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TOGO

July 2019

2019 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR TOGO

In the context of the Article IV Consultation and fourth review under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 26, 2019, following discussions that ended on May 8, 2019, with the officials of Togo on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 10, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the Internal Development Association.
- A **Statement by the Executive Director** for Togo.

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

Letter of Intent sent to the IMF by the authorities of Benin*
Memorandum of Economic and Financial Policies by the authorities of Togo*
Technical Memorandum of Understanding*
Selected Issues Paper

*Also included in Staff Report

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

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Press Release No. 19/250
FOR IMMEDIATE RELEASE
June 27, 2019

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IMF Executive Board Concludes 2019 Article IV Consultation with Togo

On June 26, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Togo. The Board also completed the Fourth Review of Togo's economic performance under a three-year program supported by the IMF's Extended Credit Facility (ECF) arrangement; a related press release was issued separately.

Despite bold reforms implemented in recent years, a climate of uncertainty related to socio-political tensions and underdeveloped institutions have prevented Togo from fully unlocking its substantial growth potential. Following a sharp deceleration in 2017 due to socio-political tensions, economic growth is estimated to have accelerated to 4.9 percent in 2018 and is expected to approach 5½ percent over the medium term. Headline inflation stood at 2 percent in March 2019 (year-on-year) and is expected to remain below the 3-percent WAEMU convergence criteria in the medium term. The current account deficit was markedly smaller in 2017-18 relative to previous years and is projected to remain in the range of 4-5 percent of GDP. Togo reached the WAEMU fiscal deficit criterion in 2017 and 2018, two years ahead of the timeline agreed by Member States. Debt is declining relative to the level at program approval but remains the highest among the WAEMU countries. Togo's ability to raise funds in the regional bond market has improved.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal and commended Togo's broadly satisfactory performance under their economic program supported by an Extended Credit Facility. They welcomed the economic recovery since 2018 and the progress achieved on

[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.

[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.

structural reforms. Nonetheless, Directors noted that risks remain tilted to the downside. Uncertainty remains high ahead of the Presidential elections scheduled for the first half of 2020; and, at the regional level, security risks have recently intensified.

Directors commended the authorities for achieving early compliance with the WAEMU convergence criterion. They emphasized the importance of safeguarding the hard-won fiscal consolidation and pursuing debt reduction. At the same time, Directors noted the authorities' need for some urgent expenditure in 2019-20 to accommodate unforeseen events that could jeopardize social and economic stability. Directors supported safeguard measures to limit budgetary risks related to this spending. They welcomed the authorities' commitment that, despite the loosening of the fiscal deficit relative to previous projections, it will remain consistent with the WAEMU deficit criterion.

Directors commended progress on public financial management while encouraging the authorities to boost permanent revenue. They welcomed the arrears clearance efforts, the new methodological guide on cost-benefit analysis of public investment, the comprehensive expenditure review, and the move to program-based budgeting. However, Directors noted that revenue outturn partly relied on exceptional and non-permanent sources. They encouraged the authorities to take corrective measures to bolster permanent revenue, including by reducing tax exemptions, to preserve the fiscal consolidation and create fiscal space for much-needed social and infrastructure spending.

Directors emphasized the importance of undertaking further efforts to support financial sector stability. They expressed concern about the delays in finalizing reforms related to the two public banks and recommended completion of the privatization process. Directors emphasized the need to address the elevated non-performing loans and inadequate capital buffers, and to improve the effectiveness of the AML/CFT framework.

Directors underscored the importance of accelerating structural reforms as key to fostering robust and inclusive growth. They supported the authorities' efforts to promote Togo as a major logistical hub, a dynamic financial center, and a strong manufacturing base under the National Development Plan and the Compact with Africa. To that end, Directors encouraged the authorities to take steps to build on the recent improvement in the business environment. They also stressed the importance of addressing governance challenges and implementing anti-corruption measures, and advancing gender and income equality reforms. Directors also noted the importance of taking into account capacity absorption in the provision of Fund technical assistance.

Table 1. Togo: Selected Economic Indicators, 2018-24

	2018	2019	2020	2021	2022	2023	2024
	Est.	Projections					
National income, prices, and exchange rates							
	(Percentage change)						
Real GDP	4.9	5.1	5.3	5.4	5.4	5.4	5.4
Consumer price index (average)	0.9	1.4	2.0	2.0	2.0	2.0	2.0
Monetary survey							
	(Percentage change of beginning-of-period broad money)						
Net foreign assets	0.5	1.7	1.7	1.7	1.6	1.5	1.5
Net credit to government	2.7	-1.3	1.2	0.0	0.1	0.0	0.0
Credit to nongovernment sector	3.1	5.6	7.5	8.3	8.2	8.3	8.6
Broad money (M2)	9.0	9.2	9.3	9.3	9.3	9.3	9.4
Investment and savings							
	(Percent of GDP)						
Gross domestic investment	26.8	31.1	32.0	32.9	33.6	34.2	34.8
Government	6.8	10.1	9.5	9.5	10.2	10.7	11.4
Nongovernment	20.0	21.0	22.5	23.4	23.4	23.4	23.4
Gross national savings	21.9	25.2	26.7	27.9	28.9	29.6	30.3
Current account balance	-4.9	-5.9	-5.3	-5.0	-4.7	-4.5	-4.5
Government budget							
Total revenue and grants	23.9	24.0	24.4	24.8	25.4	26.0	26.7
Tax revenue	16.5	17.6	17.7	18.1	18.6	19.1	19.6
Total expenditure and net lending	24.7	26.6	26.5	26.3	26.9	27.2	27.7
Domestic primary balance	2.4	1.6	2.5	2.7	2.7	2.8	2.8
Overall balance (commitment basis, incl. grants)	-0.8	-2.7	-2.1	-1.5	-1.4	-1.2	-1.0
Debt							
External public debt[1]	20.5	22.2	21.8	21.4	21.0	20.4	19.7
Total public debt[2]	76.2	72.2	68.4	64.2	60.3	56.5	52.8
Total public debt (excluding SOEs)[3]	73.6	70.1	66.6	62.7	59.1	55.5	52.0

Sources: Togolese authorities and IMF staff estimates and projections.

[1] Includes state-owned enterprises' external debt.

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

[3] Includes domestic arrears.

Press Release No. 19/244
FOR IMMEDIATE RELEASE
June 26, 2019

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Completes the Fourth Review under the ECF Arrangement and Approves US$34 Million Disbursement to Togo

On June 26, 2019, the Executive Board of the International Monetary Fund (IMF) completed the fourth review of Togo's economic performance under a program supported by an Extended Credit Facility (ECF) arrangement.[1] The completion of the review enables the disbursement of SDR 25.17 million (about US$35 million), bringing total disbursements under the arrangement to SDR 125.9 million (about US$174.94 million).

In completing the fourth review, the Executive Board also approved the authorities' request for a waiver for the non-observance of the performance criterion on net domestic financing and the modification of two performance criteria pertaining to the domestic primary balance and net domestic financing.

Togo's three-year arrangement for SDR 176.16 million (about US$244.8 million, 120 percent of Togo's quota), was approved on May 5, 2017 (see Press Release No.17/151). The program aims to reduce the overall fiscal deficit substantially to ensure long-term debt and external sustainability; refocus policies on inclusive growth through targeted social spending and sustainably-financed infrastructure spending; and resolve the financial weaknesses in the two public banks.

During the same meeting, the Board also concluded the 2019 Article IV consultation. A separate press release will be issued shortly.

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

"Togo's performance under the economic program supported by an Extended Credit Facility (ECF) has been broadly satisfactory. Economic activity has been recovering since 2018, following a sharp deceleration in 2017. Togo complied with the WAEMU fiscal deficit criterion in 2017 and 2018, two years ahead of the timeline agreed by all member States.

[1] The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems.

"Large public investment projects completed in recent years and the improvement of the business environment are expected to boost private investment and economic growth in the medium term. However, risks remain tilted to the downside, including from socio-political tensions at the national level and security challenges at the regional level.

"A temporary increase in the fiscal deficit is warranted to accommodate some urgent spending. Notwithstanding this relaxation of fiscal targets, Togo is projected to remain within the WAEMU deficit criterion in 2019 and 2020.

"Public financial management reforms are advancing. A methodological guide for the cost-benefit analysis of public investment was finalized. A comprehensive review of public expenditure was completed. Arrears are gradually being cleared, in line with program objectives. Efforts to strengthen permanent revenue are critical to preserve the hard-won fiscal consolidation and create fiscal space for much-needed social and infrastructure spending. Improving the efficiency of social spending should be a focus going forward.

"It is important to complete the reforms of the two public banks. The privatization process should be finalized. The elevated non-performing loans also need to be addressed.

"The business environment has improved and further reforms are needed to build on the progress achieved. Measures are also needed to strengthen governance and reduce vulnerabilities to corruption, as well as to address gender and income inequality."

TOGO

June 10, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND MODIFICATION OF PERFORMANCE CRITERIA

KEY ISSUES

Context. Economic activity has been recovering, driven by robust performance in the export and agricultural sectors. Fiscal consolidation efforts have continued; Togo complied with the WAEMU deficit convergence criteria in 2017 and 2018, two years ahead of the timeline agreed by member states; public debt declined from 81 percent of GDP at end-2016 to 76 percent of GDP at end-2018. Inflation stood at 2 percent in March 2019 (y-o-y). The external position has improved. The privatization process for the first public bank encountered delays.

Outlook and Risks. Economic growth is expected to gradually increase in the medium term, benefiting from an improved infrastructure network, progress on the business environment, and productivity gains in the agricultural sector. Public debt is expected to decline below 70 percent of GDP from 2020 and is projected to be reduced to a prudent level by 2023. The key risk to the program is related to the uncertain socio-political situation, particularly ahead of the presidential elections planned for March 2020. Other risks include a surge in regional insecurity, a tightening of global financial conditions, and a rise in protectionism.

Program Performance. Five out of six end-December 2018 performance criteria (PCs) were met as well as five out of seven structural benchmarks (SBs). The PC on net domestic financing was missed, but without jeopardizing the program objectives. The SB on the privatization of the first public bank was also missed as negotiations are still underway. Two indicative targets (ITs) at end-December 2018—on fiscal revenue and social spending—were missed, albeit by a small margin for the former. The ECF-supported program was approved in May 2017. Total planned disbursements under the program amount to SDR176.16 million.

Key Policy Objectives. In 2019, under the ECF-supported program, the fiscal framework will accommodate some one-off urgent spending while safeguarding the hard-won fiscal consolidation and pursuing debt reduction. Some important tax policy and revenue administration measures will be implemented to bolster permanent revenue and address the reliance on ad-hoc and uncertain revenue sources. Expenditure efficiency will be improved through a revised multi-year public investment program and the roll-out of the program-based budgeting. The privatization of the two weak public banks will be finalized; in case of delays, an alternative strategy will be put in place that minimizes risks to financial stability and the State budget. The high non-performing loans will be addressed. From a medium-term perspective, to unlock growth potential, existing governance legal frameworks will need to be enforced, and the relevant institutions and entities will need to become fully operational and independent. Building on recent progress, the business environment will need to be improved further to ensure that private investment substitutes for the decline in public investment. Social spending efficiency should be strengthened, and income and gender inequality should be reduced to foster inclusive growth. Togo will continue to support the WAEMU regional policies, including through continuous adherence to the regional convergence criteria, as part of the joint WAEMU countries' efforts to help maintain strong regional reserves.

Staff Views. Staff recommends completion of the fourth review and supports the authorities' request for a waiver for nonobservance of one PC as well as modification of PCs for end-June and end-September 2019. The waiver and modifications do not jeopardize the thrust of program objectives. Upon completion of the review, a disbursement of SDR 25.17 million (17.1 percent of quota) will be made available, for a cumulative amount of SDR 125.9 million or 85.5 percent of quota.

