INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/309

TOGO

November 2015

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR TOGO

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2015 Article IV consultation with Togo, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its October 26, 2015 consideration of the staff report that concluded the Article IV consultation with Togo.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 26, 2015, following discussions that ended on August 6, 2015, 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 October 7, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Togo.

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

Selected Issues

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

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Press Release No. 15/515
FOR IMMEDIATE RELEASE
November 13, 2015

IMF Executive Board Concludes 2015 Article IV Consultation with Togo

On October 26, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Togo.

Economic growth has remained strong in recent years, averaging 5.4 percent in 2013-14, on the back of productivity gains in the agricultural sector and public investment in transport infrastructure. The fast pace of public investment has laid the basis for higher growth but has also contributed to a pronounced increase in public debt and current account deficit. Public debt has increased from 46 percent of GDP in 2012 to 58 percent in 2014. The current account deficit widened from 7.5 percent of GDP in 2012 to 13 percent of GDP in 2013–14, primarily as a result of higher imports linked to the development of the transportation network. Inflation slowed to 0.2 percent in 2014 mainly due to declining food prices and reductions in retail fuel prices.

Output growth is expected to be sustained over the medium term, although current account and debt pressures are unlikely to abate and the global environment has deteriorated. Growth is expected to average 5.5 percent in 2015–18, supported by agricultural production, transportation services linked to international trade, and the impact of investments in transport infrastructure, which should facilitate private economic activity. The current account deficit is projected to improve marginally to 12.25 percent of GDP in 2015 as a result of lower oil prices and narrow only to 9.5 percent of GDP by 2020 with the gradual decline in the fiscal deficit and increased

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

savings of state-owned enterprises. Inflation is expected to remain subdued in line with WAEMU trend. The risks to baseline forecasts are largely home-grown, although a sharp slowdown in regional or global growth would inevitably have an impact, mainly through the key trading partners in the region.

Executive Board Assessment[2]

Executive Directors welcomed Togo's strong economic growth in recent years on the back of productivity gains in agriculture and public infrastructure investment, which have yielded improvements in social indicators. They noted, however, that the rapid pace of public investment has raised public debt and the current account deficit. Directors emphasized the need to improve fiscal balances and complete the implementation of key fiscal reforms, address financial sector weaknesses, and promote structural transformation to foster more inclusive growth.

Directors underscored the need to place fiscal balances on a sustainable path to ensure debt and external sustainability and create space for social spending. They advised anchoring public finances on a domestic primary balance to reduce the public debt-to-GDP ratio over the medium term. In this regard, they emphasized the need to control current spending, including by continuing to reduce fuel subsidies. They also highlighted the importance of raising the efficiency of public investment to ensure it raises growth. Directors underscored the importance of enhancing public financial and debt management and urged completion of key fiscal reforms, including the reorganization of the Ministry of Finance, developing an effective debt and treasury cash management, establishing a treasury single account, and modernizing revenue administration.

Directors emphasized the need to enforce the regulatory framework in the financial sector, resolve problem banks, and strengthen supervision in the microfinance sector. They recommended that banks with weak regulatory indicators should take immediate corrective action or be subject to resolution. They supported implementing least-cost resolution options when dealing with nonviable financial entities.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm

Directors stressed that structural transformation is crucial to raise potential growth in Togo, and encouraged the authorities to accelerate implementation of reforms. Noting that improving transport networks has been a principal component of the strategy to raise growth, they recommended complementing this with enhancements in public investment management; the opening to private sector competition of key economic sectors, such as mining, telecommunications, and energy; and further improvements in the business environment. Investing in social development will also be important in making growth inclusive.

Directors highlighted the need to produce national accounts and fiscal data in a more timely and consistent manner, and welcomed the establishment of the national statistics institute.

Togo: Selected Economic and Financial Indicators, 2012-20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Est.	Prel.	Prel.	Proj.					
	(Percentage growth, unless otherwise indicated)								
National income, prices, and exchange rates									
Real GDP	5.9	5.4	5.4	5.4	5.6	5.6	5.6	5.5	5.5
Real GDP per capita	3.2	2.7	2.7	2.7	2.9	2.9	2.9	2.8	2.8
GDP deflator	6.5	2.0	0.5	2.5	2.4	2.4	2.3	2.3	2.2
Consumer price index (average)	2.6	1.8	0.2	1.9	2.1	2.5	2.5	2.5	2.5
GDP (CFAF billions)	1,999	2,149	2,277	2,459	2,659	2,875	3,106	3,352	3,614
Exchange rate CFAF/US$ (annual average level)	510.2	493.9	493.6	...	...	...	...	...	...
Real effective exchange rate	-3.9	2.2	1.2	...	...	...	...	...	...
Terms of trade (deterioration = –)	13.5	-17.2	9.8	8.2	-2.5	-1.9	-2.7	-4.4	-4.5
	(Annual change, percent of beginning-of-period broad money)								
Monetary survey									
Net foreign assets[1]	-2.1	4.6	-7.7	0.7	3.0	4.3	4.9	4.3	5.2
Credit to government[1]	3.7	-4.1	3.1	2.4	0.7	0.5	0.4	0.4	0.0
Credit to nongovernment sector	11.5	9.0	7.9	8.3	8.4	7.1	7.2	7.3	7.4
Broad money (M2)	8.9	10.3	9.8	10.5	10.6	8.9	8.6	7.9	7.8
Velocity (GDP/end-of-period M2)	2.2	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0
	(Percent of GDP, unless otherwise indicated)								
Investment and savings									
Gross domestic investment	23.8	23.6	23.5	24.5	24.6	24.5	23.9	23.9	23.9
Government	8.8	8.3	9.1	9.7	9.6	9.4	9.1	9.1	9.1
Nongovernment	15.0	15.3	14.4	14.8	15.0	15.1	14.8	14.8	14.8
Gross national savings	16.3	10.5	10.7	12.2	13.3	13.7	13.5	13.9	14.3
Government	1.5	3.6	3.8	4.5	4.9	4.7	4.3	4.2	4.2
Nongovernment	14.8	6.9	6.9	7.7	8.4	9.0	9.1	9.6	10.1
Government budget									
Total revenue and grants	19.2	20.9	19.7	21.0	21.4	21.6	21.6	21.8	21.7
Revenue	17.6	18.0	17.7	18.8	19.0	19.1	19.5	19.7	19.8
Total expenditure and net lending	26.4	25.5	25.0	26.3	26.1	26.2	26.3	26.6	26.6
Domestic primary expenditure	20.3	19.8	19.1	20.5	19.9	19.8	20.2	20.2	20.1
Overall balance (payment order basis)	-7.2	-4.6	-5.3	-5.2	-4.7	-4.7	-4.7	-4.8	-4.9
Overall balance (cash basis)	-7.8	-5.3	-6.4	-5.4	-5.2	-5.2	-5.3	-5.4	-5.4
Domestic primary balance[2]	-2.7	-1.8	-1.5	-1.7	-0.9	-0.7	-0.7	-0.5	-0.3
External sector									
Current account balance	-7.5	-13.0	-12.8	-12.3	-11.3	-10.8	-10.4	-10.0	-9.6
Exports (goods and services)	44.7	45.7	40.3	40.3	41.1	42.0	43.1	44.1	45.0
Imports (goods and services)	-58.6	-65.8	-59.5	-59.2	-59.2	-59.6	-60.0	-60.7	-61.1
External public debt[3]	17.6	20.1	26.9	29.3	28.9	29.0	28.9	28.9	28.8
External public debt service (percent of exports)[3]	3.2	3.5	4.6	4.0	4.1	3.4	3.7	4.3	5.1
Total public debt[3]	46.1	50.1	58.4	62.5	61.8	61.3	60.9	60.6	57.2

Sources: Togolese authorities and IMF staff estimates and projections.

[1] Change as a percentage of broad money at the beginning of the period.

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

[3] Includes arrears and state-owned enterprises external debt.

INTERNATIONAL MONETARY FUND

TOGO

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

October 7, 2015

KEY ISSUES

Economic context. Economic growth has remained strong in recent years, averaging 5.4 percent in 2013-14, on the back of productivity gains in the agricultural sector and public investment in infrastructure. The pace of economic growth has contributed to improving human development indicators, though poverty remains high. The fast pace of public investment has laid the basis for higher growth but has also contributed to a pronounced increase in public debt and current account deficit.

Outlook and risks. Under unchanged policies, output growth is expected to be sustained over the medium term, but with accompanying current account and debt pressures that are unlikely to abate. The risks to baseline forecasts are limited fiscal consolidation, inaction in public financial management (PFM) reform, and delays in reforms in mining, energy, telecommunications, and business environment, as well as a sharp slowdown in regional or global growth.

Policies. Fiscal policy should be placed on a sustainable path while generating space for social spending to make growth more inclusive. Private sector participation in key economic sectors should be encouraged by improving the business environment.

- Improve the domestic primary balance to reduce total public debt in the medium term as debt has increased significantly in recent years. The improvement in fiscal balances should ensure that the risk of external debt distress does not increase beyond moderate level and the overall debt risk is reduced.

- Complete implementation of key reforms to enhance fiscal governance in the areas of revenue administration, PFM, and debt management.

- Address financial sector weaknesses. Solve nonviable financial entities by implementing least-cost resolution options.

- Foster growth by enhancing the efficiency of investment, further improving the business environment, and opening to private sector competition key economic sectors.

Approved By
Abebe Aemro Selassie and Peter Allum

Discussions were held in Lomé, July 24-August 6, 2015. The staff team comprised Ms. Sancak (head), Messrs. Arizala, Kwalingana, Ruggiero (all AFR) and Steylaers (FAD consultant). Mr. Diallo (OED) participated in the policy discussions. Mr. MacWilliam (World Bank) and Ms. Gosparini (EU Delegation) joined some technical meetings. The mission held discussions with Mr. Adji Otèth Ayassor, State Minister of Economy, Finance and Development Planning; Mr. Kossi Assimaidou, Minister Delegate for Development Planning; Mr. Sani Yaya, Minister Delegate for the Budget; Ms. Victoire Tomegah Dogbe, Minister of Grassroots Development, Crafts, and Youth Employment; Mr. Kossi Tenou, BCEAO National Director, and other senior officials. The mission also met representatives of the private sector, civil society, and development partners and held a press conference.

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RECENT DEVELOPMENTS AND CONTEXT

1. **Economic growth has remained strong in recent years on the back of agricultural production, the construction of the main road networks, and the expansion of the Port of Lomé and the international airport.** Output growth averaged 5.4 percent in 2013-14 (Text Table 1; Figure 1). Investor uncertainty surrounding the presidential elections may have dampened economic activity in the secondary and tertiary sectors in 2014 but it was compensated by the strong performance in the agricultural sector, which benefited from a good rainfall and the increased use of fertilizers (see SIP).[1] Inflation slowed mainly due to declining food prices, associated with the good harvest in 2014, and reductions in retail fuel prices, reflecting global oil price trends (see SIP). The current account deficit widened from 7.5 percent of GDP in 2012 to 13 percent of GDP in 2013–14, primarily as a result of higher imports of intermediary goods and petroleum products linked to the development of transportation network. Exports failed to compensate the surge of imports in 2014, as equipment constraints slowed down phosphate exploitation, and operational accidents and strikes interrupted the production of clinker and cement (Figure 2).[2] In addition, economic slowdown and large depreciation in the currencies of key trading partners, such as Ghana and Nigeria, diminished the demand for other Togolese exports.

Text Table 1. Togo: Selected Economic Indicators, 2011–15

	2011	2012	2013	2014	2015
			Est.		Proj.
	(Percentage growth, unless otherwise indicated)				
Real GDP	4.8	5.9	5.4	5.4	5.4
Consumer price index (average)	3.6	2.6	1.8	0.2	1.9
	(Percent of GDP, unless otherwise indicated)				
Budget overall fiscal balance (payment order basis)	-4.0	-7.2	-4.6	-5.3	-5.2
Budget overall fiscal balance (cash basis)	-4.1	-7.8	-5.3	-6.4	-5.4
Current account balance	-8.0	-7.5	-13.0	-12.8	-12.3
Total public debt[1]	44.5	46.1	50.1	58.4	62.5

Sources: Togolese authorities and IMF staff estimates and projections.
[1] Includes arrears and state-owned enterprises external debt.

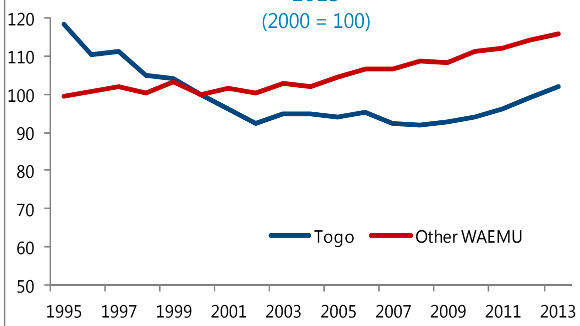
2. **The recent pace of economic growth has contributed to improving human development indicators.** While real GDP per capita remains below the WAEMU average (Text Figure 1), Togo's human development index compares well with other WAEMU countries as well as LICs and continues to improve (Text Figure 2). Togo has been making progress towards its Millennium Development Goals (Text Table 2). However, poverty remains high and geographically concentrated in rural areas.[3] The challenge is thus to sustain growth while making it more inclusive.

[1] The Ministry of Agriculture has developed a program (PNIASA) to increase the productivity of the agricultural and cattle sectors, which includes the provision of fertilizers to producers.

[2] Technical and labor disruptions continued in early 2015.

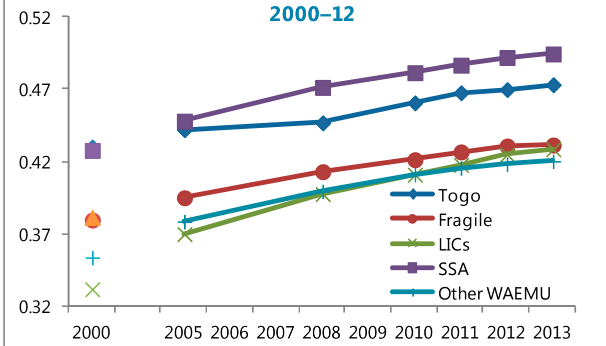
[3] Income distribution worsened during 2006–11, as measured by the increase of the Gini coefficient from 0.36 to 0.39.

Text Figure 1. Togo: Real GDP per Capita, 1995–2013
(2000 = 100)



Sources: Country authorities; and IMF staff estimates.

Text Figure 2. Togo: Human Development Index, 2000–12



Sources: Human Development Report, 2014.

Text Table 2. Togo: Millenium Development Goals, 1990–2013

	1990	1995	2000	2005	latest		Goals
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	...	...	...	53.2	52.5	(2011)	Halve
Literacy rate, youth female (% of females ages 15-24)	...	...	63.6	67.9	74.6	(2009)	100
School enrollment, primary (% net)	66.6	76.6	87.0	89.6	97.0	(2013)	100
Ratio of female to male primary enrollment (%)	64.4	67.8	77.7	84.8	89.0	(2013)	100
Mortality rate, infant (per 1,000 live births)	85.2	81.8	78.7	76.0	56.0	(2013)	28.4
Mortality rate, under-5 (per 1,000 live births)	147.0	136.9	127.8	119.7	91.0	(2013)	49
Maternal mortality ratio (modeled estimate, per 100,000 live births)	660.0	660.0	580.0	510.0	450.0	(2013)	165
Prevalence of HIV, total (% of population ages 15-49)	1.7	2.9	4.0	4.1	3.4	(2011)	Halt/reverse
Improved water source (% of population with access)	48.5	50.8	53.2	55.8	59.0	(2012)	74.25

Source: World Development Indicators, 2015.

3. **The fast pace of public investment has, however, contributed to a pronounced increase in public debt and current account deficit**. Public debt has accumulated very rapidly in recent years, increasing from 46 percent of GDP in 2012 to 58 percent in 2014. Consequently, investment spending and debt service have been putting considerable pressures on the budget and liquidity situation.

4. **President Faure Gnassingbé was elected to a third term in April 2015 on a platform centered on continuing to improve economic infrastructure to foster growth, expanding and better targeting social spending, and maintaining security**. On infrastructure, the authorities plan to extend the road network beyond the main arteries, resurrect the railways for commercial transport, and develop telecom services. The social program is extensive, spanning education, social transfers, employment programs, health service expansion, universal access to potable water, improved access to energy, and social housing. On the security front, the authorities intend to strengthen the armed forces to play a more prominent role in regional stability.

5. **Progress in the implementation of the recommendations of the 2013 Article IV consultations is mixed (Annex I).** Togo was in the top 10 most improved performers in the 2015 ranking of Doing Business Indicators (DBI), mainly reflecting the establishment of a single window for business registration. Revenue administration and PFM reforms are gathering momentum, but debt management remains a weak area. The Treasury Single Account (TSA) is not yet in place, and

the re-organization of the Ministry of Finance has not started. Operational reforms in revenue administration started in late 2014 and are beginning to contribute to increase in revenue. The privatization program for the remaining two banks under government control has stalled. Parliamentary and presidential elections in 2013 and 2015, respectively, may have played a role in slowing reforms. Staff recommendations, hence, remain largely the same as in the 2013 Article IV consultations.

OUTLOOK AND RISKS

6. Under unchanged policies, output growth is expected to be sustained in the medium term, although current account and debt pressures are unlikely to abate, and the global environment has deteriorated (Figure 3). Growth is expected to average 5½ percent in 2015–18, supported by agricultural production, transportation services linked to international trade, and the impact of investments in transport infrastructure, which should facilitate private economic activity. The current account deficit is projected to improve marginally to 12¼ percent of GDP in 2015 as a result of lower oil prices and narrow only to 9½ percent of GDP by 2020 with the gradual decline in the fiscal deficit and increased savings of state-owned enterprises (SOEs).[4] Inflation is expected to remain subdued in line with WAEMU trend, with commodity price decline more than compensating for U.S. dollar appreciation.[5]

7. The risks to baseline forecasts are largely home-grown, although a sharp slowdown in regional or global growth would inevitably have an impact (Annex II). Limited fiscal consolidation would lead to further accumulation of public debt, and inaction in PFM would result in less efficient spending and debt management. Delays in opening to private sector competition key sectors, such as mining, energy, telecommunications, and in improving the business environment would dampen medium-term growth prospects. A protracted slowdown in advanced and emerging markets would affect Africa as a whole and in turn Togo, mainly through the impact on key trading partners, such as Ghana and Nigeria. The impact would be moderate given Togo's relatively diversified country and product base for exports. Given Togo's isolation from global financial markets, the main channel of transmission of global shocks would be through imported food and oil inflation, or through the price of Togo's commodity exports. Further deterioration in the terms of trade would dampen growth.

8. Political risks hinge on the government's capacity to deliver its promises of economic growth, social spending, and job creation. The authorities' task is complicated by mounting

[4] SOEs (e.g. Port of Lomé, airport) have just concluded large investments to expand capacity. Thus, they are expected to increase their revenue and savings. This will improve the private sector saving investment balance, as SOEs are classified within the private sector.

[5] In the absence of more developed financial markets, BCEAO's monetary policy has a weak impact on inflation in the WAEMU (WAEMU Staff Report on Common Policies of Member Countries, April 2015, Country Report No. 15/100, IMF).

population pressures, with large numbers of people expected to join the labor force. Such pressure may generate an increasing level of social and political discontent. On the other hand, as the next elections are not due until 2018, the government has the ideal window of opportunity to make good on their promises of economic growth and social improvements.

Authorities' views

9. The Togolese authorities largely agreed with staff on the outlook and challenges but are more optimistic about medium-term growth prospects and the current account deficit. The authorities consider that economic growth will be above six percent over the medium-term as the recent investments in infrastructure have laid the foundation for more private sector participation in economic activity. In their view, agriculture will also continue to be an engine of growth, benefiting from the government's productivity enhancing programs. The authorities think that the increase in the current account deficit is a temporary phenomenon. As these large investments are soon to be completed, they expect the current account deficit to narrow faster than in the staff's projections.

10. The authorities perceive a persistent appreciation of the U.S. dollar as the biggest risk, because of its impact on debt service and the price of imports, particularly capital and intermediary imports for infrastructure projects. In terms of risks to financial stability, the authorities consider the microfinance sector as most vulnerable to adverse shocks. In their view, the resistance of interest groups to reforms is unlikely to have an impact on growth, as ongoing improvements in the business environment should promote economic activity. Finally, the authorities believe that the risk of social unrest is minimal, as proven by the peaceful 2015 presidential election.

ADJUSTING THE FISCAL STANCE AND FOSTERING LONG-TERM DEBT SUSTAINABILITY

A. Achieving Fiscal and Debt Sustainability

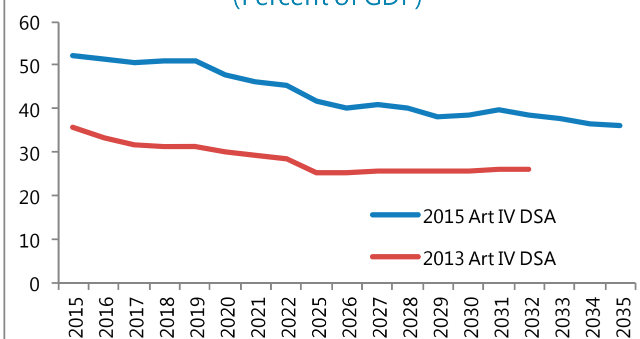
11. Togo's fiscal policy remained expansionary in recent years. Rapid increase in domestically-financed investment has led to widening primary domestic deficits and debt accumulation (Figure 4). The planned revenue increase to offset this sharp rise in capital spending did not materialize as starting operations at the Revenue Authority (OTR) took longer than anticipated. Current spending has, as a result, been reduced to the essential, with the exception of the wage bill and oil price subsidies. On the financing side, privatization revenue shortfalls and cut-backs in donor budget support contributed to debt accumulation.

12. Improved revenue performance is likely to partially reduce the deficit in 2015. Monthly tax collections have been improving, particularly for domestic taxes, due to revenue administration measures put in place by the OTR. Staff expects tax revenue to rise to 16.8 percent of GDP in 2015—i.e., only a small shortfall compared to budget targets. If achieved, such collection would be a tangible increase in the tax-to-GDP ratio compared to the average collection of around 15.6 percent during 2012-2014.

13. The medium term budget outlook is constrained by the current expenditure policies. Unresolved wage claims, due to piecemeal hiring and compensation decisions, are likely to continue to exercise pressure on the wage bill. Although the authorities intended to keep the wage bill constant in real terms, recent experience suggests that this may not be possible in the absence of a review of remuneration policies. Lower global oil prices allowed the authorities to reduce fuel subsidies. However, if the authorities do not pass through the projected higher oil prices in the medium term, fuel price subsidies will continue to burden the budget (at ¾ percentage points of GDP).[6] In domestic capital spending, pre-financing contracts commit budgets to high levels of outlays in the short to medium term[7]. The elevated, albeit declining, fiscal deficits, that would persist under current policies would not suffice to eliminate budget financing gaps and allow only moderate reductions in the public debt to GDP ratio and the current account deficit, and hence, would not reduce Togo's vulnerability to shocks.[8]

14. Togo has accumulated debt at a higher-than-expected pace in recent years resulting in a significant increase in debt relative to the 2013 Debt Sustainability Analysis (DSA, Text Figure 3). Main sources of debt accumulation have been bond and treasury bills issued to finance the deficit, external loans of public enterprises, and external loans to finance public investments. Togo remains at a moderate risk of external public debt distress. Under the baseline scenario, all external debt sustainability indicators are expected to remain below their indicative thresholds throughout the projection period (2015–35). However, four out of the five indicators breach their threshold under alternative scenarios and stress tests, highlighting the vulnerability of the Togolese economy to various macroeconomic and financing shocks—in particular less favorable terms on new

Text Figure 3. PV of Total Public Debt
(Percent of GDP)



Source: IMF staff estimates.

[6] The existing oil price adjustment formula was not applied consistently over 2011-14, giving rise to subsidies. While the subsidy for gasoline and diesel has been low in 2015 due to low import prices, oil subsidies are expected to return with rising international oil prices in the medium term, unless the authorities consistently apply the adjustment formula.

