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Togo: Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on September 22, 2009, with the officials of Togo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 11, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Joint IMF/World Bank Debt Sustainability Analysis.
- A Press Release.

The documents listed below have been separately released.

Letter of Intent sent to the IMF by the authorities of Togo*

Memorandum of Economic and Financial Policies by the authorities of Togo*

Technical Memorandum of Understanding*

Other Background papers

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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TOGO

Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the African Department
(In consultation with other departments)

Approved by Mark Plant and Dominique Desruelle

November 11, 2009

PRGF arrangement:	Togo's three-year PRGF arrangement was approved in April 2008, in an amount of SDR 66.06 million (90 percent of quota). An augmentation of access of SDR 18.35 million (25 percent of quota) was approved in September 2008. The HIPC decision point was reached in November 2008.
Mission team:	Mr. Mills (head), Ms. Ocampos, Mr. David (all AFR), Ms. Gicquel (SPR), and Mr. Yao (resident representative). Mr. N'Sonde (OED) also participated in the mission.
Discussions:	Third review of the PRGF arrangement in Lomé, September 9–22, 2009. The mission met with Prime Minister Houngbo, Finance Minister Ayassor, BCEAO National Director Adjahoto, and other senior officials. It also liaised with an overlapping World Bank mission and met with representatives of businesses, donors and the media.
Program review:	The authorities have met all quantitative and structural performance criteria and all but one benchmark and one indicative target for the third review. Staff recommends completion of the review, as requested by the authorities in the Letter of Intent.
Exchange arrangements:	Togo has accepted the obligations of Article VIII, Sections 2, 3, and 4. Togo shares a common currency (CFA franc), pegged against the Euro, with other WAEMU members. The BCEAO conducts monetary and exchange rate policies for the region. Banks are supervised by the WAMU Banking Commission.

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GLOSSARY

BCEAO	*Banque Centrale des Etats de l'Afrique de l'Ouest* (Central Bank of West African States)
BTCI	*Banque Togolaise Pour Le Commerce Et L'Industrie* (Togolese Trade and Industrial Bank)
BIA-Togo	*Banque Internationale Pour L'Afrique Au Togo* (International Bank for Africa-Togo)
CEET	*Compagnie Energie Electrique du Togo* (Electric Energy Company of Togo)
CNADI	*Comité Nationale d'Apurement de la Dette Intérieure* (National Committee for the Settlement of the Domestic Debt)
CRT	*Caisse de retraite du Togo* (Pension Fund of Togo)
FDI	Foreign direct investment
FEZ	Free Economic Zone (*Zone franche*)
GFS	Government Finance Statistics
NPL	Non-performing loan
PC	Performance criterion
PIP	*Programme d'Investissement Publique* (Public Investment Program)
PRSP	Poverty Reduction Strategy Paper
SB	Structural benchmark
SDR	Special Drawing Rights
SIGFIP	*Système intègre de Gestion du Finance Publique* (Integrated Budget Execution and Reporting System)
SNPT	*Société Nouvelle des Phosphates du Togo* (New Phosphate Company of Togo)
SOE	State-owned enterprises
SOTOCO	*Société Togolaise de Coton* (Cotton Company of Togo)
UTB	*Union Togolaise de Banques* (Banks' Union of Togo)
WAEMU	West African Economic and Monetary Union

EXECUTIVE SUMMARY

The global recession has delayed Togo's recovery from its protracted domestic crisis, following the impact of last year's flooding and price shocks. Growth is projected to reach only 2½ percent in 2009 and 2010—which is below potential (4 percent) and leads to stagnant per capita income. Inflation has dropped substantially to about 3 percent this year. Togo is expected to have heightened balance of payments pressures for the duration of the program, as sluggish exports and growing imports lead to current account deficits of around 7 percent of GDP in 2008-2010.

The PRGF-supported program remains on track despite the shocks. All quantitative and structural performance criteria through end-June 2009 were met. All targets for implementation of structural reforms were fulfilled through end-June; delays have developed for the second half of 2009 due primarily to capacity constraints. The authorities have committed to completing key reforms in 2010 to strengthen public finances, restructure the banking system and accelerate growth.

To counter sluggish growth, the authorities' PRGF-supported program incorporates counter-cyclical fiscal measures in the second half of 2009 and 2010. The 2009 budget (revised in June) and the 2010 budget both include increases in domestically financed investments and domestic arrears clearance in cash. Even with continuing capacity constraints, domestic public investment is expected to reach at least 3½ percent of GDP in 2009 and 2010, double the level of 2008. Nevertheless, thanks largely to unexpected revenues from cell phone licenses, the budget remains fully financed in 2009. The draft 2010 budget is fully financed through June 2010, with further financing of 1.7 percent of GDP to be identified for the second half of the year. The composition of spending is improving, with a rising share for priority social spending and investment that protect the most vulnerable and promote poverty reduction.

Togo's modest economic outlook faces significant economic and political risks, related primarily to the sluggish global economy and February presidential elections. Nevertheless, the authorities have to date shown a commitment to program implementation despite the pre-electoral period.

Staff recommends completion of the third review based on Togo's performance and policy commitments.

I. Recent Economic Developments and PRGF Performance

A. Continuing Slow Growth Despite Sound Policy

1. **Although the global recession is holding back growth, Togo has maintained macroeconomic stability and strong implementation of the PRGF-supported economic program.** The increase in output anticipated from Togo's post-crisis recovery program has been delayed, first by the global price shocks and flooding last year and then by the global recession. Despite counter-cyclical fiscal policy, projected growth remains around 2½ percent in 2009, which is roughly equivalent to population growth and below potential (4 percent). Spillover effects from the global recession are negatively affecting exports, transportation services, and FDI. However, some of the crisis' impact is being offset or mitigated by country-specific factors, such as a rebound in food production, increased public investment, and a less internationally integrated banking system (Figures 1 and 2; LOI ¶3-4).

2. **Macroeconomic balances have generally been stable or improving in 2009**. With slow growth and the decline in global energy and food prices, inflation has dropped sharply to 3 percent this year (y-o-y average January-September). The current account deficit is expected to remain high at around 7 percent, as export growth remains subdued and imports rise somewhat, especially related to fiscal measures. This deficit and falling FDI are putting pressure on the balance of payments, which is being temporarily offset by the SDR allocation.[1] Credit to the economy has been anemic, reflecting the still incomplete process of bank restructuring.

B. Sound Fiscal Policy Despite Some Capacity Constraints

3. **Fiscal performance was sound through June 2009, although the smaller than expected deficit was due primarily to underspending for investment.** Tax collections through June were higher than expected, reflecting a successful strategy of reducing tax rates and broadening the tax base (LOI ¶6). Non-tax revenue also benefited from unexpected dividends and license fees. Current expenditures, however, were higher than expected, due primarily to the heavy front-loading of spending for emergency needs (flood

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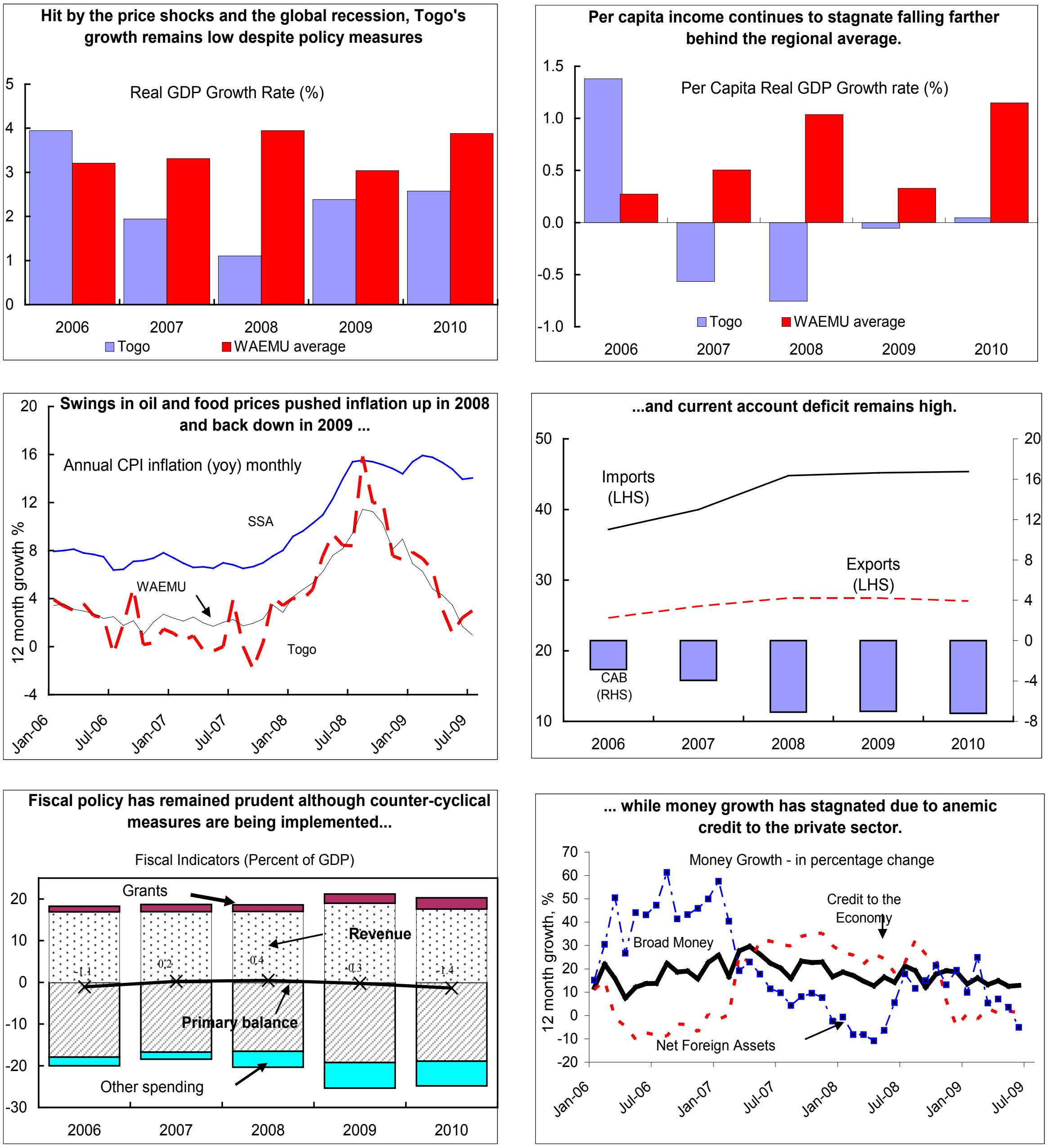
[1] Togo received SDR 59.4 million (approximately $90 million) in the recent SDR allocations.

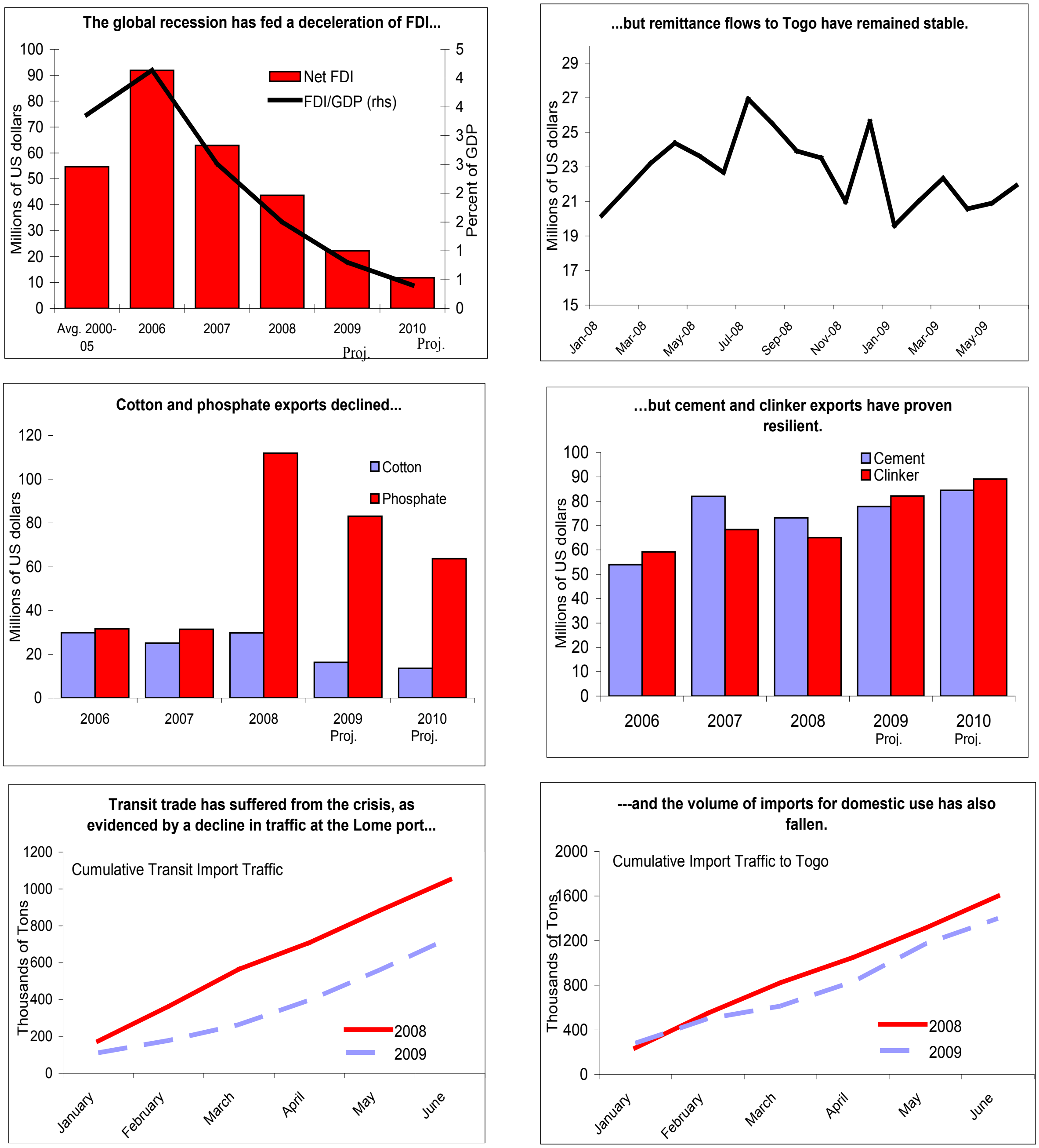
Figure 1. Togo: Recent Macroeconomic Developments [1]



Source: Togolese Authorities and Fund Staff Estimates and Projections

[1] Estimated data for 2009 and projected for 2010.

Figure 2. Togo: Impact of the Global Crisis



Source: Togolese Authorities and IMF Staff Estimates damage and the food price shock), as well as goods and services. Since this spending will not continue at this pace, the authorities expect to keep to the programmed levels for the year. On the other hand, domestically financed investment spending reached only 34 percent of programmed levels (falling 1½ percent of GDP short), due to continuing capacity constraints (Text Table 1). As a result, the end-June 2009 PCs on the fiscal balance and domestic financing were met comfortably, although the target for social and investment spending was missed narrowly due to the under-spending on investment (Appendix 1, Table 1). In June, the authorities enacted a supplementary budget to support economic output and recovery (discussed below).

Text Table 1. Togo: Fiscal Performance in 2008 and 2009 H1

	2008		2009 - H1	
	Prog.	Act.	Prog.	Act.
	(Percent of GDP)			
Revenue and Grants	18.4	18.6	9.5	10.0
Tax Revenue	15.7	16.3	7.6	8.2
Non Tax Revenue	0.9	0.7	0.4	1.1
Grants	1.8	1.6	1.5	0.7
Spending				
Current (Domestic Primary)	15.0	14.8	6.9	8.4
Investment	5.0	3.5	3.8	1.6
Domestic	2.2	1.7	1.9	0.6
Foreign	2.8	1.7	1.9	1.0
Domestic Primary Balance	-0.6	0.4	-0.8	0.2

C. Structural Reforms for H1 2009 Advanced Well

4. **The authorities achieved all the program's targets for implementing structural reforms through end-June** (Text Table 2 and Appendix 1, Table 2). The performance criterion on <u>treasury reform</u> (PC June 2009) was respected on time (LOI ¶10-12), while benchmarks on <u>tax policy</u> and <u>bank restructuring</u> were met early (LOI ¶10-15).

II. Outlook for 2009–10

A. Growth Expected to Respond Modestly to Policy Measures

5. **Given the impact of the global recession, the near-term prospects for Togo's economy remain subdued despite counter-cyclical fiscal measures** (LOI ¶20)**.** Growth is projected at around 2½ percent in 2010, with enhanced fiscal measures contributing about 0.5 percentage points (see below). Inflation is projected to remain muted through 2010, owing to the effects of low commodity prices and slow growth. The external current account deficit is expected to remain high at more than 7 percent in 2010 due to sluggish exports (related to the global recession) and increased imports (largely related to fiscal measures).

Combined with lower FDI, these factors are expected to lead to heightened balance of payments pressures for the duration of the program. The authorities remain committed to pro-growth structural measures, but their effects will likely be realized starting only in 2011, given lags in their implementation and impact.