Approved By
Dominique Desruelle and Edward R. Gemayel

Discussions on the Article IV consultation and the fourth review under the ECF arrangement took place in Lomé during March 20 - April 2, 2019 and continued until May 8, 2019. The IMF staff team comprised Mr. Razafimahefa (head), Ms. Bunda, Mr. Engstrom, Mr. Tapsoba (Resident Representative), Mr. Nachega (all AFR), Mr. Binici (SPR), and Mr. Sowou (Local Economist). Ms. Nikaein provided research assistance. Ms. Ndome-Yandun, Ms. Margevich, Ms. Kinvi-Boh, and Ms. Tolbert provided administrative assistance. Ms. Boukpessi (OED) also joined the mission. The mission met with Mr. Sani Yaya, Minister of Economy and Finance; Mr. Kodjo Adedze, Minister of Commerce, Industry, Private Sector, and Local Consumption; Ms. Léa T. Kolani Yentchare, Minister for Social Action and Advancement of Women; Mr. Kossi Ténou, BCEAO National Director; and other senior officials as well as representatives of the private sector and development partners. The mission also held a press conference.

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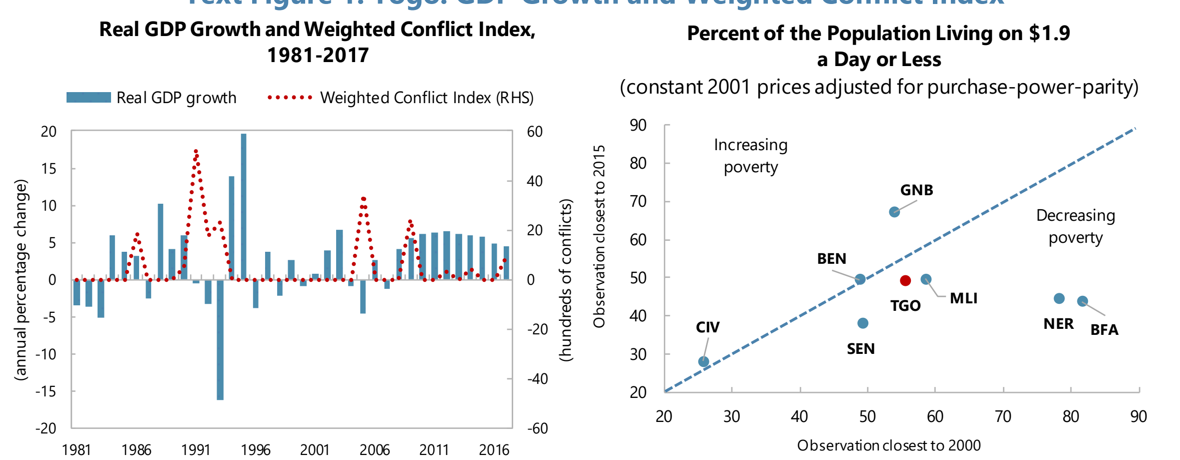
CONTEXT AND RECENT DEVELOPMENTS: ECONOMIC RECOVERY AMID SOCIO-POLITICAL UNCERTAINTY

Context

1. **Despite bold reforms implemented in recent years, a climate of uncertainty and underdeveloped institutions have prevented Togo from fully unlocking its substantial growth potential.** As recommended in the 2016 Article IV consultation, the government stopped the public investment pre-financing and embarked on a strong fiscal consolidation, which has led to a significant reduction in the fiscal deficit and public debt (Box 1). A comprehensive spending review was completed and arrears to the private sector are being gradually cleared. Doing Business Indicators have improved considerably. However, economic growth has decelerated in recent years and remains below the average of the last decade as well as below the average in peer countries. Private investment has been slow in offsetting the decline in public investment. While increasing, social spending has remained below targets. Public debt has declined but remains the highest in the WAEMU. The high non-performing loans (NPLs) and loan concentration in banks, as well as in the microfinance sector, constrain profitability and new lending. Reforms to address weaknesses in the public banks have encountered significant delays. Governance and institutional capacity are weaker than in peers. Economic activities have repeatedly been hindered by bouts of socio-political instability; poverty remains high and is only marginally decreasing (Text Figure 1).

Text Figure 1. Togo: GDP Growth and Weighted Conflict Index



Sources: World Development Indicators; CNTS Database; Togolese authorities; and IMF staff estimates.

Box 1. Main Recommendations from the 2016 Article IV Consultations and Current Status

Main Recommendations	Authorities' Response
Reduce the overall fiscal deficit substantially upfront to ensure long-term debt and external sustainability.	The overall fiscal deficit (commitment basis) was reduced from 9.6 percent of GDP in 2016 to 0.8 percent of GDP in 2018 and total public debt was reduced from 81 percent of GDP at end-2016 to 76 percent of GDP at end-2018.
Accelerate revenue administration reforms, including through an overhaul of tax exemptions, reduction of manual procedures and a shift to complete automation, and stronger control of import valuation.	Measures to upgrade the tax and customs administrations are in progress and the 2019 Budget eliminates or limits several tax exemptions. Nonetheless, some important reforms have not been completed yet under the recently created independent and consolidated revenue authority (*Office Togolais des Recettes*). Moreover, revenue relies increasingly on ad-hoc and non-permanent sources.
Phase out the prefinancing of public investments. Reduce domestically-financed capital spending, recognizing that the large domestically-financed infrastructure projects are mostly complete and that the recent pace of investment cannot be maintained in the face of growing debt pressures.	The prefinancing of public investment was phased out and the corresponding government liabilities were converted into orthodox borrowing at more favorable terms. Domestically financed capital spending has been reduced, and a comprehensive spending review was undertaken.
Prioritize investment projects and make full use of grant and concessional financing.	A methodological guide for investment cost-benefit analysis was prepared and its use will be mandatory for the selection of investment projects going forward. The government refrained from contracting non-concessional borrowing.
Apply restraints on current spending and ensure that the wage bill declines in percent of GDP.	Although the wage bill declined, primary current spending increased from 15 percent of GDP in 2016 to 15.5 percent of GDP in 2018, due to spending on goods and services.
Fully clear government arrears over 2-5 years, corresponding to an annual arrears clearance of 0.9 percent of GDP over 2017-2021; strengthen public financial management to avoid the accumulation of new arrears.	Arrears clearance was accelerated; arrears stock dropped from 4.6 percent of GDP at end-2016 to 1.2 percent of GDP at end-2018. The commitment, procurement, and cash plans are being synchronized to prevent new arrears accumulation.
Resolve the existing financial sector weaknesses, especially in the two public banks: undertake an independent audit to assess the appropriate manner of their resolution and the corresponding costs; ensure recapitalization in line with regulations; improve governance to prevent similar problems in the future; and approve a restructuring plan and request any necessary regulatory approval.	A process to address weaknesses of the public banks has been launched but encountered significant delays. An independent audit was completed, and restructuring/merger plan was submitted to the Banking Commission. However, the government revisited its strategy and resumed the privatization of the two banks; the process is taking longer than initially planned.
Refocus policies on sustainable and inclusive growth.	While social and financial inclusion is a key objective in the National Development Plan finalized in 2018, actual social spending has so far been below targets.

Recent Developments

2. **Following a sharp deceleration in 2017 due to socio-political tensions, the economy regained momentum in 2018-19.** Robust performance of the export-oriented sectors (phosphate extraction, coffee and cocoa, and cotton production), as well as strong activities in the tertiary sector (including at the port and airport), supported the growth recovery. Bank credit to the private sector remained broadly flat in 2018. Economic growth is estimated to have accelerated from 4.4 percent in 2017 to 4.9 percent in 2018. Headline inflation stood at 2 percent in March 2019 (year-on-year). Following a significant improvement in 2017, the current account deficit increased in 2018 but remained markedly smaller than in previous years. The external position is broadly consistent with fundamentals and desirable policy settings; Togo has recourse to WAEMU's pooled foreign reserves, equivalent to 4.3 months of union imports at end-2018 (Annex I).

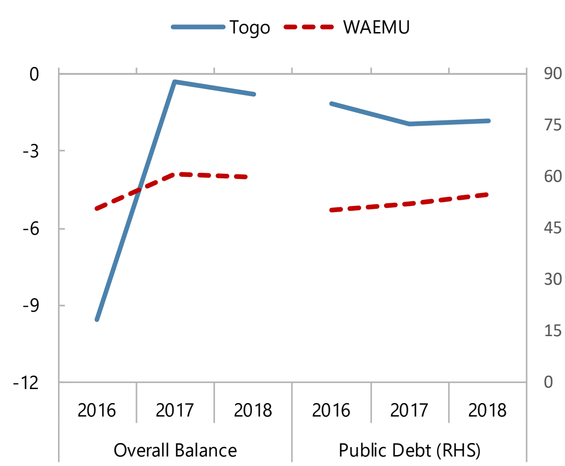
3. **The fiscal outturn at end-2018 was better than expected** (Text Table 1). Total revenue expanded by 2.1 percentage points of GDP relative to 2017 and was in line with projections. Nonetheless, this revenue outturn was partly driven by exceptional revenue (about 1.5 percent of GDP), including ad-hoc collections of disputed tax arrears. Although overall spending increased relative to 2017, it remained significantly below projections, particularly for spending on foreign-financed investment. As a result, the domestic primary balance—which is the fiscal aggregate under the control of the government—improved by 1.6 percentage points of GDP from 2017 to 2018 and was in line with projections. The overall primary balance and the overall balance outperformed targets by large margins. Togo reached the WAEMU fiscal deficit criterion—not exceeding 3 percent of GDP—in 2017 and 2018, two years ahead of the timeline agreed by all

Text Table 1. Togo: Central Government Financial Operations, 2017–18
(percent of GDP)

	2017	2018	
	Outturn	3rd Rev.	Est.
Revenue and grants	21.4	24.3	23.9
Revenue	18.2	20.4	20.3
Grants	3.2	3.9	3.6
Expenditure and net lending	21.6	27.4	24.7
Domestic primary balance	0.8	2.4	2.4
Overall primary balance (commitment basis, incl. grants)	1.5	-0.7	1.6
Overall balance (commitment basis, incl. grants)	-0.3	-3.1	-0.8
Change in arrears and accounts payable	-1.8	-2.2	-2.2
Change in accounts receivable	0.0	0.0	1.2
Financing	3.8	7.8	6.4
Domestic financing	1.0	0.2	2.0
External financing	2.8	7.6	4.4
IMF/ECF	1.4	1.4	1.3
Memorandum items:			
Total public debt	75.5	74.1	76.2
Total public debt (excluding SOEs)	72.3	71.3	73.6

Sources: Togolese authorities; and IMF staff estimates.

Text Figure 2. Togo: Fiscal Developments, 2016–18
(percent of GDP)



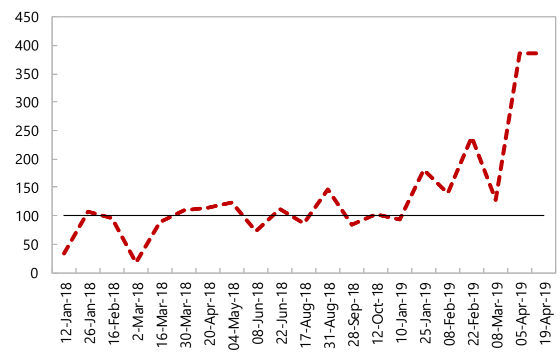
Sources: World Economic Outlook; Togolese authorities; and IMF staff estimates.

member states. However, Togo's public debt is still the highest in the region. Public debt increased slightly from 75.5 percent of GDP in 2017 to 76.2 percent of GDP in 2018 (or 72.3 percent of GDP and 73.6 percent of GDP, respectively excluding state-owned enterprises (SOEs)) (Text Figure 2). This slight increase is mostly due to some revenue recorded in accounts receivable and not in cash in 2018 (see below), resources borrowed in January 2018 to repay arrears connected to the fiscal year 2017, exchange rate depreciation, and capitalization of accrued interest on Sukuk bonds.

4. The stock of arrears was reduced and Togo's ability to raise funds in the regional WAMU bond market has improved. The government repaid arrears of about 2 percent of GDP in 2018, in line with projections; arrears management is also being strengthened to prevent new accumulation. Such efforts include the synchronization of procurement, commitment, and cash plans. The subscription rate of government bonds in the regional market improved from an average of 77 percent in 2017 to 92 percent in 2018 and 222 percent during January-April 2019 (Text Figure 3).

Text Figure 3. Togo: Treasury Bills Coverage Rate, 2018–19

(percent)



Sources: UMOA Titres; and IMF staff estimates.