[7] With pre-financing contracts, the company winning the tender for a public project receives financing equivalent to the full cost of the project upfront from a bank. The government then repays the bank, rather than the executing company. These payments are recorded as investment spending in the budget as installments are paid. As with other multi-year projects, pre-financing contracts entail executions spanning more than one budget year. Available fiscal data do not include the value of current pre-financing contracts.

[8] The projected average financing gaps of 1.2 percentage points of GDP, if covered by issuance of bonds, could result in additional interest costs of ⅓ percent of GDP by 2020.

financing and lower revenue performance. Togo's overall public debt dynamics present heightened vulnerabilities, with the debt-to-GDP ratio remaining above the indicative benchmark for most of the projection period.

15. Public debt management in Togo is weak. [9] Public debt management functions are scattered between several entities, which do not share information systematically. As a result, the authorities lack a global overview of public debt and an assessment of its associated risks. The fragmentation of debt management makes it impossible to design a Medium Term Debt Strategy (MTDS) in line with good international practices. Furthermore, the authorities' classification of public debt stock does not include some debt instruments, such as Treasury bonds and some arrears.

16. Staff stressed the need to reset fiscal balances on a sustainable path while generating fiscal space for social spending. The risks of slipping into debt distress are now more elevated, warranting fiscal adjustment. The authorities' desire to increase potential growth in the presence of rapid debt accumulation and current account pressures call for policies that strike the right balance. In particular, staff recommended:

- **Anchoring public finances on a domestic primary balance that would gradually reduce the public debt-GDP ratio**. In the current context, debt sustainability could be appropriately reinforced by moving to a 1.0 percent of GDP domestic primary surplus by 2020, up from a projected deficit of 1.7 percent of GDP this year (Text Table 3 and Figure 5). On the revenue side, pursuing such fiscal stance would entail accelerating reforms in revenue administration and overhauling the pervasive exemption and tax expenditure system. On the expenditure side, in the absence of a reform of the compensation system for public employees, the government should exercise a much stricter control on the number of employees than in recent past, ensuring that the wage bill declines in percent of GDP.[10] Fuel price subsidies should be reduced by consistently applying the existing price adjustment formula.[11]

- **Gradually redistribute allocations towards social spending.** Staff emphasized that, with large infrastructure projects mostly completed, there is an opportunity to reduce total allocation while investing more in the social sector and secondary and feeder roads. It is essential to create fiscal space to finance the new social spending initiatives proposed by the President to make growth more inclusive.

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[9] Togo's Country Policy and Institutional Assessment (CPIA) rating remains weak at 3.0 for 2014, with a score of 3.2 for the economic management cluster. The World Bank's Debt Management Performance Assessment (DeMPA) finds that, for most indicators, debt management in Togo does not meet the minimum standards of effectiveness.

[10] This would still allow wages to increase in line with inflation as well as wage drift.

[11] Full elimination of price subsidies is advisable provided it does not lead to large increases in smuggling and loss in tax base. Vulnerable segments of the population should be compensated. The current policy to subsidize kerosene, largely used by the poor, should be continued.

Text Table 3. Impact of Illustrative Fiscal Adjustment Scenario
(in percent of GDP)

		Fiscal Adjustment					Fiscal Adjustment - Baseline				
	2015	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Revenues and Grants	21.0	21.4	21.7	21.7	21.9	22.0	0.0	0.1	0.2	0.2	0.3
Total Revenue	18.8	19.0	19.2	19.7	19.9	20.1	0.0	0.1	0.2	0.2	0.3
Tax Revenue	16.8	17.0	17.3	17.6	17.8	18.0	0.0	0.1	0.1	0.1	0.2
Non-Tax Revenue	1.9	2.0	2.0	2.1	2.1	2.1	0.0	0.0	0.1	0.1	0.1
Expenditures and Net Lending	26.3	25.9	25.9	25.8	25.7	25.4	-0.1	-0.3	-0.5	-0.9	-1.2
Wages and Salaries	6.6	6.5	6.3	6.2	6.1	6.0	-0.1	-0.2	-0.3	-0.4	-0.5
Transfers and Subsidies	5.2	5.1	5.5	5.8	5.7	5.6	0.0	0.0	0.0	-0.1	-0.2
of which : Oil Price Support	0.3	0.3	0.3	0.3	0.3	0.3	0.0	-0.3	-0.5	-0.5	-0.5
Public Investment	9.7	9.6	9.3	8.9	8.7	8.5	0.0	-0.1	-0.2	-0.4	-0.6
Domestic Primary Balance	-1.7	-0.8	-0.3	-0.1	0.5	1.0	0.1	0.4	0.6	1.0	1.4
Overall Balance, cash basis	-5.4	-5.0	-4.8	-4.6	-4.3	-4.0	0.1	0.4	0.7	1.1	1.5
(incl. change in arrears)											
Financing Needs	0.0	0.9	0.8	0.6	0.1	0.0	-0.1	-0.4	-0.6	-1.0	-1.4
Memorandum Items											
Public Debt	62.5	61.7	61.0	60.3	59.4	55.3	-0.1	-0.3	-0.6	-1.1	-1.9
Current Account Balance	-12.3	-11.1	-10.4	-9.8	-9.2	-8.6	0.2	0.4	0.6	0.8	1.0

- **Undertake projects that are fully integrated in all phases of the budget process**. Investment contracts should (i) follow the procurement process; (ii) be fully integrated in all phases of the budget process; and (iii) require payments to the private sector after verification of completed work. Pre-financed investments make it difficult to follow these PFM standards, as the government's payments to banks are on a fixed installment schedule, independent of the timing of the completion of the contractors' work.

- **Reorganize the Ministry of Finance.** Essential elements of this reform would be the creation of an effective debt management unit, a strengthened budget department encompassing budget preparation, monitoring, and medium-term budget frameworks; and the establishment of a tax policy unit. The Ministry of Finance, rather than the OTR, should define tax policy.

- **Strengthen debt management:** (i) centralize all debt management functions in one entity; (ii) organize the debt management unit into Front, Middle and Back Offices; (iii) build capacity and train staff.

17. The effect of these steps would be to stabilize and gradually reduce public debt from a peak of 58 percent of GDP in 2014 to 55 percent by 2020. This would help avoid high debt distress classification. Staff noted that Togo remains exposed to exchange rate risks since a significant part of the external debt stock is denominated in foreign currencies other than the Euro. Similarly, the increase in domestic debt, partly contracted in the WAEMU financial market and with short maturities, due to increasing use of Treasury bills, exposes the economy to rollover and refinancing risks. With a rapid rise in the stock of government securities on the regional market, Togo has the highest level of domestic debt-to-GDP ratio within the WAEMU.

Authorities' views

18. The authorities reiterated their commitment to prudent fiscal policies. Their main priority is to increase revenue by reducing exemptions and further enhancing tax administration. Also, a project to simplify domestic taxation is likely to result in higher tax compliance. On the expenditure side, they remain committed to applying the oil price adjustment mechanism, within the constraints posed by pricing policies in the neighboring countries and the value of the naira and the cedi.[12] However, they noted that infrastructure gaps beyond the completed main roads will limit the scope for increasing social sector investments in the short term. The authorities view pre-financing as an innovative tool to accelerate public investment, when banks may not be willing to lend to private companies performing public works. They also note that pre-financed projects currently follow the three criteria proposed by staff, thus ensuring adherence to good PFM practices.

19. The authorities did not perceive debt levels as posing risks to fiscal sustainability. In particular, they do not see any risks associated with the rising debt levels as long as these remain below the WAEMU convergence threshold of 70 percent of debt-to-GDP ratio.[13] Furthermore, the authorities do not consider the levels and dynamics of domestic debt as posing any liquidity or rollover risks, given the high demand regional financial market players have so far shown for Togolese government securities. They also consider that the baseline macroeconomic assumptions underlying the DSA are too conservative, particularly those related to growth and current account developments. They, however, agreed on the need to restructure and enhance the capacity of debt management to enable it to effectively carry out its functions.

B. Strengthening Institutions to Foster Long-Term Fiscal Sustainability

20. Following the establishment of the Revenue Authority (OTR), Customs and Internal Revenue have undertaken a number of operational improvements, which resulted in good revenue performance in early 2015. A new performance management and monitoring system is in place, which includes performance indicators at the aggregate level and performance contracts for each staff. Several important operational changes have also been put in place.[14] Additional reforms would allow segment taxpayers more efficiently and reduce opportunities for abuse.

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[12] *Ceteris paribus*, a depreciation of the cedi or naira versus the CFAF makes smuggling of gasoline from Ghana or Nigeria more profitable.

[13] Staff and the authorities discussed the differences between the WAEMU convergence criteria of debt-to-GDP ratio and the sustainability indicators under the LIC-DSA framework. Specifically, the 70 percent debt-to-GDP ratio criterion for WAEMU convergence is not directly comparable to the debt-to-GDP ratio used as a debt burden indicator in the LIC-DSA. The former is measured in nominal terms, while the latter is measured in present value terms. Also, apart from the debt-to-GDP ratio, assessment of debt sustainability under the LIC-DSA takes into account other debt burden indicators, a country's specific policy and institutional environment, and its country-specific risks.

[14] Revenues have been secured by collecting more payments via banks and transferring collections within 48 hours to the Treasury account; a standardized VAT invoice is being gradually introduced; the single window is in place at the

(continued)

21. The authorities covered considerable ground by preparing or adopting the legal acts to implement the comprehensive PFM reform plan approved in 2013.[15] Final steps still need to be taken for the actual implementation of some key reforms. WAEMU directives have been transposed into local legislation. Procedures for the daily transfer of tax revenue to Treasury account at the BCEAO have been put in place, and a Treasury Management Committee meets weekly. Liquidity forecasts have improved but need to be more effective. Implementation of the TSA remains uncertain. Some key reforms need to be implemented to check the rising liquidity and debt risks, and to improve budget execution.

22. Staff advised the authorities to focus on key measures to enhance fiscal governance. Given political and capacity constraints, the team advised the authorities to prioritize simple but essential reforms with maximum impact.

- **Leverage the OTR to modernize revenue administration**. As a first step, the authorities should appoint the OTR's Board of Directors. Furthermore, each exemption should be backed up by an agreement specifying the exempted goods, so that Internal Revenue and Customs can perform ex-post verification.[16] Ideally, the exemption regime should be replaced by a tax reimbursement regime, which would mainstream ex-post verification. The current practice of requesting immediate release of imports beyond customary goods should be prohibited and all imported goods should be processed through the ASYCUDA system. The segmentation of taxpayers should be based solely on company turnover.

- **Improve Treasury cash management and complete the establishment of the TSA.**[17]

Authorities' views

23. The authorities agreed with the thrust of staff advice, and emphasized that capacity shortfalls need to be supported by technical assistance. A specific challenge in revenue administration is to find IT expertise to establish links between customs and internal revenue systems—a must to reap synergies from the establishment of the OTR. PFM reforms, including the

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Port; Sydonia World has replaced Sydonia++ since January; and committees to evaluate tax exemptions have been established.

[15] The reform plan spans fiscal reporting, the organization of the MEF, budget preparation and execution, cash management, and treasury single account. It also includes a module on revenue administration reform.

[16] Tax exemptions and tax expenditures are increasing and their lack of specificity is making ex-post controls difficult. The various committees on exemptions, tax expenditures on projects, and industrial zones could usefully provide recommendations on operational reforms to reduce revenue leakages.

[17] Priorities for Treasury cash management are to (i) feed the Treasury Forecast model with quality data; (ii) establish an operational process to regularly update the Treasury Plan; (iii) enact the decree committing line ministries to draft an engagement plan. Priorities for TSA are to: (i) integrate the central administration entities in the TSA and finalize the TSA at the level of the BCEAO; (ii) analyze the balance sheets of the other entities that are to join the TSA and find solutions for those which will be found in deficit; (iii) sign and implement immediately the TSA's Cashier Agreements between the Treasury and the identified agent banks.

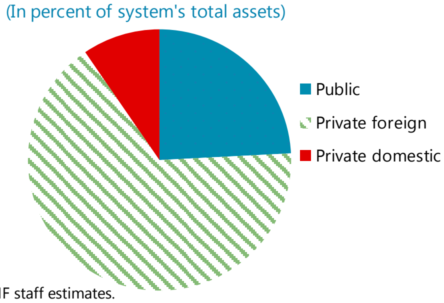
establishment of a TSA and the effective functioning of the Treasury cash management system, remain priorities. The State Minister of Economy, Finance and Development Planning intends to proceed with the reorganization of his ministry as soon as work for the 2016 budget is completed.[18]

ENHANCING FINANCIAL SECTOR DEVELOPMENT AND STABILITY

A. Sector Description and Trends

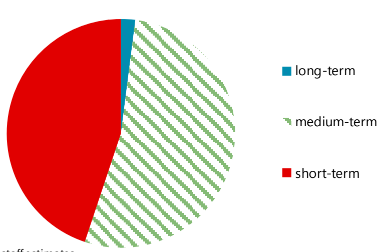
24. The financial sector, which is competitive with a significant presence of foreign banks, faces a number of structural problems. Foreign banks account for 66 percent of the banking system assets. (Text Figure 4). Financial depth has increased significantly over the past decade but the degree of financial intermediation, measured by the loans' term structure and their diversification across sectors, remains limited. The banks credit portfolio serves mainly some large and medium sized businesses involved in retail trade, public works, and transportation (Text Figure 5 and 6).

Text Figure 4. Togo: Banking Sector Ownership Decomposition, December 2014
(In percent of system's total assets)



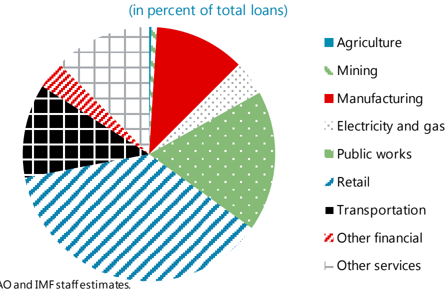
Source: BCEAO and IMF staff estimates.

Text Figure 5. Togo: Banking System Loans Term Sturcture, December 2014
(in percent of total loans)



Source: BCEAO and IMF staff estimates.

Text Figure 6. Togo: Banking System Loans Distribution by Sector, December 2014
(in percent of total loans)

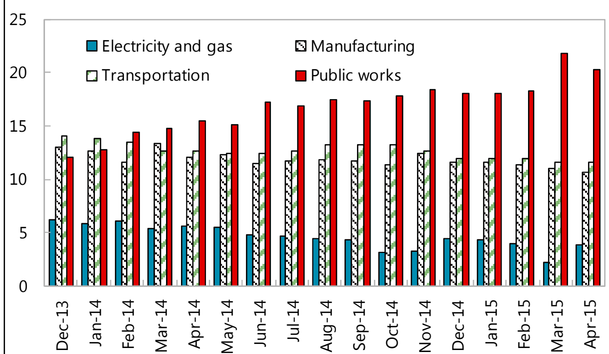


Source: BCEAO and IMF staff estimates.

[18] The elevation of the Minister of Economy and Finance to Minister of State of Economy, Finance and Development Planning, should facilitate this reform.

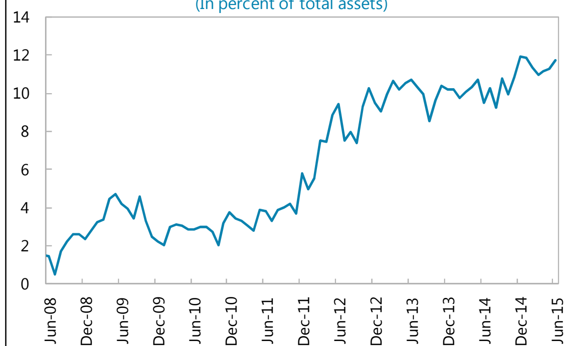
25. Since December 2013, loans to companies performing public works (mainly roads) have increased in the banking system portfolio. Large infrastructure projects have been receiving an increasing share of the banking credit, substituting for other economic activities such as manufacturing and transportation. This has been facilitated by a rapid increase in BCEAO financing (Text Figures 7 and 8)

Text Figure 7. Togo: Credit Decomposition by Sectors
(In percent of total credit)



Source: BCEAO and IMF staff estimates.

Text Figure 8. Togo: BCEAO Funding to Other Depository Institutions
(In percent of total assets)



Source: BCEAO and IMF staff estimates.

B. Financial Soundness

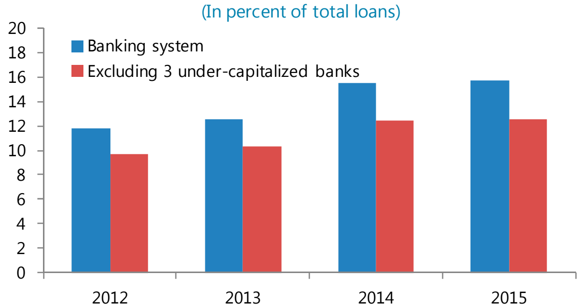
26. While the overall financial system is sound, the financial condition of some banks has weakened since 2013. As a result, solvency indicators and asset quality have worsened, and profitability and liquidity have suffered (Text Table 4). The banking sector as a whole respects the minimum solvency ratio (8 percent) but 3 out of 13 banks were under-capitalized as of March 2015. At the same time, large exposures to single creditors continue to be a widespread problem in the system, with only 5 banks out of 13 respecting the prudential ratio, as of March 2015 (Text Figures 9 and 10). The deterioration in the average indicators hence seem to reflect the poor financial condition of some banks taking excessive risks in a sector that has become increasingly competitive with the continuous establishment of new market participants, as well as a deceleration of economic activity in the services sector in 2014.

Text Table 4. Togo: Financial Soundness Indicators, 2011–15
(in percent, end of period)

	2011	2012	2013	2014	2015
Solvency Ratios					
Regulatory Capital / Risk-weighted Assets	11.7	11.4	11.4	8.5	8.9
Base Capital / Risk-weighted Assets	10.6	9.8	10.0	7.2	7.5
Asset Quality					
NPLs / Gross Loans	10.9	11.4	12.5	15.4	15.6
Profitability					
Return on Assets	2.0	1.6	1.6	0.9	n.a
Return on Equity	13.6	22.9	24.0	19.4	n.a
Liquidity					
Liquid Assets / Total Assets	33.4	44.6	43.8	43.5	41.7
Liquid Assets / Total Deposits	46.4	65.7	67.3	63.6	58.9

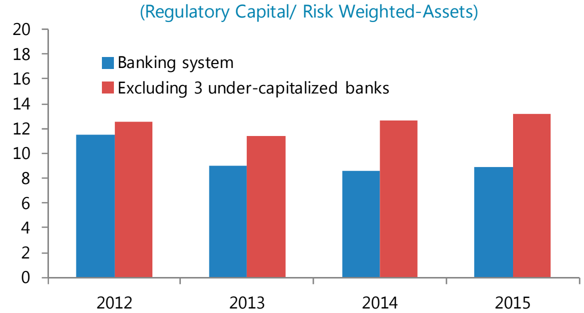
Source: BCEAO and Fund staff calculations.
1/ Data for 2015 corresponds to end of March.

Text Figure 9. Togo: Non-performing Loans
(In percent of total loans)



Source: BCEAO and IMF staff estimates.

Text Figure 10. Togo: Solvency Ratio
(Regulatory Capital/ Risk Weighted-Assets)



Source: BCEAO and IMF staff estimates.

C. Risk Assessment

27. The recent WAEMU level consultation highlighted that Togo's financial system is among the most vulnerable in the region. Region-wide risk assessment analyses, including a potential deterioration in credit risk or default of concentrated exposures, revealed that Togo's banking system would be among the most affected in the region.[19] A large state-owned bank continues to have difficulty respecting solvency ratios, constituting a fiscal risk. The provisional administrator (PA), whose term ended at end-June 2015, made considerable effort to address the financial weaknesses and governance issues. The general assembly of the bank approved a proposal by the PA to recapitalize and improve the financial situation of the bank over a year. A second bank under provisional administration since 2013 is a small private bank representing only 0.5 percent of the banking system assets.

28. The microfinance sector has greater reach in Togo than in other WAEMU countries, but it is plagued by structural weaknesses and unregulated activity, representing a risk for depositors and potentially for the government. Inadequate supervision, under-regulated entities, and fraud threaten the sector. As of July 2015, about 100 out of 185 microfinance institutions operated without license. The sector, which suffers from governance problems, weak information systems and capacity, has experienced difficulties to adapt to the new regulatory framework and deterioration in the credit portfolio. The three microfinance institutions under provisional administration have showed little progress in their financial situation. The microfinance supervisor, CAS-IMEC, a division of the MEF, is grossly understaffed and needs significant institutional strengthening.

29. Staff stressed the need for urgency in tackling the weaknesses evident in the financial sector, including through:

- **Stricter enforcement of the current regulatory framework**, including with regard to the relatively lax single large exposure limit to reduce credit risk. Banks not properly capitalized should be called to increase their capital to improve their ability to face shocks. Banks not

[19] WAEMU Staff Report on Common Policies of Member Countries, April 2015 (Country Report No. 15/100), IMF.

respecting the regulatory minima should take immediate remediation action or be subject to resolution.

- **Adopting the least-cost resolution option** when dealing with nonviable financial entities to limit the impact on the budget.

- **Strengthen** the supervisory body for microfinance institutions and prepare a strategy to either incorporate illegal decentralized financial institutions into the regulatory system or close them. A decision should be taken regarding the institutions under provisional administration and those facing financial difficulties, such as recapitalization or restructuring.

Authorities' views

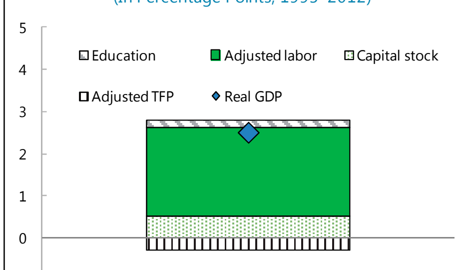
30. The authorities hold a more positive view of recent developments and options for the public bank facing financial difficulties. They perceive the results already achieved and the measures put in place by the provisional administration as promising and are not considering restructuring or selling the bank at its current state.

31. The authorities agreed with the importance of addressing the weakness in the microfinance sector. The authorities noted that actions are being taken to improve the solvency of the banking and microfinance sectors, such as the March 2015 WAEMU directive that increases the minimum capital requirement from CFAF 5 billion to CFAF 10 billion in the banking sector, and from CFAF 1 billion to CFAF 3 billion in the microfinance sector.

PROMOTING STRUCTURAL TRANSFORMATION TO RAISE GROWTH

32. Growth in Togo has been weak and highly volatile (see SIP). Most of Togo's growth over the last decades is attributable to labor accumulation, while human capital accumulation remained low and total factor productivity negative (Text Figure 11). This emphasizes the importance of improving the efficiency of factors of production mix in the economic system.

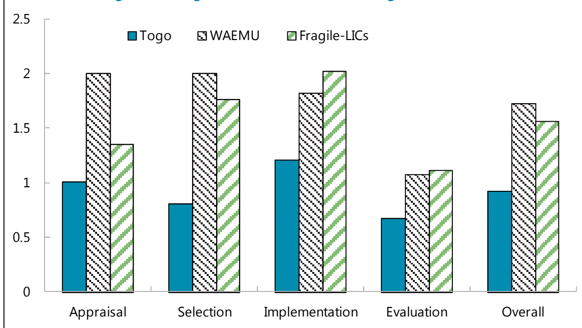
Text Figure 11. Togo: Average Contribution to Annual Growth Rate
(In Percentage Points, 1995–2012)



Source: Penn World Table.