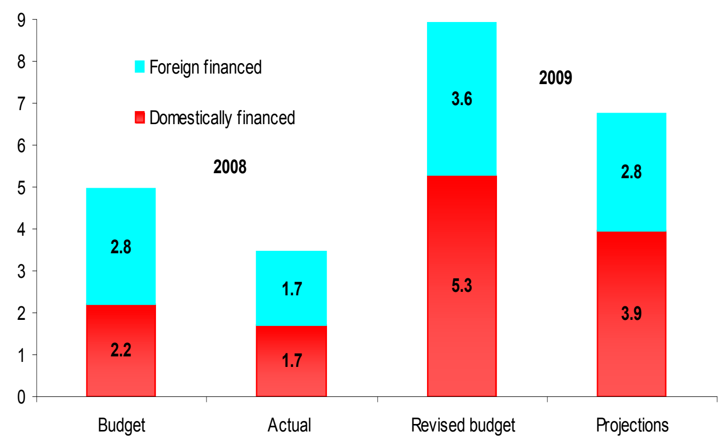
Text Table 2: Togo: Status of Structural Reforms through 2009

Measures	Type	Date	Status
Fiscal governance			
Reduce tax and customs exemptions and strengthen tax and customs control, including in the Free Economic Zone (FEZ).	Benchmark	June 2009	Done.
Make operational a new Treasury structure based on WAEMU directives.	Performance criterion	June 2009	Done.
Start implementing the domestic arrears clearance strategy by securitizing validated arrears to suppliers and setting up a mechanism for monitoring domestic debt.	Benchmark	December 2009	Advancing with probable minor delay.
Financial sector			
Initiate restructuring of BTCI, including by raising its capital through issuance of government securities.	Benchmark	March 2009	Done.
Set up a structure and mechanism for managing the NPLs that have been exchanged against government securities in the bank restructuring process.	Benchmark	December 2009	Advancing with significant delay.
Initiate the process of identifying strategic investors for state-owned banks.	Benchmark	December 2009	Advancing with possible minor delay.
Public enterprises			
Phosphate sector: Prepare a development strategy based on the results of the strategic audit.	Benchmark	September 2009	Advancing with minor delay.

B. Temporary Counter-Cyclical Fiscal Measures for 2009 and 2010

6. **For both counter-cyclical and post-crisis reasons, the authorities have enhanced pro-growth fiscal measures for the second half of 2009 and for 2010.** Increases in domestically financed investment spending and clearance of domestic arrears in cash address both the legacy of the domestic crisis and support economic activity. For 2009, over-performance on revenues, especially unexpected fees from the renewal of telecommunications licenses, will fully finance this spending increase authorized in the June supplementary budget (even though the additional fees may be less than the authorities hoped[2]). Concerted efforts to increase investment capacity are expected to enable this spending to more than double from 2008 to near 4 percent of GDP (Figure 3), based on spending in the pipeline, particularly signed contracts. (Nevertheless, the execution rate compared to the authorities' highly ambitious public investment program will still reach only 70 percent [LOI ¶7-9]). As a result, the domestic primary fiscal balance for 2009 is projected at -0.3 percent of GDP (compared to -0.6 percent for the last review); this outturn depends on continued good tax collection and disciplined current spending (particularly a sharp deceleration in spending on goods and services).

Figure 3. Togo: Public Investment - Planned and Actual, 2008-2009
(as a percentage of GDP)



7. **The 2010 draft budget continues to support economic activity, in light of the somber economic environment in Togo and the lingering effects of the global crisis.** The authorities have decided to make the best use of the limited fiscal leeway available (LOI ¶21-25). In light of sluggish growth, revenue projections are prudent. Related to the SDR allocation, the BCEAO has offered exceptional credit to governments,[3] which the Togolese authorities have opted to use to clear in cash all audited domestic arrears to the private sector

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[2] The authorities are negotiating with the private mobile phone company over the fees and conditions for its license renewal. Since the company has not paid any fees, its operations have been suspended; the program's framework does not currently include any payments.

[3] Extended by the BCEAO in September 2009, this credit has a maturity of 10 years, 3 year grace period, and 3 percent interest rate. Equal to the amount of the general SDR allocation, the credit is intended for domestic arrears clearance.

(costing 3 percent of GDP; see Box 1). Spending initiatives for priority sectors, which protect the most vulnerable and promote poverty reduction in line with the PRSP (Text Table 3), will increase current spending modestly (of which ½ percent of GDP is domestically financed). The budget also maintains the level of domestically financed investment executed in 2009; assuming a modest rise in foreign-financed investment, total public investment will finally reach the level originally projected in the program (7 percent of GDP) as consistent with a recovery in growth. With this temporary fiscal relaxation, the budget targets a domestic primary deficit of 1.4 percent of GDP. Staff supported the fiscal policy stance as appropriate under current circumstances, while stressing the likely need, once economic conditions improve, to tighten fiscal policy to ensure robust public sector and external debt sustainability (see below). This fiscal consolidation would be facilitated by the fact that spending increases have been concentrated in domestically financed investment, while domestically financed current spending has remained relatively restrained.

Text Table 3. Togo: Current and Investment Spending by priority sectors, 2007-10

	2007	2008	2009	2010
	Act.		Est.	Proj.
	(Percent of GDP)			
Primary spending (domestically and foreign financed)	18.4	18.7	21.6	23.2
Spending in priority sectors (health, education, other social)	6.4	6.6	10.1	12.2
Of which project spending (current and capital)	0.9	1.5	3.8	4.7
Other spending	12.0	12.0	11.5	11.1
Of which project spending (current and capital)	1.9	2.3	3.6	3.2

Source: Togolese authorities; and IMF staff estimates and projections

8. **The 2010 budget is financed through June, with further financing of 1.7 percent of GDP to be identified for the second half of 2010, even after resorting to the regional bond market**. The authorities are requesting additional donor support and will also pursue the possibility of mobilizing additional domestic resources. Current plans to borrow as much as 2 percent of GDP from the regional bond market are already ambitious, however (the net domestic debt accumulation would be smaller, since amortization of bank restructuring securities account for nearly half of this amount). If necessary, the authorities are prepared to cut spending plans, although staff consider that it would be more desirable to obtain additional resources, either externally on concessional terms or from non-debt-creating sources (e.g., revenues or privatization).

C. Structural Reforms Expected to Advance, Albeit With Some Delays

9. **Key structural reforms in the program are advancing, although capacity constraints are leading to some delays in the second half of 2009.** Only the delay on NPL recovery is expected to be significant, however. In staff's judgment, these delays primarily reflect capacity weaknesses rather than a loss in commitment to reform. The authorities established new benchmarks for 2010 reflecting their continued commitment to priorities of strengthening fiscal governance, restructuring of the financial sector, and promoting a sustainable recovery (Text Table 4 and Appendix 1, Table 3).

Continuing efforts to strengthen fiscal governance

10. **The domestic arrears clearance process is being strengthened** (LOI ¶26 and Box 1). By settling all audited arrears to the private sector in cash by the end of the first quarter of 2010 (new SB), the authorities aim to improve liquidity compared to the previous plan of securitizing the arrears (December 2009 SB). The net impact on public finances will be positive as the BCEAO credit is on better terms than the market terms planned for the securities.

Box 1. Togo: Domestic Arrears – Stock and Clearance Process

During its prolonged socio-political crisis from the early 1990s to 2005, Togo accumulated significant domestic arrears due to weak public financial management. In consultation with IMF and World Bank staff, the authorities designed and approved an arrears clearance strategy that aims to restore the credibility of public finances and improve the conditions for private sector activity.

Assessing the stock of domestic debt and arrears

According to the authorities, total domestic debt, including arrears, totals around 25 percent of GDP, of which domestic arrears to private suppliers are around 4 percent of GDP. The other obligations include bank recapitalization securities, outstanding social security obligations, and other bonds.

Based on a February 2009 audit by KPMG, validated domestic arrears to suppliers (private and public) through December 2006 amounted to 6 percent of GDP. The responsible official body, the CNADI, has included 1.2 percent of GDP of arrears for which the documentation was validated but delivery could no longer be verified.

Strengthening the strategy for domestic arrears clearance to private suppliers

For claims below CFAF 13.5 million (US$30,000), which number 4,336 (87 percent of claimants), the arrears clearance in cash started in August 2009 (LOI ¶12). This operation is expected to cost CFAF 6 billion and be finalized by the end of the year. The remaining larger claims were originally planned to be securitized.

In consultation with staff, the authorities are finalizing the modalities to use the BCEAO credit to pay in cash all audited arrears to private suppliers. The estimated total cost is 3 percent of GDP, after applying a 20 percent discount and the estimated cancellation of cross debts involving domestic payment arrears, tax arrears and NPLs assumed by the government as part of the bank restructuring in 2008. The discount has proven controversial, although it is a common practice and is consistent with the original strategy approved by the government. The cancellation of cross-debts will also favor resumption of normal lending.

11. **Continuing to strengthen Treasury operations is a priority for public financial management** (LOI ¶29 and Appendix 1, Table 3)**.** To pursue the objective of a single treasury account, the authorities will survey all Treasury accounts and then reduce their number by 30 percent by June 2010 (new SB). Closer monitoring and more transparency of the accounting for accounts payable (spending committed but not paid), in particular at the end of the year, would help to strengthen financial management.

12. **Increasing the capacity and efficiency for executing public expenditures, especially for investment, remains an important challenge** (LOI ¶14 and 29, and Appendix 1, Table 3)**.** Togo's administrative capacity for investment spending**—**its Achilles' heel**—**is improving somewhat, following an action plan drawn up with staff support. Going forward, the authorities will identify and remove any redundant controls in the spending chain steps by the end of June 2010 (new SB).

Text table 4: Togo: Structural Benchmarks for 2010

Measures	Macroeconomic Rationale	Date
Fiscal governance		
Complete implementation of the strategy for clearing validated domestic arrears to private suppliers	To restore the confidence of suppliers and make it possible to reduce the substantial balance of domestic payments arrears owed by the government	March 2010
Move towards a single Treasury account by surveying Treasury accounts in the commercial banks and the BCEAO; reduce the number of accounts by at least 30 percent.	To closely monitor Treasury operations, as this is a key element of controlling the government's cash flow operations.	June 2010
Simplify and reduce lag time in the public sector expenditure chain by eliminating redundant control points	To enhance the capacity for rapid execution of investment projects in the short term and the capacity to absorb foreign aid.	June 2010
Financial sector		
Advance on the privatization process for state-owned banks by issuing a final call for bids.	To restore confidence in Togo's financial sector, reduce risks of recurrence of macroeconomic instability linked to Togo's large loss-making state-owned banks, promote financial sector development and expand financial intermediation.	September 2010
Set up the nonperforming loan management mechanism and its operational support (see above)	To recover a part of the fiscal cost of securitizing NPLs and reduce the large stock of enterprises arrears and cross debts.	December 2010
Conduct a financial and organizational audit of the CRT and begin an actuarial study of the institution.	Establish an overall strategy for clearing the government's social debt of around 7 percent of GDP.	December 2010
Real Sector		
Conduct a review of the oil price adjustment mechanism and submit it to the Council of Ministers.	The oil sector accounts for about 7 percent of GDP and has important fiscal implications.	August 2010

Completing financial sector reform one key to faster growth

13. **Finalizing the restructuring of the banking sector is crucial for restoring financial intermediation and accelerating growth** (LOI ¶15 and 27)**.**

- Even though the authorities are eager to accelerate privatization of the four state-owned banks, the complex process for recruiting privatization advisors financed by the World Bank may cause a minor delay in the call for expressions of interest (December 2009 SB). The authorities remain determined to pursue the process by launching a call for final bids no later than the end of September 2010 (new SB).

- Setting up an NPL recovery mechanism (December 2009 SB) will likely be significantly postponed, given the complexity of the process and delays in launching a feasibility study financed by the World Bank. The mechanism is now expected to be established before the end of 2010 (revised SB). The authorities are examining remedial actions and interim strategies with help from World Bank and IMF staff. Staff stressed the importance of canceling cross-debts as part of arrears clearance as a first step in NPL recovery.

14. **Furthermore, Togolese authorities will begin addressing the financial health of the pension system.** They intend to complete an audit of the CRT and launch an actuarial study before the end of December 2010 (new SB). Staff believe that confronting this issue, however delicate, is vital to the long-run sustainability of the pension system and public finances generally.

Promoting growth and mitigating fiscal risks in petroleum product pricing and SOEs

15. **While clearing the obligation to petroleum product distributors over time, the authorities intend to avoid new obligations by adjusting retail prices to reflect world prices** (LOI ¶30 and Box 2). The authorities propose to pay it off over the next two years using proceeds from levies in the current price structure. The authorities also intend to conduct a review of the pricing mechanism and submit it to the Council of Ministers for consideration by the end of August 2010 (new SB).

16. **The authorities are pursuing reforms in the phosphate and energy sectors, which are key for promoting growth** (LOI ¶16-18)**.** The authorities plan to adopt a long-term strategy for the phosphate sector, including attracting a strategic investor, by the end of December 2009 (this September 2009 SB was delayed due to the completion of a strategic audit financed by the World Bank only in September 2009). Poor policies, mismanagement, and underinvestment in the past have severely limited production capacity, which will not significantly recover without fundamental reform. Prospects for adequate electricity supplies have improved, including with the entry of an independent power producer, but the fiscal

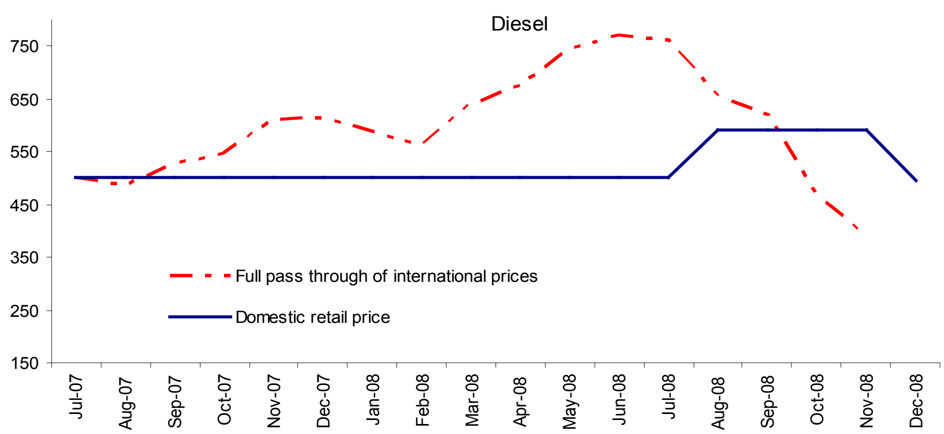
implications need to be carefully managed. Staff welcomes the July 2009 tariff increase for non-residential users in this regard (LOI ¶18).

Box 2. Togo: Petroleum Product Pricing and Policy Options

In the face of sharp increases in international fuel and food prices in 2007-2008, the Togolese authorities decided not to adjust the administered domestic retail prices for petroleum products. This decision suspended application of a pricing formula for full pass through of import prices (see figure below). Under an agreement with oil distributors, it also led to an accumulation of obligations (akin to a contingent liability) to the distributors of 1-1½ percent of GDP (the authorities are discussing the amount with the oil distributors). The authorities originally planned to eliminate this obligation by higher prices (i.e., incomplete pass through of lower world prices), but this proved problematic due in part to limits imposed by smuggling from neighboring countries.

Unless administered prices are adjusted fully and frequently to reflect world prices, they will continue to pose a serious risk to public finances. Full price liberalization—the first best option from an economic perspective—can work (e.g., in East Africa), but it is also reasonable to maintain administered prices in Togo for the medium-run, given its past practices and those of its neighbors. But the price setting mechanism should be as automatic and transparent as possible. With support from staff, the authorities are reviewing the pricing formula and institutional arrangements to support these goals.

Togo: Actual Retail Price for Diesel vs. Estimated Full Pass Through (CFAF)



Source: Togolese Authorities and IMF Staff Estimates

D. Managing Program Risks Requires Continuing Vigilance

17. **The authorities established revised quantitative and structural indicators to monitor implementation of the PRGF-supported program through end-2010** (Appendix I, Tables 1 and 3).[4] The main near-term program risks stem from the negative effects of a sluggish global economy and political uncertainty related to the upcoming elections. Demand and prices for main exports, remittance flows, and economic confidence generally remain vulnerable. Political uncertainty surrounding the presidential elections in late February 2010 could weaken economic confidence or complicate program implementation—which already faces risks from capacity constraints. Nevertheless, the authorities have to date shown a commitment to program implementation despite the pre-electoral period.

E. Debt Sustainability Requires HIPC/MDRI Relief, Prudent Policies and Growth

18. **Togo is making good progress toward meeting the triggers for the HIPC completion point in the second half of 2010, particularly the completion of the final PRSP in June 2009** (LOI ¶31-32, Table 6, and JSAN). The low-income country debt sustainability analysis (LIC DSA, Appendix II) shows that Togo is in debt distress, demonstrating the need for reaching the completion point of the HIPC Initiative debt relief. Debt sustainability also continues to depend on faster growth and prudent fiscal policies, even after full HIPC relief (LOI ¶29-30). Staff stressed the need to rely on concessional debt, return to a small primary fiscal surplus, and focus on growth-enhancing structural reforms.

III. Staff Appraisal

19. **In a difficult international and post-crisis context, the authorities have made commendable progress in implementing their program.** This discipline has supported macroeconomic stability and sound public finances. The slow recovery in growth remains the primary concern.

20. **The counter-cyclical fiscal policies in 2009 are appropriate and well-targeted responses to the impact of the global recession and domestic crisis.** Using revenue and financing windfalls for increased investment and cash clearance of domestic arrears is a prudent approach to support activity and addressing constraints to growth. Improvements in investment capacity are encouraging, although further efforts remain necessary. Spending on both priority social sectors and investment has risen impressively, in line with the poverty

[4] The Technical Memorandum of Understanding has been amended (see Appendix 1, Attachment). To better track social and investment spending, the previous quantitative indicative target combining the two will be disaggregated starting in 2010.

reduction objectives of the PRSP. The scale of fiscal relaxation to date has remained affordable.

21. **Ensuring debt sustainability will likely require some fiscal consolidation once economic conditions improve.** Fulfilling the conditions for the HIPC completion point triggers is an essential step toward debt sustainability, and the authorities' commitment and progress to date is reassuring. Increases in external grants and concessional loans would greatly assist in meeting social and investment objectives while maintaining debt sustainability. Continued progress in strengthening public financial management would support these goals.

22. **A sustained recovery in economic growth depends on completing or even accelerating structural reforms.** The full benefits of reforms in key sectors such as banking, phosphates, and electricity will be realized only after the processes are complete.

23. **Although program risks remain significant, the authorities have shown a commitment to program implementation and necessary policy adjustment.** Continuing vigilance and persistence in addressing capacity constraints, with assistance from the international community, can minimize these risks.

24. **Based on Togo's performance and the strength of the program, staff recommends the completion of the third review**.