PROGRAM PERFORMANCE

5. Five out of six performance criteria at end-December 2018 were met (MEFP¶6, Table 6). The domestic primary balance was in line with the program. All zero ceilings—on (i) non-accumulation of arrears on external public debt; (ii) contracting or guaranteeing of non-concessional external debt; (iii) guaranteeing of domestic loans to suppliers and contractors; and (iv) guarantees on bank prefinancing for public investment—were respected. The indicative target (IT) on domestic arrears was met. The IT on revenue was missed by a small margin of 0.1 percent of GDP. The IT on priority social spending was missed by 0.3 percent of GDP. The authorities are taking corrective measures to address the systematic underperformance on social spending. They are working with stakeholders to boost the efficiency of social spending, shift resources from current spending to capital spending on social infrastructure, and put a system in place to better monitor the social spending execution.

6. The end-December 2018 PC on net domestic financing was missed without significant implications to program objectives (MEFP¶6, Table 6). Net domestic financing exceeded the program ceiling by about 1.5 percent of GDP at end-2018. This underperformance was due mainly to statistical recording as commitments to repay revenue arrears made in late 2018 were paid in 2019. This revenue was recorded in "other accounts receivable" in 2018 (1.2

percent of GDP) and will be transferred to net domestic financing in 2019.[1] If this revenue had been recorded in 2018, the net domestic financing at end-December 2018 would have exceeded the program ceiling by only 0.2 percentage point of GDP.

7. Five out of seven structural benchmarks were met (MEFP¶7). In July 2018, the authorities started to send to IMF staff monthly data on the stock of payment arrears by age and strengthened the implementation of the cash plan and the control of commitment authorizations to prevent the accumulation of new arrears. To improve the effectiveness of public investment, a circular was sent to all line ministries to mandate the use of the methodological guide on investment project selection, and henceforth include in the public investment plan and the budget only the projects that have been evaluated and selected based on this methodological guide. Mechanisms and procedures were put in place to facilitate land registration. The tender for the second public bank is on track; the authorities, in consultation with IMF staff, drafted the terms of reference for hiring a transaction advisor for its sale; the authorities submitted to staff a strategic plan for its privatization with a slight delay relative to the program deadline.

8. The privatization process of the first public bank encountered delays and the corresponding structural benchmark was not met (MEFP¶9). Whereas the legal and regulatory due diligence required for the direct sale of this bank was completed, a draft sale contract could not be finalized as an agreement has not been reached yet with the potential buyer. Negotiations between this potential buyer and the government are still underway.

MEDIUM-TERM OUTLOOK AND RISKS

9. Growth is expected to approach 5½ percent over the medium term. Large public investment completed in recent years (new roads and an expanded port and airport) and the recent improvement in the business environment are expected to boost domestic and foreign private investment in the medium term. Inflation is expected to stabilize around 2 percent over the medium term. The current account deficit would remain in the range of 4-5 percent of GDP, as lower demand for capital goods and other imports persists, while exports of cotton, phosphates, agriculture, and light manufacturing goods continue to grow.

10. Risks to the outlook remain tilted to the downside (MEFP¶10, Box 2). At the national level, although socio-political tensions have abated, uncertainty remains high; the Presidential election scheduled for March 2020 may reignite socio-political unrests, which would impact macroeconomic performance. Such unrests can put pressure on the government to postpone the fiscal adjustment and structural reforms. A bill to reform the constitution and reintroduce a two-term limit on the presidential mandate was approved by the Parliament in May 2019. The amendment caps the presidential mandate to two five-year terms but does not apply retrospectively. The amendment also guarantees immunity for life to all former presidents and limit MPs' mandate to two terms of six years each. In general, Togo is a fragile country and is

[1] For 2019, it will be recorded as a negative other account receivable (-1.1 percent of GDP), slightly smaller due to a larger GDP in 2019.

subject to risks inherent to fragility, including limited administrative capacity, persistent social tensions, and sporadic violence. At the regional level, security risks—including terrorism threats—have been intensifying recently. Such threats could hinder local and foreign private investment, hamper tourism activities, and obstruct government's efforts to make Togo a regional hub for transport and financial activities. From a global perspective, risks originate from rising protectionism and retreat from multilateralism (reducing trade and FDI), a possible tightening of global financial conditions, and a weaker-than-expected global growth.

Authorities' Views

11. The authorities broadly shared staff's views on the medium-term outlook and risks, although they were more optimistic about prospects for growth, in line with the ambitious 2018-2022 National Development Plan (NDP). The authorities concurred with staff that the private sector would play a greater role in driving the economy. However, they were more optimistic than staff on the scope for private sector expansion and on the pace at which reforms would bear fruit. While the NDP's baseline scenario envisages a GDP growth of 5.5 percent in the medium term, in line with staff's projections, the NDP's alternative scenario envisages an average annual growth of 6.6 percent during 2019-22, reaching 7.6 percent in 2022. Under this alternative scenario, the authorities expect a structural transformation of the economy. This ambitious GDP growth is underpinned by a full implementation of the programs and projects planned in the strategic axes of the NDP: (1) a logistics hub of excellence and a world-class business center in the sub-region; (2) agricultural processing, manufacturing and extractive industries poles; and (3) social development and inclusion. The authorities agreed on the balance of risks. They reiterated their commitment to prevent resumption of socio-political tensions. They saw additional downside risks related to the environmental conditions, which would weigh on the performance of the primary sector.

Box 2. Risk Assessment Matrix[1]

Nature/Sources of Risk	Relative likelihood	Expected Impact if Realized	Policies to Mitigate Risks
External Risks			
Rising protectionism and retreat from multilateralism (ST, MT).	***High***	***High*** • Reduced global policy collaboration and regional integration may limit international aid, FDI, trade flows, and growth.	• Ensure prudent budgetary management to contain financing need; bolster regional policy coordination and regional trade.
Sharp tightening of global financial conditions (ST).	***Medium/low***	***Medium*** • The government may have difficulties to raise full financing. • Higher rates would increase debt servicing costs, putting pressure on the budget.	• Bolster investors' confidence by implementing a credible medium-term fiscal adjustment strategy.
Weaker-than-expected global growth (MT).	***Medium/low***	***Medium*** • Exports and growth would be adversely affected, particularly through the impact on key trading partners such as Ghana and Nigeria. The impact would be somewhat mitigated as Togo's exports are diversified by product and destination.	• Implement competitiveness enhancing structural reforms, and further diversify export market locations.
Regional and Domestic Risks			
Surge of insecurity in the region (ST, MT)	***High***	***High*** • Private investments (domestic and foreign) and tourism would decline; growth of some trading partners would slow; security-related budgetary spending may increase; financing from the regional market may tighten.	• Ensure prudent budgetary management to contain financing need.
Socio-political tensions (ST, MT)	***Medium***	***High*** • Economic activity and growth would slow down; spending pressure may intensify to address social demands; support for structural reforms may dwindle.	• Accelerate measures towards growth-inclusiveness; communicate and discuss structural reforms with key stakeholders.
Setback in fiscal adjustment and reforms (ST)	***Medium***	***Medium*** • Pressures may arise from various interest groups to continue large public works and delay structural reforms such as the opening-up of key sectors to private investments.	• Persevere in fiscal consolidation and accelerate structural reforms. Put in place social programs to address potential adverse impact of reforms on the most vulnerable groups of the population.
Power-supply shortfall (ST, MT).	***Low***	***Medium*** • Planning and regulatory inaction, combined with poor management of utilities, may lead to widespread power cuts. This will create costs to the budget and inhibit economic growth.	• Invest in power generation capacity and reform pricing policies to promote private sector participation in the sector. Public sector entities should be current on their bills to prevent accumulation of arrears.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

POLICY DISCUSSIONS

Near-term program discussions centered on accommodating some urgent spending while safeguarding fiscal consolidation and debt reduction, completing reforms of the weak public banks, and improving budget preparation and execution. Medium-term Article IV discussions focused on three key areas to fully unlock Togo's growth potential and enhance inclusiveness, namely the efficiency of social spending, the financial viability of the banking sector, and governance and institutions.

A. Accommodate Urgent Spending but Safeguard Fiscal Consolidation

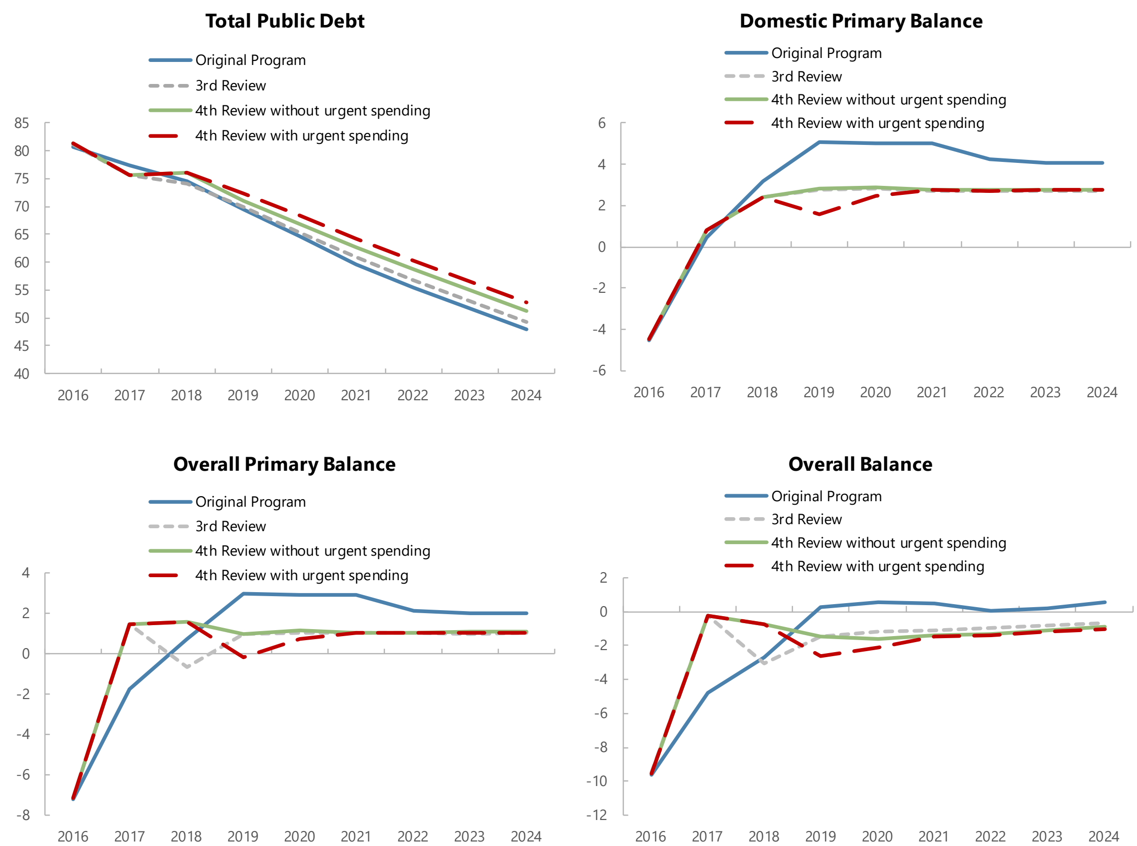
12. On a one-off basis, the fiscal framework in 2019–20 will accommodate some urgent spending (MEFP¶11). Given the deteriorating regional environment, this urgent spending is needed to address unforeseen events, which may endanger social and economic stability. It amounts to 1.5 percent of GDP and will be incorporated in a revised 2019 budget. To make room for such spending and create sufficient buffer with regards to the WAEMU deficit criterion, spending of 0.3 percent of GDP previously planned for 2019 will be postponed to 2020 while protecting social and development spending. On this basis, the overall fiscal balance will loosen from the previously envisaged deficit of 1.5 percent of GDP to 2.7 percent of GDP in 2019. The authorities will take appropriate safeguard measures related to the urgent spending to limit the risks of fiscal loosening, preserve WAEMU regional stability, and promote good governance (MEFP¶12).