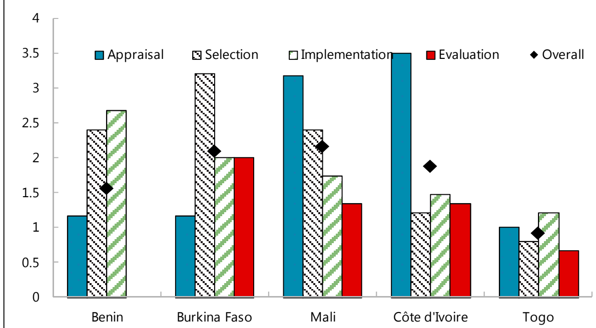
33. An important element of the government's strategy to facilitate growth has been to improve transport networks. The authorities intend to continue pursuing an ambitious investment plan, including in social infrastructure. The efficiency of investment projects can be improved as Togo's performance at all stages of the investment cycle lags behind WAEMU countries and fragile LICs (Text Figures 12 and 13).[20]

Text Figure 12. Togo: Public Investment Management Index, 2011



Source: Dabla-Norris et al. (2011).

Text Figure 13. WAEMU: Public Investment Management Index, 2011



Source: Dabla-Norris et al. (2011).

34. Staff noted that increasing public investment may not be sufficient to unlock growth. Complementary policies are needed to achieve higher growth and sustainable debt. These include improving the quality of public investment, crowding-in private investment, widening economic space for small and medium enterprises and FDI, and boosting exports.

35. Staff advised the authorities to look beyond physical investment to foster growth. Main recommendations included:

- **Invest in investing.** Improvements in public investment management can significantly enhance its quality and economic growth.[21]

- **Open to more private sector competition key sectors with highest government presence and intervention—mining, telecom, energy**. Strong government presence may stifle innovation, depress productivity, and raise costs.[22] Arrears to utility companies should be settled after verification.

- **Further improve the business environment.** The specific Doing Business Indicators on which Togo performs poorly (e.g., paying taxes, getting credit, land tenure) should be targeted for improvement with a monitorable and highly publicized action plan.

[20] Dabla-Norris E., J. Brumby, A. Kyobe, Z. Mills, and C. Papageorgiou (2011) "Investing in Public Investment: An Index of Public Investment Efficiency," IMF Working Paper, 37.

[21] One option discussed with the authorities is to diagnose priority areas of intervention in the investment cycle by volunteering participation in the new Public Investment Management Assessment (PIMA) tool.

[22] For example, Telecom services in Togo are among the most expensive in the world and their quality is low. The power sector is inefficiently run and saddled by cross-arrears with all levels of government. Power cuts are increasingly common.

Authorities' views

36. **The authorities agreed with the thrust of staff advice and felt that more infrastructure could be delivered by the public sector via public-private partnerships**. In particular, the authorities are aware that Togo's chronic lack of energy is stifling growth and long-term solutions are needed to increase domestic generation. In the medium term, the Adjarala dam project is expected to provide more than half of Togo's electricity imports. On mining, a new mining code under finalization should lay the foundation for more development and foreign participation in the sector.

EXTERNAL SUSTAINABILITY

37. **The large current account deficit poses a risk to external stability**.[23] [24] This is related to the relatively loose fiscal stance and high level of private and public investment. Togo's current account deficit has been mainly financed by concessional lending and grants. Increased use of commercial sources of financing render Togo more vulnerable to economic developments in key non-concessional lenders, such as China. Different assessments of the real exchange rate point towards an overvaluation between 7 and 14 percent (Text Table 5).

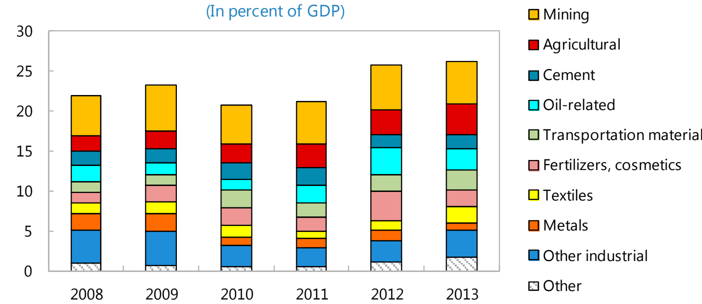
Text Table 5: Exchange Rate Assessment (EBA-lite)

	Current Account/GDP		Real Exchange Rate Gap 1/
	Norm	Underlying	
CA model	-6.8	-12.3	13.8
External Sustainability	-4.5	-9.6	12.8
IREER	-	-	7.0

1/ Positive value indicates overvaluation

38. **Even though Togo's exports are fairly diversified, they are concentrated in low value-added products such as raw materials and re-exports.** Main exports are mining products such as phosphate and clinker, cash-crops with low transformation such as cotton and cocoa, cement, and re-exports (oil-related products, vehicles,

Text Figure 14. Togo: Exports Composition by Products
(In percent of GDP)



Source: BCEAO and IMF staff estimates.

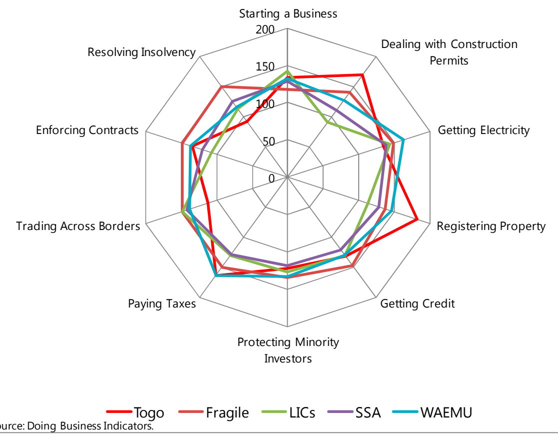
[23] The EBA-lite exchange rate assessment includes three approaches. The current account (CA) model and the index of the real exchange rate are panel regression-based analyses of the CA and real exchange rate, while the third method, external sustainability (ES), is model-free and focused on sustainability analysis. Model-based methods estimate for each country the CA norm or real exchange rate level based on a set of fundamentals and policies, and compares it with the actual to derive the implicit change in the real exchange rate that would close the gaps. The ES method assesses the sustainability of a country's external position by comparing the CA expected to prevail in the medium-term to the CA that would stabilize the external stock position at a specified benchmark level.

[24] The 2014 balance of payments is a preliminary estimate.

fertilizers, cosmetics, and textiles) (Text Figure 14).

39. There has recently been progress in non-price competiveness factors. Togo has reduced the time needed to start a business and to register property. It, however, lags behind other SSA fragile states and WAEMU countries in other indicators for a friendly business environment (Text Figure 15). As a result, Togo's export share in the regional market has not improved during 2008–14 (Text Table 6). Risks to Togo's external sustainability arise also from delays in structural reforms (e.g., of key public enterprises in energy, mining, and telecommunication) leading to lack of private sector competition, and low export and FDI growth.

Text Figure 15. Togo: Doing Business Indicators, 2015
(1=best, 189=worst)



Source: Doing Business Indicators.

Text Table 6. Togo: Exports' market share in the WAEMU							
	2008	2009	2010	2011	2012	2013	2014
Togo exports (% of WAEMU exports)	5.4	6.1	6.3	6.2	6.0	5.6	5.7
Togo exports (% of GDP)	36.2	35.9	37.8	40.9	44.9	44.7	42.2
WAEMU (% of GDP, excl. intraregional trade)	24.9	26.5	28.2	28.2	28.1	26.0	25.6
Source: IMF Staff estimates							

Staff recommendations:

40. Pursuing a tighter fiscal stance is essential to contribute to a reduction in the current account deficit and ensure long-term external stability. Fiscal consolidation would contribute to eliminating external financing gaps and also attract additional financing, including from donors, as confidence in debt and external sustainability increases.

41. Togo should be prudent when borrowing in non-concessional terms. Borrowing plans for investment should bear in mind medium and long-term debt sustainability. Increase the value-added component of exports. Given the low value-added component of exports and the large portion of the population employed in the agricultural sector, Togo should pursue the existing efforts to increase the productivity in the sector (e.g. PNIASA) and implement an agro-industrial development strategy. The strategy's objective should focus on increasing productivity and gaining participation in the global value-added chain, so that living standards of a large portion of the population can be improved.

Authorities' views

42. The authorities consider that the recent large public investments in infrastructure will foster economic development and growth. They view the large current account deficit mainly as the by-product of the temporary increase in public and private investment. They project a more accelerated reduction in the current account than staff. They expect a faster pick-up in exports, in particular of clinker and extracting industries, and contraction of imports related to roads construction projects coming to an end. They do not think that the wider current account deficit is linked in the short term to a possible overvaluation of the real exchange rate.

43. The authorities noted that they remain vigilant in terms of their borrowing strategy. To finance from domestic sources investments in infrastructure, they are relying on the WAEMU bond market, where, in their view, there is ample appetite for Togolese bonds.

44. The authorities agreed that improving the business climate is paramount to ensure sustainable and inclusive growth. They plan to accelerate improvements in business environment.

DATA ISSUES

45. The establishment in February 2015 of the National Statistics, Economic and Demographic Studies Institute (INSEED) is a positive development. The institute constitutes a positive step towards improving economic and demographic statistics in Togo.

46. National accounts are finalized with a very long lag. National accounts for 2010 were finalized in May 2015. Given limited resources, plans to build quarterly national accounts have been cancelled to prioritize the preparation of 2011-15 national accounts, and work on the transition to the System of National Accounts 2008.

47. The Consumer Price Index covers only Lomé. The work on national consumer price index has already started and its publication is scheduled for January 2016.

48. In the fiscal area, data production is compartmentalized and not checked for consistency across departments. The quarterly validation meetings of the TOFE reports have not yet resulted in important improvements in quality, particularly in the areas of end-of-year operations and accounting of arrears and payment delays. The budget preparation process is weakened by limited information on execution during the year.

49. Staff recommended greater emphasis on producing consistent and timely data for informed decision-making.

- **National accounts:** To reduce the lags in production of national accounts and improve the production of preliminary GDP data, the authorities need to strengthen the staffing of the INSEED.
- **New statistical initiatives.** Projects currently undertaken by the INSEED such as clearing the lags in national accounts by 2017, a household budget survey (Quibb) for 2015, a CPI with national coverage, and the new economic activity indices on international trade and firm sales should be finalized since they would contribute greatly to inform economic policy decisions.

Consistency of fiscal data. A new Steering Committee (SC) should provide direction on priority improvements (e.g., arrears) to technical staff. The budget projection for the following year should be based on projection for budget execution in the current year.

Authorities' views

50. The authorities agreed with the importance of developing economic statistics and strengthening statistical units with staffing and resources. However, they thought that establishing a SC is not necessary, as the recently established TOFE Validation Committee is gathering momentum.

STAFF APPRAISAL

51. Economic growth in Togo has been strong reflecting productivity gains in the agricultural sector and major transport infrastructure projects. The pace of economic growth has contributed to improving human development indicators, though poverty remains high, particularly in rural areas. The fast pace of public investment has laid the basis for higher growth but has also contributed to a pronounced increase in public debt and current account deficit.

52. To ensure debt and external sustainability, fiscal balances need to be placed on a sustainable path, while generating fiscal space for social spending to make growth more inclusive. Given Togo's high debt vulnerability and low debt management capacity, the risks of slipping into debt distress are now more elevated, warranting fiscal adjustment. In particular, public finances need to be anchored on a domestic primary balance that would gradually reduce the public debt-to-GDP ratio over the medium term.

53. The authorities have made considerable effort in laying the ground for institutional reforms, and they should now complete the implementation of key reforms. Essential reforms with maximum impact would include (i) reorganization of the Ministry of Finance, in particular to improve debt management, strengthen budget preparation and monitoring, develop medium-term budget frameworks, and design tax policy; (ii) developing an effective Treasury cash management; and (iii) establishing a Treasury Single Account. Following the establishment of the OTR, the reforms in revenue administration have resulted in improvement in revenue performance. OTR should be leveraged to fully modernize revenue administration.

54. There is need to enforce the regulatory framework in the financial sector, solve problem banks, and strengthen supervision in the microfinance sector. While the overall financial system is sound, the financial condition of some banks has weakened in recent years. Banks not respecting the regulatory indicators should take immediate corrective action or be subject to resolution. The authorities should implement least-cost resolution options when dealing with nonviable financial entities. There is also need to strengthen supervision in the microfinance sector, which is plagued by structural weaknesses and unregulated activity.

55. **Structural transformation will help raise potential growth in Togo.** Improving transport networks has been a principal component of the government's strategy to raise growth. This strategy should be complemented by improvements in public investment management; opening to private sector competition key economic sectors, such as mining, telecom, and energy; and further improvements in the business environment.

56. **For informed decision-making, national accounts and fiscal data need to be produced in a more timely and consistent manner.** In this respect, the recent establishment of the national statistics institute (INSEED) is a welcome development. The new projects undertaken by INSEED on national accounts, CPI, and economic activity indices should be finalized, and its staffing should be strengthened. In the fiscal area, data production would benefit from a more formal budget execution monitoring exercise and communication across departments for consistency.

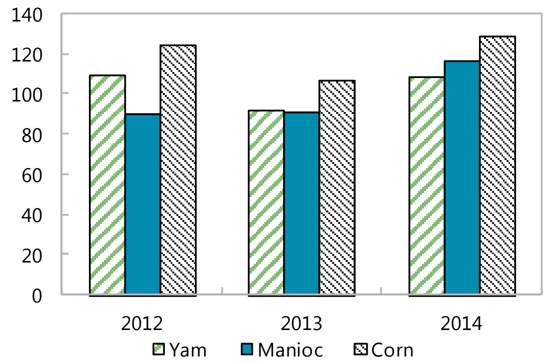
57. **It is proposed that the next Article IV consultation take place on the standard 12–month cycle.**

Figure 1. Togo: Indicators of Economic Activity, 2011-14

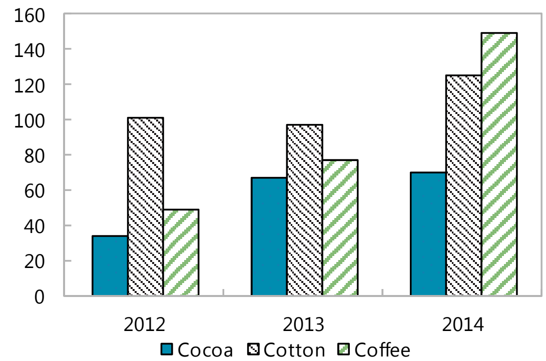
In 2014 economic activity was supported by the recovery of agricultural production, in particular foodstuff cultures...

... and internationally traded agricultural products such as coffee, cotton and cocoa.

Foodstuff agricultural production
(Volumes, base=100 in 2011)



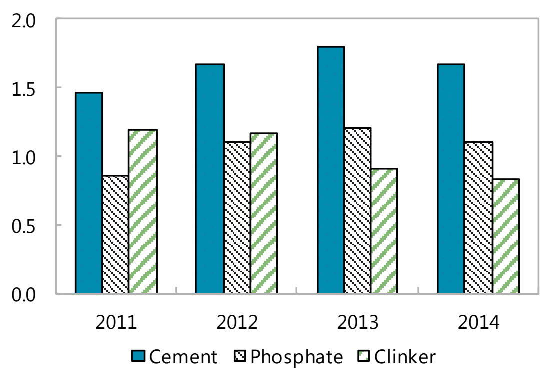
Internationnally Traded Agricultural Production
(Volumes, base=100 in 2011)



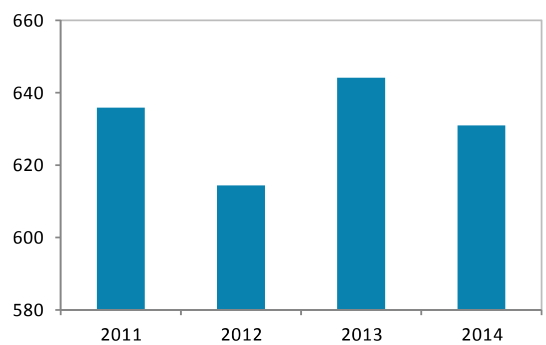
Extraction and industrial activities underperformed in 2014 due to technical difficulties and strikes...

There was also a weakening in services activities such as transit in the Port of Lome...

Main Extraction and Industrial Activities
(In millions of tonnes)



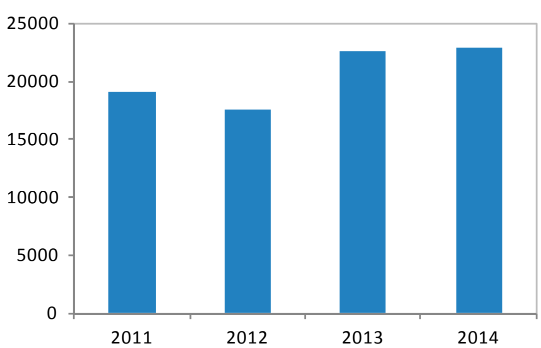
Total Transit Activity in the Port of Lome
(In millions of tonnes)



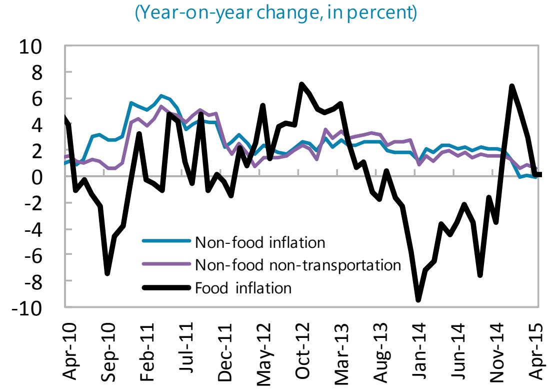
... and a flattening in the number of airport passengers arrivals.

Inflation in food prices was negative and core inflation was subdued.

Airport Passenger Arrivals
(Number of individuals)

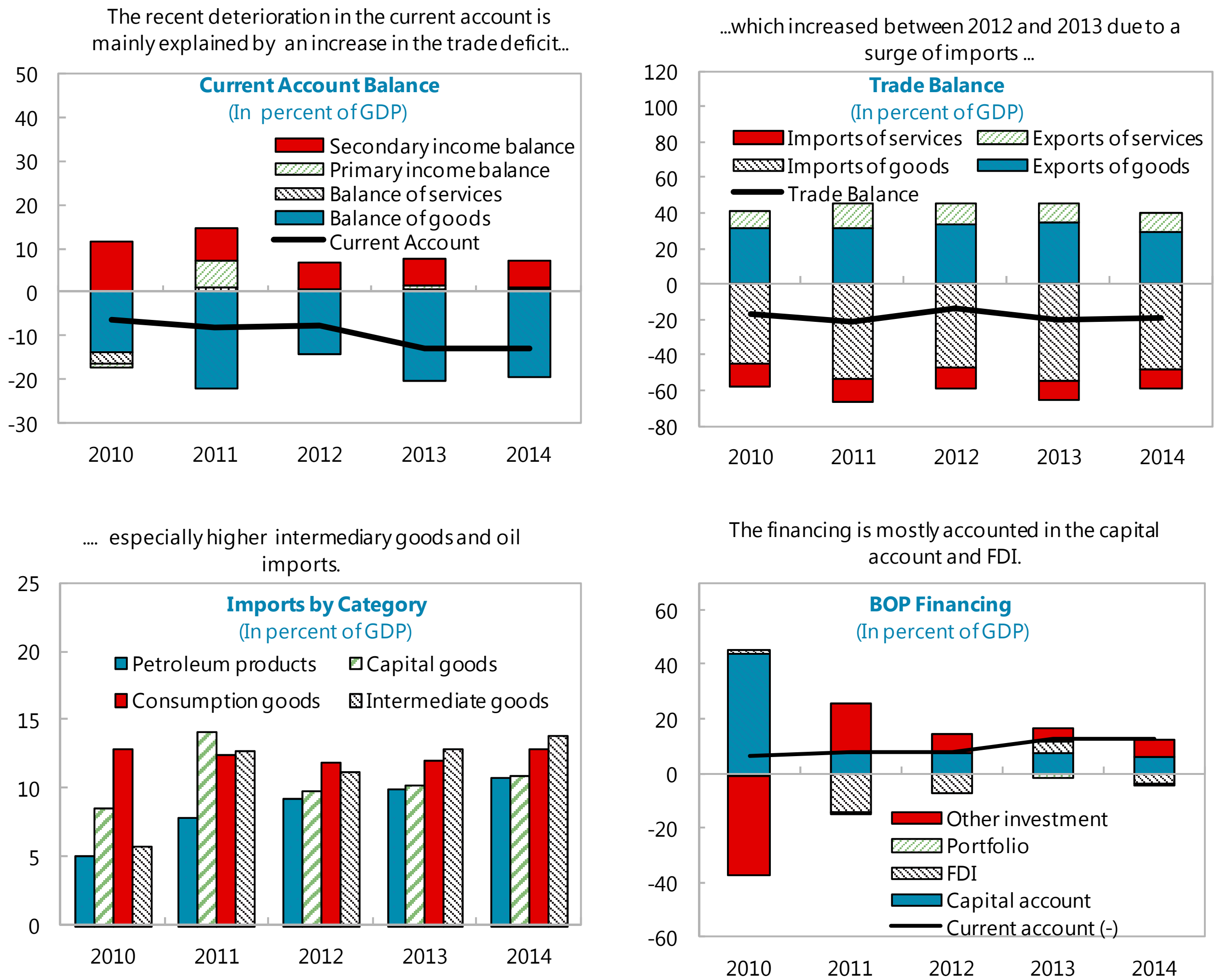


Food Inflation and Measures of Core Inflation
(Year-on-year change, in percent)



Sources: Togolese authorities; and IMF staff estimates.

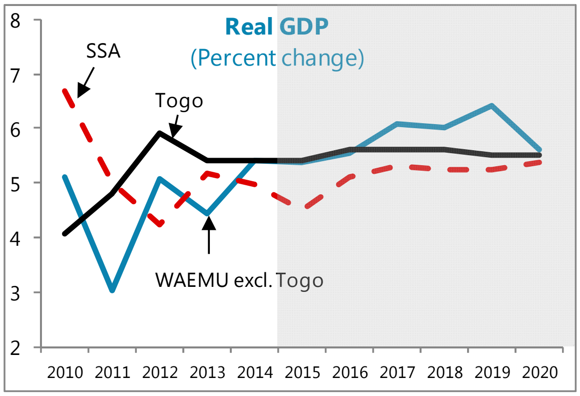
Figure 2. Togo: External Sector, 2010-14



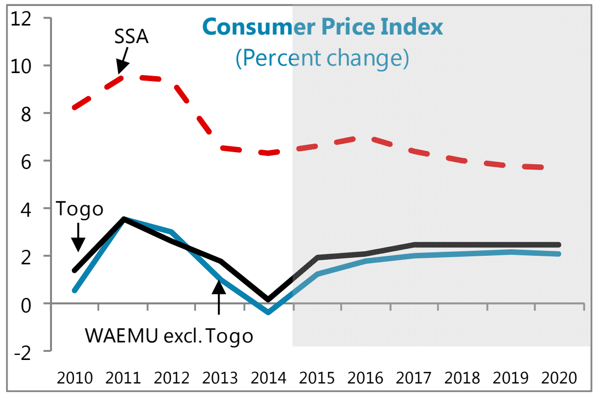
Sources: Togolese authorities; and IMF staff estimates.

Figure 3. Togo: Medium-Term Macroeconomic Prospects, 2010-20

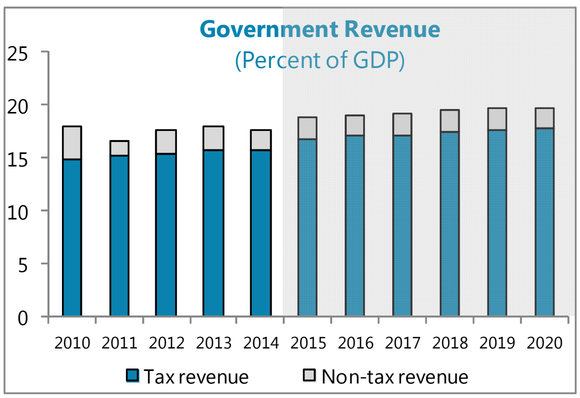
Growth is expected to remain sustained thanks to agricultural production and investments in infrastructure...