Table 1. Togo: Selected Economic and Financial Indicators, 2007–10

	2007	2008	2009		2010	
	Act.	Est.	2nd Rev.	Proj.	2nd Rev.	Proj.
	(Percentage growth, unless otherwise indicated)					
National income, prices, and exchange rates						
Real GDP	1.9	1.8	1.7	2.5	2.1	2.6
Real GDP per capita	-0.6	-0.8	-0.8	-0.1	-0.4	0.0
GDP deflator	1.3	6.5	1.8	1.3	2.0	2.6
Consumer price index (annual average)	1.0	8.4	2.8	3.1	2.1	2.0
GDP (CFAF billions)	1,197.7	1,298.0	1,333.7	1,347.9	1,389.6	1,418.0
Exchange rate CFAF/US$ (annual average)	478.5	445.8	…	…	…	…
Real effective exchange rate (annual average)	1.2	7.2	…	…	…	…
Terms of trade (deterioration = –)	-10.1	7.5	7.2	-7.9	…	…
Monetary survey						
Net foreign assets [1]	1.4	8.0	0.0	8.6	4.7	0.5
Credit to government [1]	1.0	14.6	2.7	-0.1	-0.3	5.6
Credit to the nongovernment sector [1]	13.7	-2.4	6.8	0.5	7.1	3.2
Broad money (M2)	18.2	15.9	10.0	13.1	10.0	8.6
Velocity (GDP/ end-of-period M2)	2.6	2.4	2.3	2.2	2.2	2.1
	(Percent of GDP, unless otherwise indicated)					
Investment and savings						
Gross domestic investment	14.8	18.9	15.8	20.8	16.6	20.1
Government	2.0	3.5	5.6	6.8	7.1	7.1
Nongovernment	12.8	15.4	10.2	14.0	9.5	13.0
Gross national savings	10.8	11.8	9.7	13.8	10.7	12.9
Government	0.1	2.5	2.4	4.4	5.1	3.1
Nongovernment	10.7	9.3	7.2	9.4	5.5	9.7
Government budget						
Total revenue and grants	18.7	18.6	19.1	21.2	21.9	20.3
Revenue	17.0	17.0	16.9	19.0	17.6	17.6
Total expenditure and net lending	20.6	19.5	22.2	23.6	23.9	24.2
Domestic primary expenditure	16.7	16.6	17.5	19.3	17.0	18.9
Overall balance (payment order basis)	-1.9	-0.9	-3.1	-2.4	-2.0	-4.0
Primary balance [2]	0.2	0.4	-0.6	-0.3	0.6	-1.4
Change in domestic arrears	-0.8	0.0	-0.9	-1.0	-0.7	-2.3
External sector						
Current account balance	-3.9	-7.1	-6.1	-7.0	-5.9	-7.2
Exports (goods and services)	26.3	27.5	21.5	27.5	26.7	27.0
Imports (goods and services)	40.0	44.8	37.6	45.2	42.6	45.4
External public debt	78.6	66.2	53.0	60.8	30.5	7.8
Of which: Arrears	30.9	0.0	0.0	0.0	0.0	0.0
External public debt service (percent of exports)	7.5	5.3	5.9	3.8	4.5	3.6
Gross international reserves (months of imports)	3.0	4.1	5.0	4.5	4.7	4.2

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

[1] Change as a percentage of broad money at the beginning of the period. Impact of SDR allocation in 2010 is included.

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

Table 2. Togo: Balance of Payments, 2007–10

	2007	2008	2009	2010
		Prel.	Proj.	Proj.
	(Billions of CFA francs)			
Current account balance	-47.2	-91.9	-94.3	-102.2
Trade balance	-119.7	-174.4	-186.5	-203.9
Exports	557.6	519.5	493.1	524.0
Domestic exports	263.6	295.8	303.9	311.6
Of which: Cotton	12.0	13.3	7.9	6.5
Coffee	5.4	6.3	6.6	6.9
Cocoa	4.5	7.5	13.5	14.0
Phosphates	15.0	49.9	40.2	30.7
Cement & clinker	71.9	61.6	77.5	83.7
Transit and Reexport	294.0	223.7	189.2	212.5
Imports, f.o.b.	-677.3	-693.9	-679.7	-728.0
Domestic imports	-383.3	-470.2	-490.5	-515.5
Of which: Petroleum products	101.2	92.4	71.0	90.5
Imports for transit and reexport	-294.0	-223.7	-189.2	-212.5
Services and income (net)	-65.1	-57.0	-56.9	-60.5
Services (net)	-44.3	-50.8	-52.0	-55.9
Income (net)	-20.8	-6.3	-4.9	-4.7
Current transfers (net)	137.6	139.5	149.1	162.3
Private	117.2	119.2	119.2	124.0
Public	20.4	20.3	29.9	38.3
Capital and financial account	20.1	54.5	-4.6	35.8
Direct investment	30.1	19.5	10.8	5.7
Portfolio investment, incl. bond	3.2	-8.2	0.0	-8.2
Other investment	-13.2	43.2	-15.4	38.3
General government	-17.9	-17.7	-0.7	5.9
Disbursements	2.0	7.1	15.5	22.5
Amortization	-19.9	-24.7	-16.2	-16.5
Banks, net foreign assets [1]	13.4	-11.9	-2.7	-2.8
Other capital	-8.7	72.8	-12.0	35.2
Errors and omissions	7.4	6.7	0.0	0.0
Overall balance	-19.7	-30.8	-99.0	-66.4
Financing	11.1	30.8	99.0	66.4
Central bank net foreign assets [1]	-18.9	-25.4	43.4	0.0
Arrears, net change	38.6	0.9	0.0	0.0
Flow rescheduling	0.0	22.9	14.0	14.2
Clearance of debt/arrears [2]	8.6	430.1	0.0	329.1
Debt/arrears cancellation [2]	-8.6	-232.7	0.0	-328.9
Debt and arrears rescheduling	0.0	-197.4	0.0	-0.2
Exceptional financing	0.0	32.3	41.7	28.7
PRGF financing	...	15.3	18.8	12.4
PRGF augmentation	...	6.5	6.5	0.0
Other committed financing	...	10.5	18.6	16.3
Unidentified financing	0.0	0.0	0.0	23.6
Memorandum items:	(Percent of GDP, unless otherwise indicated)			
Current account balance	-3.9	-7.1	-7.0	-7.2
Exports of goods and services	26.3	27.5	27.5	27.0
Imports of goods and services	40.0	44.8	45.2	45.4
Trade Balance	-10.0	-13.4	-13.8	-14.4
Gross int. reserves (months of imports)	3.0	4.1	4.5	4.2

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

[1] Negative sign indicates increase. In 2009, includes SDR allocation.

[2] Assumes external debt and arrears rescheduling/relief in 2008–2010 in line with potential debt relief under the HIPC initiative and MDRI.

Table 3. Togo: Central Government Financial Operations, 2007–10

	2007	2008	2009		2010	
	Actual	Actual	2nd Rev.	Prog.	2nd Rev	Prog.
	(Billions of CFA Francs)					
Revenue and grants	223.7	241.0	254.3	285.7	304.3	287.4
Total revenue	203.3	220.7	225.6	255.8	244.6	249.1
Tax revenue	195.9	211.2	215.4	220.4	233.4	224.5
Nontax revenue	7.4	9.4	10.3	35.3	11.1	24.6
Grants (projects)	20.4	20.3	28.7	29.9	59.8	38.3
Expenditures and net lending	246.5	253.3	296.2	317.5	331.5	343.4
Of which: Dom. primary expenditures	*200.5*	*214.8*	*233.5*	*259.6*	*236.2*	*268.4*
Current expenditures	222.4	208.2	222.0	226.4	232.9	242.8
Domestic primary current spending [1]	186.5	192.5	196.6	206.4	208.4	217.4
Wages and salaries	64.3	69.1	78.0	82.2	83.2	85.9
Goods and services	53.6	58.6	55.0	55.2	59.8	67.6
Transfers and subsidies	62.0	49.1	63.5	47.2	50.5	63.8
Other/unclassified	2.7	3.7	0.0	21.8	0.0	0.0
Bank and SOE restructuring, emergency spending	3.9	12.0	0.0	0.0	15.0	0.0
Foreign-financed current spending	10.2	4.8	11.7	7.5	11.1	11.1
Interest	25.7	10.9	13.8	12.5	13.3	14.2
Domestic debt	2.9	4.6	5.4	7.6	5.6	9.6
External debt	22.8	6.3	8.4	4.9	7.7	4.7
Public investment	24.1	44.9	74.2	91.1	98.7	100.7
Domestically financed [1]	14.0	22.3	36.9	53.2	27.8	51.0
Foreign financed	10.1	22.6	37.3	37.9	70.9	49.6
Current balance	-19.1	12.5	3.6	29.3	11.7	6.3
Domestic primary balance	2.8	5.8	-7.8	-3.8	8.3	-19.3
Overall balance, payment order basis (incl. grants)	-22.8	-12.3	-41.9	-31.8	-27.2	-56.0
Change in arrears	11.3	0.3	-12.6	-12.9	-9.7	-33.1
Overall balance, cash basis (incl.grants; incl.change in arrears)	-11.4	-12.0	-54.5	-44.7	-36.9	-89.1
Financing	12.2	-20.3	17.1	3.1	10.8	36.9
Domestic financing (net)	12.2	-12.6	4.0	3.8	-4.0	31.4
Banking system	5.8	45.8	14.3	11.1	-1.9	26.6
Of which : central bank [2]	10.0	-29.1	14.3	14.1	-1.9	29.6
Of which : commercial banks	-0.6	75.8	0.0	-3.0	0.0	-3.0
Nonbank financing	6.4	-58.3	-10.3	-7.3	-2.1	4.8
External financing (net)	0.0	-7.8	13.1	-0.7	14.9	5.5
of which: Drawings	2.0	7.1	20.3	15.5	22.2	22.5
Amortization due	-19.9	-24.7	-19.6	-16.2	-20.0	-16.5
Exceptional financing	0.0	32.3	37.4	41.7	26.1	28.7
PRGF-linked BCEAO credit	0.0	21.7	18.8	18.8	12.4	12.4
Other identified financing	0.0	10.5	18.6	22.8	13.7	16.3
Residual/unidentified financing (+ = financing needs)	-0.8	0.0	0.0	0.0	0.0	23.6

(cont.)

Table 3. Togo: Central Government Financial Operations, 2007–10 (concluded)

	2007	2008	2009		2010	
	Actual	Actual	2nd Rev.	Prog.	2nd Rev	Prog.
			(Percent of GDP)			
Revenue and grants	18.7	18.6	19.1	21.2	21.9	20.3
Total revenue	17.0	17.0	16.9	19.0	17.6	17.6
Tax revenue	16.4	16.3	16.2	16.4	16.8	15.8
Nontax revenue	0.6	0.7	0.8	2.6	0.8	1.7
Grants (projects)	1.7	1.6	2.1	2.2	4.3	2.7
Expenditures and net lending	20.6	19.5	22.2	23.6	23.9	24.2
Of which: Dom. primary expenditures	16.7	16.6	17.5	19.3	17.0	18.9
Current expenditures	18.6	16.0	16.6	16.8	16.8	17.1
Domestic primary current spending [1]	15.6	14.8	14.7	15.3	15.0	15.3
Goods and services	4.5	4.5	4.1	4.1	4.3	4.8
Transfers and subsidies	5.2	3.8	4.8	3.5	3.6	4.5
Other/unclassified	0.2	0.3	0.0	1.6	0.0	0.0
Foreign-financed current spending	0.9	0.4	0.9	0.6	0.8	0.8
Interest	2.1	0.8	1.0	0.9	1.0	1.0
Public investment	2.0	3.5	5.6	6.8	7.1	7.1
Domestically financed [1]	1.2	1.7	2.8	3.9	2.0	3.6
Foreign financed	0.8	1.7	2.8	2.8	5.1	3.5
Domestic primary balance	0.2	0.4	-0.6	-0.3	0.6	-1.4
Overall balance, payment order basis (incl. grants)	-1.9	-0.9	-3.1	-2.4	-2.0	-4.0
Excluding grants	-3.6	-2.5	-5.3	-4.6	-6.3	-6.7
Change in arrears	0.9	0.0	-0.9	-1.0	-0.7	-2.3
Overall balance, cash basis (incl.grants; incl.change in arrears)	-1.0	-0.9	-4.1	-3.3	-2.7	-6.3
Excluding Grants	-2.7	-2.5	0.0	-5.5	0.0	-9.0
Financing	1.0	-1.6	1.3	0.2	0.8	2.6
Domestic financing (net)	1.0	-1.0	0.3	0.3	-0.3	2.2
Banking system [2]	0.5	3.5	1.1	0.8	-0.1	1.9
Nonbank financing	0.5	-4.5	-0.8	-0.5	-0.2	0.3
External financing (net)	0.0	-0.6	1.0	-0.1	1.1	0.4
of which: Drawings	0.2	0.5	1.5	1.1	1.6	1.6
Exceptional financing	…	2.5	2.8	3.1	1.9	2.0
Residual/unidentified financing (+ = financing needs)	-0.1	0.0	0.0	0.0	0.0	1.7
Nominal GDP (CFAF billions)	1,198	1,298	1,334	1,348	1,390	1,418

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

[1] In 2009, expenditures include social and investment spending committed in January 2009 under the 2008 supplementary budget.

[2] In 2010, it includes the BCEAO credit to clear domestic arrears.

Table 4. Togo: Monetary Survey, 2007–10

	2007	2008	2009	2010
		Est.	Proj.	Proj.
	(Billions of CFA francs)			
Net foreign assets	212.2	249.5	295.6	298.4
BCEAO	170.2	195.6	239.0	239.0
Assets	193.0	276.3	297.4	297.4
Liabilities	22.8	80.7	58.4	58.4
Commercial banks	42.0	53.9	56.6	59.4
Assets	85.9	113.2	118.9	124.8
Liabilities	43.9	59.3	62.3	65.4
Net domestic assets [1]	252.3	289.0	313.4	363.0
Credit to the government (net)	14.0	85.7	85.3	119.7
BCEAO	-7.8	-15.5	-12.8	24.5
Commercial banks	21.8	101.2	98.2	95.2
Credit to the rest of the economy	254.7	242.9	245.4	265.0
Other items (net)	-16.4	-39.7	-17.3	-21.7
Money supply (M2)	464.5	538.5	609.0	661.4
Currency in circulation	122.0	129.2	131.8	138.4
Bank deposits	342.5	409.3	477.2	523.0
	(Annual change, percent of beginning-of-period broad money)			
Net foreign assets	1.4	8.0	8.6	0.5
BCEAO	4.8	5.5	8.1	0.0
Commercial banks	-3.4	2.5	0.5	0.5
Net domestic assets	15.5	7.5	4.5	8.1
Credit to the government (net)	1.0	14.6	-0.1	5.6
Credit to the rest of the economy	13.7	-2.4	0.5	3.2
Other items (net)	0.8	-4.7	4.2	-0.7
Money supply (M2)	18.2	15.9	13.1	8.6
Currency in circulation	5.6	1.6	0.5	1.1
Bank deposits	12.7	14.4	12.6	7.5
Memorandum items				
Velocity (GDP/ end-of-period M2)	2.6	2.4	2.2	2.1

Sources: Central Bank of West African States, and Fund staff estimates and projections.
[1] Preliminary data for December 2008. Accounting of the securitization process is being revised by BCEAO staff.

Table 5. Togo: Actual and Projected Disbursement Under PRGF Arrangement, 2008–11

Amount		49,210,000		Date	Condition for Disbursement [1]
	Total	Original program	Augmentation		
SDR	13,260,000	13,260,000		April 30, 2008	Executive Board approval of the three-year arrangement under the PRGF arrangement (April 23, 2008)
SDR	17,975,000	8,800,000	9,175,000	September 22, 2008	Observance of performance criteria for end-June 2008 and other relevant performance criteria, and completion of the first review under the PRGF
SDR	17,975,000	8,800,000	9,175,000	April 30, 2009	Observance of performance criteria for end-December 2008 and other relevant performance criteria, and completion of the second review under the PRGF arrangement
SDR	8,800,000	8,800,000		October 31, 2009	Observance of performance criteria for end-June 2009 and other relevant performance criteria, and completion of the third review under the PRGF arrangement
SDR	8,800,000	8,800,000		April 30, 2010	Observance of performance criteria for end-December 2009 and other relevant performance criteria, and completion of the fourth review under the PRGF arrangement
SDR	8,800,000	8,800,000		October 31, 2010	Observance of performance criteria for end-June 2010 and other relevant performance criteria, and completion of the fifth review under the PRGF
SDR	8,800,000	8,800,000		April 30, 2011	Observance of performance criteria for end-December 2010 and other relevant performance criteria, and completion of the sixth review under the PRGF arrangement

[1] Other than the generally applicable conditions for the Poverty Reduction and Growth Facility (PRGF).

Table 6: Togo: Triggers for the floating HIPC completion point [1]

Measures	Status
PRSP	
Prepare a full PRSP through a participatory process and implement satisfactorily its recommended actions for at least one year, as evidenced by an Annual Progress Report submitted to IDA and the IMF.	The Full PRSP was approved by the Council of Ministers in June 2009.
Macroeconomic stability	
Maintain macroeconomic stability as evidenced by satisfactory performance under a PRGF-supported program	Progress up to the 3rd Review of the PRGF program has been satisfactory.
Public financial management	
Adopt a mechanism to track public expenditures for poverty reduction on the basis of a functional expenditure classification and publish at least two quarterly reports on these expenditures covering a period of at least two consecutive quarters preceding the completion point.	Monthly Tableau de Bord is elaborated since January 2009. TOFE and budget execution reports are published on SP-PRPF website.
Appoint the judges for the Cour des Comptes and provide them with work space, equipment, and materials; and submit the draft of the Loi de règlement and draft General Treasury Balance (Balance Générale du Trésor) to the Cour des Comptes and Parliament for at least one fiscal year preceding the completion point.	Judges have been nominated in June 2009. Treasury Balances and Loi de règlement for 2007 and 2008 have been prepared.
Adopt a decree creating the Procurement Regulatory Authority in conformity with the WAEMU Procurement Directives, nominate its managerial staff, and provide them with an adequate budget; and monthly publication in a public procurement gazette or on a government website of all of the signed contracts, including sole source contracts and public concessions, for at least six months immediately preceding the completion point.	Public Procurement Law has been voted in the National Assembly in June 2009. Procurement regulation authority decree is under preparation.
Governance	
Implement regular public reporting of payments to, and revenues received by, the government for the phosphates sector in line with this aspect of the EITI criteria, with a recent annual report during at least the year immediately preceding the year in which the completion point is reached.	Reporting of payments for 2007 and 2008 have been submitted and were reviewed by the World Bank in October 2009.
Debt Management	
Consolidate external and domestic debt data under a single unit charged with all public debt management tasks.	Done. The Direction de la Dette Publique is responsible for these tasks.
Publish an annual report on a government website providing accurate and complete data on external and domestic public debt, including information on debt stocks, actual debt service, and new loans within six months after the end of the year, for at least one year immediately preceding the completion point.	The report for 2008 has been published on a government website (www.togoreforme.tg).
Social sectors	
Adopt the medium-term National Health Development Plan and the medium-term Health Sector Human Resources Development and Management Plan after costing of the Plans has been completed.	The National Heath Development Plan was prepared and adopted by the Council of Ministers in 2009.
Start implementation of the national education sector plan as evidenced by completing the training of at least 500 new teachers and the remedial training of at least 4,000 existing teachers.	512 new teachers started training in July 2009. Remedial training will start at the end of October 2009.

