and the first year of the PRGF-arrangement are showing positive results in terms of public financial management governance and effectiveness, and going forward the focus of the PRGF arrangement will broaden to include reforms to restore the conditions for faster growth and poverty reduction. To achieve this, strong actions are needed to reform the ailing state-owned banks and enterprises and to improve the overall business environment, consistent with the country's Poverty Reduction Strategy.

With the implementation of planned growth-enhancing reforms, the economy could achieve real GDP growth of about 4 percent annually by 2011, with a gradually improving fiscal position. The fiscal stance in 2009 will not harm long-term debt indicators, given its temporary nature and pro-growth focus. Assuming full HIPC debt relief in 2010, the primary domestic balance is projected to revert to a sustainable 1 percent of GDP surplus by 2011. Inflationary pressures are projected to be moderate over the medium term. The medium-term reform strategy to support this scenario would have two central elements: (i) fiscal reforms to make room for growth-oriented spending and strengthen fiscal and external sustainability; and (ii) economic reforms aimed at raising growth potential and external competitiveness, particularly steps to reform state-owned banks and enterprises. As highlighted in the LIC DSA conducted for HIPC decision point (November 2008), positive debt dynamics depend on this acceleration in growth and fiscal strengthening, even with full HIPC relief. Satisfactory performance under the PRGF will be an essential element in reaching the HIPC completion point.

We therefore believe that the PRGF supported program will provide a sound macroeconomic framework to guide the reform efforts. Staff will continue to conduct biannual missions to monitor performance and maintain close coordination with donors.