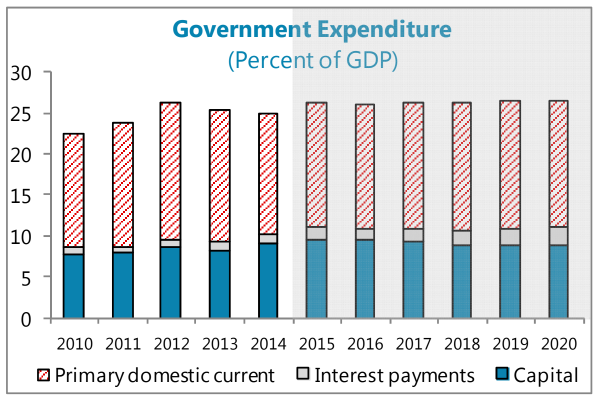
...and inflation to pick-up, reflecting a normalization in food prices, before stabilizing over the medium-term.



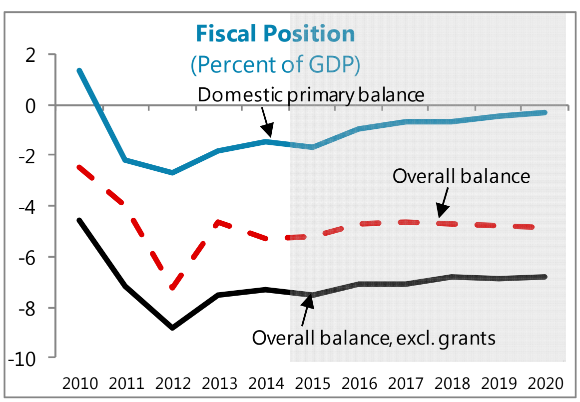
Total revenue would gradually increase supported by revenue administration reforms...



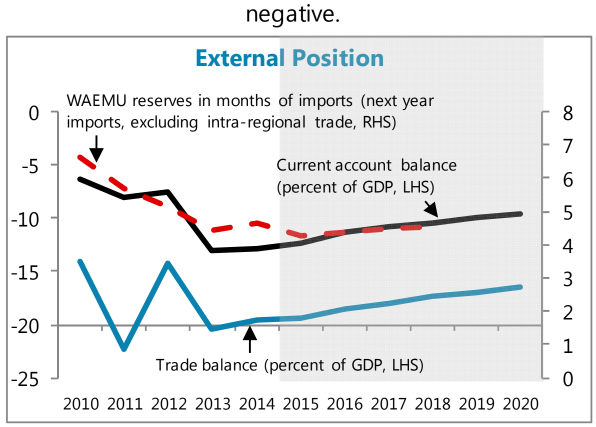
...and government expenditures are expected to stabilize as big infrastructure projects are finalized...



...leading to an improvement in the fiscal position.



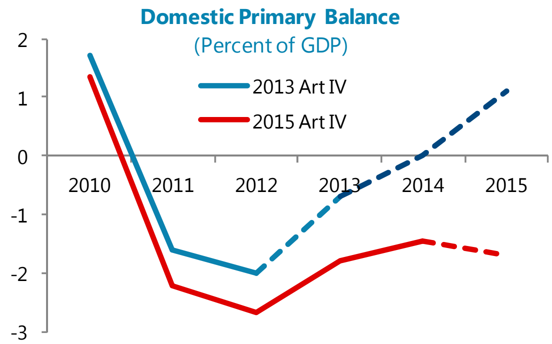
The external position would stabilize but remain negative.



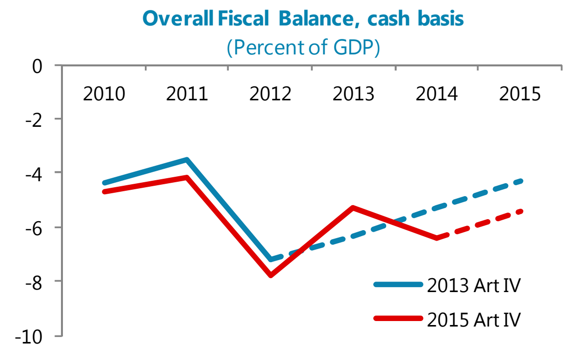
Sources: Togolese authorities; and IMF staff estimates.

Figure 4. Togo: Comparison of Article IV Projections, 2010-15

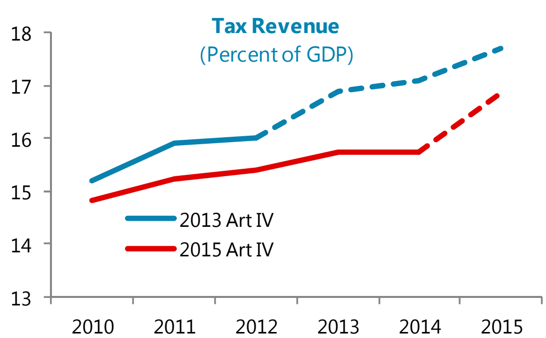
The domestic primary deficit is now larger than projected at the time of the 2013 Article IV…



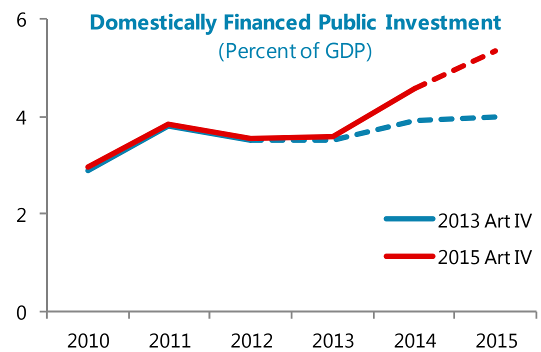
…as is the overall fiscal deficit…



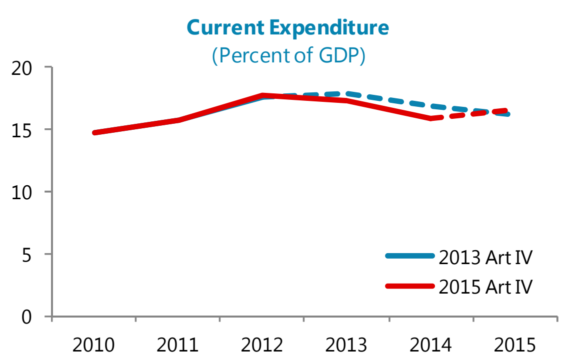
…mainly as a result of slower than expected increases in tax revenue…



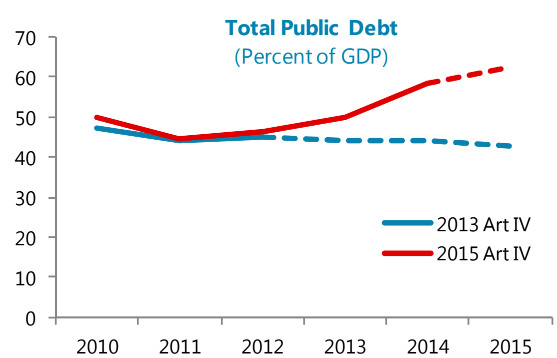
…and higher than projected domestically financed investments



…while current expenditures remain contained.



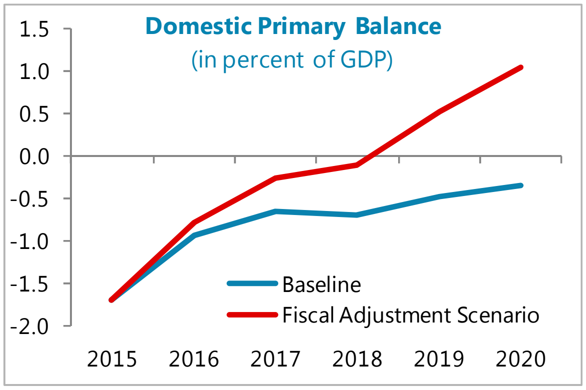
Deficits contributed to higher debt accumulation, together with POEs arrears and new debt, and loans for public investment.



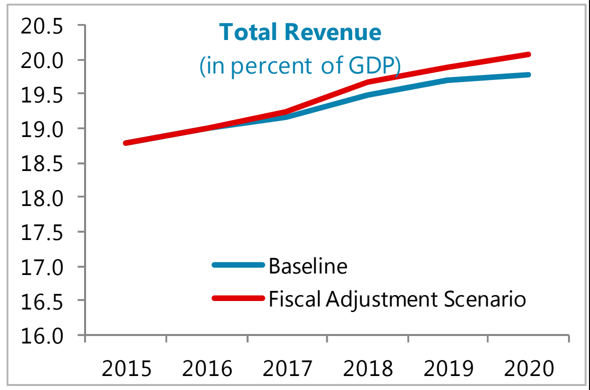
Sources: Togolese authorities; and IMF staff estimates.

Figure 5. Togo: Fiscal Adjustment Scenario, 2015-20

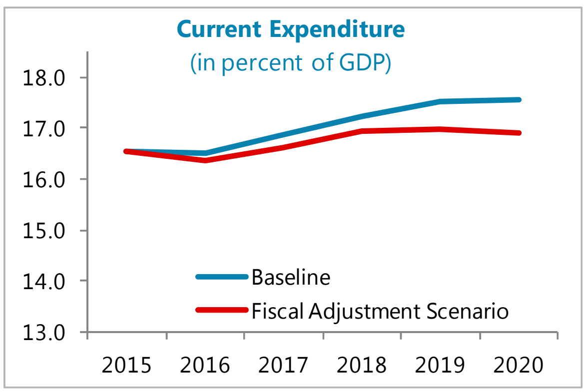
Returning to positive primary domestic balance…



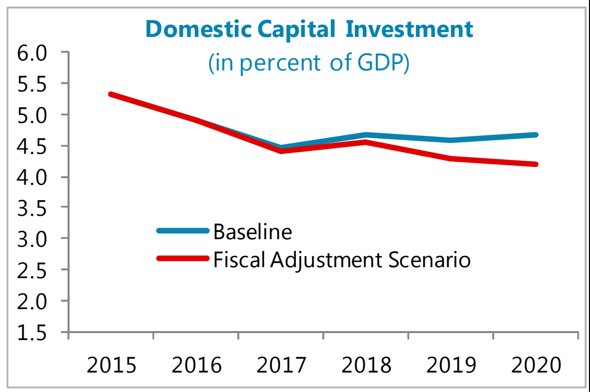
…would require a significant revenue effort…



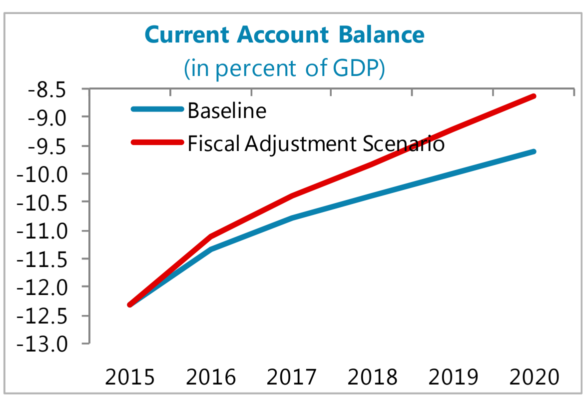
…control of current spending…



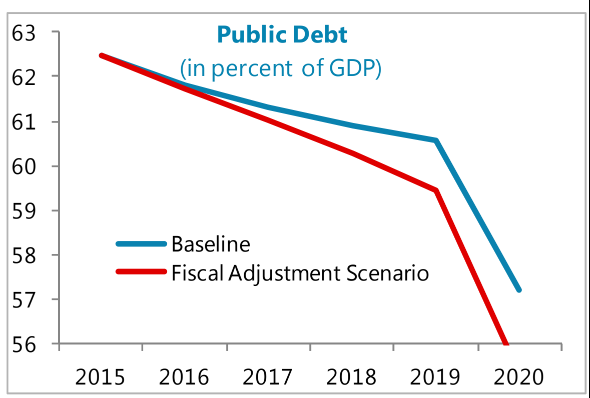
…and prioritized domestic investments



…leading to an improved current account..

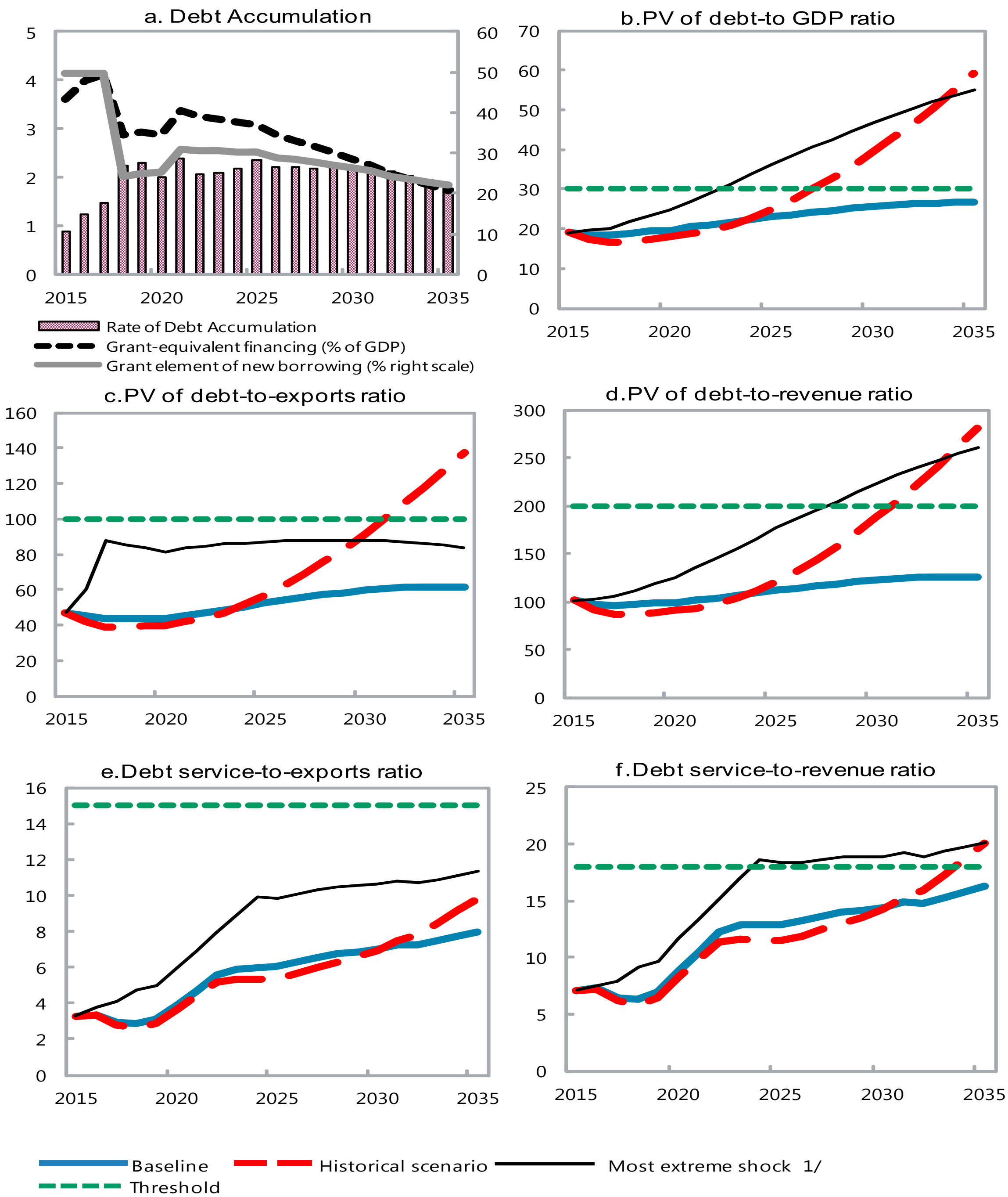


…and more sustainable debt levels.



Source: IMF staff calculations.

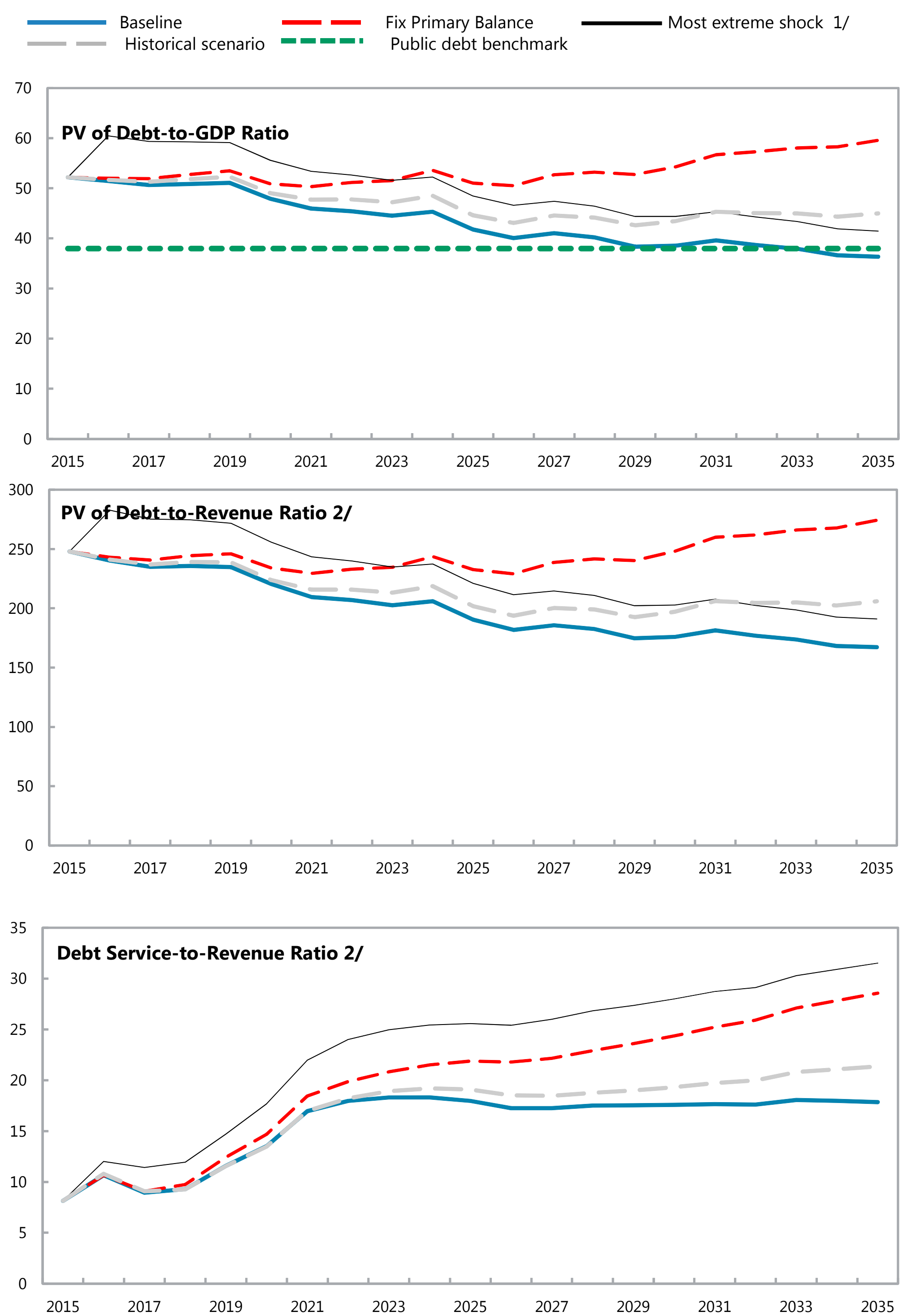
Figure 6. Togo: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015-2035 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a Less Favorable Terms shock; in c. to a Exports shock; in d. to a Less Favorable Terms shock; in e. to a Exports shock and in figure f. to a Combination shock

Figure 7.Togo: Indicators of Public Debt Under Alternative Scenarios, 2015-2035 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.
2/ Revenues are defined inclusive of grants.

Table 1. Togo: Selected Economic and Financial Indicators, 2012-20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Act.	Prel.			Proj.			
	(Percentage growth, unless otherwise indicated)								
National income, prices, and exchange rates									
Real GDP	5.9	5.4	5.4	5.4	5.6	5.6	5.6	5.5	5.5
Real GDP per capita	3.2	2.7	2.7	2.7	2.9	2.9	2.9	2.8	2.8
GDP deflator	6.5	2.0	0.5	2.5	2.4	2.4	2.3	2.3	2.2
Consumer price index (average)	2.6	1.8	0.2	1.9	2.1	2.5	2.5	2.5	2.5
GDP (CFAF billions)	1,999	2,149	2,277	2,459	2,659	2,875	3,106	3,352	3,614
Exchange rate CFAF/US$ (annual average level)	510.2	493.9	493.6	...	...	...	...	...	...
Real effective exchange rate	-3.9	2.2	1.2	...	...	...	...	...	...
Terms of trade (deterioration = –)	13.5	-17.2	9.8	8.2	-2.5	-1.9	-2.7	-4.4	-4.5
	(Annual change, percent of beginning-of-period broad money)								
Monetary survey									
Net foreign assets	-2.1	4.6	-7.7	0.7	3.0	4.3	4.9	4.3	5.2
Credit to government	3.7	-4.1	3.1	2.4	0.7	0.5	0.4	0.4	0.0
Credit to nongovernment sector	11.5	9.0	7.9	8.3	8.4	7.1	7.2	7.3	7.4
Broad money (M2)	8.9	10.3	9.8	10.5	10.6	8.9	8.6	7.9	7.8
Velocity (GDP/end-of-period M2)	2.2	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0
	(Percent of GDP, unless otherwise indicated)								
Investment and savings									
Gross domestic investment	23.8	23.6	23.5	24.5	24.6	24.5	23.9	23.9	23.9
Government	8.8	8.3	9.1	9.7	9.6	9.4	9.1	9.1	9.1
Nongovernment	15.0	15.3	14.4	14.8	15.0	15.1	14.8	14.8	14.8
Gross national savings	16.3	10.5	10.7	12.2	13.3	13.7	13.5	13.9	14.3
Government	1.5	3.6	3.8	4.5	4.9	4.7	4.3	4.2	4.2
Nongovernment	14.8	6.9	6.9	7.7	8.4	9.0	9.1	9.6	10.1
Government budget									
Total revenue and grants	19.2	20.9	19.7	21.0	21.4	21.6	21.6	21.8	21.7
Revenue	17.6	18.0	17.7	18.8	19.0	19.1	19.5	19.7	19.8
Total expenditure and net lending	26.4	25.5	25.0	26.3	26.1	26.2	26.3	26.6	26.6
Domestic primary expenditure	20.3	19.8	19.1	20.5	19.9	19.8	20.2	20.2	20.1
Overall balance (payment order basis)	-7.2	-4.6	-5.3	-5.2	-4.7	-4.7	-4.7	-4.8	-4.9
Overall balance (cash basis)	-7.8	-5.3	-6.4	-5.4	-5.2	-5.2	-5.3	-5.4	-5.4
Domestic primary balance[1]	-2.7	-1.8	-1.5	-1.7	-0.9	-0.7	-0.7	-0.5	-0.3
External sector									
Current account balance	-7.5	-13.0	-12.8	-12.3	-11.3	-10.8	-10.4	-10.0	-9.6
Exports (goods and services)	44.7	45.7	40.3	40.3	41.1	42.0	43.1	44.1	45.0
Imports (goods and services)	-58.6	-65.8	-59.5	-59.2	-59.2	-59.6	-60.0	-60.7	-61.1
External public debt[2]	17.6	20.1	26.9	29.3	28.9	29.0	28.9	28.9	28.8
External public debt service (percent of exports)[2]	3.2	3.5	4.6	4.0	4.1	3.4	3.7	4.3	5.1
Total public debt[3]	46.1	50.1	58.4	62.5	61.8	61.3	60.9	60.6	57.2

Sources: Togolese authorities and IMF staff estimates and projections.

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

[2] Includes state-owned enterprises external debt.

[3] Includes arrears and state-owned enterprises external debt.