[1]The first two triggers (PRSP implementation and satisfactory macroeconomic performance) are requirements for reaching the completion point under the IMF PRGF-HIPC Trust Instrument.

APPENDIX I—LETTER OF INTENT

Lomé
October 30, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Sir:

1. Further to our letter of April 1, 2009, the third program review presents the opportunity for us to report on the considerable progress made in implementing the financial program supported by the Poverty Reduction and Growth Facility (PRGF). Despite the serious difficulties our economy has faced since launching this program due notably to the global recession, we have resolutely and vigorously pursued economic reforms with a view to mitigating the effects of the crisis and consolidating our achievements. We have met our objectives under the program and honored our commitments. This socioeconomic program also entails a process of political development and the restoration of a peaceful political environment. The political understanding that paved the way to legislative elections in October 2007 is now being used as the basis of discussions that will culminate in presidential elections in the first quarter of 2010.

Background

2. In light of our country's prolonged sociopolitical and economic crisis, our program for economic recovery and poverty reduction aims to restore macroeconomic stability, improve public finances, and boost economic growth so as to raise the living standards of the population. This program is underpinned by the Poverty Reduction Strategy Paper (PRSP), which the government approved on June 20, 2009 after a broad-based national consultation. Its implementation remains our top priority. Under this program, the Togolese government has begun the process of re-engagement with its development partners. The program has also enabled us to normalize our relations with our external creditors and reach the decision point under the HIPC Initiative in November 2008, thus benefiting from debt relief and considerable financial and technical support. Thanks to sustained efforts for more disciplined and transparent public financial management, Togo has significantly strengthened its financial situation. Furthermore, the government has adopted and launched a plan to clear domestic arrears and succeeded in preventing the accumulation of new arrears, in spite of the economic hardships. The government has also continued its sectoral reforms, in particular in the banking

sector. Indeed, the framework defined by the PRGF-supported program has enabled us to mitigate the impact of the shocks on public finances and improve the macroeconomic situation. While we remain vigilant on our goals of macroeconomic stability and strengthened public finances, the slow recovery leads us to be particularly focused on meeting growth and poverty reduction objectives.

Recent economic developments

3. The recovery of the Togolese economy is likely to be slow, following sluggish economic activity last year, which was mainly the result of the substantial impact of the floods in 2008 and the spike in international food and oil prices. Based on preliminary information, real GDP growth may reach 2.5 percent in 2009, exceeding the rate that was originally forecast six months ago. This modest recovery can be attributed to several factors, notably: an increase in food production owing to various types of government support provided to the sector, including the provision to farmers of fertilizers at subsidized prices; a recovery in the supply of electrical power; and accelerated public investment in infrastructure. However, commercial activity, as well as cotton production and exports have declined significantly. Furthermore re-export and transit activities in the region decreased. Inflation continued to fall in 2009 as a result of the combined effect of falling oil prices and lower domestic food prices after an abundant harvest. Inflation dropped to 2.2 percent over the first eight months of the year (year-on-year), which is in line with the WAEMU convergence criterion of 3 percent.

4. Despite the fact that the external current account deficit in 2008 was higher than in previous years, it is expected to remain stable at 7 percent of GDP in 2009. This is the result on the one hand of the fall in the prices and volumes of cotton and phosphate exports, and, on the other hand, of the fall in oil prices and the increase in volumes of cement and clinker exports. The monetary situation is characterized by an increase in gross foreign assets, with the SDR allocation of September 2009. Credit to the private sector will grow slowly in 2009, reflecting weak economic activity and financial intermediation. Nevertheless, money supply should grow by 13 percent, notably due to an increase in private deposits.

Implementation of the economic program

5. Despite the difficult economic conditions linked to the global recession, the PRGF-supported financial program has been implemented with determination. The government continued to strengthen public finances and to implement structural measures to lay the foundations for strong and lasting growth. All performance criteria and all quantitative indicators, as well as the structural benchmarks, for end-June have been met, with the sole exception of the target pertaining to social and investment expenditures.

6. In the case of public finance, revenue and expenditure performance has been broadly consistent with program objectives. Revenue at end-June amounted to CFAF 124 billion,

compared to the original forecast of CFAF 108 billion. Customs and tax collections increased by about 2 percent and 20 percent, respectively, compared with results at end-June 2008, reflecting the implementation of administrative reforms. Measures were taken at customs to improve the system of verifying imports, in particular with a view to reducing the under-invoicing of used vehicles and the smuggling of oil products. This helped offset the impact of lower imports owing to the weakness of domestic and regional demand. The performance of the tax department is essentially due to the strong collection of corporate and personal income taxes, as well as domestic VAT. This reflects the impact of reducing the rates of these taxes, which resulted in a broadening of the tax base, an expansion of the formal sector, and support for household consumption.

7. Efforts aimed at controlling and redirecting expenditure continue and have helped keep expenditures to budgeted levels. Total expenditure at end-June amounted to CFAF 145 billion compared with an objective of CFAF 155 billion. Current expenditure includes certain emergency spending authorized by the supplementary budget of December 2008. Nevertheless, because of administrative capacity constraints, investment spending could not meet the ambitious objectives, which were set at a level much higher level than the previous year. This spending remained far below end-June forecasts; at CFAF 8.6 billion, it was 34 percent of the forecast of CFAF 25 million. As a result, we did not meet our target for social and investment spending, which reached CFAF 46.6 billion at end-June, falling short of the targeted CFAF 50.4 billion. To remedy this under-performance, in particular during the first quarter of the year, the government took a number of steps to speed up the awarding of government contracts by reducing the lag times and eliminating the duplication in the steps of the expenditure chain. This has considerably reduced the time between expenditure commitment and payment authorization. Thus, at end-August, the number of contracts signed increased considerably and the government expects to end the year with an execution rate of about 70 percent of the initial forecast.

8. The government considered it necessary to increase domestically financed public expenditures in the supplementary budget (*collectif budgétaire),* financed by resources that were not expected under the original budget. The purpose is to help offset the slow recovery of economic activity and the low level of investment during the long social-political crisis that the country experienced. Already envisioned at the time of the second review under the PRGF-supported program, this supplementary budget increased spending authority by an additional 3.3 percent of GDP, primarily to boost domestically financed investment expenditures. Other sources of investment have proven weaker than expected, in particular private foreign direct investment and foreign financed public investment. The supplementary budget also intends to increase the amount of domestic arrears cleared in cash, to alleviate financing constraints to the private sector. The increased outlays would be entirely financed by unexpected increases in non-tax revenue initially estimated at 3.7 percent of GDP (CFAF 50 billion) mainly from the renewal of licenses in the telecommunications sector and dividends from the state-owned

phosphate company. Accordingly, this increase in spending would not adversely affect the fiscal balance and the fiscal objectives of the program would be met.

9. However, the implementation of this ambitious budget initiative has met some challenges. While absorptive capacity has somewhat improved, it does not appear to be sufficient for the execution of the full increase envisaged in the supplementary budget. Moreover, the increase in non-tax revenue envisioned will also not be fully achieved. As described below, the government will adjust the execution of expenditures of the supplementary budget depending on the availability of revenues, to preserve the fiscal objectives in the program.

Implementation of structural reforms in 2009

10. Under our PRGF-supported program, the government made good progress overall in implementing essential reforms to achieve program objectives. The advances made since the beginning of the program are as follows:

11. In July 2009, the reorganization of the Treasury General Directorate, consistent with WAEMU directives, was completed with the establishment of the three central accounting structures, as well as regional Treasury accounting structures. The aim of this new organization is to strengthen the Treasury's capacity to control and disseminate reliable information on revenue, expenditure, and the management of government cash flow in real time to avoid the accumulation of payment arrears. The 2008 cash management accounts and June 2009 Treasury balance sheet were produced on time thus meeting the structural performance criterion.

12. We made considerable progress in the areas of debt management and domestic arrears.

- To ensure control over its borrowing policy, the government strengthened the role of the Public Debt Directorate and designated it as the sole payment authorization entity for debt-related expenditure. To ensure the sustainability of our public debt, we will ensure that the financing we receive from our partners to cover our needs will be in the form of grants and/or highly concessional loans. To that end, a National Public Debt Committee was created on September 11 2008 to develop, coordinate, and monitor the implementation of the national public borrowing policy and public debt management.

- After adopting a strategy to clear domestic arrears to government suppliers (November 2008), the government established the National Council for the Clearance of the Domestic Debt (CNADI) in January 2009. The process of making cash payments to small suppliers, which represent about 87 percent or 4,336 of the government's suppliers, started in August 2009, and CFAF 3.5 billion has already been paid out to 672 creditors, of the CFAF 13 billion earmarked in the budget for arrears clearance in cash.

- In November 2008, Togo reached the decision point under the HIPC Initiative, which seeks to reduce the stock of external debt. As part of that process, we contacted the majority of our creditors and are committed to contacting those that have not yet been reached, in order to obtain debt reduction agreements. During the upcoming negotiations, we will seek to obtain debt relief in line with the common factor for debt reduction calculated in the report for the HIPC Initiative decision point.

13. With a view to strengthening oversight structures, the new law providing legal authority to the members of the Audit Court (*Cour des Comptes*) was promulgated, and the government appointed magistrates to the court in June 2009. These magistrates were sworn in on September 16 2009. The cash management accounts and budget review law (*loi de règlement)* for 2007 have been compiled and will be forwarded to the Court shortly.

14. To accelerate implementation of the investment program, particularly as it pertains to the repair of infrastructure destroyed by the 2008 flood, the government has developed an action plan to build capacity in the near term for rapid project execution and to increase the country's aid absorption capacity. In this context, a new law on procurement was passed and enacted in June 2009, while a new procurement code was completed with technical assistance from the World Bank and submitted to the government for approval. At the same time, training is underway for stakeholders (government, civil society, and economic operators) to familiarize them with the new structures and procedures related to the law.

15. Great strides have been made in restructuring the banking system so that it can play its role in financial intermediation and contribute to sustainable growth.

- After the restructuring of the state-owned banks (BTCI, UTB, BTD, and BIA-TOGO) in 2008 through the securitization of nonperforming loans, the banks' solvency ratios improved, thereby meeting the performance criterion for end-March 2009. The government intends to continue and even step up the process of their privatization in the short run. In this context, the hiring process for privatization consultants, financed by the World Bank, started in February 2009 and should be completed by November. After this hiring process is completed, a request for expressions of interest in buying the State's shares in these banks should be published by February 2010 at the latest, thereby meeting a structural benchmark with a probable delay.

- With a view to establishing a structure and a mechanism for managing the nonperforming loans, which were swapped for government securities in October 2008, consulting firms were invited to bid on a contract funded by the World Bank to conduct a feasibility study, but negotiations with the selected firm failed. A new call for bids was issued and the selection process is underway. Given the setbacks and the unexpected complexity of the process, the structure for collecting nonperforming loans should be established no later than December 2010, involving a second change in the timetable for this structural benchmark. In the meantime, the banks that currently manage the nonperforming loans transferred to the government after the restructuring process, have established a mechanism to recover the amounts due in the context of the domestic arrears clearance process, and they are also verifying their commitments with respect to repayment of the loans. The government is working with the banks to facilitate information sharing and clarify the legal basis for these actions. The mechanism will enable the government to recoup some of the cost of restructuring the public banks and reduce the large stock of cross debts, making way for a revival in the flow of the credit.

16. Although the phosphate sector remains a leading sector of the Togolese economy, the SNPT continues to experience difficulties in production. The volume of phosphate production is likely to decrease by over 20 percent in 2009, with a pickup toward the end of the year as investment and repairs bear fruit. As part of our efforts to restructure the sector, a strategic audit, conducted with support from the World Bank, was completed in September 2009 and its findings will be revised following comments received from different stakeholders (the Togolese authorities, SNPT staff, and World Bank experts, among others). In addition, the SNPT administration has engaged the services of an international firm to assist in preparing a three-year business plan for the company, which will be completed around the end of October 2009. Based on the results of the strategic audit and the business plan for the SNPT, the government will adopt a strategy for the sector before the end of December 2009, thereby completing the measures envisioned in a structural benchmark with a small delay.

17. In the cotton sector, following the recommendations of the strategic audit, SOTOCO was liquidated and a new cotton company was set up and resized to ensure its financial viability. The Director General and his deputy were recruited after a selection process, not by decree as in the past. This demonstrates the government’s willingness to make the new management structure more efficient. Furthermore, the implementation of the recommendations to set up a cotton pricing mechanism indexed to international prices was validated by sector operators and is operational for the 2009-10 crop year. However, problems with the financing of inputs persist. In addition, the government will take advantage of the potential for agricultural production by continuing its support to the sector and progressively liberalizing the export regime for food production.

18. The electricity sector has experienced a significant increase in production in 2009 compared with previous years. In July 2009, CEET's medium-tension rates were adjusted upward and earlier in the year a study was completed on the implementation of an automatic price adjustment mechanism, which is being discussed with the parties concerned. In the second quarter of 2010 electricity production at Contour Global is likely to begin, thereby alleviating supply constraints. To reduce the need for government subsidies, the CEET, in collaboration with CEB, is committed to negotiating export contracts to ensure that there is sufficient demand for its output. However, new investments are needed in terms of expanding the current distribution network and improving its quality.

19. The telecommunications sector continues to experience robust growth, estimated at over 10 percent in 2009. Nevertheless, the government is in the process of reviewing its regulatory framework for possible reforms.

Macroeconomic Outlook

A. Macroeconomic framework

20. For the rest of 2009 and 2010, the government is determined to carry out actions aimed at mitigating the effects of the global crisis on the Togolese economy and put the economy on the path to strong and sustained growth. To that end, the government intends to give priority to macroeconomic stability, to strengthen economic and social infrastructure by increasing investment spending, and to accelerate the implementation of structural reforms, with the aim of, inter alia, meeting the requirements for reaching decision point under the HIPC initiative in 2010. Under these circumstances, short-run prospects for the Togolese economy continue to be of concern, with a projected real GDP growth rate of only 2.6 percent in 2010. This level is below potential and equivalent to the population growth rate. However, the inflation rate should remain within the limits of WAEMU convergence criteria. The already sizeable current account deficit in 2009 should increase slightly in 2010, reaching 7.2 percent of GDP. This deterioration is mainly the result of an expected increase in oil imports. The government is aware of the risks facing the economy in 2010. In the short run, the weakness of the global economy will continue to have an impact on transit services and on cotton prices and demand. The risks stemming from the economy's absorptive capacity and the pace of structural reforms in the phosphate, electricity, and telecommunications sectors may also affect macroeconomic developments.

B. Fiscal Policy

21. Consequently, fiscal policy at end-2009 and 2010 aims to meet two major challenges preserving progress in macroeconomic stability: (i) continue the efforts to mobilize domestic resources; and (ii) contribute to the economic recovery in the context of a weak world economy. For the rest of 2009, the government will take steps to maximize non-tax revenue and investment spending within the constraints mentioned above, while redoubling its efforts to clear arrears in cash to the extent possible. Current expenditures will be maintained within the budgetary envelope and any unused resources will be carried over to 2010 to finance investments.

22. With the implementation of measures to reduce customs and tax exemptions, revenues in 2010 should reach around 16 percent GDP, a level which is consistent with the global environment and the pace of the country's development. The government also intends to strengthen the effectiveness and fairness of the tax system. To that end, it plans to take measures to strengthen customs administration, in particular by providing additional human and material resources. With respect to tax administration, emphasis will be placed on broadening the tax base and further reducing tax rates to draw more activities by individuals and enterprises into the formal economy.

23. Public spending should reach 24 percent of GDP and will be aligned with the priorities defined in the Poverty Reduction Strategy Paper. Compared with the past two years, the composition of expenditures is much more oriented toward growth and poverty reduction, with a particular emphasis on investment spending. The subsidies granted to state enterprises (in particular SOTOCO and CEET) will be gradually rolled back and will better target poverty reduction as these enterprises are restructured. In order to support economic activity and respond to pressing investment needs, the government will seek to maintain the volume of investments financed with domestic resources at a level equivalent to 3.6 percent of GDP. Consequently, the domestic primary budget deficit will be equal to 1.4 percent of GDP in order to alleviate the impact of the financial crisis, and the overall budget deficit (on a commitments basis excluding grants) will further deteriorate to the equivalent of 4.0 percent of GDP. Thus, to support economic growth in an unfavorable global environment, fiscal consolidation will be temporarily relaxed with an increase in infrastructure spending and poverty reduction-related expenditures. This budget framework is consistent with the performance criteria of end-June 2010, as well as the indicative targets of end-December 2010 (see Table 1).