13. Despite this one-off additional spending, the revised macroframework broadly preserves the fiscal objective of the ECF-supported program (MEFP¶13-14, Text Figure 4). The overall fiscal deficit will worsen by 1.2 percentage points of GDP in 2019 (to 2.7 percent of GDP) and by 0.3 percentage point of GDP in 2020 (to 2.1 percent of GDP). The overall fiscal deficits are expected to remain below 2 percent of GDP in subsequent years, unchanged from previous projections. These fiscal deficits broadly preserve the large fiscal consolidation envisaged at program approval. They are consistent with the WAEMU deficit criterion of an overall fiscal deficit not exceeding 3 percent of GDP (Text Table 2). The debt trajectory will slightly shift upward relative to previous projections and remain above the 70 percent WAEMU debt criterion until 2019, but it is on a downward path. Debt is expected to fall below the DSA benchmark for countries with "medium" debt carrying capacity by 2023, instead of 2022 in previous projections.

14. To safeguard the hard-won fiscal consolidation gains and create space for investment and social spending, it is paramount to bolster permanent revenue (MEFP¶15). While tax policy measures have been introduced and revenue administration reforms have advanced in recent years, the tax revenue outturn at 16.5 percent of GDP in 2018 is still significantly below program approval projections (19.1 percent of GDP) (Text Figure 5).[2] This shortfall can be attributed to some key factors, including the severe socio-political unrests in mid-2017 and the ensuing deceleration of economic activity; the sharp reduction in public investment and its adverse impact on related economic activities; and delays in reform implementation at the revenue authority (OTR). In addition, revenue collection increasingly relies on ad-hoc tax arrears collection or non-tax revenues, which include items that are temporary or uncertain in nature such as license fees and dividends (Text Figure 5). The authorities are taking additional measures to address these weaknesses (Box 3).

Text Figure 4. Togo: Fiscal Balances and Public Debt, 2016–24

(percent of GDP)



Sources: Togolese authorities; and IMF staff estimates.

[2] Tax policy and administration measures introduced recently include elimination of reduced VAT rates and broadening of the VAT scope, broadening of the property tax base, reduction/elimination of deduction on capital income tax, reduction/elimination of deduction on corporate tax, strengthening of tax arrears collection, and restriction on the use of VAT ineligibility certificate.

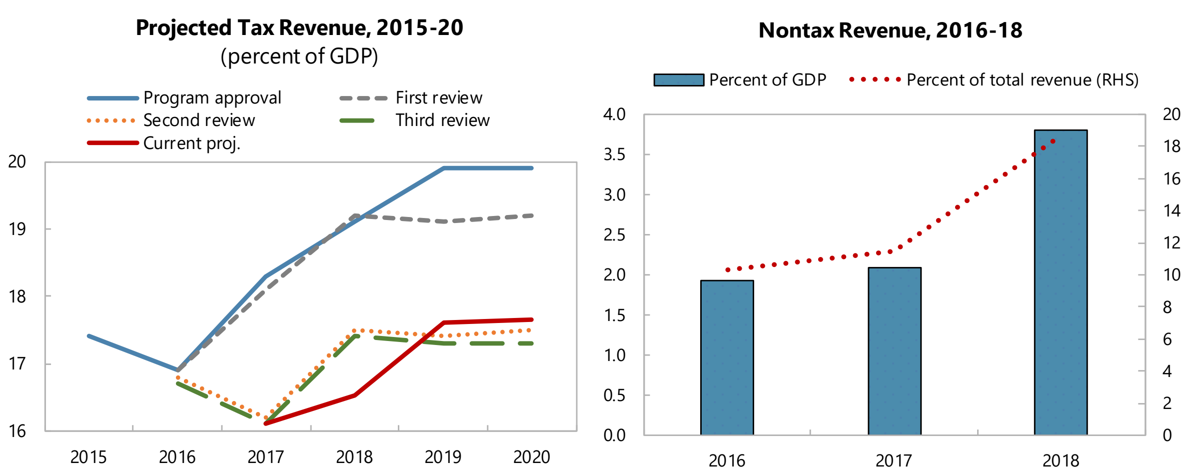
Text Table 2. Togo: Compliance with the WAEMU Convergence Criteria, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
			Est.			Projections			
First-order criteria									
Overall balance/GDP (≥-3 percent)	-9.5	-0.3	-0.8	-2.7	-2.1	-1.5	-1.4	-1.2	-1.0
Average consumer price inflation (≤ 3 percent)	0.9	-0.2	0.9	1.4	2.0	2.0	2.0	2.0	2.0
Total debt/GDP (≤ 70 percent)[1]	78.0	72.3	73.6	70.1	66.6	62.7	59.1	55.5	52.0
Second-order criteria									
Wages and salaries/ tax revenue (≤ 35 percent)	41.1	42.9	40.7	38.2	38.1	37.5	36.5	35.6	34.7
Tax revenue/GDP (≥ 20 percent)	16.8	16.1	16.5	17.6	17.7	18.1	18.6	19.1	19.6

Sources: Togolese authorities and IMF staff estimates and projections.

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

Text Figure 5. Togo: Tax and Nontax Revenue



Sources: Togolese authorities; and IMF staff estimates.

15. Some key weaknesses remain in revenue administration. The taxpayer register is inaccurate and unreliable, with many importers unknown to the revenue authorities. Tax arrears are not properly monitored. Revenue leakage from a high proportion of non-paying VAT returns is significant (56 percent of all returns for large and 62 percent for medium-sized enterprises in 2018). The risk management culture among agents (e.g., focus on early detection) is at an incipient stage. Tax exemptions are declining but remain significant and customs procedures are not sufficiently automated, increasing vulnerabilities to corruption. Not all import and export operations are reported in the customs. As part of the ECF-supported program, the authorities are taking several measures to strengthen revenue collection and ensure its permanency (Box 3).

Authorities' Views

16. The authorities welcomed the flexibility under the program to accommodate the urgent spending and agreed with staff's assessment of the revised fiscal framework as well as the need to strengthen permanent revenue. Despite the urgent spending, they noted that Togo continues to comply with the WAEMU deficit criterion, ahead of the agreed timeline. The authorities concurred that adequate safeguards will ensure the transparency, recording, accountability, and oversight of this spending. The authorities noted that their domestic revenue mobilization strategy is focused on permanent revenue measures, including broader and comprehensive reforms such as the recent revision of the general tax code, the ongoing land reform, the intensification of anti-fraud measures, and the ongoing review of OTR performance and governance structure. They reiterated their commitment to rapidly reduce public debt and improve debt sustainability. They are considering additional measures to accelerate debt reduction. Such measures include a faster resolution of some disputed tax arrears cases and the sale of some government non-financial assets, with a view to generate resources to repay government liabilities.

Box 3. Revenue Measures

The introduction of new tax policy and tax and customs administration measures is aimed at compensating for one-off revenue in previous years, strengthening permanent sources of revenue, and safeguarding the hard-won gains of fiscal consolidation in the medium term. The new revenue measures are expected to yield about 1.1 percent of GDP in 2019.

Tax policy (MEFP¶15)**:**

- *Property taxes:* following the finalization of the land survey, the provisions related to property tax in the new tax code will be implemented from 2019. This measure will allow expanding the taxation of built and undeveloped properties, starting with a pilot phase covering Lomé and its peripheries. The implementation of this measure is facilitated by the transfer of the Office of the Cadaster, Land Conservation and Registry to the Togolese Revenue Authority since 2018.
- *Motor vehicle taxation:* a new tax based on the capacity of the vehicle was introduced in the new tax code and enforced from January 2019.
- *Telecommunication tax*: the turnover of telecommunication companies will be subject to a 5-percent tax.

Tax and customs administration (MEFP¶15-16)**:**

- *Import deposit:* for importers deemed inactive by the tax administration, the customs administration will require a lump sum deposit corresponding to 15 percent of the import value before the imported merchandise can receive customs clearance (SB end-June 2019, TMU¶32). This measure is aimed at encouraging economic agents, particularly importers, to inform the tax administration about their economic activities and declare the corresponding taxes. The deposit can be deducted against such taxes; the net tax payment will contribute to increase revenue.
- *Cross-checks of tax and customs obligations:* importers who have outstanding debts with the tax administration will not be allowed to clear merchandise at the customs administration (SB end-June 2019, TMU¶33). This measure will further encourage economic agents to comply with both tax and customs obligations.

Box 3. Revenue Measures (concluded)

- *Tax arrears collection*: the creation of the corresponding unit will be formalized by an act of the General Commissioner and its risk-analysis role will be strengthened in order to increase the recovery rate of tax arrears (from 66 percent in 2017 to 70 percent at end-October 2019 for large companies and from 48 percent to 60 percent for medium-sized companies) (SB at end-October 2019, TMU¶37).

- *Value added tax:* VAT collection and control over zero or refund claims will be improved through point-of-sale cash registry, formulation of a strategy for selecting spot checks based on risks; and the appointment of focal points at large and medium-sized taxpayers' units to centralize the results of spot checks (SB at end-October 2019, TMU¶38). The VAT prepayment system will be extended to public institutions of an industrial and commercial nature (*Etablissement Public à caractère Industriel et Commercial*), public administration agencies (*Etablissement Public à caractère Administratif*), state-owned enterprises, as well as some large private companies. To avoid burdening companies' cash flow and help improve the business environment, the VAT refund system will be strengthened through an escrow account dedicated to this purpose, which is expected to reduce delays.

- *Special Economic Zones*: controls will be strengthened on companies under this regime, particularly regarding the sale of their products on the local market, to prevent abusive use of this regime and frauds on tax and customs duties.

- *Customs valuation*: the control of customs valuations will be improved by creating a specialized anti-fraud unit to detect valuation anomalies based on supporting documents checks. In case supporting documents are missing, standard transaction valuation on an international comparison basis will be applied.

- *Online customs procedures*: efforts will be made to minimize human intervention in customs duty collection and border procedures, with the aim of curtailing revenue leakages. As an initial phase, online submission of customs declarations and supporting documents will be mandatory for the 30 largest importers or filers (SB for end-October 2019, TMU¶39).

Box Table 1. Revenue Measures in 2019

Measures	**Estimated revenue effect**	
	CFAF billion	**% of GDP**
Property tax: collections based on the recently finalized land survey.	15	0.5
Motor vehicle taxation: new tax.	4	0.1
Telecommunication tax.	4	0.1
Import deposit: required deposit of 15 percent on the value of imports made by agents deemed to be inactive in connection with other taxes.	10	0.3
VAT new measures.	2	0.06
Customs controls: tighter valuation.	2	0.06
Total	**37**	**1.12**

B. Reduce Banks' Vulnerabilities and Enhance Financial Access

17. While taking longer than expected, the authorities are pursuing privatization efforts in the financial sector (MEFP¶21). For the first public bank, negotiations between the government and the potential buyer were expected to be finalized by end-2018 but are still underway. The authorities continued negotiations but could not reach an agreement until end-May 2019. Thus, they are revising their strategy and will submit this revised strategy by end-June 2019 (modified structural benchmark for end-June 2019, TMU¶35). This revised strategy will consist of launching a tender by end-August 2019. The privatization process will be expected to be finalized by end-December 2019 (structural benchmark for end-December 2019, TMU¶42). For the second public bank, the privatization is proceeding as planned. A transaction advisor is being recruited to assist the authorities in the tender process, which is expected to be launched by end-August 2019 (structural benchmark for end-August 2019, TMU¶36). The authorities should carefully monitor the liquidity situations of the two public banks during the privatization process. Experiences from Togo and other countries point to several conditions for a successful bank privatization (Box 4).