Table 2a. Togo: Central Government Financial Operations, 2012-20

	2012	2013	2014	2015		2016	2017	2018	2019	2020
	Act.	Act.	Est.	Budget	Proj.			Proj.		
	(In billions of CFA Francs)									
Revenue and grants	383.5	449.1	448.2	534.4	517.2	568.8	619.9	669.9	729.2	785.6
Total revenue	351.7	386.4	402.4	475.4	461.7	505.4	550.5	605.0	660.0	714.8
Tax revenue	307.9	338.4	358.1	423.3	414.3	453.0	493.9	543.8	593.9	643.6
Tax administration (CI)	139.0	154.6	175.0	199.7	210.4	229.1	250.3	276.0	301.6	326.6
Customs administration (CDII)	168.9	183.8	183.1	223.6	203.9	223.9	243.6	267.8	292.4	317.0
Nontax revenue	43.9	48.0	44.3	52.1	47.4	52.4	56.6	61.2	66.0	71.2
Grants (projects)	31.7	62.8	45.8	58.9	55.5	63.4	69.4	64.9	69.3	70.8
Expenditure and net lending	528.1	548.5	568.8	665.3	645.9	693.7	754.1	816.1	890.5	961.3
Of which: Dom. primary expenditures	405.1	425.0	435.5	517.5	503.4	530.1	569.6	627.0	676.4	727.4
Current expenditure	352.8	371.4	361.1	408.0	406.4	438.5	485.3	535.1	587.2	634.3
Primary current spending	334.2	348.1	331.4	374.9	372.4	399.8	441.7	482.0	523.0	558.7
Wages and salaries	120.4	130.6	143.4	162.9	162.9	175.7	187.3	200.3	217.9	233.9
Goods and services	88.5	74.8	63.4	78.9	78.9	86.3	93.2	99.7	107.8	115.4
Transfers and subsidies	125.3	142.6	124.6	133.1	127.6	134.9	158.2	178.9	194.3	206.4
Of which : Oil prices support	42.5	40.4	14.0	13.0	7.5	7.6	18.2	24.9	27.9	26.7
Interest	18.6	23.4	29.7	33.1	34.0	38.7	43.6	53.1	64.2	75.6
Domestic debt	12.8	16.7	20.9	26.0	26.0	29.0	32.0	35.0	39.0	43.0
External debt	5.8	6.7	8.8	7.1	8.0	9.7	11.6	18.1	25.2	32.6
Public investment	175.1	177.5	207.3	257.3	239.5	255.2	268.8	281.1	303.3	327.1
Domestically financed	70.9	76.9	104.1	142.6	131.0	130.3	127.9	145.0	153.5	168.7
Foreign financed	104.2	100.6	103.2	114.6	108.5	125.0	140.9	136.1	149.9	158.3
Domestic primary balance	-53.3	-38.6	-33.0	-42.1	-41.7	-24.7	-19.1	-22.0	-16.5	-12.6
Overall balance, payment order basis (incl. grants)	-144.7	-99.4	-120.6	-130.9	-128.7	-125.0	-134.2	-146.2	-161.3	-175.7
Excluding grants	-176.4	-162.2	-166.4	-189.8	-184.2	-188.4	-203.6	-211.2	-230.6	-246.5
Change in arrears[1]	-11.7	-14.3	-26.0	-3.0	-5.0	-12.7	-16.6	-17.9	-19.3	-20.8
Overall balance, cash basis										
(incl.grants; incl.change in arrears)	-156.2	-113.7	-145.6	-133.9	-133.7	-137.6	-150.8	-164.1	-180.6	-196.5
Excluding grants	-188.1	-176.4	-192.4	-192.8	-189.2	-201.0	-220.1	-229.1	-249.9	-267.3
Financing	146.6	100.1	137.3	89.6	122.8	110.9	116.9	127.1	143.5	146.2
Domestic financing (net)	85.1	79.7	95.0	46.3	86.2	73.1	66.1	79.4	87.1	90.3
Banking system	34.4	-36.5	40.6	-12.9	17.2	8.5	6.2	6.3	6.3	0.5
Nonbank financing	50.6	116.2	54.4	59.2	69.1	64.6	59.9	73.1	80.8	89.9
Of which: Bank Privatization proceeds	3.0	11.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing (net)	61.5	20.5	42.3	43.3	36.6	37.8	50.8	47.6	56.3	55.9
Exceptional financing	16.3	9.0	7.1	44.3	10.9	0.0	0.0	0.0	0.0	0.0
ECF credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other identified financing (budget support)	16.3	9.0	7.1	44.3	10.9	0.0	0.0	0.0	0.0	0.0
Residual/unidentified financing (+ = financing needs) [2]	-6.7	4.6	1.2	0.0	0.0	26.7	33.8	37.1	37.1	50.3

Sources: Togolese authorities and IMF staff estimates and projections.

[1] Includes the BCEAO credit for domestic arrears clearance.

[2] Identifies residual for past years (i.e. 2012) and financing gap for current and future years (i.e. 2013 onward). In keeping with practice under the previous ECF-supported program, unidentified financing from 2014 on is calculated without assuming any external budget support (i.e. exceptional financing).

Table 2b. Togo: Central Government Financial Operations, 2012-20

	2012	2013	2014	2015		2016	2017	2018	2019	2020
	Act.	Act.	Est.	Budget	Proj.			Proj.		
	(Percent of GDP)									
Revenue and grants	19.2	20.9	19.7	21.7	21.0	21.4	21.6	21.6	21.8	21.7
Total revenue	17.6	18.0	17.7	19.3	18.8	19.0	19.1	19.5	19.7	19.8
Tax revenue	15.4	15.7	15.7	17.2	16.8	17.0	17.2	17.5	17.7	17.8
Tax administration (CI)	7.0	7.2	7.7	8.1	8.6	8.6	8.7	8.9	9.0	9.0
Customs administration (CDII)	8.4	8.6	8.0	9.1	8.3	8.4	8.5	8.6	8.7	8.8
Nontax revenue	2.2	2.2	1.9	2.1	1.9	2.0	2.0	2.0	2.0	2.0
Grants	1.6	2.9	2.0	2.4	2.3	2.4	2.4	2.1	2.1	2.0
Expenditures and net lending	26.4	25.5	25.0	27.1	26.3	26.1	26.2	26.3	26.6	26.6
Of which: Dom. primary expenditures	20.3	19.8	19.1	21.0	20.5	19.9	19.8	20.2	20.2	20.1
Current expenditures	17.6	17.3	15.9	16.6	16.5	16.5	16.9	17.2	17.5	17.6
Primary current spending	16.7	16.2	14.6	15.2	15.1	15.0	15.4	15.5	15.6	15.5
Wages and salaries	6.0	6.1	6.3	6.6	6.6	6.6	6.5	6.5	6.5	6.5
Goods and services	4.4	3.5	2.8	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Transfers and subsidies	6.3	6.6	5.5	5.4	5.2	5.1	5.5	5.8	5.8	5.7
Of which : Oil prices support	2.1	1.9	0.6	0.5	0.3	0.3	0.6	0.8	0.8	0.7
Interest	0.9	1.1	1.3	1.3	1.4	1.5	1.5	1.7	1.9	2.1
Public investment	8.8	8.3	9.1	10.5	9.7	9.6	9.4	9.1	9.1	9.1
Domestically financed	3.5	3.6	4.6	5.8	5.3	4.9	4.5	4.7	4.6	4.7
Foreign financed	5.2	4.7	4.5	4.7	4.4	4.7	4.9	4.4	4.5	4.4
Domestic primary balance	-2.7	-1.8	-1.5	-1.7	-1.7	-0.9	-0.7	-0.7	-0.5	-0.3
Overall balance, payment order basis (incl. grants)	-7.2	-4.6	-5.3	-5.3	-5.2	-4.7	-4.7	-4.7	-4.8	-4.9
Excluding grants	-8.8	-7.5	-7.3	-7.7	-7.5	-7.1	-7.1	-6.8	-6.9	-6.8
Change in arrears[1]	-0.6	-0.7	-1.1	-0.1	-0.2	-0.5	-0.6	-0.6	-0.6	-0.6
Overall balance, cash basis										
(incl.grants; incl.change in arrears)	-7.8	-5.3	-6.4	-5.4	-5.4	-5.2	-5.2	-5.3	-5.4	-5.4
Excluding grants	-9.4	-8.2	-8.5	-7.8	-7.7	-7.6	-7.7	-7.4	-7.5	-7.4
Financing	7.3	4.7	6.0	3.6	5.0	4.2	4.1	4.1	4.3	4.0
Domestic financing (net)	4.3	3.7	4.2	1.9	3.5	2.8	2.3	2.6	2.6	2.5
Banking system	1.7	-1.7	1.8	-0.5	0.7	0.3	0.2	0.2	0.2	0.0
Nonbank financing	2.5	5.4	2.4	2.4	2.8	2.4	2.1	2.4	2.4	2.5
Of which: Bank Privatization proceeds	0.2	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing (net)	3.1	1.0	1.9	1.8	1.5	1.4	1.8	1.5	1.7	1.5
Exceptional financing	0.8	0.4	0.3	1.8	0.4	0.0	0.0	0.0	0.0	0.0
ECF credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other identified financing (budget support)	0.8	0.4	0.3	1.8	0.4	0.0	0.0	0.0	0.0	0.0
Residual/unidentified financing (+ = financing needs)[2]	-0.3	0.2	0.1	0.0	0.0	1.0	1.2	1.2	1.1	1.4
Memorandum Items:										
Nominal GDP (CFAF billions)	1,999	2,149	2,277	2,459	2,459	2,659	2,875	3,106	3,352	3,614

Sources: Togolese authorities and IMF staff estimates and projections.

[1] Includes the BCEAO credit for domestic arrears clearance.

[2] Identifies residual for past years (i.e. 2014) and financing gap for current and future years (i.e. 2015 onward). In keeping with practice under the previous ECF-supported program, unidentified financing from 2014 on is calculated without assuming any external budget support (i.e. exceptional financing).

Table 3. Togo: Balance of Payments, 2012-20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Act.	Prel.	Proj.					
	(Billions of CFA francs)								
Current account balance	-150.1	-280.0	-291.4	-303.0	-301.2	-309.8	-323.0	-335.2	-346.9
Trade balance	-284.8	-439.6	-445.8	-475.9	-491.5	-516.4	-536.1	-571.1	-597.5
Exports	660.3	741.9	652.0	703.1	776.4	861.9	959.7	1059.9	1170.3
Imports, f.o.b.	-945.1	-1181.5	-1097.8	-1178.9	-1267.9	-1378.2	-1495.8	-1631.0	-1767.8
Of which: Petroleum products	-184.9	-213.7	-242.8	-168.8	-188.5	-209.2	-230.4	-247.6	-259.3
Services (net)	8.0	7.2	9.1	9.8	10.6	11.5	12.4	13.4	14.5
Primary income (net)	3.1	22.7	11.6	12.5	13.6	14.7	15.8	17.1	18.4
Secondary income (net)	123.6	129.6	133.7	150.4	166.1	180.4	184.9	205.4	217.6
Capital account balance	146.2	155.6	130.7	141.1	152.6	165.0	178.3	192.4	207.5
Current and capital account balance	-4.0	-124.4	-160.7	-161.9	-148.6	-144.8	-144.7	-142.8	-139.5
Financial account	16.2	-164.2	-42.3	-118.7	-128.3	-138.8	-149.9	-161.8	-174.5
Direct investment	152.6	-100.9	85.1	-122.9	-132.9	-143.7	-155.3	-167.6	-180.7
Portfolio investment, incl. bonds	-0.1	39.3	15.3	16.5	17.9	19.3	20.9	22.5	24.3
Other investment	-136.2	-102.6	-142.6	-12.3	-13.3	-14.4	-15.5	-16.8	-18.1
Errors and omissions	-38.9	-43.1	9.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-59.1	-3.2	-109.2	-43.2	-20.3	-6.0	5.2	19.0	35.0
Financing	59.1	3.2	109.2	43.2	20.3	6.0	-5.2	-19.0	-35.0
Central bank net foreign assets[1]	123.7	-21.8	64.1	-3.4	-32.4	-53.2	-67.2	-64.0	-84.2
Banks, net foreign assets[1]	-106.3	-19.8	12.9	-4.1	-4.2	-4.2	-4.3	-4.4	-4.5
Arrears, net change	-0.2	0.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0
Flow rescheduling	32.3	31.2	25.5	39.8	30.1	29.6	29.2	12.2	3.4
Clearance of debt/arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	9.6	13.5	8.3	10.9	26.7	33.8	37.1	37.1	50.3
Identified Financing	16.3	9.0	7.1	10.9	0.0	0.0	0.0	0.0	0.0
IMF financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Donor financing	16.3	9.0	7.1	10.9	0.0	0.0	0.0	0.0	0.0
Residual financing gap	-6.7	4.6	1.2	0.0	26.7	33.8	37.1	37.1	50.3
	(Percent of GDP, unless otherwise indicated)								
Memorandum items:									
Current account balance	-7.5	-13.0	-12.8	-12.3	-11.3	-10.8	-10.4	-10.0	-9.6
Trade balance	-14.2	-20.5	-19.6	-19.4	-18.5	-18.0	-17.3	-17.0	-16.5
Exports of goods and services	44.7	45.7	40.3	40.3	41.1	42.0	43.1	44.1	45.0
Imports of goods and services	-58.6	-65.8	-59.5	-59.2	-59.2	-59.6	-60.0	-60.7	-61.1
Direct investment	7.6	-4.7	3.7	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0
Gross international reserves of the WAEMU (as a percentage of M2)	58.6	49.1	47.1	...	...	...	...	...	...
Gross international reserves of the WAEMU (months of next year's imports)	5.1	4.5	4.6	...	...	...	...	...	...

Sources: Togolese authorities and IMF staff estimates and projections.

[1] Negative sign indicates increase.

Table 4. Togo: Monetary Survey, 2012-20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
		Act.				Proj.			
				(Billions of CFA Francs)					
Net foreign assets	273.8	315.4	238.3	245.8	282.3	339.8	411.3	479.7	568.4
BCEAO	76.6	98.4	34.2	37.6	70.0	123.2	190.4	254.4	338.5
Assets	219.2	239.4	277.5	280.8	313.2	366.4	433.6	497.6	581.7
Liabilities	142.6	141.0	243.2	243.2	243.2	243.2	243.2	243.2	243.2
Commercial banks	197.2	217.0	204.1	208.2	212.3	216.6	220.9	225.3	229.8
Assets	357.0	402.6	422.2	430.7	439.3	448.1	457.0	466.2	475.5
Liabilities	159.8	185.6	218.1	222.5	226.9	231.5	236.1	240.8	245.6
Net domestic assets	631.9	684.1	859.0	966.6	1058.8	1120.8	1175.3	1232.6	1277.9
Credit to government (net)	129.7	92.9	124.4	150.7	159.2	165.4	171.7	178.0	178.5
BCEAO	74.2	34.6	35.8	22.9	31.5	37.7	44.0	50.4	50.7
Commercial banks	55.5	58.3	88.6	127.8	127.7	127.7	127.7	127.6	127.7
Credit to nongovernment sector	601.7	682.9	762.1	853.6	956.0	1051.6	1156.8	1272.5	1399.7
Other items (net)	-99.6	-92.1	-27.9	-37.7	-56.5	-96.3	-153.2	-217.9	-300.3
Money supply (M2)	905.6	999.0	1096.9	1212.3	1341.1	1460.6	1586.6	1712.3	1846.2
Currency in circulation	161.5	161.5	145.8	175.7	181.0	184.6	191.4	195.2	199.2
Bank deposits	744.0	837.5	951.1	1036.6	1160.2	1276.0	1395.2	1517.1	1647.1
				(Annual change, as a percent of beginning-of-period broad money)					
Net foreign assets	-2.1	4.6	-7.7	0.7	3.0	4.3	4.9	4.3	5.2
BCEAO	-14.9	2.4	-6.4	0.3	2.7	4.0	4.6	4.0	4.9
Commercial banks	12.8	2.2	-1.3	0.4	0.3	0.3	0.3	0.3	0.3
Net domestic assets	11.0	5.8	17.5	9.8	7.6	4.6	3.7	3.6	2.6
Credit to government (net)	3.7	-4.1	3.1	2.4	0.7	0.5	0.4	0.4	0.0
Credit to nongovernment sector	11.6	9.0	7.9	8.3	8.4	7.1	7.2	7.3	7.4
Other items (net)	-4.2	0.8	6.4	-0.9	-1.5	-3.0	-3.9	-4.1	-4.8
Money supply (M2)	8.9	10.3	9.8	10.5	10.6	8.9	8.6	7.9	7.8
Currency in circulation	-3.9	0.0	-1.6	2.7	0.4	0.3	0.5	0.2	0.2
Bank deposits	12.8	10.3	11.4	7.8	10.2	8.6	8.2	7.7	7.6
Memorandum items:									
Velocity (GDP/end-of-period M2)	2.2	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0
				(In percent of GDP)					
Net foreign assets	13.7	14.7	10.5	10.0	10.6	11.8	13.2	14.3	15.7
BCEAO	3.8	4.6	1.5	1.5	2.6	4.3	6.1	7.6	9.4
Assets	11.0	11.1	12.2	11.4	11.8	12.7	14.0	14.8	16.1
Liabilities	7.1	6.6	10.7	9.9	9.1	8.5	7.8	7.3	6.7
Commercial banks	9.9	10.1	9.0	8.5	8.0	7.5	7.1	6.7	6.4
Assets	17.9	18.7	18.5	17.5	16.5	15.6	14.7	13.9	13.2
Liabilities	8.0	8.6	9.6	9.0	8.5	8.1	7.6	7.2	6.8
Net domestic assets	31.6	31.8	37.7	39.3	39.8	39.0	37.8	36.8	35.4
Credit to government (net)	6.5	4.3	5.5	6.1	6.0	5.8	5.5	5.3	4.9
BCEAO	3.7	1.6	1.6	0.9	1.2	1.3	1.4	1.5	1.4
Commercial banks	2.8	2.7	3.9	5.2	4.8	4.4	4.1	3.8	3.5
Credit to nongovernment sector	30.1	31.8	33.5	34.7	36.0	36.6	37.2	38.0	38.7
Other items (net)	-5.0	-4.3	-1.2	-1.5	-2.1	-3.3	-4.9	-6.5	-8.3
Money supply (M2)	45.3	46.5	48.2	49.3	50.4	50.8	51.1	51.1	51.1
Currency in circulation	8.1	7.5	6.4	7.1	6.8	6.4	6.2	5.8	5.5
Bank deposits	37.2	39.0	41.8	42.2	43.6	44.4	44.9	45.3	45.6

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

Annex I. Authorities Response to Main Recommendations from the 2013 Article IV Consultations

Main Recommendations	Authorities Response
Staff emphasized the following areas as key to maintain macroeconomic stability and promote inclusive growth:	**The authorities noted that they took the following steps:**
Improve debt management by seeking financing on terms consistent with debt sustainability and further reducing the fiscal deficit in the medium term.	An effort was made to mobilize financing from WAEMU and from concessional loans. Togo has not had access to international markets.
Free budget space for social and infrastructure spending to support implementation of policies that raise incomes of the poor, such as rural feeder roads, mini dams for irrigation, and off-grid energy alternatives.	Significant investments have been made to narrow the infrastructure gap that had developed over more than 15 years of socio-political crisis. Several rural roads were completed and a program of village electrification with solar panels or grid extension started. Funds allocated for mini-dams could not be used because feasibility studies could not be completed.
Progressively reduce poorly-targeted fuel subsidies, while broadening and improving social safety nets, and lower growth of public sector wages.	Fuel subsidies have been virtually eliminated by January 2015. The government took temporary social protection measures towards the most disadvantaged groups when retail fuel prices where increased in 2011. The negotiations surrounding the 2013 Public Service Statute established expectations of large increases in wages and remuneration. So far, these have been resisted as they would not be compatible with budget equilibrium. But pressure from trade unions is strong.
Implement long-planned PFM and revenue administration reforms.	In the context of the 2013 PFM reform plan, the WAEMU directives have been transposed in local legislation; their implementation is progressing; the OTR has been established; and the Computerised System for Public Financial Management (SIGFIP) is being enhanced.
Intensify financial sector oversight and solve problem banks. Put in place stronger supervision of microfinance.	The provisional administration is improving the financial condition of a large state-owned bank. A strategy is being developed for the future of the public banks BTCI and UTB. In microfinance, several funds to promote financial inclusion for targeted groups were created by the Ministry of Grassroots Development. The government intends to remove the license

	from bankrupt microfinance institutions and ban activities of institutions operating without a license.
Reform the phosphate, telecommunication and energy sectors, where state-owned enterprises dominate. The World Bank plays a key support role in this area.	Substantial investments were made to rehabilitate the production equipment in the phosphate company. The World Bank is assisting the government with a project to initiate reforms that will open the telecom sector to more private sector competition. The energy issue has an important regional dimension. The presence in Togo of the independent power producer Contour Global resulted in less power cuts. In the long term, the hydroelectric dam Adjarala should alleviate the demand gap.
Improve the business environment.	In 2015, Togo moved from 164th to 142nd rank in Doing Business Indicators. More remains to be done.
Retain as top policy priorities poverty reduction, agricultural productivity and employment.	Targeted microfinance funds are contributing to lift people out of poverty. Agricultural productivity is improving through the PNIASA project (World Bank) and the agricultural mechanization program initiated by the government.

Annex II. Togo: Risk Assessment Matrix

Source of Risk	Likelihood	Expected impact on the economy	Nature of Impact	Policy Response
Short Term				
Sharp asset price adjustment and decompression of credit spreads	High	Low	Togo is relatively isolated from global financial markets as the main sources of financing are official funding, concessional loans, and borrowing on the WAEMU bond market.	Monitor the debt level
Persistent dollar strength	High	High	Strengthening of the U.S. dollar would increase external debt servicing costs and import prices of capital and intermediate goods, resulting in larger costs for public works and enterprises. The main impact would be on inflation.	Adjust fiscal balance and implement competitiveness-enhancing structural reforms to improve long-term external sustainability.
Sharp China slowdown in 2015-16	Medium	Medium	A sharp growth slowdown and large fiscal and financial losses in China may translate into lower availability of external funding for infrastructure projects.	Prioritize investment projects.
Delays in fiscal adjustment	Medium	High	Policy slippages may materialize to accommodate increases in infrastructure investment or public sector wages and employment, resulting in an increase in debt.	No adequate policy response exists to delays in fiscal consolidation. A second-best option is to reduce spending in other areas and accelerate revenue raising measures.
Risks to financial sector stability	Medium	Medium	Financial sector soundness indicators have deteriorated. Also, some microfinance institutions are in a weak financial position. Both factors pose fiscal risks.	Apply existing prudential rules and limit regulatory forbearance. Regulate microfinance institutions.

Medium Term				
Structurally weak growth in key advanced and emerging economies	**High**	**Medium**	The main channel of transmission would be through the impact on key trading partners such as Ghana and Nigeria. The effect would be moderate given that Togo's exports are well diversified by product and destination.	Adjust fiscal balance and implement competitiveness-enhancing structural reforms to improve long-term external sustainability.
Resistance to reforms from entrenched interests affecting mining, infrastructure investment and business environment reform	**Medium**	**Medium**	Reforms reducing the control of entrenched groups are likely to meet strong resistance. Reform delays would slow growth, increase inequality, and potentially lead to pressure for political change.	Accelerate reforms in all areas. Liberalize markets and continue to improve business environment.
Power supply shortfalls	**High**	**High**	Planning and regulatory inaction and poor management of utilities may lead to widespread power cuts. In the short term, this will result in budget costs. In the long-term, power shortages may constrain economic growth.	Invest in power generation capacity and reform pricing policies to promote private sector participation in the sector. Public administrations should pay their bills to avoid accumulation of arrears.
Social unrest	**Low**	**Low**	Not reaching out to the opposition may lead to social unrest, although public order and security are well established.	Increase allocations for targeted social spending. Reach consensus with unions to achieve balanced solutions, both with private and public sectors.
Weather shock: drought or flooding	**Medium**	**Medium**	Flooding and drought are recurring events, but their impact is typically short-lived and/or localized.	Implement disaster mitigation programs, with financial and technical support from donors.