24. To address the impact of the global recession, the government intends to maintain the same level of expenditure even though it has not yet identified all the resources for financing these efforts. It plans to mobilize domestic financing to cover the majority of its needs. However, additional financing equivalent to 1.7 percent of GDP will also be needed. The

government will seek additional non-tax revenue and resources from the privatization of banks after the completion of the domestic arrears clearing process and the repayment of the bank restructuring securities. In this context, the government will also appeal to its partners to obtain additional exceptional assistance. Nonetheless, if the resources available prove insufficient to cover planned expenditure, it will postpone some investment financed by domestic resources in order to maintain the fiscal objectives of the program.

Structural reforms for the rest of 2009 and 2010

25. The government intends to pursue this ambitious structural reform program in order to support growth, and our new commitments are laid out in Table 3. With respect to tax administration, the tax base of the General Directorate of Taxes will be broadened with coverage of the informal sector. To that end, the 2010 budget law plans to reduce for the second consecutive year personal and corporate income tax rates, by 5 and 3 percentage points, respectively. This will bring the maximum rate of the personal income tax to 40 percent and the maximum rate of the corporate tax to 30 percent for commercial firms and 27 percent for industrial firms. The customs administration will strengthen its control by automating the customs valuation process for merchandise. However, the measures taken in the budget law for 2009 with respect to the free economic zone have raised some questions among investors in Togo regarding adherence to established international practices in the area. In this regard, a revision of the tax law on the status of the free zone based on international practices is being prepared and should be completed by end-2009. The authorities are elaborating in parallel a new investment code that will be consistent with the free economic zone law.

26. Concerning the process of clearing domestic arrears, the government intends to use the credit granted by the BCEAO in the context of the additional allocation of SDRs by the IMF, to clear the commercial arrears audited by KPMG (as at the end of 2006) in 2009 and in early 2010 (new structural benchmark for end-March 2010). The total amount, CFAF 39 billion, should enable us to clear the commercial arrears to the private sector. The remainder of the commercial arrears amounting to CFAF 21.7 billion, which is owed to public enterprises, will be treated in an appropriate manner. In collaboration with the banks that are currently managing nonperforming loans and with the tax authorities, the government will implement a cancellation of the cross debts with about thirty large commercial creditors before paying the balance of the arrears. This initiative will create the additional liquidity needed by enterprises and thereby support a recovery in production. Furthermore, given that the BCEAO's lending terms are more favorable than the terms on the regional financial market, this operation will enable us to improve our debt profile and meet the corresponding structural benchmark with a small delay.

27. Recognizing the role that the financial sector can play in the national economy, the government is committed to restoring confidence in this sector by privatizing the state-owned banks. The aim is to reduce the risk of further macroeconomic instability caused by the losses

of the large banks and to promote the development of the sector and financial intermediation. In addition to calling for expressions of interest in its search for strategic investors mentioned above, the government plans to publish a final call for bids by September 2010 (new structural benchmark). Privatization revenue will be used to repay the debts incurred during the bank restructuring process. In collaboration with the supervisory authorities, the government is determined to maintain rigorous control of the management of these banks until the privatization process is completed. The government is also committed to set up the mechanism and its operational support for managing and collecting the nonperforming loans of state-owned banks, by end-December 2010 (revised structural benchmark).

28. With respect to structural reforms in other sectors, the government intends to implement a strategy in the phosphate sector which includes seeking a strategic investor. In connection with CEET, the government recognizes the need to apply cost recovery prices to electricity tariffs and plans to implement an automatic and regular price adjustment mechanism based on trends in electricity import prices and exchange rates. For the telecommunications sector, with the help of technical and financial partners, the government intends to strengthen the regulatory framework, following ECOWAS directives, to guarantee competition and economic efficiency. In order to improve the business climate and stimulate investment, the government has reduced the number of procedures necessary for registering new companies and taken measures to establish a one-stop shop (CFE, *Centre de Formalités des Entreprises*) as well as policies for reducing red tape for exports.

29. The outlook for strengthening the public financial governance reforms underway is favorable for 2010:

- Continue to implement the new enhanced system for tracking budget execution on a monthly basis, in particular to monitor more closely the adherence of monthly execution to the approved budget in order to identify early in the year any delays in the pace of public investment.

- Move towards the establishment of a single treasury account (STA) thereby strengthening the Treasury's control over government operations (new structural benchmark).

- Simplify and reduce delays in the expenditure chain by removing redundant control points (new structural benchmark) and by unifying the circuits for executing current and capital expenditure in order to accelerate the pace of public investment, especially in roads and basic infrastructure.

- Strengthen monthly monitoring of the balance of outstanding payables to minimize these amounts.

- Introduce in all the priority ministries (health, education, infrastructure, finance and agriculture) the practice of preparing public procurement plans and commitment plans by end-January.

- Strengthen and improve the computerization of the Treasury by completing the integration of accounting module in the SGFIP.

- Conduct a financial and organizational audit of the Togo Retirement Fund (*Caisse de Retraite du Togo--CRT)* and begin an actuarial study of the institution by end-December 2010 (new structural benchmark), which will help establish an overall strategy for repaying the government's social debt.

- Make the oversight of the General Inspectorate of Finance (IGF) and the Audit Court more effective. The government is committed to send the Audit Court the *loi de règlement* for 2007 in 2009 and for 2008 in 2010.

30. With respect to petroleum product prices at the pump, the application of the oil price adjustment mechanism was suspended in 2008 because of the surge in international oil and food prices. This has created a contingent liability for the government, as we indicated in our last review. The government and the oil companies are holding discussions to determine the amount of this liability. The government committed to clearing this liability using the resources from the margins gained on petroleum product prices at the pump, which were to be slightly higher than world market prices. The government recognizes, however, the difficulty of maintaining prices at this level, because it encourages illicit trade in oil products from neighboring countries with lower prices. The government intends to clear the liability agreed upon with oil companies in the next two to three years. To avoid incurring new obligations, the retail price of petroleum products will be adjusted to reflect trends in international prices. The price adjustment mechanism will be reviewed in consultation with the IMF and World Bank with the aim of mitigating fiscal risk and reducing price volatility. This review will be completed and submitted to the Council of Ministers by end of August 2010 (new structural benchmark).

31. To cope with external shocks and revive the economy, Togo needs additional resources immediately (in the form of grants or concessional loans) to finance critical investment in strengthening the economic infrastructure, providing social services, reducing poverty, and generally attaining the MDGs. In Brussels in September 2008, Togo's partners agreed to mobilize resources within the framework of renewed international cooperation and honoring the principles of the Paris declaration and program of action coming out of the Accra Forum. We appreciate the development partners' decision to increase the level of assistance and to develop greater flexibility in their procedures. For its part, Togo is determined to reach the floating completion point triggers under the HIPC initiative as soon as possible in 2010.

32. The process of preparing the full PRSP was completed in June 2009. The participatory approach allowed public and private sector stakeholders to take ownership of the PRSP process and the thematic studies were enhanced with contributions from civil society organizations, technical and financial partners, and various components of Togolese society. The document provided a more in-depth diagnosis of the country's economic and social situation, while proposing a prioritized list of measures to combat poverty. Government action will be based on four strategic pillars: (i) the strengthening of governance; (ii) the consolidation of the basis for strong and sustainable growth; (iii) the development of human capital; and (iv) the promotion of grassroots development and reduction of regional imbalances.

33. The progress of our PRGF-supported program will be monitored on the basis of revised quantitative performance criteria for end-December 2009 and end-June 2010, which were agreed upon with the IMF mission. We expect that the fifth program review will be completed by end-November 2010.

34. To support our policies and in light of the clear progress made in implementing the program under the PRGF, we request completion of the review and, consequently, the disbursement of the fourth tranche of the loan.

35. The government is convinced that the policy set out in this document will help attain program objectives. It is therefore committed to taking any additional measures that might be necessary toward this end. The Togolese authorities will consult with the IMF concerning these possible additional measures or before proceeding to revise the measures set out in this document. To facilitate program monitoring and evaluation, the government will regularly report all information to IMF staff within the required time frames stated in the Technical Memorandum of Understanding (TMU). The updates and modifications to this Memorandum are attached in an annex.

36. Finally, the government consents to the publication of this Letter of Intent and the IMF Staff Report on the third review.

Sincerely yours,

/s/

Adji Otèth AYASSOR
Minister of Economy and Finance

Table 1. Togo: Quantitative Performance Criteria and Indicative Targets

June 30, 2009 - December 31, 2010

	2009				2010	
	June		Dec.		June	Dec.
	Prog. [1]	Est. Adj.	2nd Rev [1]	Rev. Prog. [2]	Prog.	
	(Billion CFA francs, cumulative from end of preceding year)					
Performance criteria (for end-June, and end-December 2009, and end-June 2010; indicative targets otherwise)						
Domestic primary fiscal balance (floor)	-10.7	3.1	-7.8	-3.8	-0.2	-19.3
Nonaccumulation of external arrears [3]	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing (ceiling)	10.0	-0.8	4.0	3.8	37.5	31.4
Central government contracting or guaranteeing of nonconcessional external debt (ceiling)	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets						
Total revenue (floor)	108.0	124.8	225.6	255.8	110.6	249.1
Domestic payments arrears, changes in stock (ceiling)	0.0	0.0	-12.6	-12.9	-33.1	-33.1
Domestically financed social and capital spending (floor) [4]	50.4	46.6	120.9	97.7	…	…
Total domestically Financed Investment Spending (floor)	…	…	…	…	14.8	51.0
Total domestically Financed Social Spending (floor)	…	…	…	…	40.7	101.8
Exceptional Financing	24.1	20.5	37.4	41.7	6.2	28.7

[1] Letter of Intent dated April 1, 2009

[2] Letter of Intent dated October 30, 2009

[3] Continuous performance criterion.

[4] To better track the components, this target is disaggregated starting in 2010.

Table 2: Togo: Status of Structural Reforms through 2009

Measures	Date	Macroeconomic Rationale	Status
Fiscal governance			
Reduce tax and customs exemptions and strengthen tax and customs control, including in the Free Economic Zone (FEZ).	Benchmark June 2009	To limit leakage of tax-exempt goods into the domestic economy, which distorts economic incentives and reduces fiscal revenues.	Done. Tax exemption reduction included in the 2009 budget law. Customs and tax administration provided power to conduct inspection in the FEZ.
Make operational a new Treasury structure based on WAEMU directives.	Performance criterion June 2009	To create a functioning Treasury that has adequate control and information over revenues, spending, and cash management to ensure timely payments, avoid arrears, and provide for real-time consistent budget execution data.	Done. The three central structures and the regional Treasury structures were set-up. Treasury balances produced in agreed timeframe.
Start implementing the domestic arrears clearance strategy by securitizing validated arrears to suppliers and setting up a mechanism for monitoring domestic debt.	Benchmark December 2009	To move toward a sustainable debt position and prevent new arrears, as Togo regularizes its large stock of domestic arrears, starts servicing long-term regional bonds, and initiates short-term treasury bill auctions.	Underway with the possibility of a delay in the securitization process due to a strengthening of the strategy for arrears clearance. The process of arrears clearance in cash to small holders started in August 2009.
Financial sector			
Initiate restructuring of BTCI, including by raising its capital through issuance of government securities.	Benchmark March 2009	To support the financial rehabilitation of Togo's largest bank, prepare it for privatization, and set the conditions for sound financial sector development.	Done. BTCI's NPLs have been exchanged against government securities as part of a broader multi-bank recapitalization scheme.
Initiate the process of identifying strategic investors for state-owned banks.	Benchmark December 2009	To reduce risks to macroeconomic stability caused by Togo's large loss-making state-owned banks and support expansion of financial intermediation.	Underway with possibility of delay. The selection of privatization consultants was launched in February and should be completed by November 2009. A call for expressions of interest should be published by February 2010 at the latest.
Set up a structure and mechanism for managing the NPLs that have been exchanged against government securities in the bank restructuring process.	Benchmark December 2009	To recover part of the budgetary cost of securitizing of NPLs and reduce the large stock of enterprise arrears and cross-debts.	Underway with a delay. The initial procurement process for advisory services has failed. A new selection process is ongoing. Due to the complexity of the process, the structure will be created in December 2010 at the latest.
Public enterprises			
Phosphate sector: Prepare a development strategy based on the results of the strategic audit.	Benchmark September 2009	To promote transparency in the restructuring of the phosphate sector, which could generate additional exports of up to 10 percent of GDP at current world prices.	Delayed. The strategic audit supported by the World Bank was completed in September 2009. The strategy will be adopted by the Council of Ministers by December 2009 at the latest.

Table 3: Structural Conditionality for 2010

Measures	Date	Macroeconomic Rationale	Status
Fiscal governance			
Complete implementation of the strategy for clearing validated domestic arrears to private suppliers	Benchmark March 2010	To restore the confidence of suppliers and make it possible to reduce the substantial balance of domestic payments arrears owed by the government	The government intends to use the credit granted by the BCEAO to clear all audited arrears to the private sector in early 2010.
Move towards a single Treasury account by surveying Treasury accounts in the commercial banks and the BCEAO; reduce the number of accounts by at least 30 percent.	Benchmark June 2010	To closely monitor Treasury operations, as this is a key element of controlling the government's cash flow operations.	
Simplify and reduce lag time in the public sector expenditure chain by eliminating redundant control points	Benchmark June 2010	To enhance the capacity for rapid execution of investment projects in the short term and the capacity to absorb foreign aid.	
Financial sector			
Advance on the privatization process for state-owned banks by issuing a final call for bids.	Benchmark September 2010	To restore confidence in Togo's financial sector, reduce risks of recurrence of macroeconomic instability linked to Togo's large loss-making state-owned banks, promote financial sector development and expand financial intermediation.	The recruitment of privatization consultants with funding from the World Bank is under way (see Table 2)
Set up the nonperforming loan management mechanism and its operational support (see above)	Benchmark December 2010	To recover a part of the fiscal cost of securitizing NPLs and reduce the large stock of enterprises arrears and cross debts.	See Table 2. A new call for bids was issued to hire a consulting firm to conduct the feasibility study. The recruitment process is under way.
Conduct a financial and organizational audit of the CRT and begin an actuarial study of the institution.	Benchmark December 2010	Establish an overall strategy for clearing the government's social debt of around 7 percent of GDP.	The audit and study are planned as part of the World Bank financial sector project
Real Sector			
Conduct a review of the oil price adjustment mechanism and submit it to the Council of Ministers	Benchmark August 2010	The oil sector accounts for about 7 percent of GDP and has important fiscal implications.	

Appendix I: Attachment

AMENDMENTS TO TECHNICAL MEMORANDUM OF UNDERSTANDING

Paragraphs 1, 3, 5, 11, 13, and 22 of the Technical Memorandum of Understanding dated March 28, 2008 and modified September 12, 2008 have been modified to reflect the new test dates for the quantitative performance criteria and indicative targets through end-2010 shown in Table 1 above. Paragraph 24 is deleted. These changes are incorporated below.

1. This Technical Memorandum of Understanding (TMU) defines the quantitative and structural benchmarks and performance criteria a three-year arrangement under the Poverty Reduction and Growth Facility covering the period January 1, 2008 to December 31, 2010. Table 1 of the above Letter of Intent shows quantitative performance criteria and indicative targets for end-December 2009 (based on cumulative changes from January 1, 2009), and for end-June 2010, and end-December 2010 (based on cumulative changes from January 1, 2010). Tables 2 and 3 above show structural performance criteria and benchmarks for 2009 and 2010. This TMU also sets out the data reporting requirements for program-monitoring purposes.

3. The **domestic primary fiscal balance** is defined as the difference between (i) the government's fiscal revenue and (ii) total fiscal expenditure, net of interest and current and capital expenditure financed by donors. The balances in the periods from end-December 2008 to end-December 2009 (performance criteria), and in the periods from end-December 2009 to end-June 2010 (performance criteria), and end-December 2010 (indicative target) respectively, should be equal to or higher than the amounts shown in Table 1 above. The source of the data is the fiscal reporting table (TOFE) prepared monthly by the Economic Directorate of the Ministry of Finance. The data provided by the Economic Directorate will be considered authoritative in the context of the program.

5. **Net domestic financing of the government** is defined as the sum of (i) **net banking sector credit to the government** and (ii) **net nonbank domestic financing of the government**. Net domestic financing in the periods from end-December 2008 to end-December 2009 (performance criteria), and in the periods from end-December 2009 to end-June 2010 (performance criteria) and to end-December 2010 (indicative target) respectively, should be equal to or lower than the amounts shown in Table 1 above. The ceiling on net domestic financing will be adjusted to offset deviations from projected external program financing as shown in Table 1 above, subject to a cap of CFAF 10 billion.

11. The collection of revenue in the periods from end-December 2008 to end-December 2009 (indicative target), and in the periods from end-December 2009 to end-June 2010 (indicative target) and to end-December 2010 (indicative target) respectively, should be equal to or higher than the amounts shown in Table 1 above. The floor on revenue will be an indicative target throughout the program period.

Definition

13. **Domestic arrears during a given period are defined as** (i) accounts payables (*restes-à-payer*; i.e., payment authorizations (*ordonnancés* but not yet paid) accumulated and which have not been settled (i.e., paid) within one month after the end of that period in the case of wages and salaries (including pensions) and within three months after that given period in the case of goods and services and transfers; (ii) it also includes any arrears on domestic government debt, including bonds issued in CFA franc on the WAEMU regional market. The change in the stock of domestic payments arrears for a given period includes both the net accumulation of domestic payment arrears during that period (which shall be zero for the duration of the program) and the reduction of domestic payment arrears from previous periods. The change in the stock of domestic payments arrears for the periods from end-December 2008 to end-December 2009 (indicative target), and in the periods from end-December 2009 to end-June 2010 (indicative target) and to end-December 2009 (indicative target) respectively, should be equal to or lower than the amounts shown in Table 1 above. The source of the data on the stock of domestic arrears is the Treasury for the accumulation of arrears during any given period and the Economic Directorate for other arrears. Data will be reported in the TOFE prepared monthly by the Economic Directorate of the Ministry of Finance. The ceiling on net change in the stock of domestic payments arrears is an indicative target throughout the program period.