Box 4. Policies for Successful Bank Privatization[1]

Sub-Saharan Africa's case studies and cross-country analysis show that several preconditions are required to ensure that the privatization of State-Owned Financial Institutions (SOFIs) can be completed and can lead to higher performance:

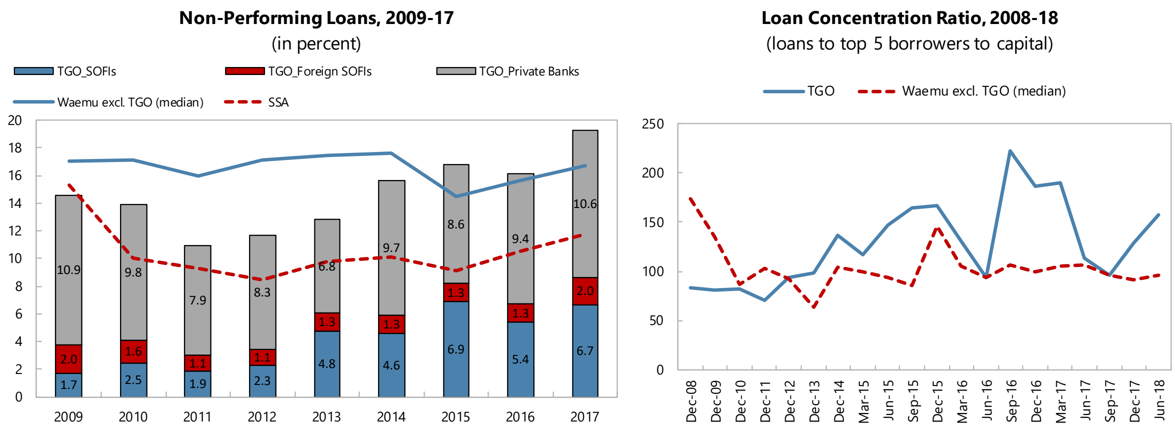
- **Prior to privatization**, an adverse macroeconomic environment (e.g., fiscal profligacy) reduces the benefits of privatization. Adequate regulatory framework, which is the result of the institutional and political environment, is a key factor of a successful privatization. Reforms to set up the appropriate institutional framework for the privatization process are necessary. The business environment should be conducive to competition, good governance, and entry. It is important to implement corrective actions and privatization plans in a timely manner. Key issues to manage include the cost, the sequencing of other reforms, and achieving political consensus.

- **During the privatization process**, the SOFI(s) may need to be prepared for privatization; for insolvent SOFIs, a mix of financial and operational restructuring may be needed before the sale. The design of financial restructuring may consider purchase and assumptions, merger with a stronger bank, or other options. The timing of operational restructuring, such as closure of some branches and reduction of personnel, is strategically important. The operational and financial restructuring of insolvent SOFIs should be appropriately sequenced as delays will inevitably lead to higher losses. Transparency, fairness, and a level playing field are essential. Performance improves more when government fully relinquishes control; when banks are privatized to strategic investors rather than through share issues; and when bidding is open to all, including foreign banks. A prudential review of the new owner and its business plan is paramount to ensure that this new owner is fit and proper to manage the bank and possesses the required financial capacity. The implications of the new bank strategy should be managed ex-ante, particularly on how policy concerns will be dealt with during the sale. A rigorous process should be put in place to ensure fair (market-based) valuation and address any potential impact on equity.

1/ This box summarizes key policy recommendations from the Selected Issues Paper on "State-Owned Banks, Privatization and Macro-Financial Performance in SSA".

18. Elevated non-performing loans (NPLs), portfolio concentration and common exposures, as well as thin capital buffers are constraining the financing of the economy (MEFP¶22, Annex II). The NPLs, which reached 18.3 percent in June 2018, are concentrated in a few banks (Text Figure 6). The overall capital adequacy ratio was 6.0 percent at end-June 2018. New BCEAO regulation on capital, aligned to international Basel II/III standards, entered into force in 2018, requiring a capital adequacy ratio of 8.65 percent. Only the two problem public banks violate the new requirements; two private banks previously below the minimum CAR have received fresh equity from new strategic shareholders. Some microfinance institutions supervised by the BCEAO display a number of vulnerabilities due to weak governance and internal control and risk management systems, with two of them under provisional administration at end-December 2018.

Text Figure 6. Togo: Financial Sector Vulnerabilities

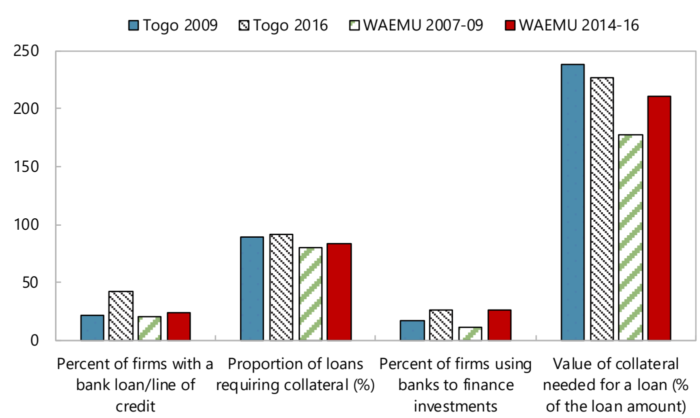


Sources: Togolese authorities; and IMF staff estimates.

Note: TGO_SOFIs (20 percent of Total Banking Assets); TGO_Foreign SOFIs (4 percent of Total Banking Assets).

19. Credit infrastructure could be improved to foster financial inclusion (MEFP¶23, Annex II). Togo shows better performance than WAEMU and SSA averages on the number of accounts at financial institutions; however, it has a lower penetration rate of mobile money accounts. Although firms' access to bank financing compares relatively well against the WAEMU region, some obstacles remain, notably on collateral. The quality of information collected by the credit

Text Figure 7. Togo: Bank Access Characteristics of Firms, 2009–16



Sources: World Bank Enterprise Surveys; and IMF staff estimates.

bureau needs to be improved (e.g., by listing all types of credit) to facilitate better decision making by banks. Lower intermediation costs—through improvements in the land management system, strengthening credit underwriting and recovery systems—could enable more firms to access credit.

20. The AML/CFT framework needs to be strengthened (MEFP¶24). Togo's is scheduled to undergo an AML/CFT evaluation by the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) in March 2020. In this regard, the authorities are encouraged to address technical deficiencies in their legal and institutional framework and enhance the AML/CFT regime's effectiveness at mitigating risks related to ML/TF and related predicate crimes, including acts of corruption. Following the findings of the national risk assessment, the authorities will prepare an action plan to address the weaknesses identified in the national AML/CFT framework. The recently created Lomé Commercial Court, which deals with commercial disputes, should be made fully operational.

Authorities' Views

21. The authorities are of the view that the privatization of the public banks is the most effective approach to restore financial viability and prevent fiscal costs. Although recognizing the delays, the authorities are confident that the privatization of the two public banks will be completed in line with their respective new timeline. The authorities also noted that the two banks' management teams will keep the WAMU Banking Commission informed on recent developments on a regular basis. The authorities agreed that the high NPLs need to be addressed to facilitate credit creation. They will take the necessary measures to enable the Togolese Debt Collection Agency (*Société de Recouvrement du Togo)* to better collect the state-owned banks' NPLs which were securitized in the run up to the previous round of privatization. The authorities plan to train judges specialized in banking law to enable them to judge disputes between banks and their customers objectively and fairly.

C. Strengthen the Foundation for Strong and Inclusive Growth

22. In the context of fiscal adjustment, improving the quality of public investment is essential to support economic growth (MEFP¶18). Future investment programs and budgets should strictly include only projects selected through the recently developed cost-effectiveness methodology. As a multi-year budget process strengthens the ability to achieve higher and better medium-term results, the authorities will revise and enforce the multi-year public investment program (SB at end-October 2019, TMU¶40). The multi-year capital expenditure programming should be strengthened by ensuring consistency with realistic resource envelopes of the medium-term budget framework, making it binding in the following year and indicative for the two years thereafter.

23. The move towards program-based budgeting is advancing well (MEFP¶18). Program-based budgets are a requirement under a WAEMU directive. In parallel to the usual approach, program-based presentation of the budget was also produced for all ministries in

2019, as an initial step. A program-based budgeting document will be produced for 2020-22 (SB end-June 2019, TMU¶34). The required institutional support is being progressively put in place to ensure prompt and smooth roll-out of this reform. A new budget calendar incorporating reform innovations, empowering stakeholders and identifying deliverables has been developed and adopted. To transition to program budgeting, the authorities will develop a standard framework of performance indicators[3] to define guiding principles and train stakeholders in ministries and institutions (SB at end-October 2019, TMU¶41).

24. The efficiency of social spending needs to be bolstered to achieve better social outcomes, and inclusive growth, despite the fiscal consolidation (MEFP¶19). Based on staff's analysis, Togo's social performance is below that of selected peer countries. With the existing amount of inputs, Togo could potentially improve its health-adjusted life expectancy by 4.8 percent and its net primary enrollment rate by 6.3 percent, relative to the current outcome (Box 5). To improve efficiency, the authorities have already completed a comprehensive spending review. Transfer programs to the most vulnerable households could also be enhanced.

25. Enhancing gender equality could significantly improve Togo's growth prospects. Togo fares well relative to regional peers in terms of gender workforce participation and legal rights but could benefit from further women empowerment. While many gender-based legal restrictions were removed from the legal framework, major differences persist between the legal context and the social norms. The key gender-related constraints include weak access to higher education, access to assets and economic leadership, and more broadly, limited employment opportunities in the formal sector. To combat deeper inequality of opportunities, such as unequal access to labor force, health, education and financial access between men and women, policy makers should focus on more targeted policy interventions (Annex III).

Box 5. Efficiency of Social Spending in Togo[1]

Social spending has steadily increased over the last fifteen years. Togo's social spending, defined as the sum of health and education outlays, grew from 5.4 percent of GDP in 2001 to 7.1 percent of GDP in 2016. However, in 2017-18, public social spending fell short of the target under the ECF-supported program mainly because of execution and efficiency issues. This contrasts with the government's key policy objective to preserve social outcomes. Closing efficiency gaps in health and education sectors could facilitate the ongoing task of fiscal consolidation.

Social outcomes remain suboptimal. Cross-country comparisons show that there is a scope for increasing the efficiency in Togo's health and education sectors. Togo's health outcome is below SSA peers with similar spending level. In education, Togo's outcome is higher than the SSA average but the unit cost to the State of delivering such an outcome is also higher.

[3] Specific gender-budgeting indicators will be considered for inclusion in the standard framework of performance indicators for performance-based budgeting.

Box 5. Efficiency of Social Spending in Togo (concluded)

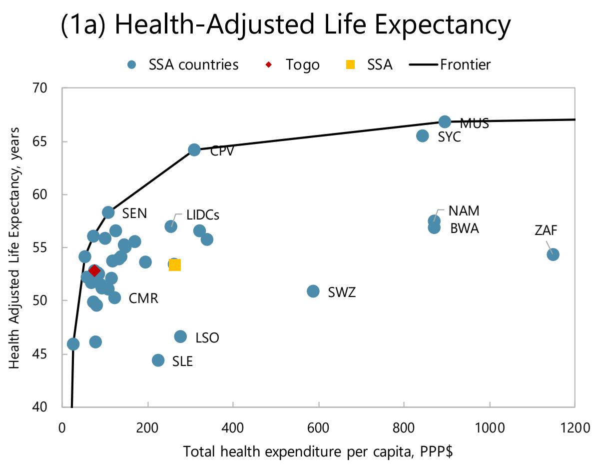
The potential efficiency gains are investigated through a frontier analysis.[2/]

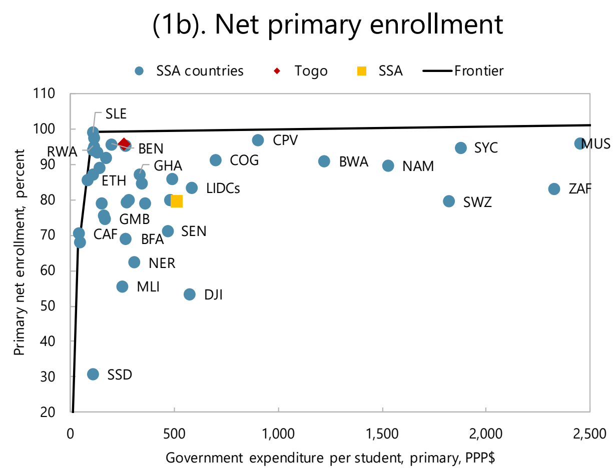
- **Health.** Using the Health-Adjusted Life Expectancy (HALE) as the desired outcome, Togo remains below the frontier. In 2015, Togo allocated PPP$76.3 per capita on the health system with a HALE of 52.3 years. Togo performs below peers with similar spending or outcome (Figure 1a). For instance, a country very close to the frontier spends only PPP$68.5 per capita on the health system with a broadly similar HALE (51.7 years). Togo can therefore save as much as about PPP$7.8 per capita to produce the same HALE. This is equivalent to an input-efficiency of 10.2 percent. Another country spends a broadly similar envelope (PPP$73 per capita) with a HALE of 56.1 years, implying that Togo can improve its HALE by as much as 3.3 years. The corresponding output-efficiency is 6.3 percent.
- **Education.** Using net primary enrolment as the desired outcome, Togo is below the frontier. In 2015, Togo allocated PPP$260.5 per capita on the education sector with a net enrolment of 95.4 percent. This performance remains below peers (Figure 1b). For example, a country close to the frontier devotes PPP$223.7 per capita to achieve an enrolment rate of 99.1 percent. The corresponding input-efficiency score is 14.1 percent. In terms of output-efficiency, Togo can improve the net enrolment to 100 percent with the same level of spending. The corresponding output-efficiency is 4.8 percent.