Annex III. Togo: Central Government Financial Operations on GFSM-01 Basis

Table 1a. Togo: Statement of Operations of Budgetary Cental Government, 2011-2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Act.	Act.	Act.			Projections			
	(In billions of CFA Francs)									
Revenue	350.9	383.5	449.1	448.2	500.9	556.6	609.5	657.5	708.9	768.9
Taxes	270.0	307.9	338.4	358.1	398.0	442.8	482.9	525.6	571.0	624.6
Domestic taxes	114.8	139.0	154.6	175.0	194.2	216.3	236.5	257.9	280.4	305.9
Import taxes	155.2	168.9	183.8	183.1	203.8	226.5	246.4	267.7	290.6	318.7
Grants	55.8	31.7	62.8	45.8	55.5	63.1	71.9	72.7	74.2	75.5
Other revenue	25.1	43.9	48.0	44.3	47.4	50.6	54.7	59.1	63.8	68.8
Expenditure	422.0	527.8	549.0	568.4	653.1	715.7	770.4	829.1	892.2	956.4
Expense	277.8	352.8	371.4	361.1	413.6	461.4	496.9	538.3	580.0	621.6
Compensation of employees	104.7	120.4	130.6	143.4	162.9	175.6	187.1	196.4	206.4	215.1
Use of goods and services	63.7	88.5	74.8	63.4	78.9	95.1	81.9	82.9	77.3	94.3
Interest	11.5	18.6	23.4	29.7	34.4	39.5	44.7	54.5	65.9	77.3
Domestic interest	9.6	12.8	16.7	20.9	26.0	29.0	32.0	35.0	39.0	43.0
Foreign interest	1.9	5.8	6.7	8.8	8.4	10.5	12.7	19.5	26.9	34.3
Subsidies [1]	32.5	42.5	40.4	14.0	14.4	20.9	40.2	47.3	61.1	52.2
Grants, social benefits and other expense	65.4	82.7	102.2	110.5	123.1	130.3	143.0	157.0	169.4	182.7
Net acquisition of nonfinancial assets	144.2	175.1	177.5	207.3	239.5	254.3	273.5	290.8	312.2	334.8
Domestically financed	68.2	70.9	76.9	104.1	131.0	129.8	127.4	138.4	151.7	166.1
Foreign financed	76.1	104.2	100.6	103.2	108.5	124.5	146.1	152.4	160.5	168.8
Gross Operating Balance [2]	73.1	30.7	77.7	87.1	87.3	95.1	112.5	119.2	129.0	147.3
Net lending (+)/borrowing (–) (fiscal balance) [3]	-71.1	-144.4	-99.8	-120.2	-152.2	-159.1	-161.0	-171.6	-183.2	-187.5
Discrepancy (Non-financial vs financial accounts)	8.1	15.1	29.9	15.9	-17.5	-5.1	-11.9	-10.6	0.0	0.0
Change in net financial worth due to transactions (fiscal balance)	-79.2	-159.5	-129.7	-136.2	-134.7	-154.0	-149.1	-161.0	-183.2	-187.5
Net acquisition of financial assets	26.9	-16.6	5.6	10.0	16.5	-40.6	-25.0	29.9	89.7	-10.0
Domestic	26.9	-16.6	5.6	10.0	16.5	-40.6	-25.0	29.9	89.7	-10.0
Currency and deposits	34.9	1.2	47.7	25.5	0.0	-45.7	-36.9	19.3	89.7	-10.0
Equity and investment fund shares	0.0	-3.0	-11.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	-8.1	-14.8	-30.4	-15.6	16.5	5.1	11.9	10.6	0.0	0.0
Net incurrence of liabilities	82.7	149.5	130.8	145.0	103.8	44.4	66.1	135.3	219.5	121.1
Domestic	16.2	71.7	102.1	101.8	66.9	6.6	12.5	78.9	157.3	59.3
Currency and deposits	-4.9	20.4	11.3	23.4	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	12.3	12.5	62.8	15.4	58.4	-9.5	19.4	88.3	164.3	52.1
Loans	0.7	38.9	28.0	63.0	8.6	16.1	-6.9	-9.5	-7.0	7.2
Other accounts payable	8.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	66.4	77.8	28.7	43.2	36.9	37.8	53.7	56.4	62.2	61.8
Loans	66.4	77.8	28.7	43.2	36.9	37.8	53.7	56.4	62.2	61.8
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual/unidentified financing	*-23.4*	*6.7*	*-4.6*	*-1.2*	*-47.4*	*-69.1*	*-57.9*	*-55.7*	*-53.4*	*-56.5*
Memorandum items:										
Primary balance	-59.6	-125.8	-76.4	-90.5	-117.8	-119.6	-116.3	-117.1	-117.4	-110.2
NLB (overall balance) excluding grants	-126.9	-176.1	-162.6	-166.0	-207.7	-222.3	-232.9	-244.4	-257.4	-263.0
CG Domesitc Debt and Arrears	503.5	571.2	643.5	716.1	759.4	741.1	755.2	818.8	966.3	1,005.4

Sources: Togolese authorities and IMF staff estimates and projections.

1/ Includes Fuel Subsdies.

2/ Revenue minus Current Expense (includes reimbursement of bonds for bank restructuration in Other Expense).

3/ Revenue minus Total Expenditure (includes reimbursement of bonds for bank restructuration in Other Expense).

Table 1b. Togo: Statement of Operations of Budgetary Cental Government, 2011-2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Act.	Act.	Act.			Projections			
					(In percentage of GDP)					
Revenue	19.8	19.2	20.9	19.8	20.5	21.0	21.3	21.3	21.2	21.4
Taxes	15.2	15.4	15.7	15.8	16.2	16.7	16.9	17.0	17.1	17.3
Domestic taxes	6.5	7.0	7.2	7.7	7.9	8.2	8.3	8.3	8.4	8.5
Import taxes	8.8	8.4	8.6	8.1	8.3	8.6	8.6	8.7	8.7	8.9
Grants	3.1	1.6	2.9	2.0	2.3	2.4	2.5	2.4	2.2	2.1
Other revenue	1.4	2.2	2.2	2.0	1.9	1.9	1.9	1.9	1.9	1.9
Expenditure	23.8	26.4	25.5	25.1	26.7	27.0	26.9	26.8	26.7	26.6
Expense	15.7	17.6	17.3	15.9	16.9	17.4	17.4	17.4	17.4	17.3
Compensation of employees	5.9	6.0	6.1	6.3	6.7	6.6	6.5	6.3	6.2	6.0
Use of goods and services	3.6	4.4	3.5	2.8	3.2	3.6	2.9	2.7	2.3	2.6
Interest	0.6	0.9	1.1	1.3	1.4	1.5	1.6	1.8	2.0	2.1
Domestic interest	0.5	0.6	0.8	0.9	1.1	1.1	1.1	1.1	1.2	1.2
Foreign interest	0.1	0.3	0.3	0.4	0.3	0.4	0.4	0.6	0.8	1.0
Subsidies [1]	1.8	2.1	1.9	0.6	0.6	0.8	1.4	1.5	1.8	1.4
Grants, social benefits and other expense	3.7	4.1	4.8	4.9	5.0	4.9	5.0	5.1	5.1	5.1
Net acquisition of nonfinancial assets	8.1	8.8	8.3	9.1	9.8	9.6	9.6	9.4	9.4	9.3
Domestically financed	3.8	3.5	3.6	4.6	5.3	4.9	4.5	4.5	4.5	4.6
Foreign financed	4.3	5.2	4.7	4.6	4.4	4.7	5.1	4.9	4.8	4.7
Gross Operating Balance [2]	4.1	1.5	3.6	3.8	3.6	3.6	3.9	3.9	3.9	4.1
Net lending (+)/borrowing (–) (fiscal balance) [3]	-4.0	-7.2	-4.6	-5.3	-6.2	-6.0	-5.6	-5.5	-5.5	-5.2
Discrepancy (Non-financial vs financial accounts)	0.5	0.8	1.4	0.7	-0.7	-0.2	-0.4	-0.3	0.0	0.0
Change in net financial worth due to transactions (fiscal balance)	-4.5	-8.0	-6.0	-6.0	-5.5	-5.8	-5.2	-5.2	-5.5	-5.2
Net acquisition of financial assets	1.5	-0.8	0.3	0.4	0.7	-1.5	-0.9	1.0	2.7	-0.3
Domestic	1.5	-0.8	0.3	0.4	0.7	-1.5	-0.9	1.0	2.7	-0.3
Currency and deposits	2.0	0.1	2.2	1.1	0.0	-1.7	-1.3	0.6	2.7	-0.3
Equity and investment fund shares	0.0	-0.2	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	-0.5	-0.7	-1.4	-0.7	0.7	0.2	0.4	0.3	0.0	0.0
Net incurrence of liabilities	4.7	7.5	6.1	6.4	4.2	1.7	2.3	4.4	6.6	3.4
Domestic	0.9	3.6	4.8	4.5	2.7	0.2	0.4	2.5	4.7	1.6
Currency and deposits	-0.3	1.0	0.5	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.7	0.6	2.9	0.7	2.4	-0.4	0.7	2.9	4.9	1.4
Loans	0.0	1.9	1.3	2.8	0.3	0.6	-0.2	-0.3	-0.2	0.2
Other accounts payable	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	3.7	3.9	1.3	1.9	1.5	1.4	1.9	1.8	1.9	1.7
Loans	3.7	3.9	1.3	1.9	1.5	1.4	1.9	1.8	1.9	1.7
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual/unidentified financing	-1.3	0.3	-0.2	-0.1	-1.9	-2.6	-2.0	-1.8	-1.6	-1.6
Memorandum items:										
Primary balance	-3.4	-6.3	-3.6	-4.0	-4.8	-4.5	-4.1	-3.8	-3.5	-3.1
NLB (overall balance) excluding grants	-7.2	-8.8	-7.6	-7.3	-8.5	-8.4	-8.1	-7.9	-7.7	-7.3
CG Domesitc Debt and Arrears	28.4	28.6	29.9	31.6	31.0	28.0	26.4	26.5	28.9	27.9
Nominal GDP (CFAF billions)	1,772	1,999	2,149	2,268	2,449	2,648	2,864	3,094	3,339	3,600

Sources: Togolese authorities and IMF staff estimates and projections.
1/ Includes Soutien Politique Petrolier.
2/ Revenue minus Current Expense (includes reimbursement of bonds for bank restructuration in Other Expense).
3/ Revenue minus Total Expenditure (includes reimbursement of bonds for bank restructuration in Other Expense).

INTERNATIONAL MONETARY FUND

TOGO

October 7, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | The African Department (In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(as of August 31, 2015)

Membership Status: Joined August 1, 1962; Article VIII

General Resources Account:	**SDR million**	**% of Quota**
Quota	73.40	100.00
Fund holdings of currency	72.84	99.24
Reserve Position	0.58	0.79

SDR Department:	**SDR million**	**% of Quota**
Net cumulative allocation	70.33	100.00
Holdings	53.46	76.01

Outstanding Purchases and Loans:	**SDR million**	**% of Quota**
ECF Arrangements	80.24	109.32

Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ECF[1]	Apr 21, 2008	Jul 26, 2011	95.41	95.41
ECF[1]	Sep 16, 1994	Jun 29, 1998	65.16	54.30
ECF[1]	May 31, 1989	May 19, 1993	46.08	38.40

Projected Payments to the Fund[2]

(SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2015	2016	2017	2018	2019
Principal	5.8	17.32	19.08	17.76	11.04
Charges/Interest	0.00	0.01	0.01	0.01	0.05
Total	5.81	17.33	19.09	17.77	11.08

[1] Formerly PRGF.

[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	Framework
Decision point data	Nov. 2008
Assistance committed	
By all creditors (US$ Million)[1]	282.00
Of which: IMF assistance (US$ million)	0.32
(SDR equivalent in millions)	0.22
Completion point date	Dec. 2010
II. Disbursement of IMF assistance (SDR Million)	0.22
Assistance disbursed to the member	0.08
Interim assistance	0.14
Completion point balance	0.01
Additional disbursement of interest income[2]	
Total disbursements	**0.22**

[1] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[2] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Safeguards Assessments

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union (WAEMU). The 2013 assessment of the BCEAO was completed on December 13, 2013. The assessment found that the bank continued to have a strong control environment and has, with the implementation of the 2010 Institutional Reform of the WAEMU, enhanced its governance framework. Specifically, an audit committee was established to oversee the audit and financial reporting processes, and transparency has increased with more timely publication of the audited financial statements. The assessment also identified some limitations in the external audit process and recommended that steps be taken to ensure the adequacy of the mechanism through selection of a second experienced audit firm to conduct joint audits.

Exchange Arrangement

Togo, a member of the WAEMU, accepted the obligations under Article VIII, Sections 2, 3 and 4 of the Fund's Articles of Agreement as of June 1, 1996, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The WAEMU's exchange regime is a conventional peg to the euro.

The union's common currency, the CFA franc, had been pegged to the French franc at the rate of CFAF 1 = F 0.02. Effective January 12, 1994, the CFA franc was devalued and the new parity set at CFAF 1 = F 0.01. Effective December 31, 1998, the parity was switched to the euro at a rate of CFAF 655.96 = €1.

Aspects of the exchange system were also discussed in the report "WAEMU: Common Policies for Member Countries" (Country Report No. 14/84).

JOINT WORLD BANK-IMF WORK PROGRAM, 2015–16

The IMF Togo team led by Ms. Sancak (mission chief) held a discussion with the World Bank Togo team led by Mr. MacWilliam (mission chief) on August 12, 2015, to identify macro-critical structural reforms and coordinate the two teams' work for the period September 2015-December 2016. Continuous collaboration is taking place, including coordination of timing of missions.

The teams agreed that Togo's work program should focus on policies and structural reforms to promote sustainable growth through structural transformation and to maintain macroeconomic and financial stability. In this regard, there would be need to reset fiscal policy to ensure fiscal and external sustainability, enhance public financial management, strengthen financial sector stability, and promote financial development. To increase potential growth there is also a need to implement reforms in other key areas such as energy and telecommunications, and to continue improving the business climate and the efficiency of public investment projects. Areas of close collaboration between the Fund and the Bank include the financial sector, debt policy, and poverty analytics and policies. Details on division of labor in other areas are presented below.

Title	Products	Provisional Timing of missions	Expected Delivery Date
	A. Mutual information on relevant work programs		
World Bank work program in the next 12 months	**Lending/ Grants:**		
	Community Development Project and Social Safety Nets		Ongoing
	Education for All		Ongoing
	Emergency Infrastructure Rehabilitation & Energy Project		Ongoing
	Financial Sector and Governance Project		Ongoing
	Private Sector Development Project		Ongoing
	Agriculture Sector Project		Ongoing
	West Africa Productivity Program		Ongoing
	Emergency Urban Rehabilitation Additional Financing		Ongoing
	Integrated Disaster and Land Management Project		Ongoing
	Infrastructure Additional Financing		Ongoing
	Community Development /Youth Employment		Ongoing
	WARCIP Broadband connectivity		Ongoing

	DPO VI—Economic Governance and Growth Credit		November 2014
	Maternal and Child Health operation		Ongoing
	Economic and Sector Work:		
	Economic Governance Diagnostics (Strengthening public investment and public financial management)		May 2016
	PEMFAR		July 2016
	Technical assistance/other analytical:		
	Promoting Public-Private Partnerships		March 2016
	ICT Strategy Development		June 2015
	Mineral Rights Cadastre Reform		May 2016
	Post- basic Education		June 2016
	Statistical Capacity Building		May 2014
	Others: Country Partnership Strategy Systematic Country Diagnostic		March 2016 October 2015
IMF work program in the next 12 months			
	Technical assistance:		
	Debt Management (MCM)	October 2015	October 2015
	Public Financial Management (Elaboration of DPBEP & DPPD) (FAD)	November 2015	November 2015
	Tax Administration (FAD)	November 2015	December 2015
	Government Finance Statistics (STA)	February 2016	February 2016
	Regional Workshop on SFP (AFRITAC West)	February 2016	February 2016
	Tax Administration (FAD)	November 2016	December 2016
B. Requests for work program inputs			
Fund requests to Bank			
Bank request to Fund	Technical support and collaboration in the areas of public finance management and the banking sector.		
C. Agreement on joint products and missions			
Joint Bank-Fund products in the next 12 months	Joint LIC Debt Sustainability Analysis		September 2015

STATISTICAL ISSUES

1. Data provision is broadly adequate for surveillance, but weaknesses in the quality and timeliness of data hamper staff's analysis.

- **National accounts**: are compiled based on very limited information, with only few surveys and scarce data on primary agriculture and private sector services. National accounts are published with considerable delays and are only available on annual frequency. Base year for constant price GDP is 2007.
- **Price statistics**: Base year for CPI index is 2008, with coverage of only the capital city.
- **Fiscal sector statistics:** Government finance statistics are derived from a weak accounting and reporting system. There are often large discrepancies between the transactions that yield net lending/borrowing and its financing, and large inconsistencies between stock and flow data. Also, there are significant delays in compilation and dissemination, and limited or no data on public entities outside of (budgetary) central government.
- **Balance of payments statistics**: Data are reported on an annual frequency with long lags. Data corresponding to 2012 were published in February 2015, and the balance of payments data for 2013 were published in June 2015.
- **Monetary data**: are reported by the BCEAO and sent to AFR within 45 days.

2. The country has participated in the General Data Dissemination System (GDDS) since November 2001. Metadata on the national statistical system, including plans for improvement posted to the Fund's Dissemination Standard Bulletin Board, were last updated in December 2004.

National accounts and consumer price index (CPI)

3. Like other West African Economic and Monetary Union (WAEMU) member states, Togo embarked in late 2002 on implementing the System of National Accounts 1993 (1993 SNA), using the ERETES software. The national accounts for the new base year (2007) were completed in 2012. In 2013 the *Direction Générale de la Statistique et de la Comptabilité Nationale* (DGSCN) published the National Accounts GDP numbers covering the period 2000-2007. Respectively, in 2014 and 2015 the 2009 and 2010 National Accounts GDP numbers were finalized and published. The national statistics institute, INSEED (*Institut National de la Statistique et des Etudes Economiques et Démographiques*), established in February 2015, is currently executing a plan, with the support of AFRITAC West, to clear the delay in the elaboration of National Accounts corresponding to the period 2011–15 by 2017. Given that limited resources are available plans to build quarterly NA have been cancelled to prioritize the work on closing the delays in the publication of National Accounts, and on the transition of National Accounts to SNA 2008.

4. The CPI basket was revised in 2010. The WAEMU commission, supported by AFRISTAT and the BCEAO, launched a revision of the harmonized CPI basket in the region in 2008. The reform included expanding CPI surveys, and updating the weights of various sub-components to reflect consumption habits. In line with WAEMU directives the INSEED is constructing a consumer price index with national coverage. The collection of the first observations started in January 2015, and the index will be published in January 2016 when the first 12 month variation becomes available.

External sector statistics

5. Balance of payments statistics and international investment position data are compiled based on bank reports, a survey of enterprises, and customs data. Statistics are compiled following the principles of the 6th balance of payment manual. The Central bank continues its efforts for a better coverage of informal trade notably with the sub-regional unit for the reconciliation of intra-WAMU trade.

Government accounts and public debt data

6. The Government finance statistics are compiled by the Ministry of State from customs, tax, and treasury departments and consolidated in the form of government financial operations tables (TOFE). The new WAEMU budget nomenclature now permits the economic and ministerial classification of expenditure, with functional classification under development. The monthly TOFE is based on a mixture of administrative and accounting data and is sent to AFR with a two-month lag. The debt database weakened since the HIPC completion point at end 2010. Government recognition of old domestic arrears and their liabilities has further complicated the compilation of a reliable and consistent database. Only budgetary central government data are reported for publication in the Government Finances Statistics Yearbook (GFSY), government finance high frequency data are not reported for publication in the IFS. In the context of the 2013 Article IV consultation, with assistance from STA, the authorities established a bridge table allowing transposition of TOFE data, which is based on the 1986 Government Finance Statistics Manual (GFS86), to the 2001 Government Finance Statistics Manual (GFSM01). An updated table on Government Financial Operations for 2011-20 based on GFSM01 principles is presented in Appendix III.

Monetary statistics

7. Monthly data for Togo, along with data for other members of the West African Monetary Union are regularly disseminated by the Central Bank of the West African Monetary Union (BCEAO) with a lag of about two months. Data on lending and borrowing rates, charged by domestic banks, are compiled and available monthly.

Togo: Table of Common Indicators Required for Surveillance

(as of August 2015)

Economic Variable	Date of latest observation	Date received	Frequency of Data[2]	Frequency of Reporting[2]	Publication
Exchange Rates	July 2015	August 2015	M	M	Published
International Reserve Assets and Reserve Liabilities of the Monetary Authorities	June 2015	August 2015	M	M	Published
Reserve/Base Money	June 2015	August 2015	M	M	Published
Broad Money	June 2015	August 2015	M	M	Published
Central Bank Balance Sheet	June 2015	August 2015	M	M	Published
Consolidated Balance Sheet of the Banking System	June 2015	August 2015	M	M	Published
Interest Rates	June 2015	July 2015	M	M	Published
Consumer Price Index	July 2015	August 2015	M	M	Published
Revenue, Expenditure, Balance and Composition of Financing – General Government	n.a.	n.a.	n.a.	n.a.	Not published
Revenue, Expenditure, Balance and Composition of Financing– Central Government	June 2015	July 2015	M	M	Published
Stocks of Central Government and Central Government-Guaranteed Debt	June 2015	July 2015	M	M	Not published
External Current Account Balance	December 2013	June 2015	A	OM	Published
Exports and Imports of Goods and Services	December 2013	June 2015	A	OM	Published
GDP/GNP	December 2012	August 2013	A	OM	Not published
Gross External Debt	June 2015	July 2015	M	M	Not published
International Investment Position[3]	December 2013	June 2015	A	OM	Published

[1] The general government consists of the central government (budgetary funds, extra-budgetary funds, semi-autonomous government agencies and institutions, and social security funds) and state and local governments.
[2] Monthly (M), Quarterly (Q), Semi Annually (SA), Annually (A), on mission (OM).
[3] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

INTERNATIONAL MONETARY FUND

TOGO

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

October 7, 2015

Approved By
Abebe Aemro Selassie (IMF) and John Panzer (WB)

Prepared by the International Monetary Fund and the World Bank

Togo remains at a moderate risk of debt distress based on an assessment of public external debt, but at a heightened overall risk of debt distress, reflecting significant vulnerabilities related to domestic debt*. After full HIPC assistance, MDRI and beyond debt relief, Togo's external and public debt indicators improved significantly in 2010/11. Since then, Togo has contracted significant external and domestic debt. While external debt indicators are projected to remain below the policy-relevant indicative thresholds under the baseline scenario, Togo remains vulnerable to shocks and could breach the thresholds for the present value (PV) of external debt-to-GDP, the PV of external debt-to-revenue, and the debt service-to-revenue ratios under alternative scenarios and stress tests. Togo's overall public debt dynamics also highlight heightened vulnerabilities, with the debt-to-GDP ratio remaining above the indicative benchmark for most of the projection period. The debt sustainability analysis results suggest that there is limited space for higher fiscal deficit if the moderate risk rating is to be preserved or improved. They also highlight a need to enhance the capacity of debt management.*

INTRODUCTION

1. **The debt sustainability analysis (DSA) of Togo's public debt was prepared jointly by the International Monetary Fund (IMF) and the World Bank.**[1] It updates the 2013 DSA (IMF Country Report No. 14/38), based on the most recent external debt data from the authorities and the macroeconomic framework derived from the 2015 IMF Article IV consultation. Data are composed of external and domestic debt of the central government, as well as debt and guaranteed debt of public enterprises.

2. **Togo's public and publicly guaranteed (PPG) external debt is CFAF 614 billion at end-2014 while its composition has considerably changed since 2010 (Text Table 1).** Togo reached the completion point of the HIPC Initiative in December 2010 and was granted debt relief from several multilateral and bilateral creditors. As a result, the ratio of PPG external debt to GDP dropped from 53.9 percent in 2009 to 19.9 percent in 2010. Since then, external debt stock has increased, reaching 26.9 percent of GDP at end-2014. Around 51 percent of this stock of debt is owed to multilateral creditors and the remainder to bilateral and commercial creditors. Between 2010 and 2014, central government borrowing from commercial banks has increased significantly, from around CFAF 31 billion to CFAF 201 billion. The debt from commercial banks is typically contracted at less favorable terms than from other creditors. Thus, the increase in the share of commercial bank borrowing to total borrowing from 10.1 percent in 2010 to 32.7 percent in 2014 has created additional pressure on Togo's external debt position.