A. Domestically financed social spending

Definition

21. Total domestically financed social spending (current and capital) is calculated, for each category of the current account (wages, goods and services, transfers and subsidies, other) and capital account as (1) expenditure executed by the Minister of Health (under "health"); (2) expenditure executed by the Minister of Education and National Research and, the National Institute for Professional Education , and the Minster of Advanced Education and Research (under education), and (3) expenditure executed by the (4) the Minister of Environment and Forestry and the Minister of Agriculture ("other social spending", and limited to subsidies and transfers). Domestically financed social spending is classified according to the above categories (health, education, other social spending) based on a classification of each projects presented in the 2009 and 2010 budgets into health, education, other social spending. Total domestically financed current and capital social spending includes social spending financed by domestic resources, including revenues, domestic financing, and general external budget support, and excludes all social spending financed by project-specific foreign grants and/or loans. The source of the data is the fiscal reporting table (TOFE) prepared monthly by the Economic Directorate of the Ministry of Finance.

22. Total domestically financed social spending for the periods from end-December 2008 to end-December 2009 (indicative target), and in the periods from end-December 2009 to end-June 2010 (indicative target) and end-December 2010 (indicative target) respectively, should be equal to or higher than the amounts shown in Table 1 above. The data provided by the Economic Directorate will be considered authoritative in the context of the program. The floor

on domestically financed social spending (current and capital) is an indicative target throughout the program period.

[The previous paragraph 24. is deleted and the following paragraphs are inserted.]

B. Total domestically financed capital spending

Definition

24. Domestically financed capital spending includes total capital spending (including social capital spending as specified above) financed by domestic resources, including revenues, domestic financing, and general external budget support, and excludes all investment spending financed by project-specific foreign grants and/or loans. The source of the data is the fiscal reporting table (TOFE) prepared monthly by the Economic Directorate of the Ministry of Finance.

25. Total domestically financed capital spending, for the periods from end-December 2009 to end-June 2010 (indicative target) and to end-December 2010 (indicative target) respectively, should be equal to or higher than the amounts shown in Table 1 above. The data provided by the Economic Directorate will be considered authoritative in the context of the program. The floor on domestically financed capital spending is indicative target throughout the program period.

Reporting deadlines

26. The data on domestically financed investment spending will be reported monthly within eight weeks of the end of the month.

APPENDIX II. RELATIONS WITH THE WORLD BANK
(Updated October 22, 2009) [1]

A. Partnership in Togo's Development Strategy

1. Over the last decade and a half, Togo has been trapped in a cycle of political instability, economic decline, rising poverty, and donor disengagement. Togo was in non-accrual status with the International Development Association (IDA) from May 2002 to May 2008. During the non-accrual period, the Bank continued analytical and advisory activities (AAA) on key aspects of socioeconomic development. Together with other partners, the Bank also supported the Government's efforts to prepare its I-PRSP and development strategies in health, education, agriculture and rural development, and HIV/AIDS.

2. Prior to the May 2008 re-engagement, the principal means for the Bank to provide support to Togo was through grants under the Low Income Country under Stress (LICUS) Initiative. Since 2005, six grants have been provided. Three of these supported a community-driven Emergency Program for Poverty Reduction (EPPR) with the aim of halting the decline into extreme poverty and the deterioration of social indicators throughout the country.

3. Three additional LICUS projects aim to (a) reform and revive the key sectors as well as create an environment for private sector-led growth (focusing on the sectors of phosphate, cotton, coffee, cocoa, and energy as well as on public procurement reforms); (b) preserve human capital by minimizing the threat posed by Avian Influenza (grant closed in June 2009); and (c) achieve quick visible results on the ground through an urban poverty infrastructure grant.

4. Successful implementation of initial political and economic reforms since 2005-06, including good performance under an IMF Staff Monitored Program, laid the foundation for strengthening donor assistance to support the process of clearing Togo's arrears to IDA and other major creditors and thereby of full resumption of the Bank's operations in the country. On May 29, 2008, the Bank's Board discussed the Interim Strategy Note and approved a development policy operation (the Economic Recovery and Governance Grant, ERGG) that enabled Togo to clear its arrears to IDA and thereby normalize its relations with the Bank.

B. World Bank Group Strategy

5. The Bank's May 2008 Interim Strategy Note (ISN) sets out the Bank Group's plan to help Togo recover from its long period of instability and begin laying the foundations for

[1] This note is updated on an annual basis by World Bank staff, or as warranted by developments in the Bank's program.

sustained, shared growth over the medium term. This would be achieved through support for the normalization of relations with the World Bank Group through the clearance of arrears, and assistance to address critical social needs on the ground. The ISN aimed to set realistic expectations with regard to the progress and achievements that could be realized from June 2008 through FY10. ISN support is under three main pillars in line with the I-PRSP priorities: (i) improve governance and transparency; (ii) promote the return to private sector-led growth; and (iii) provide for urgent social needs. The ISN builds on a Development Policy Needs Review (DPNR) prepared and discussed with the Government in early 2008.

6. The three pillars are supported through: (i) assistance for the clearance of Togo's arrears to IDA; (ii) investment projects, development policy operations and LICUS trust fund grants to provide financial and technical support for the Government's reform program under the three pillars; and (iii) analytical and advisory activities to inform the policy dialogue and the Government's reform agenda, including preparation of the full PRSP. This support is complemented by ongoing and new World Bank regional activities in the areas of transport and transit facilitation, energy and mining.

7. Under Pillar 1 (Improve Governance and Transparency), there is a particular focus on supporting the Government's own reform program to improve governance, transparency and efficiency in public expenditure management as well as to advance structural reforms aimed at improving governance and transparency in the key sectors of the economy (phosphates, energy, cotton and financial sector). This approach would lead over time to strengthened fiscal sustainability, enhanced transparency of State institutions and processes, improved economic governance and increased economic growth. In addition to the first ERGG and Second ERGGs (2008 and 2009), support is to be provided through a third DPO under preparation (FY10) and a Financial Sector and Governance Reform project (effective in August 2009). The latter will support banking, social security and microfinance institutions restructuring and recovery. Ongoing analytical and advisory work includes a Trust Fund grant for Statistical Capacity Building, support to strengthen the country's debt management capacity, an updated Public Expenditure and Financial Review (PEMFAR) and an Accounting and Auditing Assessment.

8. Under Pillar 2 (Promote the Return to Private Sector-led Growth), private-sector development will be critical to ensuring that Togo returns to a path of recovery and economic growth. The Bank will support the government in identifying the challenges and obstacles to, and the potential entry points for, private sector investment as a catalyst for growth in Togo through a Country Economic Memorandum on the Sources of Growth, an Investment Climate Assessment and a Diagnostic Trade Integration Study. Lending includes an Emergency Infrastructure Rehabilitation and Energy project (effective in September 2009) to provide energy investments and to upgrade roads and sanitation systems in selected urban areas, and an Agriculture Sector Operation in 2010 which would focus on improving agricultural productivity and diversification. Togo is also expected to participate in the

regional Abidjan-Lagos Transit and Transport Facilitation Project and a possible Adjarala Hydroelectric Project. In the energy sector, the World Bank is providing ongoing advisory assistance to the authorities in the context of support to the West Africa Regional Power Pool.

9. Under Pillar 3 (Provide for Urgent Social Needs), the strategy focuses on increasing the supply of, and improving access to, basic social services for the most vulnerable groups, thereby helping the Government deliver visible results to the population. Activities will help rebuild the minimal effectiveness of local basic services delivery systems and improve access to economic opportunities. This will be achieved by addressing urgent infrastructure rehabilitation needs in the poorest areas of Lomé, the capital city, and by scaling up, under the Community Development Project approved in June 2008, the approach implemented in Togo since 2004 through successive LICUS grants. In October 2008, IDA approved an additional US$7 million grant under the Global Food Crisis Response Program to complement the Community Development Project, to support Togo's efforts to manage the global food price shocks.

10. In addition, the Bank has supported the Government in strengthening its poverty diagnosis, information systems, and statistical capacities. A Core Welfare Indicator Questionnaire survey was carried out in 2006 to provide for up-to-date and more reliable statistics. Recently, the Bank, in collaboration with the UNDP, conducted a background study on the sources of growth as input to preparation of the full PRSP. The Bank is preparing a Country Environmental Analysis to monitor the impact of activities included in the ISN on the environment.

C. IMF-World Bank Collaboration

11. In the course of the re-engagement process, the IMF and World Bank staffs have established a collaborative relationship in supporting the Government's macroeconomic and structural reforms, in line with the guidelines for enhanced Bank-Fund collaboration. This includes participation of Bank staff in the Fund's program review missions, and IMF staff participation in Bank internal review meetings on key operations or studies. The IMF takes the lead in discussions on macroeconomic stabilization and the World Bank on social and structural areas, with close collaboration on a few structural areas that have a critical impact on macroeconomic stability (notably financial sector reforms). The Fund's dialogue and conditionality are consistent with the structural programs agreed with the Bank, and the Bank's policy framework with Togo is elaborated consistent with the Governments' macroeconomic framework agreed with the Fund.

12. The Bank has worked closely with the IMF on a regional Financial Sector Assessment, and the two institutions have also cooperated in analysis of the debt situation and in bringing Togo to the HIPC Decision Point in November 2008. The two institutions

have collaborated closely in supporting the Government in its preparation of its first full PRSP which was adopted in June 2009, and for which a JSAN will be submitted to the IMF and Bank Boards in December 2009.

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

TOGO

Joint IMF/World Bank Debt Sustainability Analysis

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

Approved by Mark Plant and Dominque Desruelle (IMF) and
Sudhir Shetty and Carlos Braga (World Bank)

November 11, 2009

The low-income country debt sustainability analysis (LIC DSA) shows that Togo is in debt distress, demonstrating the need for reaching the completion point of the HIPC Initiative debt relief.[1] *Despite some accelerating growth in the medium-term, projected to reach close to 4 percent on average, key debt sustainability indicators are above the relevant indicative thresholds over the next few years. An alternative scenario illustrating the impact of additional HIPC, MDRI and beyond-HIPC debt relief at the completion point suggests strong improvements in debt burden indicators. The inclusion of Togo's large domestic public debt in the analysis generally reinforces the conclusions of the external DSA.*

[1] This DSA has been prepared jointly by the World Bank and Fund staffs using the Debt Sustainability Framework (DSF) for Low Income Countries (see "Applying the Debt Sustainability Framework for Low-Income Countries Post Debt Relief", (IDA/SecM2006-0564, 8/11/06). Togo's quality of policies and institutions, as measured by the average World Bank's Country Policy and Institutional Assessment (CPIA) for the period 2006-2008 (2.6), places it as a "weak performer". The corresponding indicative thresholds for the external debt indicators are 30 percent for the NPV of debt-to-GDP ratio, 100 percent of the debt-to-export ratio, 200 percent for NPV of debt-to-revenue ratio, 15 percent for the debt service-to-exports ratio and 25 percent for the debt service-to-revenue ratio.

A. Background

1. **The last DSA for Togo was prepared in 2008 and concluded that Togo was in debt distress**. The outcome of both the current analysis and the previous DSA differed from previous results for the country, suggesting an improvement in debt dynamics. This came as a consequence of expected improvements in the macroeconomic policy framework, notably greater fiscal discipline and solid implementation of growth-promoting structural reforms, large domestic arrears clearance operations and the HIPC initiative interim debt relief. However, the key indicative ratios for the current DSA are slightly worse than in the 2008 DSA, mostly because the revised real GDP growth estimates for 2009 are not as strong as projected during the previous exercise due to the impact of the global crisis and the fall in the discount rate from 5 to 4 percent.

2. **Since November 2008, Togo has been in the interim period of the HIPC Initiative.** Upon reaching of the decision point, Togo was granted Cologne terms debt relief[2] by the Paris Club and negotiated rescheduling agreement with several multilateral and non Paris Club creditors. Also, the nominal debt stock fell from US$2.2 billion at end-2007 to US$1.7 billion end-2008 reflecting the arrears clearance operations.

Nominal debt stock as of end-2008

	(in million of US$)	percent of total debt
Total	1,740.3	100%
Multilateral creditors	960.1	55%
of which		
IDA	598.4	34%
AfDB	126.2	7%
Bilateral creditors	750.9	43%
Paris Club	665.6	38%
of which		
France	142.9	8%
Switzerland	141.9	8%
Belgium	116.3	7%
Non Paris Club	85.3	5%
Commercial	29.4	2%

Source: Togolese authorities and staff estimates

[2] Cologne terms represent a 90 percent reduction of debt service falling due during the interim period and the remaining 10 percent are rescheduled with 6 year-grace and 23 years of maturity for non ODA debt and 16 year-grace and 40 years of maturity for ODA debt.

B. Baseline Assumptions

3. **The baseline scenario is consistent with the three-year PRGF arrangement**. It is based on a continuation of steady growth averaging 3.4 percent from 2009 to 2019 and 4 percent from 2020 to 2029. Growth will be driven by donor-financed public investment, as donors continue to re-engage with the country after a long period of internal social-political turmoil, as well as: an improved investment climate (including an increase in Togo's attractiveness to foreign investors); growing regional integration accompanied by an increase in Togo's role in regional trade given its strategic geographical location and the role of the port of Lomé; a rebound in phosphate and cotton production following the restructuring of these sectors; and deeper financial intermediation after the ongoing restructuring of the banking sector. The scenario assumes a stable political and social situation that should lead to a durable improvement in business confidence and larger investment over the medium term (e.g. in the banking, telecom and phosphate sectors as well as the port). An important element of the baseline scenario is the reengagement of the international community. The GDP deflator is projected at 2.4 percent on average over 2015-2029, which is in line with Togo's historical experience and with WAEMU convergence criteria.

4. **Macroeconomic stability will be anchored on a prudent fiscal policy and structural reforms.** The domestic primary deficit is assumed to stay close to zero during the projected period. It is expected that resources freed up by HIPC and MDRI relief will be allocated to priority sectors such as health, education, and infrastructure. The revenue to GDP ratio is expected to stabilize at 18 percent reflecting mainly a successful strategy of increasing tax revenues by reducing relatively high tax rates and broadening the tax base.

5. **Under the assumption that FDI and donor flows are robust over the medium term, the external position is projected to remain manageable**. Togo's current account deficit is not expected to decline much over the medium term. Imports are projected to increase as foreign aid is absorbed and FDI increases. Exports are expected to pick up, largely on the account of higher phosphate exports. Sustained export growth will require enhancing competitiveness through reforms to improve the business environment. External financing is expected to come primarily from debt relief, FDI flows, remittances and aid. FDI is expected to increase during this period whereas international reserves are expected to fall moderately.

6. **The baseline scenario reflects the multilateral arrears clearance operations completed in 2008 and assumes full delivery of traditional debt relief as well as interim HIPC assistance**.[3] Consistent with the DSF guidelines, the baseline does not reflect the

[3] Arrears to IDA and AfDB were cleared in 2008. Togo has reached an agreement on arrears clearance with IFAD, OPEC and EIB. Togo is negotiating with BADEA. The IsDB has agreed in principle to provide relief but the modalities have not been defined yet. Togo has contacted FEGECE to ask for HIPC relief.

delivery of HIPC, MDRI and bilateral or multilateral beyond-HIPC assistance after the completion point.[4] Since the evolution of Togo's debt indicators reflects the full impact of debt relief under the HIPC Initiative, full HIPC, MDRI and bilateral or multilateral beyond-HIPC assistance is presented in a country-specific alternative scenario.

C. External Debt Sustainability Analysis

Baseline

7. **Under the baseline scenario, Togo's external debt indicators remain above their relevant indicative thresholds demonstrating that the country is in debt distress** (Table 1a, Figure 1). The present value (PV) of public and publicly guaranteed (PPG) debt equals to 49 percent of GDP in 2009 and remains above the 30 percent threshold until 2017. Both the PV of external debt relative to revenues and exports exceed their respective indicative threshold in 2014. Even if debt service ratios remain below their respective indicative thresholds over the whole projection period, the debt service-to-exports ratio comes close to the threshold in 2014 and 2015, stressing the need to reach the completion point and keep a high degree of concessionality of Togo's future debt.

Alternative Scenarios and Stress Tests

8. **Togo's external debt outlook remains vulnerable to numerous shocks** (Table 1b, Figure 1). The PV of external debt to revenue and exports indicators deteriorate significantly under a variety of shocks, in particular the ones that assume a depreciation of the exchange rate and lower export growth. The most relevant test appears to be the B5 scenario, which combines a GDP shock and lower non-debt creating flows. Under the most extreme shock scenario, the PV-based indicators breach the indicative thresholds over a long period and the debt service indicators stay above the respective threshold for several years even with Togo's new borrowing assumed on highly concessional terms. The historical scenario shows all PV of debt indicators increasing strongly starting in 2018 and breaching the thresholds in the latter years. The U-shape of the historical scenario demonstrates that starting in 2018 the current macroeconomic projections, supported by the current reform agenda, have a better outlook than the past figures, especially in terms of current account deficit and real growth rate.

9. **Alternative scenarios assume additional delivery of debt relief at the completion point, which would significantly improve Togo's debt sustainability outlook** (Figure 2). Debt relief under the HIPC Initiative, MDRI and possible bilateral and multilateral beyond-

[4] See "Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries" (www.imf.org and IDA/SECM2007/0226, 03/05/2007).

HIPC assistance would significantly improve Togo's external debt outlook. Reaching the completion point, which is assumed to occur in 2010, and the resulting irrevocable debt relief would reduce all external debt indicators to levels below the relevant indicative thresholds.

D. Public Sector Debt Sustainability

Baseline

10. **The inclusion of Togo's large domestic public debt in the analysis emphasizes the vulnerability of the baseline scenario** (Table 2a, Figure 2). Togo's domestic debt burden is comparatively large, reflecting years of weak fiscal management and domestic arrears accumulation, as well as the need to recapitalize ailing banks. In addition, the recent BCEAO credit linked to the SDR allocation that will be used to clear domestic arrears will worsen key indicative ratios. This occurs despite the fact that the BCEAO credit is on better terms than the market terms originally planned for the securities that were supposed to be issued to clear these arrears. The PV of total public debt is projected to remain relatively high over the next five year, hovering around 50 percent of GDP and 200 percent of revenues, respectively. Given the assumed improvement in the macroeconomic outlook and the projected high degree of concessionality of financing in the baseline scenario, debt ratios would nevertheless fall steadily over the long run.