Achieving these efficiency gains will require a series of structural reforms over the medium term in both sectors. Immediate efforts should focus on continuing the expansion of existing social initiatives, including the PUDC and the PAPV.[3/] Another key step would be to strengthen the governance in social delivery, as planned in the sectoral strategies. Improving the execution of the budgeted social outlays is also important. Finally, targeting the most vulnerable is a prerequisite for a better efficiency of social spending.

[1/] This box summarizes the Selected Issues Paper on "Efficiency of Social Spending in Togo: An Overview".
[2/] The frontier shows the maximum outcome in health-adjusted life and net primary enrollment respectively at each level of expenditure.
[3/] "Programme d'Urgence pour le Développement Communautaire" and "Programme d'Appui aux Populations Vulnérables".

Box 5 Figure 1. Frontier Analysis of Social Spending in Togo (2015)



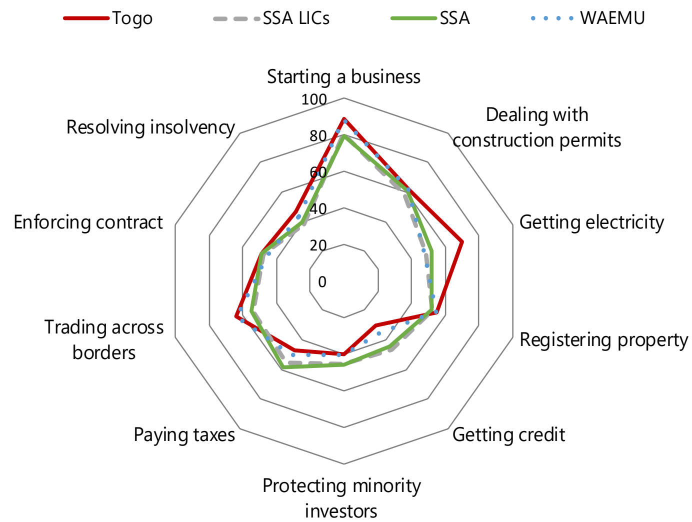


Sources: World Development Indicators; and IMF staff estimates.

26. As public investment is constrained, the business environment should be conducive to private investment to foster strong and inclusive growth (MEFP¶20). Togo's recent growth performance has been below historical and peer averages. The private investment boost that was expected to compensate for the public investment reduction has not materialized yet. Togo made significant progress in recent years to improve the business environment and was amongst the countries with the largest improvements under the latest Doing Business Indicators.[4] However, it lags peers on access to credit and protecting minority investors, as well as on the easiness of tax payments (Text Figure 8). While any change in legislation must be done in the OHADA context (which sets common regional system of uniform laws on bankruptcy, debt collection, and rules governing business transactions), the underperformance in getting credit also comes from asymmetries of information making the cost of credit prohibitively high. The coverage of credit bureau is narrow (Annex II). Some recent measures were introduced to alleviate the burden of administrative procedures on firms and individuals: tax telepayment was introduced; reduction of the number of small taxes; and e-filings are being used for contributions to the social security fund *(Caisse Nationale de Sécurité Sociale)*. The authorities are taking measures to facilitate access to public purchases for SMEs/SMIs and reduce payment delays. They will create a specialized structure to assist SMEs/SMIs in carrying out feasibility studies to improve the bankability of projects. Continuous efforts will be required in all aspects of the business environment to achieve the ambition in the National Development Plan to become a regional transportation hub, financial center, and manufacturing base. Substantial progress is needed in reducing income and gender inequalities to achieve sustained growth (Annex III).

Text Figure 8. Togo: Doing Business Indicators, 2019

(0=lowest, 100=best performance)



Sources: Doing Business Database 2019; and IMF staff estimates.

27. While improving, Togo's governance is still weaker than WAEMU and SSA averages (MEFP¶25, Box 6). Togo has put in place many of the necessary institutions and laws that are the foundation for good governance. However, it lags peers on the effective implementation of this framework, as evidenced by perception surveys of the population and users. The authorities focus their efforts on continued reforms in the following areas: fiscal governance through

[4] Its score improved from 49 in 2017 to 55 in 2018.

investment prioritization and fiscal transparency; fight against corruption through an effective functioning of the anticorruption law enforcement agencies; fight against money laundering and terrorism financing building on the finding of the national risk assessment; improvement of the judicial system through publication of an annual compendium of judicial and prison statistics, enhancing existing expedited enforcement procedures such as *Injonction de Payer,* and the implementation of the new Commercial Courts Act; and the streamlining of border procedures and market regulations.

Box 6. Governance and Institutions[1]

The Togolese government has become increasingly engaged in institutional reforms to strengthen governance and fight corruption. Togo's governance indicators, which were comparable with a typical fragile country in Sub-Saharan Africa (SSA) 15 years ago, are approaching SSA and WAEMU averages. Continued efforts are essential to improve the quality and trust in the public institutions and ensure a fair and effective implementation of existing laws and regulations.

Fiscal governance:

- Bold reforms have been implemented in recent years, but Togo's fiscal governance seems still weaker than the SSA and WAEMU averages. The publication of fiscal data is incomplete and could be more transparent. While tax and customs administration reforms have advanced, revenue performance would benefit from more efficient use of automated procedures and risk-based analysis. Public investment management has been weak with projects selected based on insufficient technical and financial information; the recently finalized cost-benefit methodological guide is expected to address this issue. Management and monitoring of state-owned enterprises and other public assets are insufficient. Procedures for systematic follow-up of audit reports by the Court of Audits (*Cour des Comptes*) and other control organs are weak.
- The ministries would generally need stronger procurement capacity, including developing electronic management of tender processes and establishing procurement compliant reviews and auditing mechanisms.

Market regulation:

- Following regulatory reforms in recent years, Togo's regulatory performance seems comparable to other WAEMU and SSA countries. There is room for further improvements, including through continued streamlining and automation of border procedures and a more solid regulatory framework for public projects delegated to private-sector providers.

Rule of law:

- On paper, the judicial branch is independent from the legislative and the executive branches, but survey data indicate weaknesses in the implementation of the legal framework and limited trust in the judicial courts.

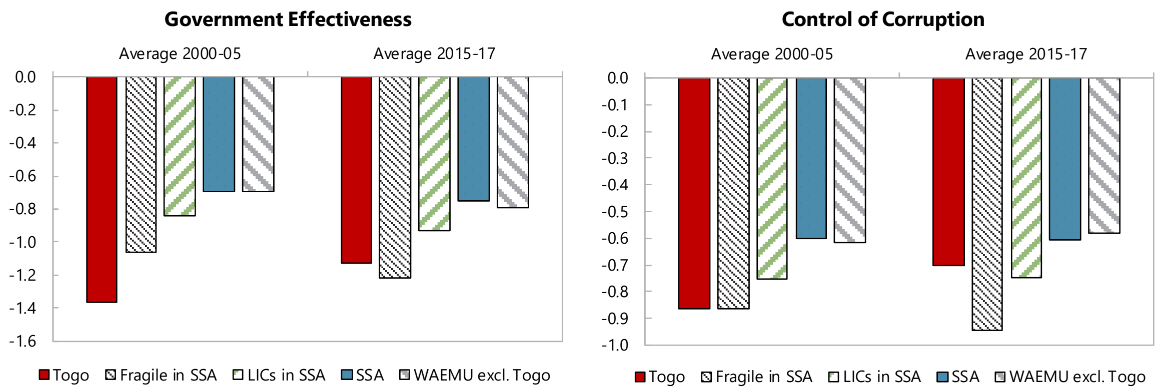
Box 6. Governance and Institutions (concluded)

- The cost of contract enforcement, while on par with other WAEMU countries, is prohibitively high according to Doing Business 2019. The government recently implemented the new Commercial Courts Act and two new commercial courts focused on business conflicts will be opened.

Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT):

- Togo adopted a new AML/CFT law in 2018. The new law transposes the uniform AML/CFT law developed by WAEMU into the national legal framework. The Togolese authorities are also undertaking a National ML/TF risk assessment using the World Bank methodology.

Box 6 Figure 1. Togo: Indicators of Governance, 2000–17
(estimate range from -2.5 (weak) to 2.5 (strong))



Source: Worldwide Governance Indicators.

Note: Estimates of control of corruption are derived from perceptions-based data. Caution is needed when comparing these indicators across countries and over time.

Control of corruption:

- Control of corruption seems weaker than the WAEMU average. Based on survey data, bribes are common in contacts with the police, courts, utility companies, and when asking for permits or other documents; cases of corruption are underreported to the legal authorities because of fear of retaliation or other negative consequences.
- Against this background, in recent years the Togolese government has established several important institutions to tackle corruption, including the anti-corruption agency *(HAPLUCIA, Haute Autorité de Prévention et de LUtte contre la Corruption et les Infractions Assimilées)* that became operational in 2017. New anti-corruption legislation has also been adopted or is under preparation, including a requirement of asset declarations for all civil servants who are professionally or politically exposed to risks of corruption. The challenge is now to enforce the anti-corruption legislation.

[1/] This box summarizes the Selected Issues Paper on "Togo – Governance and Institutions".

Authorities' Views

28. The authorities agreed that, in the context of fiscal adjustment, improving the quality of public investment and promoting private investment are essential to sustaining economic growth. The authorities agreed that the effectiveness of social spending needs to be strengthened to achieve better social outcomes and inclusive growth, despite fiscal consolidation. However, they noted that, as resource optimization is generally a challenge for the budget, the private sector could play a larger role going forward, for instance in healthcare provision. As public investment is limited, they reiterated their determination to improve further the business environment to promote private investment and foster strong and inclusive growth. Regarding the transition to program budgeting, the authorities noted that they are making efforts to address the main challenges related to appointing financial controller positions in line ministries and institutions, adopting the new information system, and finding adequately skilled-personnel to effectively implement the reform.

D. Improve Debt Management Capacity

29. Togo is assessed to be at moderate risk of external debt distress and high risk of overall public debt distress, mainly reflecting the elevated level of domestic debt (MEFP¶26). To improve debt management, the newly-reorganized debt directorate should be fully staffed; the recently approved procedures manual for debt management activities should be implemented; and greater transparency and more active communication with primary dealers and investors would support smooth functioning of the market and its development.

30. The authorities plan to proceed with a debt reprofiling operation in 2019 (MEFP¶27). The objectives of this operation were agreed at the time of the second review of the ECF-supported program. The operation consists of borrowing externally at more favorable terms to repay outstanding domestic or regional debt. It is expected to reduce the NPV of total public debt. The size of the operation will be limited to an amount that keeps unchanged the moderate risk rating on external debt. The authorities have contracted a consultancy firm to advise on this debt reprofiling operation.

Authorities' Views

31. The authorities fully concurred with staff's recommendations on debt management policy but preferred a narrower coverage of public debt. The authorities' policies on debt management are aligned with staff's recommendations. They are requesting more intensive technical assistance and training from the Fund to strengthen their capacity in this area. The authorities, however, would have preferred to exclude from the public sector debt the debt of some state-owned enterprises as they are of the view that this debt does not represent a fiscal risk to the central government. They plan to submit to staff justifications for such exclusion based on the LIC-DSF guidance note.