3. **Public domestic debt has increased in recent years, amounting CFAF 717 billion at end-2014 from CFAF 473 billion at end-2010.** After declining in 2011 by about 1½ percentage points to 28½ percent of GDP, the level of domestic debt has gradually increased to 31½ percent in 2014. A key driver to the increase in domestic debt has been the rise in recourse to the regional financial market, which has more than offset the decrease in domestic arrears. The stock of government securities on the regional market has increased from 9.2 percent of GDP in 2010 to 18.4 percent in 2014, with an increasing use of Treasury bills. Consequently, Togo had the highest level of domestic debt-to-GDP ratio within the WAEMU region at end-2014.[2]

[1] The DSA follows the IMF and World Bank Staff Guidance Note on the Application of the Joint IMF-World Bank Debt Sustainability Framework for Low-Income Countries, dated November 7, 2013 (SM/13/292).

[2] See the most recent IMF Staff Report on WAEMU common policies: http://www.imf.org/external/pubs/ft/scr/2015/cr15100.pdf

Togo: Composition of Public Debt, 2010–14															
	End-2010			End-2011			End-2012			End-2013			End-2014		
	(in billions of CFAF)	(in percent of public debt)	(in percent of GDP)	(in billions of CFAF)	(in percent of public debt)	(in percent of GDP)	(in billions of CFAF)	(in percent of public debt)	(in percent of GDP)	(in billions of CFAF)	(in percent of public debt)	(in percent of GDP)	(in billions of CFAF)	(in percent of public debt)	(in percent of GDP)
Total Public Debt	**785.1**	**100**	**50.0**	**788.4**	**100**	**44.5**	**922.4**	**100**	**46.1**	**1,075.9**	**100**	**50.1**	**1,330.9**	**100**	**58.5**
External Debt	**312.1**	**40**	**19.9**	**284.9**	**36**	**16.1**	**351.2**	**38**	**17.6**	**432.9**	**40**	**20.1**	**613.5**	**46**	**26.9**
Central Government	**266.2**	**34**	**16.9**	**241.9**	**31**	**13.7**	**278.8**	**30**	**13.9**	**357.4**	**33**	**16.6**	**470.5**	**35**	**20.7**
Multilateral	182.9	23	11.6	170.3	22	9.6	164.1	18	8.2	209.0	19	9.7	243.1	18	10.7
Bilateral	51.9	7	3.3	40.6	5	2.3	35.9	4	1.8	28.6	3	1.3	26.7	2	1.2
Paris Club	16.3	2	1.0	11.5	1	0.6	14.4	2	0.7	6.6	1	0.3	3.9	0	0.2
Non-Paris Club	35.6	5	2.3	29.1	4	1.6	21.4	2	1.1	21.9	2	1.0	22.7	2	1.0
Commercial Banks	31.4	4	2.0	31.1	4	1.8	78.8	9	3.9	119.8	11	5.6	200.7	15	8.8
SOEs[1]	**45.9**	**6**	**2.9**	**43.0**	**5**	**2.4**	**72.4**	**8**	**3.6**	**75.5**	**7**	**3.5**	**143.0**	**11**	**6.3**
Multilateral	...	...	...	43.0	5	2.4	32.3	4	1.6	21.7	2	1.0	71.7	5	3.1
Other	...	...	...	0.0	0	0.0	40.1	4	2.0	53.8	5	2.5	71.4	5	3.1
Domestic Debt	**472.9**	**60**	**30.1**	**503.5**	**64**	**28.4**	**571.2**	**62**	**28.6**	**643.0**	**60**	**29.9**	**717.5**	**54**	**31.5**
T-Bills + Bonds	143.9	18	9.2	175.4	22	9.9	224.5	24	11.2	326.8	30	15.2	418.4	31	18.4
Domestic Arrears	276.6	35	17.6	270.0	34	15.2	263.8	29	13.2	254.3	24	11.8	249.3	19	10.9

Sources: Country authorities and Staff calculations

[1] Details for SOEs' 2010 external debt have not been communicated by the authorities.

BASELINE ASSUMPTIONS

4. **The baseline macroeconomic assumptions for the present DSA are the following:**

a. Real GDP growth is estimated at 5.4 percent in 2014 and would average about 5½ percent over 2015–18, supported by agricultural production, transportation services linked to international trade, and the impact of investments in transport infrastructure. In the long run, real GDP growth is estimated to settle down at 4.5 percent. The estimated potential growth rate exceeds historical rates, which were depressed by the dislocations caused by the protracted social, political, and economic crisis that the country experienced up to the mid-2000s. The main downside risks to growth projections are related to the country's weak public financial management capacity and resistance to reform by entrenched groups. These may lower the efficiency of the planned public investments, which, together with private sector growth and investment, would be one of the drivers of growth over the medium term. Additionally, a binding constraint is the availability of reliable electricity supply, given that the growth of demand outstrips that of supply and that there are no obvious economical short-term solutions.

b. Public investment is projected to increase to 9.7 percent of GDP in 2015, continuing the upward trend of the recent past (8.3 percent in 2013 and 9.1 percent in 2014). Public investment is expected to stabilize in the medium term, at around 9.1 percent of GDP. About 50 percent of public investments will be financed domestically while the remaining will be via external financing. Public investment projects are expected to be mostly directed to infrastructure, with increasing portions dedicated to social spending, and, together with prudent fiscal policy and structural reforms, would lead GDP growth to increase above its long-term trend for these years.

c. The projections for key commodity prices (oil, cotton, cocoa, and coffee) through 2020 are based on WEO projections of August 2015 and are assumed constant in real terms afterwards.

d. Inflation was low in 2014 (0.2 percent) and is projected to increase in the medium term, reaching 2.5 percent in 2017 remaining stable afterwards, reflecting sound monetary policy at the regional level.

e. The current account balance has strongly deteriorated in 2013 and 2014 (respectively -13.0 and -12.8 percent of GDP). The deficit is expected to remain at levels around 11 percent in the medium term, before converging back to below 10 percent in the long run. The underlying reasons for the recent deterioration of the current account balance are the large increase of imports in 2013, in particular intermediary goods and oil imports, and the relative underperformance of exports.

f. The domestic primary fiscal balance is projected to improve marginally to -1.7 percent of GDP in 2015 compared to -1.8 percent in 2013. The projections for the long term point to a steady improvement of the domestic primary fiscal balance as it reaches -0.3 percent in 2020.[3]

g. The overall fiscal balance is programmed to decline from -6.4 in 2014 to -5.4 percent in 2015 and to gradually revert back to around -5 percent, reflecting lower infrastructure investment needs in the medium to long term.

h. FDI flows are expected to stay stable over the medium-term at around 5 percent of GDP. However, given Togo's weak track record in governance, these flows, as well as grants, are subject to significant risks, which may, as a result, hinder the favorable debt dynamics.

i. Initially, all new external financing is expected to be received at concessional terms. As Togo develops, concessional financing will become more scarce leading to a decrease in the grant element of new financing after 2018 (as shown in Figure 1). It is assumed that non-concessional

[3] The domestic primary fiscal balance is the authorities' primary tool for short term fiscal policy, given interest payments and multi-year infrastructure investment plans.

new borrowing will amount to 1.5 percent of GDP in 2018 and gradually increase to 2.5 percent of GDP in 2035. The sources of concessional external financing are expected to consist of Togo's traditional multilateral donors, as well as the recently-increased financing from non-Paris Club creditors (especially China and India), which are generally less concessional in nature.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

Baseline

5. Under the baseline scenario, Togo's external debt indicators remain below their indicative policy-relevant thresholds (Table 1a, Figure 1).[4] The present value (PV) of public and publicly guaranteed (PPG) debt is projected at 19 percent of GDP in 2015 and remains below the 30 percent threshold until the end of the projection period. Furthermore, both the PV of external debt relative to revenues and exports stay relatively stable and below their respective indicative threshold until 2035. The share of concessional loans in new financing is projected to decline, which results in the concessionality of new loans to decrease from nearly 50 percent to around 23 percent over the period 2015 to 2035. The rate of debt accumulation is projected to increase from 0.9 to 1.8 percent in the same period.

Alternative Scenarios and Stress Tests

6. Togo's external debt outlook remains vulnerable to shocks especially toward the end of the projection period (Table 1b, Figure 1). The policy thresholds for four key ratios are breached under alternative scenarios and stress tests. First, the PV of external debt to GDP ratio deteriorates under the scenario in which new loans are obtained on less favorable terms. In this case, the threshold is breached in 2022. Second, under the same scenario of less favorable terms, the PV of debt-to-revenue ratio breaches the 200 percent threshold in 2028. Further, the PV of debt service-to-revenue ratio surpasses the indicative thresholds at the end of the period under a combination of shocks on growth, exports, value of currency and non-debt creating flows. Finally, under the historical scenario, the three ratios above and the PV of debt-to-exports ratio breach their thresholds, although the latter is less relevant for Togo, which is a member of a currency union.

[4] Togo's quality of policies and institutions, as measured by the average World Bank's Country Policy and Institutional Assessment (CPIA) for the period 2011–13 (2.98), 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-exports ratio, 200 percent for NPV of debt-to-revenue ratio, 15 percent for the debt service-to-exports ratio, and 18 percent for the debt service-to-revenue ratio. The corresponding indicative benchmark for total public debt to GDP ratio is 38 percent.

7. In light of the results from the baseline and alternative scenarios as well as the stress tests, staff concludes that Togo remains at moderate risk of external debt distress.

PUBLIC SECTOR DEBT SUSTAINABILITY

8. The inclusion of Togo's domestic public debt in the analysis emphasizes the vulnerability of the baseline scenario (Table 2a, Figure 2). Togo's domestic debt burden reflects persistently high deficits, recognition as debt of accumulated liabilities, and weak public financial management, including very limited debt management capacity. The increase in domestic debt stemmed in particular from the government's recognition of liabilities arising from liquidated loss-making SOEs and increasing use of domestic borrowing to finance the budget.

Baseline scenario

9. Under the baseline scenario, indicators of overall public debt burden (external plus domestic) show significant vulnerabilities. The PV of public debt to GDP breaches the benchmark level of 38 percent—above which the risk of debt distress is assumed to be heightened for countries with a low CPIA score—for most of the forecast period (Figure 2).[5] The PV of debt-to-revenue ratio is projected to decline gradually into the long term, although its values are higher than in the previous DSA. The PV of debt service-to revenue ratio tends to increase over time. While the trend is similar to the previous DSA, the level is higher, reflecting increasing debt service vulnerabilities to variations in fiscal revenues.

Alternative Scenarios and Stress Tests

10. The evolution of the debt indicators would be highly sensitive to non-debt flows shocks and real depreciation shocks, which would increase the debt level and debt service over the long run. Total public debt dynamics are particularly vulnerable to both non-debt flows and real depreciation shocks[6], highlighting the need to strengthen Togo's external public debt (Table 2b, Figure 2). In addition, under the assumption of constant primary balance (i.e., assuming no fiscal adjustment), public debt ratios would increase steadily during the projection period, stressing the need for the authorities to improve the

[5] The public debt benchmark was introduced in the DSA framework in the 2013 review of the Debt Sustainability Framework. Similar to the thresholds for PPG external debt, this benchmark varies depending on a country's CPIA score and designates levels above which the risk of public debt distress is heightened.

[6] The non-debt-creating flows shock is a one-time increase in other debt-creating flows amounting to 10 percent of GDP in the second year of the projection period. The real depreciation shock is a one-time 30 percent nominal depreciation of the domestic currency in the first year of the projection period.

balance in the near future. For debt ratios to remain at a reasonable level over the long-run, an improvement in the macroeconomic outlook, a decrease of fiscal deficits, and a more cautious debt strategy are critical factors.

CONCLUSION

11. **Togo remains at a moderate risk of external public debt distress but has a heightened risk of overall public debt distress, reflecting vulnerabilities in domestic debt.** Under the baseline scenario, all external debt sustainability indicators are expected to remain below their indicative thresholds throughout the projection period (2015–35). However, four out of the five indicators breach their threshold under alternative scenarios and stress tests. Togo's overall public debt dynamics present heightened vulnerabilities, with the debt-to-GDP ratio remaining above the indicative benchmark for most of the projection period. These dynamics highlight the vulnerability of the Togolese economy to macroeconomic and financing shocks (in particular less favorable terms on new financing and lower revenue performance), and stress the need for a prudent approach to new borrowing. This also underlines the importance of improving debt management capacity in Togo to have a realistic assessment of the risks posed by various sectors.

12. **Maintaining a robust external and public debt outlook will depend on a sustained improvement in macroeconomic performance, as well as prudent debt management and solid fiscal performance.** While public investment is expected to lead to sustained growth if coupled with reforms facilitating private sector investment and growth, Togo's weak public investment management capacity may impose risks on the underlying public investment-growth nexus. In this context, it is essential that the Togolese authorities ensure efforts to strengthen public financial management and debt 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.

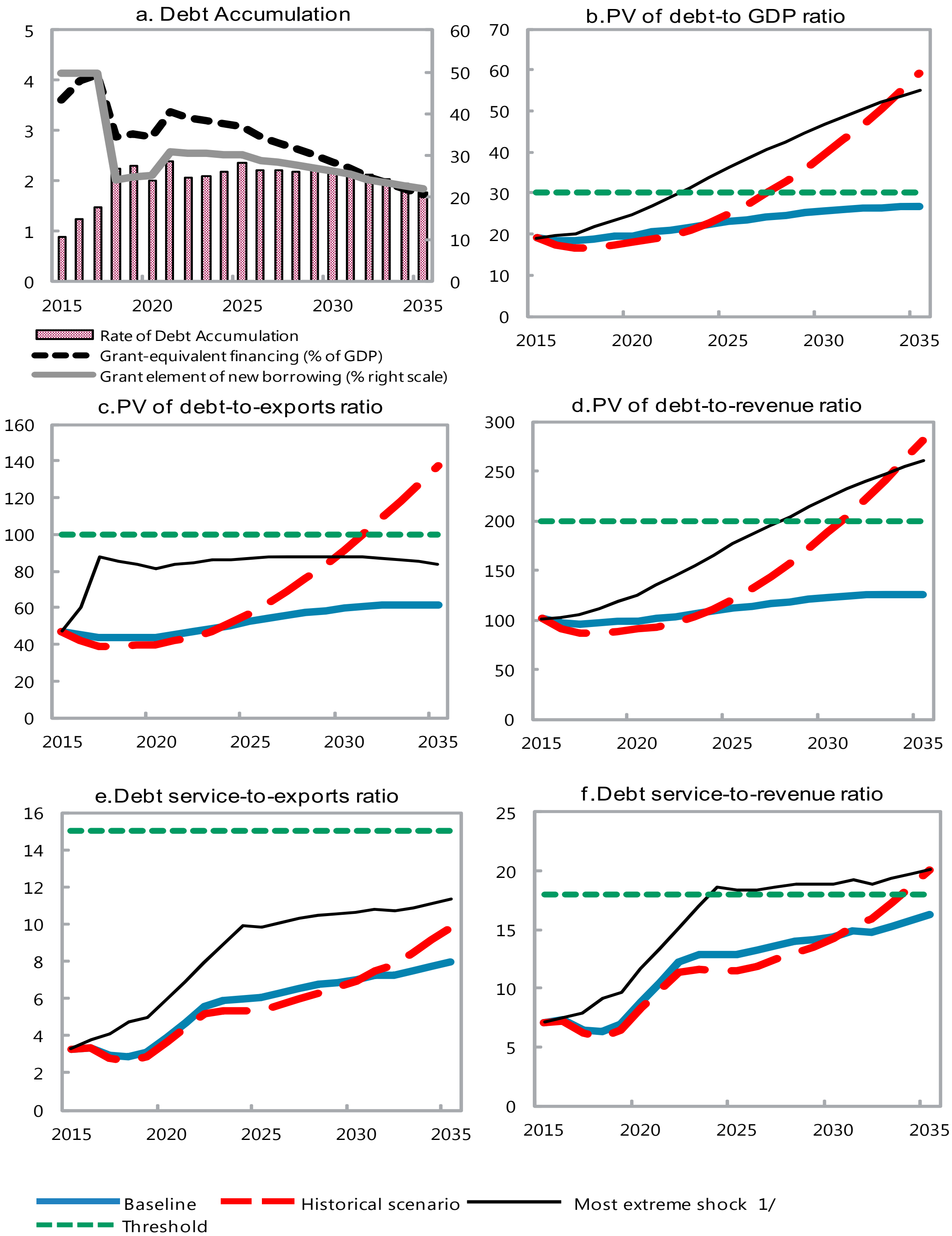
13. **There are downside risks and a caveat to this conclusion**. First, given that growth projections are predicated on high public investment and good fiscal and debt management, delays in structural reforms to enhance expenditure efficiency and the monitoring of debt, and limited fiscal consolidation could dampen these prospects. Second, given Togo's exposure international economic developments, uncertainty in the availability of external financing, especially from non-traditional donors, could hamper the country's financing strategies. Lastly, a caveat to this analysis is the availability and quality of data, an area in which Togo could benefit from enhanced capacity development.

Authorities' views

14. The authorities have a different perspective on Togo's debt sustainability risks. In particular, they do not see any risks associated with rising debt levels as long as they are below the WAEMU threshold of 70 percent (compared to 58 percent as at end-2014).[7] Furthermore, the authorities do not consider the levels and dynamics of domestic debt as posing any liquidity or rollover risks, given the high demand for Togolese government securities so far shown by the regional financial market players. The authorities also consider that the baseline macroeconomic assumptions underlying this DSA are too conservative, particularly those related to growth and external current account developments. They, however, agreed on the need to restructure and enhance the capacity of debt management to enable it to effectively carry out its functions.

[7] Staff and the authorities discussed the differences between the WAEMU convergence criterion of debt-to-GDP ratio and the sustainability indicators under the LIC-DSA framework. Specifically, the 70 percent debt-to-GDP ratio criterion for WAEMU convergence is not directly comparable to the debt-to-GDP ratio debt burden indicator in the LIC-DSA. The former is measured in nominal terms, while the latter is measured in present value terms. Also, apart from the debt-to-GDP ratio, assessment of debt sustainability under the LIC-DSA takes into account other debt burden indicators, such as debt-to-revenue and debt-to-exports ratios, a country's specific policy and institutional environment, and country-specific risks.

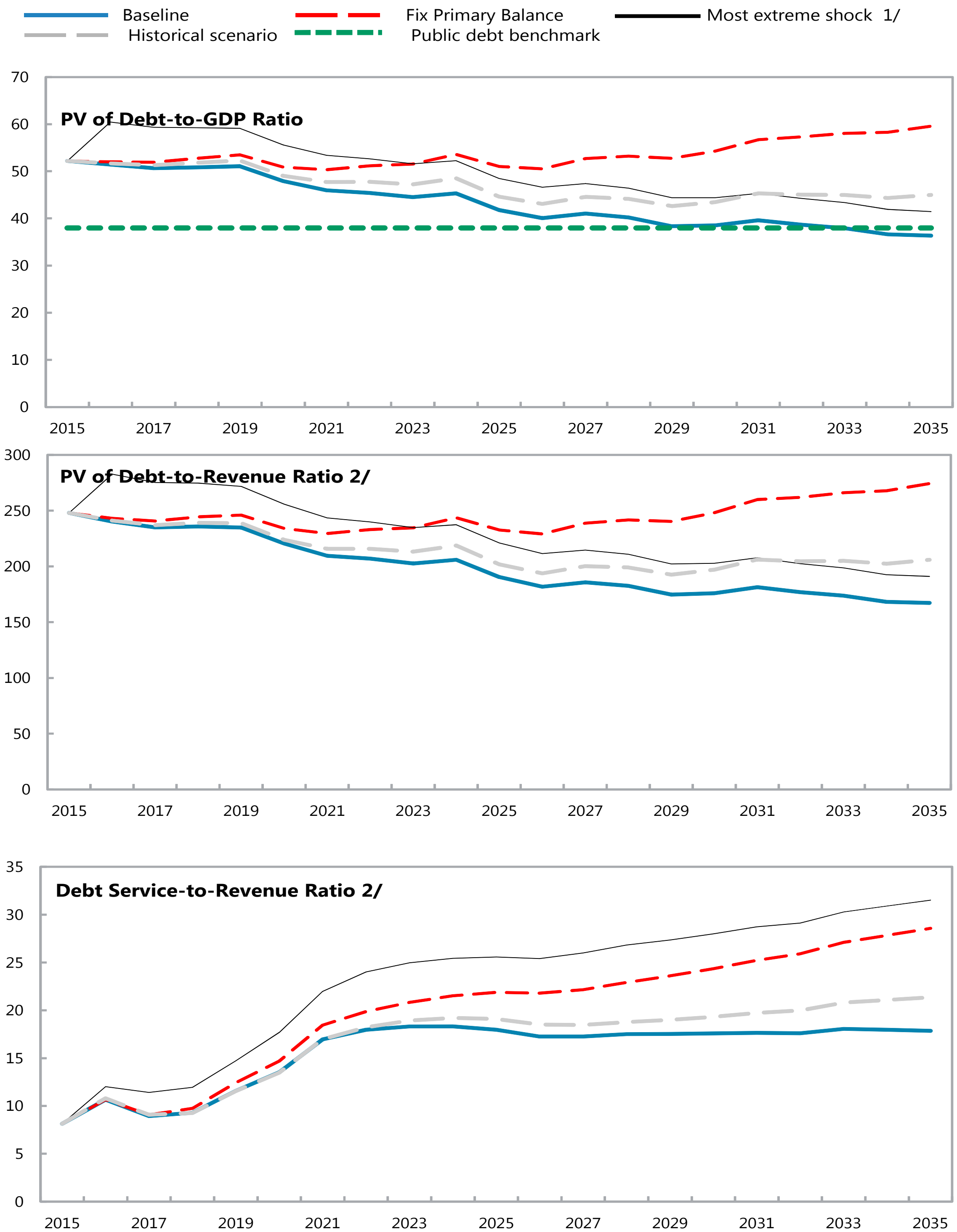
Figure 1. Togo: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015-2035 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a Less Favorable Terms shock; in c. to a Exports shock; in d. to a Less Favorable Terms shock; in e. to a Exports shock and in figure f. to a Combination shock

Figure 2.Togo: Indicators of Public Debt Under Alternative Scenarios, 2015-2035 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.
2/ Revenues are defined inclusive of grants.