Alternative Scenarios and Stress Tests

11. **The evolution of the debt indicators would be sensitive to a variety of shocks, which would increase the debt level and debt service over the long run**. Total public debt dynamics are particularly vulnerable to a real depreciation, increases in debt-creating flows and to a lesser extent to a growth shock (Table 2b, Figure 2). This highlights the importance of a reform agenda that improves the business environment to support foreign investment and growth.

12. **Full delivery of HIPC relief, MDRI and beyond-HIPC relief at the assumed completion point reduces these vulnerabilities as shown in the alternative scenario.** All three PV-based indicators would be substantially lower than under the baseline and would decline further over the projection period.

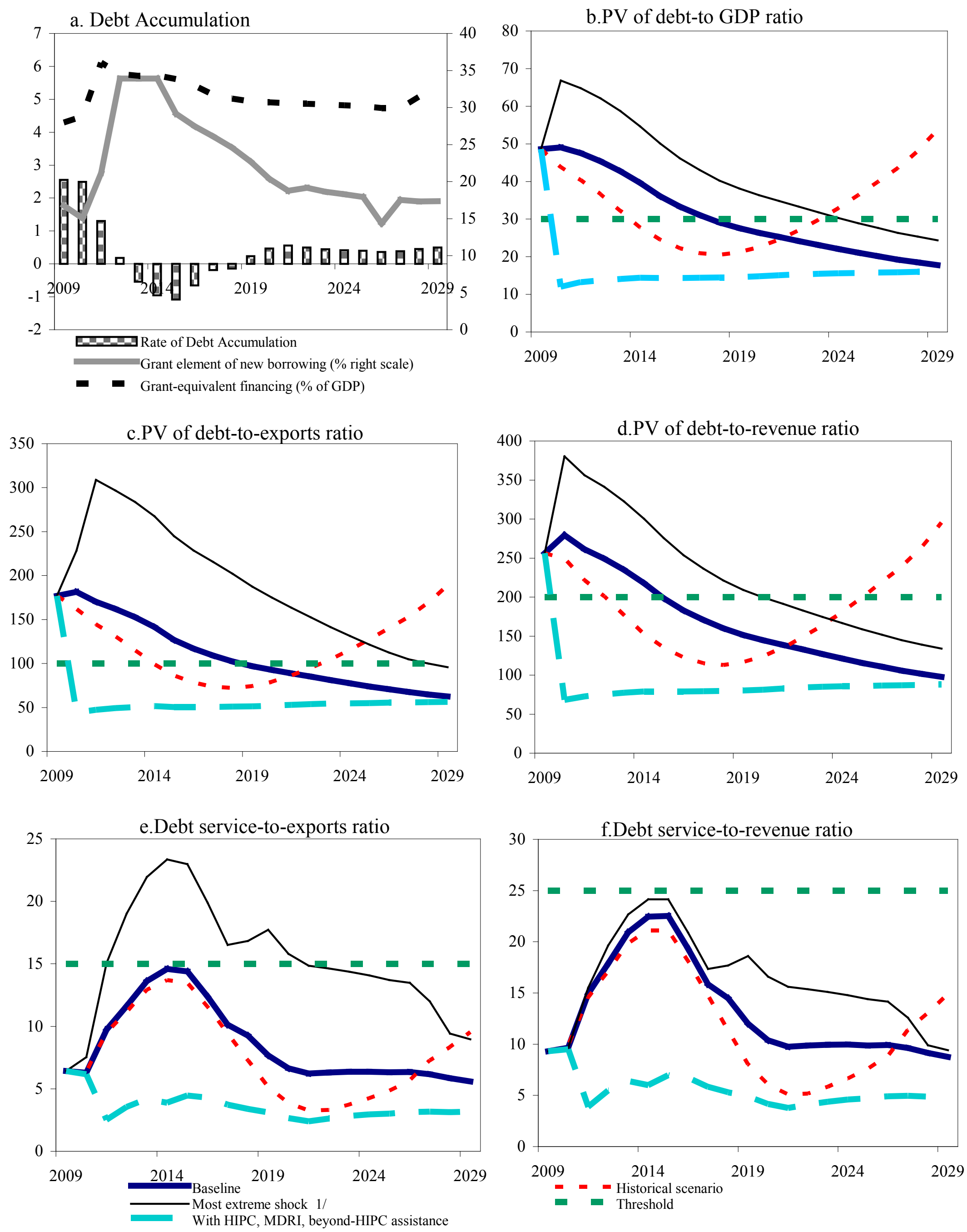
E. Conclusion

13. **The DSA shows that Togo remains in debt distress, despite the large debt reduction achieved through recent arrears clearance and by reaching the decision point of the HIPC Initiative.** Togo has benefited from the HIPC interim assistance and large arrears clearance operations. Under the baseline scenario, the PV-based indicators remain well above their indicative thresholds for most of the projection period, emphasizing the importance for additional debt relief, which is expected upon reaching the completion point.

Debt relief under the HIPC Initiative, MDRI and beyond-HIPC assistance significantly improves Togo's external debt outlook.

14. **Achieving a robust external debt outlook will depend on a sustained pick-up of real GDP growth, exports and foreign direct investment, as well as prudent debt management and solid fiscal performance.** Alternative scenarios and bound tests highlight the vulnerability of Togo's current external debt outlook. The inclusion of Togo's large domestic debt in the analysis reinforces the conclusions of the external DSA and stresses the risks to Togo's debt prospects. In this context, it is essential that the Togolese authorities continue current efforts to strengthen public finance management, restructure the banking system and promote financial development, reform state-owned enterprises, and improve the investment climate, hence laying the foundation for accelerating growth prospects.

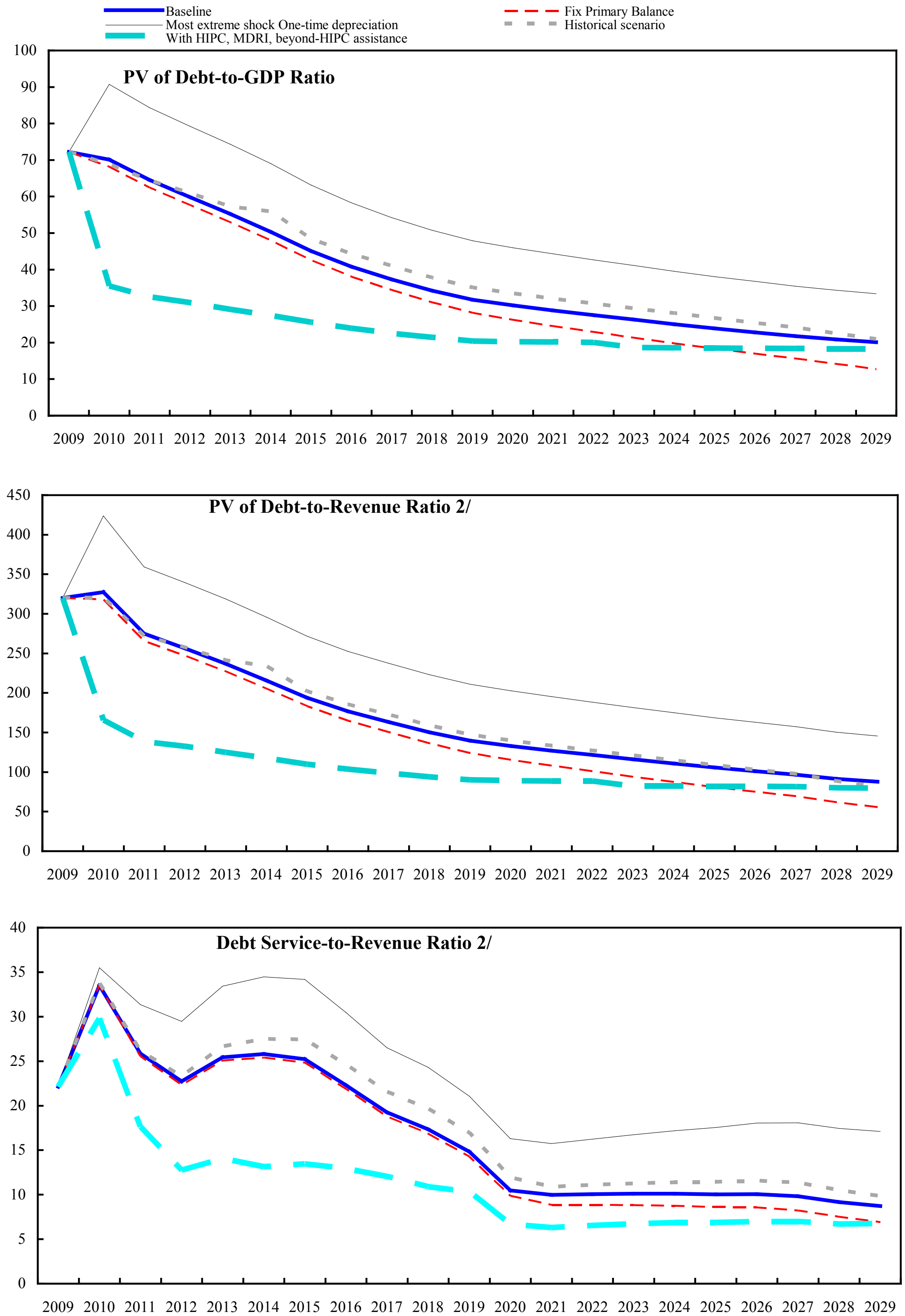
Figure 1. Togo: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2009-2029 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a With HIPC, MDRI, beyond-HIPC assistance shock; in c. to a With HIPC, MDRI, beyond-HIPC assistance shock; in d. to a With HIPC, MDRI, beyond-HIPC assistance shock; in e. to a With HIPC, MDRI, beyond-HIPC assistance shock and in figure f. to a With HIPC, MDRI, beyond-HIPC assistance shock

Figure 2.Togo: Indicators of Public Debt Under Alternative Scenarios, 2009-2029 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2019.

2/ Revenues are defined inclusive of grants.

Table 1a.: External Debt Sustainability Framework, Baseline Scenario, 2006-2029 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections																						
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-2014 Average	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2015-2029 Average
External debt (nominal) 1/	89.7	82.1	61.3			59.5	60.2	58.9	56.9	54.4	51.3		47.8	44.9	42.7	40.6	39.0	37.7	36.5	35.3	34.1	33.0	31.9	30.9	29.8	29.0	28.2	
o/w public and publicly guaranteed (PPG)	89.7	82.1	60.6			58.1	58.2	56.4	53.9	50.9	47.5		43.6	40.6	38.1	35.9	34.2	32.8	31.5	30.3	29.2	28.0	26.9	26.0	25.0	24.3	23.6	
Change in external debt	-0.5	-7.5	-20.9			-1.7	0.6	-1.3	-2.0	-2.5	-3.1		-3.5	-2.8	-2.3	-2.1	-1.6	-1.3	-1.2	-1.2	-1.2	-1.2	-1.1	-1.0	-1.0	-0.8	-0.8	
Identified net debt-creating flows	-5.6	-8.8	-6.0			4.7	5.4	2.5	1.8	1.9	1.7		0.2	0.0	-0.4	-0.8	-1.2	-1.7	-2.1	-2.6	-3.0	-3.5	-4.0	-4.1	-4.8	-6.0	-7.7	
Non-interest current account deficit	1.0	2.0	6.6	2.6	5.3	6.6	6.8	5.7	5.4	5.6	5.6		4.5	4.0	3.5	3.1	2.6	2.2	1.7	1.3	0.8	0.4	-0.1	-0.5	-1.0	-2.3	-4.0	1.1
Deficit in balance of goods and services	12.5	13.7	17.3			17.7	18.3	16.6	16.0	15.8	15.2		14.0	13.5	12.9	12.4	11.9	11.4	10.9	10.5	10.0	9.5	9.0	8.7	8.2	6.5	4.8	
Exports	24.7	26.3	27.5			27.5	27.0	27.9	28.0	28.0	28.0		28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	
Imports	37.2	40.0	44.8			45.2	45.4	44.5	44.0	43.7	43.2		42.4	41.9	41.4	40.9	40.4	39.9	39.4	38.9	38.5	38.0	37.5	37.1	36.6	34.9	33.2	
Net current transfers (negative = inflow)	-12.6	-11.5	-10.7	-10.3	2.5	-11.1	-11.4	-10.1	-9.7	-9.3	-8.9		-8.9	-8.9	-8.9	-8.9	-8.9	-8.9	-8.9	-8.9	-8.9	-8.9	-8.9	-8.9	-9.0	-8.7	-8.6	-8.9
o/w official	-1.4	-1.7	-1.6			-2.2	-2.7	-4.3	-4.2	-4.2	-4.1		-4.1	-4.0	-4.0	-4.0	-3.9	-3.9	-3.9	-3.8	-3.8	-3.8	-3.7	-3.7	-3.7	-4.0	-4.0	
Other current account flows (negative = net inflow)	1.1	-0.2	0.0			0.0	-0.1	-0.8	-0.9	-0.8	-0.7		-0.6	-0.6	-0.5	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	
Net FDI (negative = inflow)	-4.1	-2.5	-1.5	-3.0	1.2	-0.8	-0.4	-2.0	-2.5	-2.6	-2.8		-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Endogenous debt dynamics 2/	-2.5	-8.3	-11.1			-1.1	-1.0	-1.1	-1.2	-1.1	-1.1		-1.2	-1.0	-1.0	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.7	-0.8	-0.7	-0.7	
Contribution from nominal interest rate	2.0	1.8	0.4			0.4	0.4	1.0	1.1	1.0	0.9		0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	
Contribution from real GDP growth	-3.4	-1.6	-1.2			-1.6	-1.4	-2.1	-2.3	-2.2	-2.0		-2.1	-1.8	-1.7	-1.5	-1.4	-1.4	-1.4	-1.4	-1.3	-1.3	-1.3	-1.1	-1.2	-1.0	-1.1	
Contribution from price and exchange rate changes	-1.1	-8.6	-10.3			…	…	…	…	…	…		…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	
Residual (3-4) 3/	5.2	1.3	-14.9			-6.4	-4.7	-3.8	-3.8	-4.4	-4.8		-3.8	-2.8	-1.8	-1.3	-0.4	0.3	0.9	1.4	1.8	2.3	2.8	3.2	3.8	5.2	6.9	
o/w exceptional financing	0.0	0.0	-34.9			-4.1	-4.7	-2.9	-1.9	-1.9	-2.0		-1.8	-1.6	-1.1	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	-1.1	-1.0	-1.1	-1.1	-1.3	-1.3	
PV of external debt 4/	...	...	49.2			50.0	51.1	50.0	48.4	46.2	43.5		40.2	37.7	35.6	33.8	32.4	31.3	30.2	29.2	28.1	27.0	26.0	25.0	24.0	23.3	22.5	
In percent of exports	...	...	179.0			182.1	188.8	179.3	172.7	165.0	155.2		141.3	132.3	125.2	118.8	113.8	109.8	106.2	102.5	98.7	95.0	91.3	88.0	84.5	81.7	79.0	
PV of PPG external debt	...	...	48.5			48.6	49.1	47.5	45.4	42.7	39.6		36.1	33.3	31.1	29.1	27.6	26.4	25.3	24.2	23.1	22.1	21.0	20.1	19.2	18.5	17.8	
In percent of exports	...	...	176.5			176.9	181.5	170.3	162.0	152.7	141.6		126.8	117.0	109.2	102.2	96.9	92.6	88.8	85.0	81.2	77.5	73.9	70.7	67.5	65.0	62.6	
In percent of government revenues	...	...	285.1			256.2	279.3	261.2	249.3	234.9	217.8		198.4	182.9	170.8	159.9	151.5	144.8	138.9	132.9	127.0	121.2	115.6	110.7	105.6	101.6	97.9	
Debt service-to-exports ratio (in percent)	14.5	13.6	8.7			6.4	6.3	9.7	11.6	13.6	14.6		14.4	12.4	10.1	9.3	7.7	6.6	6.2	6.3	6.4	6.4	6.3	6.3	6.2	5.8	5.6	
PPG debt service-to-exports ratio (in percent)	14.5	13.6	8.7			6.4	6.3	9.7	11.6	13.6	14.6		14.4	12.4	10.1	9.3	7.7	6.6	6.2	6.3	6.4	6.4	6.3	6.3	6.2	5.8	5.6	
PPG debt service-to-revenue ratio (in percent)	21.1	21.0	14.0			9.3	9.7	14.9	17.9	20.9	22.5		22.5	19.3	15.8	14.5	12.0	10.4	9.7	9.9	10.0	10.0	9.9	9.9	9.6	9.1	8.7	
Total gross financing need (Billions of U.S. dollars)	0.0	0.1	0.2			0.2	0.3	0.2	0.2	0.3	0.3		0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.0	-0.1	-0.3	
Non-interest current account deficit that stabilizes debt ratio	1.5	9.5	27.5			8.3	6.2	7.0	7.4	8.1	8.7		8.0	6.8	5.8	5.1	4.2	3.5	2.9	2.5	2.0	1.5	1.0	0.5	0.1	-1.5	-3.2	
Key macroeconomic assumptions																												
Real GDP growth (in percent)	3.9	1.9	1.8	1.5	2.2	2.5	2.6	3.8	4.0	4.0	3.9	3.4	4.3	3.9	4.0	3.7	3.8	3.8	3.9	4.0	4.0	4.1	4.2	3.6	4.3	3.7	4.1	4.0
GDP deflator in US dollar terms (change in percent)	1.2	10.6	14.3	5.5	8.6	-5.4	4.4	2.0	0.6	0.4	1.0	0.5	1.6	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.4	2.6	2.4	2.6	2.5	2.4
Effective interest rate (percent) 5/	2.3	2.3	0.6	1.9	0.7	0.7	0.7	1.8	1.9	1.9	1.8	1.5	1.7	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.4	1.4	1.4	1.3	1.5
Growth of exports of G&S (US dollar terms, in percent)	-29.7	20.3	21.4	7.4	19.5	-3.0	5.4	9.2	5.1	4.3	4.9	4.3	7.6	6.5	6.5	6.3	6.4	6.4	6.5	6.6	6.6	6.7	6.7	6.3	6.8	6.4	6.6	6.6
Growth of imports of G&S (US dollar terms, in percent)	-3.9	21.3	30.3	7.7	17.8	-2.3	7.6	3.8	3.5	3.7	3.6	3.3	4.0	5.1	5.2	5.0	5.1	5.1	5.2	5.3	5.3	5.3	5.3	5.3	5.4	1.4	1.5	4.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	16.7	15.1	21.2	33.9	33.9	33.9	25.8	29.1	27.4	26.1	24.6	22.7	20.4	18.7	19.2	18.6	18.3	17.9	14.4	17.5	17.3	17.4	20.6
Government revenues (excluding grants, in percent of GDP)	16.9	17.0	17.0			19.0	17.6	18.2	18.2	18.2	18.2		18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2
Aid flows (in Billions of US dollars) 7/	0.0	0.1	0.1			0.1	0.1	0.2	0.2	0.2	0.2		0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	
o/w Grants	0.0	0.0	0.1			0.1	0.1	0.2	0.2	0.2	0.2		0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.3	4.5	6.1	5.8	5.7	5.7		5.6	5.4	5.1	5.0	4.9	4.9	4.9	4.9	4.8	4.8	4.8	4.7	4.7	5.1	5.1	5.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			55.5	55.7	66.5	82.8	83.1	83.1		80.0	78.8	78.1	78.2	76.9	75.4	73.8	73.9	73.3	72.7	72.1	68.4	71.4	72.5	72.7	74.6
Memorandum items:																												
Nominal GDP (Billions of US dollars)	2.2	2.5	2.9			2.8	3.0	3.2	3.3	3.5	3.7		3.9	4.1	4.4	4.7	5.0	5.3	5.6	6.0	6.4	6.8	7.3	7.7	8.3	8.8	9.4	
Nominal dollar GDP growth	5.2	12.7	16.3			-3.1	7.1	5.8	4.7	4.3	4.9	4.0	5.9	6.5	6.5	6.3	6.4	6.4	6.5	6.6	6.6	6.7	6.7	6.3	6.8	6.4	6.6	6.5
PV of PPG external debt (in Billions of US dollars)			1.3			1.4	1.4	1.5	1.5	1.5	1.4		1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.6	1.6	1.6	1.7	
(PVt-PVt-1)/GDPt-1 (in percent)						2.5	2.5	1.3	0.2	-0.5	-1.0	0.8	-1.1	-0.7	-0.2	-0.1	0.2	0.5	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.2