PROGRAM MODALITIES

32. **The authorities request, and staff supports, a waiver for the nonobservance of the net domestic financing PC as well as modification of two PCs (MEFP¶28-29).** While net domestic financing exceeded the program ceiling by about 1.5 percent of GDP at end-2018, the underperformance would have been 0.2 percent of GDP if revenue recorded in "other accounts receivable" had been recorded as cash payments in 2018. The authorities are taking corrective measures, including to strengthen permanent revenue sources. The modification of the PCs on the domestic primary balance and the net domestic financing for end-June and end-September 2019 reflects the additional urgent spending. The modification of net domestic financing also takes into account the 2019 recording of revenue committed in 2018 and paid in 2019. The waiver and modifications of PCs do not alter the thrust of the program objectives. The end-December 2018 structural benchmark on the privatization of the first public bank is proposed to be redesigned and reset to end-June 2019. Six new structural benchmarks have been added for the sixth review.

33. **To accommodate the agreement at the time of the ECF approval, the fifth and sixth reviews of the program will take place on a quarterly schedule (MEFP¶30).** As agreed initially, the program should end around end-2019 or early 2020, considering the Presidential election in early 2020. Accordingly, the fifth review of the program will be based on the end-June 2019 criteria/targets/benchmarks and is scheduled to be discussed by the IMF Board on or after September 15, 2019. The sixth review of the program will be based on the end-September 2019 criteria/targets/benchmarks and is scheduled to be discussed by the IMF Board on or after December 15, 2019. The program is fully financed with firm commitments from development partners for the remainder of the program including the World Bank, the European Union, and the African Development Bank and others, while ECF disbursements will close the remaining financing needs.

34. **Safeguards assessment:** An updated safeguards assessment of the BCEAO was completed in 2018. It found that the regional central bank had maintained a strong control environment; audit arrangements were in broad conformity with international standards; and the financial statements were prepared in accordance with the International Financial Reporting Standards. The BCEAO has recently enhanced the oversight role of its audit committee in line with the recommendations of the assessment.

35. **Togo's capacity to repay the Fund is strong.** Togo's capacity to repay the Fund remains adequate (Table 7). Obligations to the Fund would peak in 2025 at 2.3 percent of government revenue or 0.5 percent of GDP.

36. **Capacity development efforts are well aligned with program objectives (MEFP¶31).** Capacity development is currently focused on measures to: (i) increase domestic revenue mobilization and modernize the customs administration; (ii) improve PFM, including investment management and program-based budgeting; and (iii) strengthen the compilation and

dissemination of statistics. A comprehensive diagnostic of the banking sector may be considered in future fiscal year(s). IMF, World Bank, and development partners are cooperating to build institutional and technical capacity (Annex IV).

STAFF APPRAISAL

37. Economic activity is recovering and is expected to strengthen in the medium term. Following a sharp deceleration in 2017 due to socio-political tensions, economic growth is estimated to have accelerated to 4.9 percent in 2018. It is expected to approach 5½ percent over the medium term as large public investment completed in recent years and the improvement of the business environment are expected to boost private investment. Headline inflation stood at around 2 percent (year-on-year) in March 2019. The external position in 2018 is broadly consistent with fundamental and desirable policy settings.

38. Risks remain tilted to the downside and continue to inhibit the growth potential. At the national level, although socio-political tensions have abated, uncertainty remains high, particularly in light of the Presidential election scheduled for the first half of 2020. At the regional level, security risks—including terrorism threats—have been intensifying recently. From a global perspective, a rise in protectionism and a retreat from multilateralism, a possible tightening of global financial conditions, and a weaker-than-expected global growth may also adversely impact Togo's economic performance.

39. Staff commends the authorities' broadly satisfactory performance under the ECF-supported program. Five out of six performance criteria and five out of seven structural benchmarks at end-December 2018 were met. Togo complied with the WAEMU fiscal deficit criterion in 2017 and 2018, two years ahead of the timeline agreed by all member states. Nonetheless, the revenue outturn was partly driven by exceptional and non-permanent revenue; public debt remains above the WAEMU convergence criterion; and the privatization process of one of the two public banks encountered delays.

40. While accommodating some urgent expenditure in 2019-20, staff recommends safeguarding the hard-won fiscal consolidation and pursuing debt reduction. The fiscal deficit will be loosened relative to previous projections but will remain consistent with the WAEMU deficit criterion. Public debt is projected to fall below the 70 percent WAEMU debt criterion from 2020. Staff recommends safeguard measures related to the urgent spending to limit governance risks. Staff urges strengthening permanent revenue to preserve fiscal consolidation in the medium and long term and create fiscal space for much-needed social and infrastructure spending.

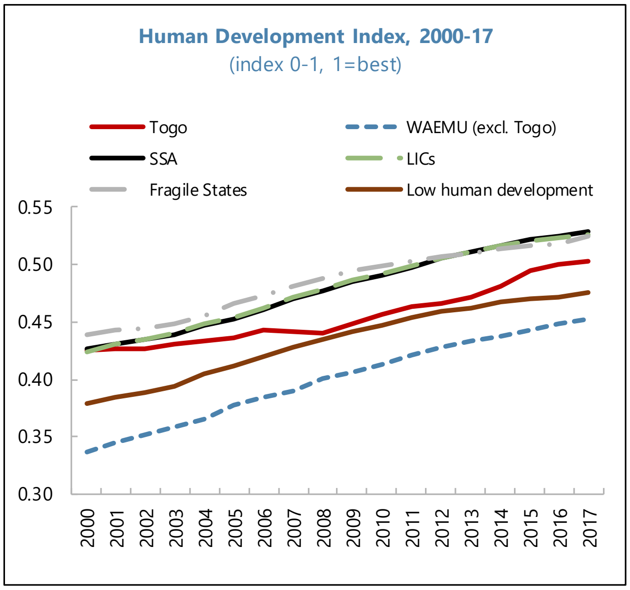
41. Staff recommends finalizing reforms related to the two public banks and persevering with structural reforms to promote strong and inclusive growth. In case the ongoing negotiations for the first public bank encounter further delays, staff recommends revisiting the privatization strategy and launching an open tender; a prudential review of the new owner is paramount to ensure a successful privatization. Staff also notes the need to address the elevated non-performing loans. In the context of fiscal adjustment, the quality of public investment needs to be improved to support economic growth; the efficiency of social spending should be bolstered to achieve better social outcomes. To this end, staff welcomes the finalization of the methodological guide on cost-benefit analysis of public investment, the comprehensive expenditure review, as well as the move to program-based budgeting. Staff commends Togo's achievement in the latest publication of the World Bank's Doing Business Indicators. Staff notes the need to continue addressing governance challenges and reduce vulnerabilities to corruption and urges further reforms to advance gender equality.

42. Staff supports the authorities' request for a waiver on the non-observance of a performance criterion and recommends the completion of the fourth ECF review. Program performance has been broadly satisfactory. The LOI/MEFP sets out appropriate policies to achieve the program objectives. The capacity to repay the Fund is adequate. Staff also supports the modification of PCs. The 5th and 6th reviews of the program will be conducted on a quarterly cycle.

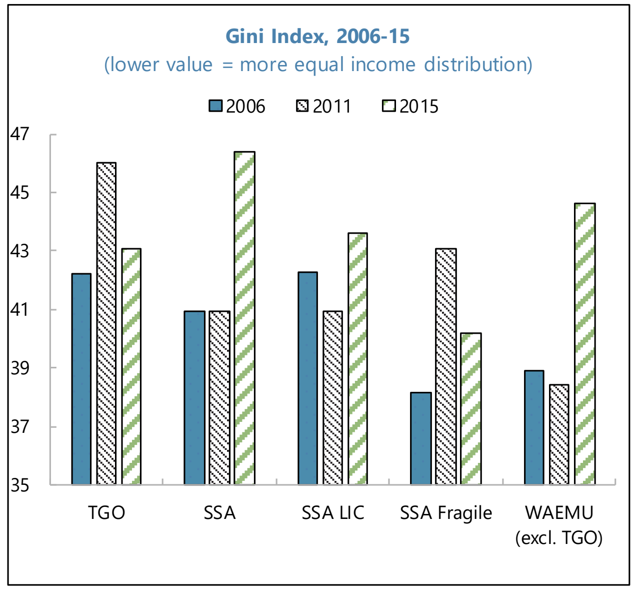
43. Staff recommends that the next Article IV consultation for Togo be held on the 24-month cycle.

Figure 1. Togo: Economic and Socio-Political Context

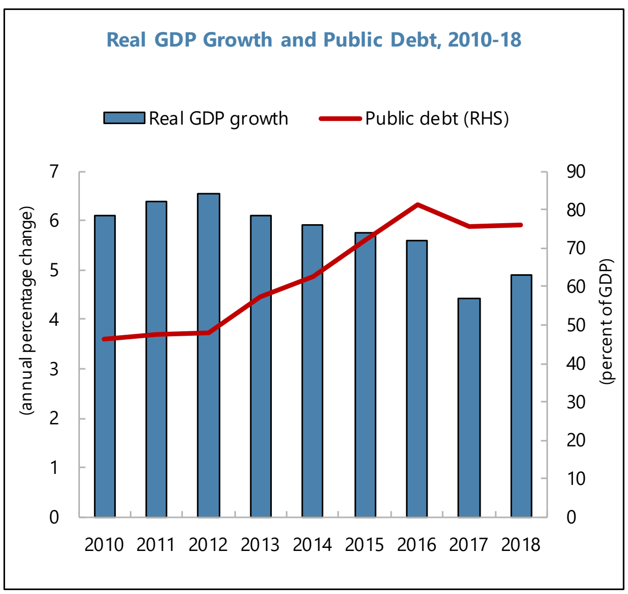
Togo's human development index has been improving slightly faster than in some other countries in recent years.



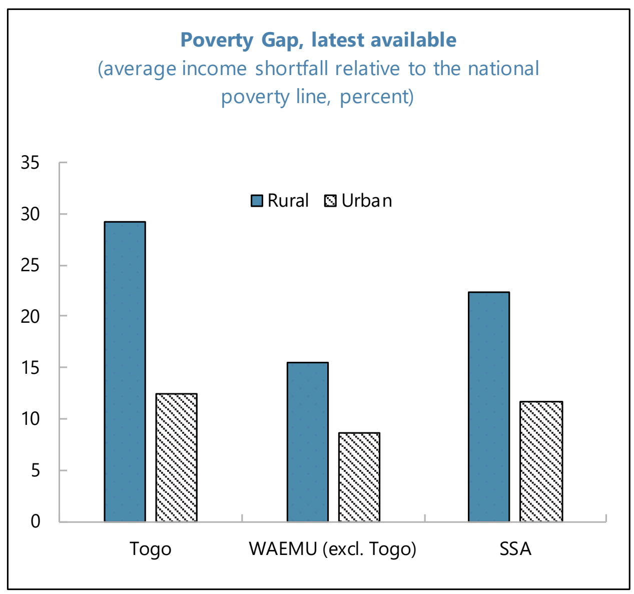
The distribution of income among Togo's households became more equal between 2011 and 2015, as opposed to some other peers.



The strong fiscal consolidation that started in 2017 put an end and started to reverse the previous rapid increase in public debt.



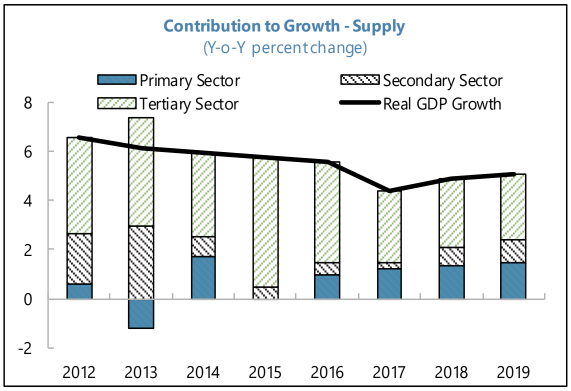
Rural households are poorer than urban households and this discrepancy is larger in Togo than in peers.