Table 1a. Togo: External Debt Sustainability Framework, Baseline Scenario, 2012–2035 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections										
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average		2025	2035	2021-2035 Average
External debt (nominal) 1/	**19.1**	**22.0**	**32.2**			**36.0**	**35.6**	**35.5**	**35.2**	**35.0**	**34.4**			**40.4**	**43.7**	
of which: public and publicly guaranteed (PPG)	17.6	20.1	26.9			29.3	28.9	29.0	28.9	28.9	28.5			35.1	39.8	
Change in external debt	2.0	2.9	10.2			3.9	-0.5	-0.1	-0.2	-0.2	-0.6			1.3	-0.3	
Identified net debt-creating flows	-0.8	6.4	15.3			5.4	4.5	4.0	3.6	3.2	2.8			1.8	-4.0	
Non-interest current account deficit	**7.2**	**12.7**	**12.3**	**8.4**	**2.5**	**12.2**	**11.1**	**10.5**	**10.1**	**9.7**	**9.3**			**6.7**	**1.1**	5.1
Deficit in balance of goods and services	13.8	20.1	19.2			19.0	18.1	17.6	16.9	16.6	16.1			13.5	7.1	
Exports	44.7	45.7	40.3			40.3	41.1	42.0	43.1	44.1	45.0			43.7	43.2	
Imports	58.6	65.8	59.5			59.2	59.2	59.6	60.0	60.7	61.1			57.2	50.3	
Net current transfers (negative = inflow)	-6.2	-6.0	-5.9	-8.8	2.3	-6.1	-6.2	-6.3	-6.0	-6.1	-6.0			-5.5	-4.7	-5.3
of which: official	-1.8	-2.1	-2.0			-2.3	-2.4	-2.4	-2.1	-2.1	-2.0			-1.4	-0.6	
Other current account flows (negative = net inflow)	-0.5	-1.4	-1.0			-0.7	-0.7	-0.8	-0.8	-0.8	-0.8			-1.3	-1.4	
Net FDI (negative = inflow)	**-7.6**	**-4.7**	**3.7**	**-3.6**	**4.8**	**-5.0**	**-5.0**	**-5.0**	**-5.0**	**-5.0**	**-5.0**			**-4.0**	**-4.0**	-4.0
Endogenous debt dynamics 2/	**-0.3**	**-1.6**	**-0.8**			**-1.8**	**-1.7**	**-1.5**	**-1.5**	**-1.5**	**-1.4**			**-0.9**	**-1.0**	
Contribution from nominal interest rate	0.3	0.3	0.5			0.2	0.2	0.3	0.3	0.3	0.3			0.7	0.9	
Contribution from real GDP growth	-1.0	-0.9	-1.1			-1.9	-1.9	-1.8	-1.8	-1.8	-1.8			-1.7	-1.9	
Contribution from price and exchange rate changes	0.3	-1.0	-0.1			...	...	...	...	...	...			...	...	
Residual (3-4) 3/	**2.8**	**-3.5**	**-5.1**			**-1.5**	**-4.9**	**-4.1**	**-3.8**	**-3.4**	**-3.4**			**-0.5**	**3.6**	
of which: exceptional financing	-0.8	-0.4	-0.3			-0.4	0.0	0.0	0.0	0.0	0.0			0.0	0.0	
PV of external debt 4/	...	...	22.7			25.7	25.2	24.8	25.2	25.5	25.4			28.3	30.4	
In percent of exports	...	...	56.4			63.9	61.3	59.0	58.4	58.0	56.6			64.7	70.5	
PV of PPG external debt	**...**	**...**	**17.5**			**19.0**	**18.6**	**18.3**	**18.9**	**19.4**	**19.5**			**23.0**	**26.5**	
In percent of exports	**...**	**...**	**43.5**			**47.2**	**45.2**	**43.6**	**43.8**	**44.0**	**43.4**			**52.5**	**61.4**	
In percent of government revenues	**...**	**...**	**99.2**			**101.3**	**97.7**	**95.7**	**97.0**	**98.5**	**98.7**			**112.2**	**125.8**	
Debt service-to-exports ratio (in percent)	**3.2**	**3.5**	**4.6**			**3.3**	**3.4**	**2.9**	**2.8**	**3.1**	**3.9**			**6.0**	**8.0**	
PPG debt service-to-exports ratio (in percent)	**3.2**	**3.5**	**4.6**			**3.3**	**3.4**	**2.9**	**2.8**	**3.1**	**3.9**			**6.0**	**8.0**	
PPG debt service-to-revenue ratio (in percent)	**8.0**	**8.8**	**10.4**			**7.1**	**7.3**	**6.4**	**6.3**	**6.9**	**8.8**			**12.9**	**16.3**	
Total gross financing need (Billions of U.S. dollars)	0.1	0.4	0.9			0.5	0.5	0.5	0.5	0.5	0.6			0.7	0.4	
Non-interest current account deficit that stabilizes debt ratio	5.2	9.8	2.1			8.3	11.6	10.6	10.3	9.9	9.9			5.5	1.4	
Key macroeconomic assumptions																
Real GDP growth (in percent)	5.9	5.4	5.4	3.9	1.6	5.4	5.6	5.6	5.6	5.5	5.5	5.5		4.5	4.5	4.6
GDP deflator in US dollar terms (change in percent)	-1.6	5.4	0.6	5.3	8.5	-14.3	2.6	3.5	3.3	3.1	3.8	0.4		2.2	2.2	2.2
Effective interest rate (percent) 5/	2.1	2.0	2.2	1.0	0.9	0.5	0.6	1.0	0.9	1.0	1.0	0.8		2.0	2.1	2.0
Growth of exports of G&S (US dollar terms, in percent)	3.7	13.5	-6.5	9.9	10.7	-9.7	10.6	11.8	12.0	11.1	11.9	7.9		6.1	7.2	6.6
Growth of imports of G&S (US dollar terms, in percent)	-8.1	24.8	-4.2	10.4	13.8	-10.0	8.3	10.0	9.9	10.0	10.3	6.4		5.3	5.5	5.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	49.6	49.6	49.6	24.4	25.1	25.2	37.2		30.3	22.2	27.3
Government revenues (excluding grants, in percent of GDP)	17.6	18.0	17.7			18.8	19.0	19.1	19.5	19.7	19.8			20.5	21.1	20.7
Aid flows (in Billions of US dollars) 7/	0.3	0.3	0.3			0.2	0.3	0.3	0.2	0.2	0.3			0.4	0.5	
of which: Grants	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1			0.1	0.1	
of which: Concessional loans	0.3	0.2	0.2			0.1	0.1	0.2	0.1	0.1	0.1			0.3	0.4	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.6	4.0	4.1	2.9	2.9	2.9			3.1	1.7	2.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			72.3	70.8	70.4	54.1	53.1	51.5			44.9	30.9	40.6
Memorandum items:																
Nominal GDP (Billions of US dollars)	3.9	4.4	4.6			4.2	4.5	4.9	5.4	5.9	6.4			9.0	17.4	
Nominal dollar GDP growth	4.2	11.1	6.0			-9.6	8.4	9.3	9.1	8.7	9.6	5.9		6.8	6.8	6.9
PV of PPG external debt (in Billions of US dollars)			0.8			0.8	0.8	0.9	1.0	1.1	1.3			2.1	4.6	
(PVt-PVt-1)/GDPt-1 (in percent)						0.9	1.2	1.5	2.3	2.3	2.0	1.7		2.4	1.8	2.1
Gross workers' remittances (Billions of US dollars)	0.1	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.3			0.4	0.7	
PV of PPG external debt (in percent of GDP + remittances)	...	...	16.9			18.3	17.9	17.6	18.2	18.6	18.8			22.1	25.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	39.7			43.1	41.3	39.9	40.2	40.3	39.8			48.1	56.2	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	4.2			3.0	3.1	2.7	2.6	2.8	3.6			5.5	7.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

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

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

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

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

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

Table 1b. Togo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–2035

(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to GDP ratio								
Baseline	19	19	18	19	19	20	**23**	27
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	19	17	16	17	17	18	**25**	59
A2. New public sector loans on less favorable terms in 2015-2035 2/	19	19	20	22	23	25	**36**	55
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	19	19	20	20	21	21	**25**	29
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	19	22	29	29	29	29	**30**	29
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	19	20	21	21	22	22	**26**	30
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	19	24	28	28	29	28	**30**	28
B5. Combination of B1-B4 using one-half standard deviation shocks	19	24	32	32	32	32	**33**	31
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	19	26	26	27	28	28	**33**	38
PV of debt-to-exports ratio								
Baseline	47	45	44	44	44	43	**53**	61
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	47	42	39	39	39	40	**57**	137
A2. New public sector loans on less favorable terms in 2015-2035 2/	47	47	48	50	53	55	**83**	127
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	47	45	44	44	44	44	**53**	62
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	47	60	87	85	84	81	**87**	83
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	47	45	44	44	44	44	**53**	62
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	47	58	67	66	65	63	**68**	66
B5. Combination of B1-B4 using one-half standard deviation shocks	47	59	79	77	76	73	**78**	75
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	47	45	44	44	44	44	**53**	62
PV of debt-to-revenue ratio								
Baseline	101	98	96	97	98	99	**112**	126
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	101	91	86	86	88	91	**121**	281
A2. New public sector loans on less favorable terms in 2015-2035 2/	101	103	105	111	119	124	**176**	260
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	101	101	102	104	106	106	**120**	135
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	101	117	153	150	150	147	**148**	136
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	101	104	109	110	112	113	**128**	144
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	101	125	148	146	145	143	**145**	135
B5. Combination of B1-B4 using one-half standard deviation shocks	101	125	167	164	163	161	**162**	148
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	101	139	136	137	140	141	**160**	179

Table 1b. Togo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–2035 (continued)

(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
Debt service-to-exports ratio								
Baseline	3	3	3	3	3	4	**6**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	3	3	3	3	3	4	**5**	10
A2. New public sector loans on less favorable terms in 2015-2035 2/	3	3	3	3	3	3	**6**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	3	3	3	3	3	4	**6**	8
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	3	4	4	5	5	6	**10**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	3	3	3	3	3	4	**6**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	3	3	3	4	4	5	**8**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	3	4	4	4	4	5	**9**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	3	3	3	3	3	4	**6**	8
Debt service-to-revenue ratio								
Baseline	7	7	6	6	7	9	**13**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	7	7	6	6	6	8	**11**	20
A2. New public sector loans on less favorable terms in 2015-2035 2/	7	7	7	6	7	7	**12**	23
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	7	7	7	7	7	9	**14**	17
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	7	7	7	8	9	11	**17**	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	7	8	7	7	8	10	**15**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	7	7	7	8	9	11	**16**	18
B5. Combination of B1-B4 using one-half standard deviation shocks	7	8	8	9	10	12	**18**	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	7	10	9	9	10	13	**18**	23
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	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 b
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 th 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, 2012–2035

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate					Projections			
	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035
Public sector debt 1/	46.1	50.1	58.4			62.5	61.8	61.3	60.9	60.6	56.9		53.9	49.6
of which: foreign-currency denominated	17.6	20.1	26.9			29.3	28.9	29.0	28.9	28.9	28.5		35.1	39.8
Change in public sector debt	1.7	3.9	8.3			4.1	-0.7	-0.5	-0.4	-0.3	-3.6		-3.0	-0.4
Identified debt-creating flows	2.2	0.7	4.6			3.7	-0.3	-0.3	-0.1	0.0	0.0		1.2	-0.2
Primary deficit	6.3	3.5	3.9	2.8	1.6	4.0	3.4	3.2	3.3	3.3	3.4	3.4	2.7	1.7
Revenue and grants	19.2	20.9	19.7			21.0	21.4	21.6	21.6	21.8	21.7		21.9	21.7
of which: grants	1.6	2.9	2.0			2.3	2.4	2.4	2.1	2.1	2.0		1.4	0.6
Primary (noninterest) expenditure	25.4	24.4	23.6			25.1	24.8	24.8	24.9	25.1	25.1		24.7	23.4
Automatic debt dynamics	-4.0	-2.8	0.8			-0.3	-3.7	-3.5	-3.3	-3.3	-3.3		-1.6	-1.9
Contribution from interest rate/growth differential	-4.1	-2.1	-1.4			-3.1	-3.4	-3.2	-3.1	-3.0	-2.9		-1.6	-1.9
of which: contribution from average real interest rate	-1.6	0.3	1.1			-0.1	-0.1	0.1	0.1	0.2	0.3		0.9	0.2
of which: contribution from real GDP growth	-2.5	-2.4	-2.6			-3.0	-3.3	-3.3	-3.3	-3.2	-3.2		-2.4	-2.2
Contribution from real exchange rate depreciation	0.1	-0.7	2.2			2.8	-0.3	-0.3	-0.2	-0.3	-0.4		...	...
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Residual, including asset changes	-0.6	3.2	3.7			0.4	-0.4	-0.2	-0.4	-0.3	-3.7		-4.1	-0.2
Other Sustainability Indicators														
PV of public sector debt	...	...	49.0			52.2	51.4	50.7	50.9	51.1	47.9		41.8	36.3
of which: foreign-currency denominated	...	...	17.5			19.0	18.6	18.3	18.9	19.4	19.5		23.0	26.5
of which: external	...	...	17.5			19.0	18.6	18.3	18.9	19.4	19.5		23.0	26.5
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	10.2	8.4	8.4			5.7	5.7	5.2	5.3	5.8	6.3		6.7	5.5
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	249.0			248.1	240.4	235.0	235.8	234.8	220.5		190.5	167.4
PV of public sector debt-to-revenue ratio (in percent)	...	...	277.3			277.9	270.6	264.6	261.1	259.5	242.4		204.0	172.3
of which: external 3/	...	...	99.2			101.3	97.7	95.7	97.0	98.5	98.7		112.2	125.8
Debt service-to-revenue and grants ratio (in percent) 4/	20.6	23.2	22.7			8.2	10.7	8.9	9.3	11.6	13.5		18.0	17.9
Debt service-to-revenue ratio (in percent) 4/	22.5	27.0	25.3			9.1	12.0	10.1	10.3	12.8	14.9		19.2	18.4
Primary deficit that stabilizes the debt-to-GDP ratio	4.6	-0.4	-4.5			0.0	4.1	3.7	3.7	3.6	7.0		5.7	2.1
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	5.9	5.4	5.4	3.9	1.6	5.4	5.6	5.6	5.6	5.5	5.5	5.5	4.5	4.5
Average nominal interest rate on forex debt (in percent)	2.3	2.2	2.4	1.0	1.0	0.5	0.7	1.2	1.1	1.2	1.2	1.0	2.3	2.3
Average real interest rate on domestic debt (in percent)	-3.7	0.9	2.7	-2.2	4.5	1.1	1.1	1.2	1.4	1.6	1.8	1.4	3.7	2.2
Real exchange rate depreciation (in percent, + indicates depreciation)	0.5	-4.3	11.1	1.2	8.8	11.2	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.5	2.0	0.5	4.4	4.5	2.5	2.4	2.4	2.3	2.3	2.2	2.3	2.2	2.2
Growth of real primary spending (deflated by GDP deflator, in percent)	17.1	1.2	1.8	2.1	5.3	12.1	4.5	5.5	5.8	6.5	5.5	6.7	5.3	3.7
Grant element of new external borrowing (in percent)	...	...	...	...	...	49.6	49.6	49.6	24.4	25.1	25.2	37.2	30.3	22.2

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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 2015–2035

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	52	51	51	51	51	48	42	36
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	52	52	51	52	52	49	45	45
A2. Primary balance is unchanged from 2015	52	52	52	53	54	51	51	60
A3. Permanently lower GDP growth 1/	52	52	51	52	52	50	46	50
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	52	54	56	57	58	56	55	58
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	52	52	53	53	53	50	43	38
B3. Combination of B1-B2 using one half standard deviation shocks	52	53	53	55	56	53	51	52
B4. One-time 30 percent real depreciation in 2016	52	59	57	56	56	52	44	40
B5. 10 percent of GDP increase in other debt-creating flows in 2016	52	60	59	59	59	56	48	41
PV of Debt-to-Revenue Ratio 2/								
Baseline	248	240	235	236	235	221	191	167
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	248	241	237	239	239	224	202	206
A2. Primary balance is unchanged from 2015	248	243	241	244	246	234	233	274
A3. Permanently lower GDP growth 1/	248	241	237	239	240	228	210	232
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	248	250	256	262	266	256	248	265
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	248	245	244	245	243	229	197	173
B3. Combination of B1-B2 using one half standard deviation shocks	248	246	247	252	254	243	230	238
B4. One-time 30 percent real depreciation in 2016	248	274	263	262	258	241	201	182
B5. 10 percent of GDP increase in other debt-creating flows in 2016	248	283	275	275	272	256	221	191
Debt Service-to-Revenue Ratio 2/								
Baseline	8	11	9	9	12	14	18	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	8	11	9	9	12	13	19	21
A2. Primary balance is unchanged from 2015	8	11	9	10	12	15	22	29
A3. Permanently lower GDP growth 1/	8	11	9	9	12	14	20	24
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	8	11	10	10	13	16	23	28
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	8	11	9	10	13	15	19	19
B3. Combination of B1-B2 using one half standard deviation shocks	8	11	9	10	12	15	22	25
B4. One-time 30 percent real depreciation in 2016	8	12	11	12	15	18	26	32
B5. 10 percent of GDP increase in other debt-creating flows in 2016	8	11	11	14	16	18	21	21

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

**Statement by Mr. Yambaye, Executive Director for Togo
and Mrs. Boukpessi, Advisor to the Executive Director
October 26, 2015**

1. The Togolese authorities are appreciative of the constructive engagement with the Fund. They thank staff for the candid and productive dialogue during the 2015 Article IV consultation, which will guide them in the implementation of their macroeconomic policy and development agenda. They also thank Executive Directors and Management for their continued support and guidance.

2. The action plan of the new government appointed following the presidential elections held in April 2015, approved by the Parliament in June 2015 is centered on four main fronts: (i) making economic and social inclusion the first vector of national cohesion; (ii) continuing modernizing the country through the deepening of economic reforms and the intensification of major infrastructure projects; (iii) giving a new dynamic to the agenda of political reforms with particular emphasis on decentralization and (iv) capitalizing on the gains of reforms undertaken in the recent past to enhance Togo's economic position in the sub-regional and international environment.

3. The authorities are broadly in agreement with staff's assessment of the Togolese economy, although with a less pessimistic view regarding the outlook and risks. They have conveyed their continued commitment to strong macroeconomic management, as well as to restoring macroeconomic stability and promoting inclusive growth.

Recent Economic Developments

4. Economic growth has remained strong in recent years. Real GDP growth, estimated at 5.4 percent in 2013-14, is projected to remain stable in 2015 and to reach 5.6 percent in 2016 thanks to solid performance in the primary and tertiary sectors of the economy.

5. Indeed, economic activity in 2014 was supported by the recovery of agricultural production, which benefited from good rainfall and an increased use of fertilizers, in the context of the *Programme National d'Investissement Agricole et de Sécurité Alimentaire* (PNIASA). This program developed by the Ministry of Agriculture and launched in 2011 aims to increase the productivity of the agricultural sector by providing, among others, fertilizers to producers. The improvement of the agricultural sector through the implementation of the PNIASA has enabled Togo to be among the 38 countries pointed out by the Food and Agriculture Organization of the United Nations (FAO).

6. Investments undertaken especially in the context of the extension of the Port of Lomé, the international airport, the completion of major road infrastructures as well as investments in a clinker and cement plant were also main contributors to the strong growth recorded.

7. Inflation was low and stood at 0.2 percent in 2014 (1.8 percent in 2013, 1.9 percent in 2015), in the context of declining food prices and lower retail fuel prices reflecting the global oil price trends. The balance of payments came under pressure, reflecting a widening of the current account deficit from 7.5 percent of GDP in 2012 to 12.8 percent in 2014.

Medium-term outlook and policies

8. The medium-term outlook remains positive, with staff's growth projection at around 5.6 percent in 2016-18, while the Togolese authorities consider that economic growth will be above 6 percent over the medium-term. The authorities' optimistic projection is based on the fact that the extension of the Port of Lomé and capabilities of the international airport as well as investments in infrastructure are expected to give a strong boost to private sector activities. Moreover the pursuit of the agricultural reforms together with the new industrial complex - *ScanTogo mines*- should also help expand economic activity and spur growth.

9. Cognizant of the socio-economic challenges facing Togo, in particular the increase in population and labor force, the authorities will continue their determined efforts to strengthen macroeconomic performance as well as restoring stability and promoting inclusive growth. In this context, efforts will also focus on further strengthening economic and social institutions, as described in the presidential program for national development – *Togo Vision 2030.*

Fiscal and debt management policies

10. Fiscal policy remains in line with the authorities' objectives to increase domestic revenue mobilization while containing current spending. In this regard, the 2015 budget was revised earlier this month and is better aligned with execution capacity and takes into account adjustments in the wage bill, shortfall in budgetary support and other adjustments. The authorities agree that they need to enhance their efforts aimed at strengthening fiscal policy and pursuing fiscal reforms in order to generate fiscal space for the much-needed social spending.

11. On the revenue side, while revenue to GDP in 2015 is now projected to be lower than budgetary estimates, it will still be higher than in 2014. The improvement in revenue is the result of revenue administration measures put in place by the *Office Togolais des Recettes (OTR)*. The authorities will pursue efforts aimed at reducing tax exemptions, streamlining tax policies and modernizing the revenue administration. Regarding expenditure, all current spending, except the wage bill and fuel subsidies, have been reduced. The authorities are determined to keep the wage bill unchanged in real terms and to continue resisting pressures coming from different categories of professions. While recognizing that the lower global oil prices have allowed them to lower the fuel price subsidies, the authorities reaffirm their intention to apply the oil price adjustment mechanism taking into consideration prices charged by the neighboring countries and the value of their currencies against the CFAF.

12. As regards Public Financial Management, key reforms have been implemented and the Togolese authorities see the urgent need to pursue the remaining reforms agenda including the establishment of the Treasury single account as well as the operationalization of the Treasury cash management system to curb growing risks and improve budget execution. The authorities also take note of the need to reorganize the ministry of finance especially the establishment of a tax policy unit. To this end, they will continue to need Fund technical assistance which has contributed much to the recent years' improved performance.

13. The authorities note the updated joint Debt Sustainability Analysis (DSA) which indicates that Togo remains at a moderate risk of external public debt distress but has an increased risk of overall public debt distress reflecting vulnerabilities in terms of debt management and capacities constraints in domestic debt. While agreeing on the need to restructure and enhance the capacity of debt management, the authorities do not share staffs' overall assessment of an increased risk of public debt distress. They believe that their debt levels remain below the West African Economic and Monetary Union (WAEMU) convergence threshold, and that given the high demand for Togolese government securities on the regional financial market, there are no risks of liquidity or refinancing. Moreover, staff note in their assessment that under the baseline scenario, all external debt sustainability indicators are expected to remain below their indicative thresholds throughout the projection period, with vulnerabilities occurring only under alternative scenarios. The Togolese authorities will take this assessment into consideration regarding future borrowings. They would like to point out that they are committed to a prudent borrowing strategy, and have taken measures to strengthen the technical and operational capacity of the debt management unit, *Direction de la dette publique*. To this effect, they have requested additional technical assistance.

Financial sector policies

14. The authorities are mindful of the challenges and vulnerabilities facing the financial sector and remain determined to safeguard the sector's stability by following international standards in close collaboration with the regional Banking Commission of the WAEMU. Measures to enhance the microfinance's sector regulatory and supervisory framework in this regard are underway. The CAS-IMEC, the unit monitoring the microfinance sector under the supervision of the Ministry of economy, finance and development planning should see its capacities improved in terms of staffing and resources.

15. Regarding the two public banks facing financial difficulties, steps have been undertaken by the provisional administration that was put in place. The authorities have requested a specialized firm to assess the situation and to propose solutions to deal with the issues.

Structural reforms

16. In order to attain the objective of structural transformation of the economy and achieve higher, sustained and inclusive growth, the Togolese authorities intend to strengthen structural reforms. To this end, they welcome the focus at page 17 of the accompanying Selected Issues paper on “Policies for sustainable growth”. The authorities intend to give full consideration to the policy recommendations while pursuing their investment plan in the infrastructures networks, which has proven to be effective and successful. Additionally, they are committed to improving the role of the private sector in this process by creating a favorable business climate, strengthening competitiveness and addressing the weaknesses in sectors such as the energy, mining and telecom sectors. They believe that closing the infrastructure gap and removing growth bottlenecks could be done by the public sector through the public-private partnerships.

Data issues

17. On data issues, the authorities share staff main recommendations. The recent establishment in February 2015 of the national statistics institute - *Institut National de la Statistique et des Etudes Economiques et Démographiques (INSEED)*- is an evidence of the importance of the issues to the authorities and of their determination to tackle them. Further strengthening of the INSEED capacities with the assistance of the development partners will help enhance Togo’s economic statistics (compilation and dissemination) and allow for a key role in the accurate assessment of the country economic activity and major indicators.

Conclusion

18. Togo has made important progress over the past years regarding macroeconomic performance and reforms agenda. Nevertheless, although growth has been strong and the outlook is positive, much more remain to be done in terms of growth inclusiveness and poverty reduction. The Togolese authorities recognize the challenges ahead and are determined to pursue the structural transformation of their economy through enhanced revenue mobilization, increased investment in infrastructure and education, health and training. They will continue to seek the support of the Fund, the World Bank and other developments partners in the implementation of their development agenda.