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. The large amount in 2008 reflects the arrears clearance operation.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

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

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b.Togo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029
(In percent)

	Projections																				
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio																					
Baseline	49	49	48	45	43	40	36	33	31	29	**28**	26	25	24	23	22	21	20	19	18	18
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	49	44	40	37	32	28	25	22	21	21	**21**	23	25	27	30	33	36	40	44	48	54
A2. New public sector loans on less favorable terms in 2009-2029 2	49	50	50	48	46	43	40	37	36	34	**33**	33	32	32	32	32	32	32	33	33	33
A3. Alternative Scenario :full delivery of HIPC, MDRI, and beyond HIPC debt relief	49	12	13	14	14	14	14	14	14	14	**15**	15	15	15	15	16	16	16	16	16	16
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	49	49	50	48	45	42	39	36	33	31	**29**	28	27	26	25	23	22	21	20	20	19
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	49	51	58	56	53	50	47	44	41	39	**36**	33	31	29	27	25	23	22	20	19	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	49	52	55	52	49	46	42	39	36	34	**32**	31	29	28	27	26	24	23	22	21	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	49	47	45	43	40	38	34	32	29	28	**26**	25	24	23	22	21	20	19	19	18	17
B5. Combination of B1-B4 using one-half standard deviation shocks	49	52	58	56	53	50	46	43	40	37	**35**	33	31	30	28	26	25	23	22	21	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	49	67	65	62	59	55	50	46	43	40	**38**	36	35	33	32	30	29	28	26	25	24
PV of debt-to-exports ratio																					
Baseline	177	181	170	162	153	142	127	117	109	102	**97**	93	89	85	81	77	74	71	67	65	63
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	177	162	145	131	115	99	86	78	74	72	**74**	79	86	95	105	116	128	140	153	169	189
A2. New public sector loans on less favorable terms in 2009-2029 2	177	184	179	173	164	154	140	131	125	120	**116**	115	114	113	113	112	112	114	115	116	117
A3. Alternative Scenario :full delivery of HIPC, MDRI, and beyond HIPC debt relief	177	44	47	49	50	51	50	50	51	51	**51**	52	53	54	54	55	55	55	56	56	56
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	177	176	166	158	150	139	126	116	108	101	**95**	91	87	83	80	76	72	69	66	63	61
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	177	228	309	297	284	267	245	229	215	202	**187**	175	163	152	142	131	121	113	105	100	96
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	177	176	166	158	150	139	126	116	108	101	**95**	91	87	83	80	76	72	69	66	63	61
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	177	173	161	153	145	134	121	111	103	97	**92**	88	85	81	78	74	71	68	65	63	61
B5. Combination of B1-B4 using one-half standard deviation shocks	177	193	220	211	201	188	171	158	148	139	**130**	123	117	110	104	98	92	87	82	78	75
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	177	176	166	158	150	139	126	116	108	101	**95**	91	87	83	80	76	72	69	66	63	61
PV of debt-to-revenue ratio																					
Baseline	256	279	261	249	235	218	198	183	171	160	**152**	145	139	133	127	121	116	111	106	102	98
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	256	249	222	201	177	153	135	122	115	113	**116**	124	135	148	164	181	200	219	239	264	295
A2. New public sector loans on less favorable terms in 2009-2029 2	256	283	275	266	252	236	219	205	195	187	**182**	179	178	177	177	176	176	178	179	181	184
A3. Alternative Scenario :full delivery of HIPC, MDRI, and beyond HIPC debt relief	256	68	73	76	77	79	79	79	79	80	**80**	81	83	84	85	86	86	87	87	88	88
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	256	280	275	263	249	232	212	196	182	171	**161**	154	148	141	135	128	122	117	112	107	103
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	256	293	318	307	293	276	257	240	226	212	**197**	184	172	160	149	138	128	118	110	105	101
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	256	298	300	287	272	253	232	214	199	186	**176**	168	161	154	147	140	134	128	122	117	113
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	256	266	246	236	222	207	189	174	162	151	**144**	138	132	127	122	117	112	107	102	99	95
B5. Combination of B1-B4 using one-half standard deviation shocks	256	296	319	307	292	273	252	234	219	206	**193**	182	172	163	154	145	136	128	121	116	111
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	256	380	356	341	323	300	275	254	237	221	**209**	200	191	183	175	167	159	152	145	139	134

Table 1b.Togo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029 (continued)
(In percent)

											Debt service-to-exports ratio										
Baseline	6	6	10	12	14	15	14	12	10	9	**8**	7	6	6	6	6	6	6	6	6	6
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	6	6	9	11	13	14	13	12	9	7	**5**	4	3	3	4	4	5	6	7	8	10
A2. New public sector loans on less favorable terms in 2009-2029 2	6	6	10	12	14	15	14	13	12	11	**9**	9	9	9	9	9	10	10	11	11	12
A3. Alternative Scenario :full delivery of HIPC, MDRI, and beyond HIPC debt relief	6	6	3	4	4	4	4	4	4	3	**3**	3	2	3	3	3	3	3	3	3	3
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	6	6	10	12	14	15	14	12	10	9	**8**	7	6	6	6	6	6	6	6	6	5
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	6	8	15	19	22	23	23	20	17	17	**18**	16	15	15	14	14	14	13	12	9	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	6	6	10	12	14	15	14	12	10	9	**8**	7	6	6	6	6	6	6	6	6	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	6	6	10	11	13	14	14	12	10	9	**7**	6	6	6	6	6	6	6	6	6	5
B5. Combination of B1-B4 using one-half standard deviation shocks	6	7	12	15	17	18	18	15	13	12	**11**	10	9	9	9	9	9	9	8	7	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	6	6	10	12	14	15	14	12	10	9	**8**	7	6	6	6	6	6	6	6	6	5
											Debt service-to-revenue ratio										
Baseline	9	10	15	18	21	22	23	19	16	14	**12**	10	10	10	10	10	10	10	10	9	9
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	9	10	15	17	20	21	21	18	15	11	**8**	6	5	5	6	7	8	9	11	13	15
A2. New public sector loans on less favorable terms in 2009-2029 2	9	10	15	19	22	24	23	21	19	17	**15**	14	14	14	14	13	16	15	17	18	19
A3. Alternative Scenario :full delivery of HIPC, MDRI, and beyond HIPC debt relief	9	10	4	5	6	6	7	7	6	5	5	4	4	4	4	5	5	5	5	5	5
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	9	10	16	19	23	24	24	21	17	16	**13**	11	10	11	11	11	11	11	10	10	9
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	9	10	16	20	23	24	24	21	17	18	**19**	17	16	15	15	15	14	14	13	10	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	9	11	18	21	25	26	27	23	19	17	**14**	12	11	12	12	12	11	12	11	11	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	9	10	15	18	21	22	22	19	16	14	**11**	10	9	9	9	9	9	9	9	9	8
B5. Combination of B1-B4 using one-half standard deviation shocks	9	10	17	21	25	26	26	23	19	18	**17**	15	14	14	14	14	13	13	13	11	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	9	14	21	25	29	31	32	27	22	20	**17**	14	14	14	14	14	14	14	13	13	12
Memorandum item:																					
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	14	14	14	14	14	14	14	14	14	14	**14**	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.

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

Table 2a.Togo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2006-2029
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2006	2007	2008	Average	Standard Deviation	2009	2010	2011	2012	2013	2014	2009-14 Average	2019	2029	2015-29 Average
Public sector debt 1/	117.8	110.2	85.7			81.7	79.3	73.4	68.4	63.5	58.1		38.3	25.8	
o/w foreign-currency denominated	89.7	82.1	60.6			58.1	58.2	56.4	53.9	50.9	47.5		34.2	23.6	
Change in public sector debt	3.0	-7.5	-24.6			-3.9	-2.5	-5.8	-5.0	-4.9	-5.3		-2.7	-0.8	
Identified debt-creating flows	-10.0	-10.8	-21.2			-4.1	-1.7	-3.3	-2.4	-2.1	-2.3		-1.7	-0.9	
Primary deficit	1.7	-0.3	-0.6	-0.3	2.0	-0.3	1.7	-0.1	-0.1	-0.1	-0.2	0.1	0.2	0.5	0.2
Revenue and grants	18.3	18.7	19.4			22.6	21.4	23.5	23.3	23.3	23.3		22.7	22.9	
of which: grants	1.4	1.7	2.4			3.6	3.8	5.3	5.1	5.1	5.1		4.5	4.7	
Primary (noninterest) expenditure	20.0	18.4	18.8			22.3	23.1	23.4	23.2	23.2	23.2		22.9	23.4	
Automatic debt dynamics	-11.6	-10.5	-0.9			-2.8	-2.4	-3.2	-2.3	-1.9	-2.2		-1.9	-1.3	
Contribution from interest rate/growth differential	-2.5	-1.5	-7.8			-1.9	-2.9	-3.6	-2.8	-2.5	-2.7		-1.9	-1.3	
of which: contribution from average real interest rate	1.8	0.8	-5.9			0.2	-0.9	-0.7	0.0	0.1	-0.3		-0.4	-0.3	
of which: contribution from real GDP growth	-4.4	-2.3	-1.9			-2.1	-2.1	-2.9	-2.8	-2.6	-2.4		-1.5	-1.0	
Contribution from real exchange rate depreciation	-9.1	-9.1	6.9			-0.9	0.5	0.4	0.6	0.5	0.5		...	...	
Other identified debt-creating flows	-0.1	0.0	-19.7			-1.0	-1.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.1	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	-19.7			-1.0	-1.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	13.0	3.3	-3.4			0.2	-0.8	-2.6	-2.6	-2.8	-3.0		-1.0	0.0	
Other Sustainability Indicators															
PV of public sector debt	28.1	28.1	73.5			72.2	70.1	64.6	59.9	55.3	50.3		31.7	20.1	
o/w foreign-currency denominated	0.0	0.0	48.5			48.6	49.1	47.5	45.4	42.7	39.6		27.6	17.8	
o/w external	...	...	48.5			48.6	49.1	47.5	45.4	42.7	39.6		27.6	17.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	6.3	4.3	4.2			4.7	8.9	6.0	5.2	5.8	5.8		3.6	2.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	153.8	150.5	379.5			320.1	327.5	274.8	256.4	237.0	215.8		139.7	87.7	
PV of public sector debt-to-revenue ratio (in percent)	166.4	165.5	432.6			380.8	399.2	354.7	328.9	303.7	276.5		174.3	110.4	
o/w external 3/	…	…	285.1			256.2	279.3	261.2	249.3	234.9	217.8		151.5	97.9	
Debt service-to-revenue and grants ratio (in percent) 4/	25.1	24.9	24.8			22.1	33.5	25.8	22.7	25.4	25.8		14.8	8.7	
Debt service-to-revenue ratio (in percent) 4/	27.1	27.4	28.2			26.3	40.9	33.4	29.2	32.6	33.1		18.5	11.0	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.3	7.2	24.0			3.7	4.2	5.7	4.9	4.8	5.1		2.9	1.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.9	1.9	1.8	1.5	2.2	2.5	2.6	3.8	4.0	4.0	3.9	3.4	3.8	4.1	4.0
Average nominal interest rate on forex debt (in percent)	2.3	2.3	0.6	1.9	0.7	0.7	0.8	1.8	2.0	1.9	1.8	1.5	1.7	1.5	1.6
Average real interest rate on domestic debt (in percent)	0.5	-0.2	-5.3	-1.7	3.2	2.1	0.5	-0.3	0.6	0.8	0.1	0.6	-1.9	-1.6	-1.3
Real exchange rate depreciation (in percent, + indicates depreciation)	-10.3	-10.2	9.0	-4.4	10.9	-1.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.3	1.3	6.5	2.4	5.4	1.3	2.6	3.0	2.2	1.9	2.5	2.2	2.5	2.5	2.5
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	-0.1	0.0	0.0	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	16.7	15.1	21.2	33.9	33.9	33.9	25.8	22.7	17.4	...

Sources: Country authorities; and staff estimates and projections.
1/ Covers public and publicly guaranteed debt including state-owned enterprises debt.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2b.Togo: Sensitivity Analysis for Key Indicators of Public Debt 2009-2029

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
PV of Debt-to-GDP Ratio								
Baseline	72	70	65	60	55	50	32	20
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	72	69	64	61	57	56	35	21
A2. Primary balance is unchanged from 2009	72	68	62	58	53	48	28	13
A3. Permanently lower GDP growth 1/	72	71	65	61	57	53	38	39
A4. Alternative Scenario :With HIPC, MDRI, Beyond-HIPC assistance	72	35	35	35	35	35	35	35
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	72	73	72	68	65	61	47	45
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	72	70	66	62	57	52	33	21
B3. Combination of B1-B2 using one half standard deviation shocks	72	71	68	64	60	56	41	36
B4. One-time 30 percent real depreciation in 2010	72	91	84	79	74	69	48	33
B5. 10 percent of GDP increase in other debt-creating flows in 2010	72	80	74	70	65	60	40	27
PV of Debt-to-Revenue Ratio 2/								
Baseline	320	327	275	256	237	216	140	88
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	320	321	272	258	241	234	147	82
A2. Primary balance is unchanged from 2009	320	318	266	247	227	206	124	56
A3. Permanently lower GDP growth 1/	320	329	278	261	244	225	165	165
A4. Alternative Scenario :With HIPC, MDRI, Beyond-HIPC assistance	320	166	139	133	125	118	90	80
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	320	339	300	287	272	256	203	192
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	320	327	283	264	245	223	147	93
B3. Combination of B1-B2 using one half standard deviation shocks	320	328	286	271	255	237	178	156
B4. One-time 30 percent real depreciation in 2010	320	424	359	339	319	296	211	146
B5. 10 percent of GDP increase in other debt-creating flows in 2010	320	374	317	298	278	257	177	117
Debt Service-to-Revenue Ratio 2/								
Baseline	22	34	26	23	25	26	15	9
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	22	34	26	23	27	28	17	10
A2. Primary balance is unchanged from 2009	22	34	26	22	25	25	14	7
A3. Permanently lower GDP growth 1/	22	34	26	23	26	26	16	13
A4. Alternative Scenario :With HIPC, MDRI, Beyond-HIPC assistance	22	30	18	13	14	13	10	7
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	22	34	28	24	28	28	18	15
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	22	34	26	23	26	26	15	9
B3. Combination of B1-B2 using one half standard deviation shocks	22	34	27	24	27	27	17	13
B4. One-time 30 percent real depreciation in 2010	22	35	31	29	33	34	21	17
B5. 10 percent of GDP increase in other debt-creating flows in 2010	22	34	27	25	27	27	16	12

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review Under PRGF Arrangement with Togo and Approves the Disbursement of US$14 million

The Executive Board of the International Monetary Fund (IMF) has completed the third review of Togo's performance under its economic reform program supported by a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review was on a lapse of time basis[1] on November 18, 2009 and enabled the Republic of Togo to draw an amount of SDR 8.8 million (around US$14 million) under the arrangement.

Togo met all of its quantitative and structural performance criteria under the PRGF-supported program, and implementation of its PRGF-supported program has been solid, especially considering the impact of the global recession, last year's global price shocks, and severe flooding in the country. Fiscal policies have been prudent, and good progress has been achieved in implementing key structural reforms.

The three-year PRGF arrangement was approved by the Executive Board in April 2008 (see Press Release No. 08/90) for an amount of SDR 66.06 million (about US$108.4 million). In September 2008, the Executive Board approved an augmentation of access of SDR 18.35 million (see Press Release No. 08/216). Drawing the amount made available by completion of the third review will bring total disbursements under the arrangement to SDR 58 million (about US$92.7 million).

PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in the Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-

[1] The Executive Board takes decisions under its lapse of time procedures when it is agreed by the Board that a proposal can be considered without convening formal discussions.

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supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty.

Togo, which became a member of the IMF on August 1, 1962, has a Fund quota of SDR 73.40 million.