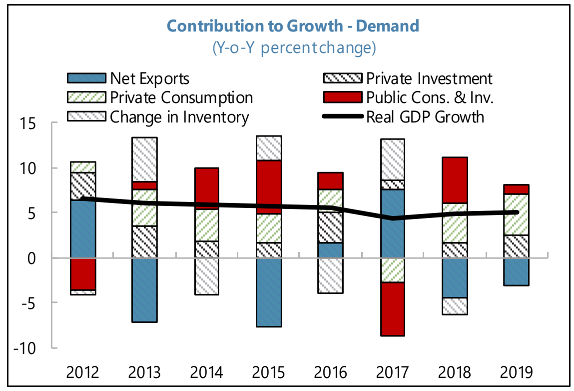
Sources: Human Development Report; World Development Indicators; Togolese authorities; and IMF staff estimates.

Figure 2. Togo: Real Sector Developments

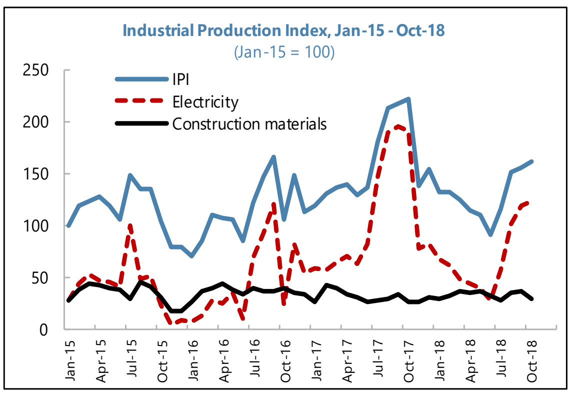
Growth is driven by agriculture and tertiary activities, on the supply side..



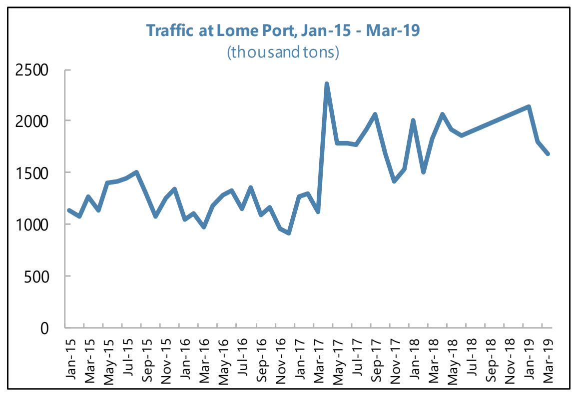
...and by private consumption and investment, on the demand side.



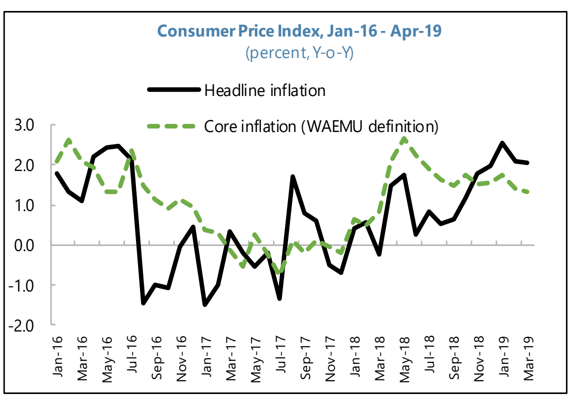
Industrial production has resumed after a sharp decline in 2018H1, driven by the energy sector.



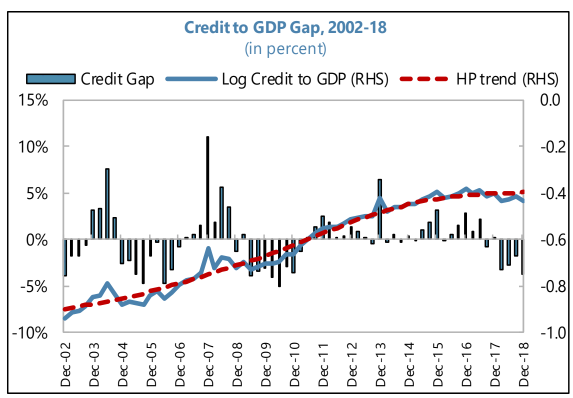
while the traffic at Lomé port has continued to expand.



...with inflation re-entering positive territory in 2018 before starting to decline in 2019 under the influence of lower prices in the primary sector...



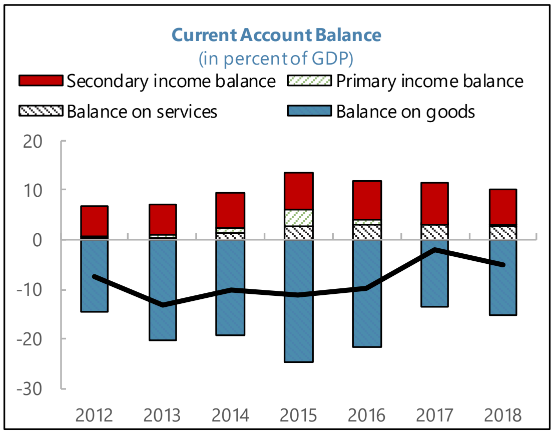
...while credit to the private sector remains below potential.



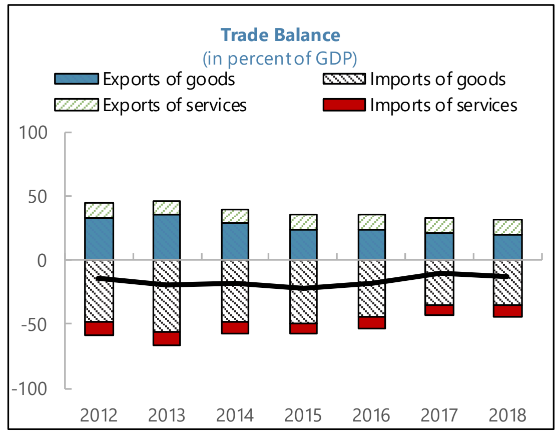
Source:INSEED; PAL; BCEAO; Togolese authorities; and IMF staff estimates.

Figure 3. Togo: External Sector Developments

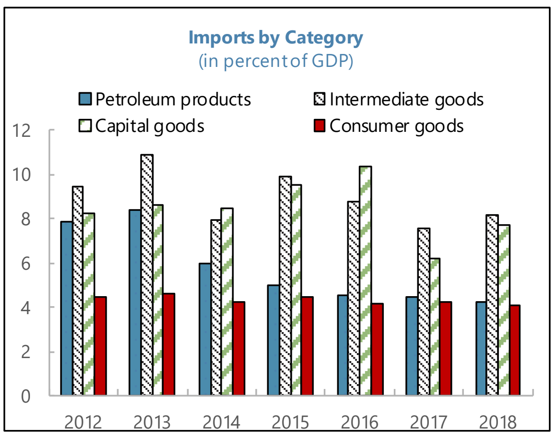
The current account deficit improved significantly in 2017-2018...



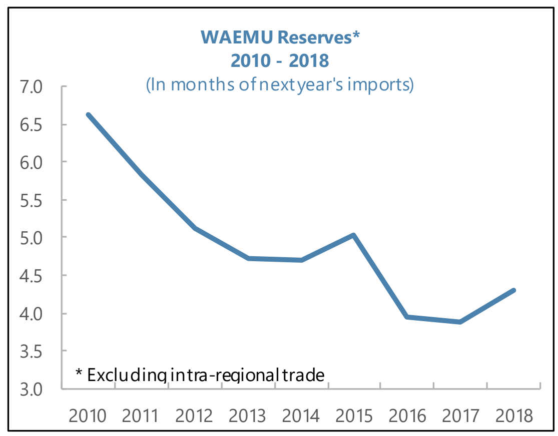
...on the back of a strengthening trade balance, driven by...



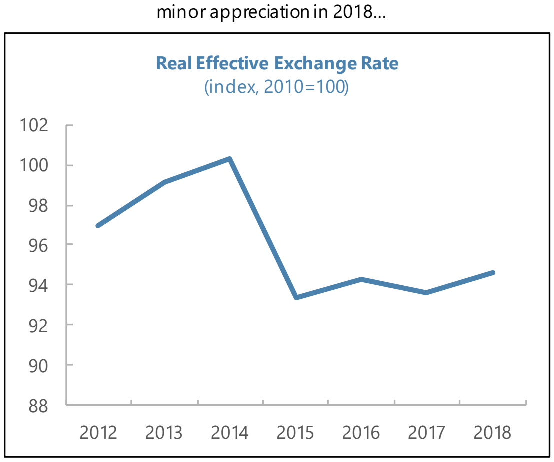
...the reduction of intermediate and capital goods imports related to public and private investments.



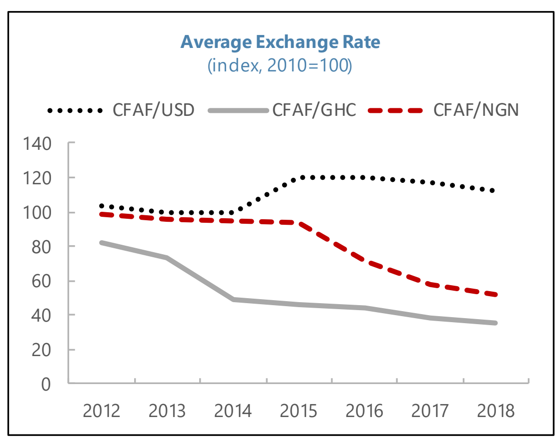
Togo's reduced current account deficit in 2018 helped strengthen regional reserves.



After a depreciation in 2015, REER has been stable despite a minor appreciation in 2018...



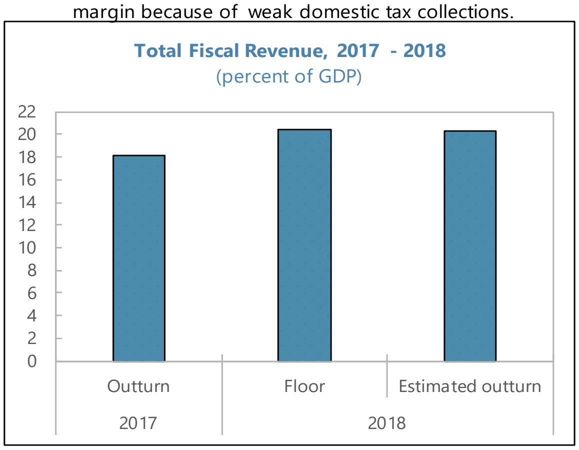
... while bilateral rates against some trading partners continue to be disadvantageous.



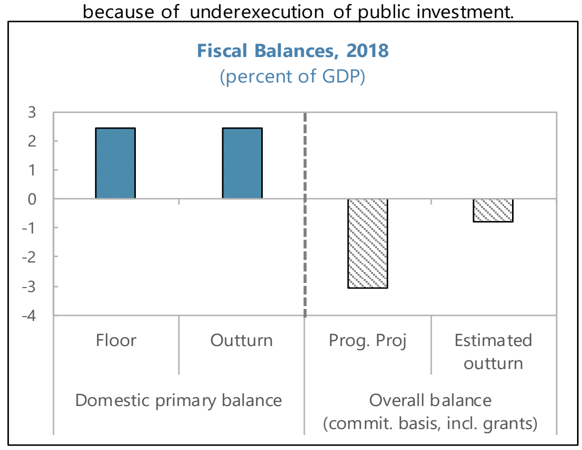
Sources: Togolese authorities; and IMF staff estimates.
Note: 2018 figures are staff estimates.

Figure 4. Togo: Fiscal, Monetary, and Banking Sectors Developments

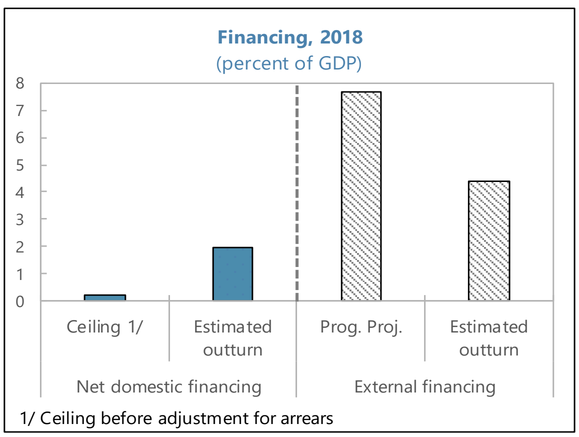
Although nontax revenue performance was strong, the target on total revenue collections was missed by a very small margin because of weak domestic tax collections.



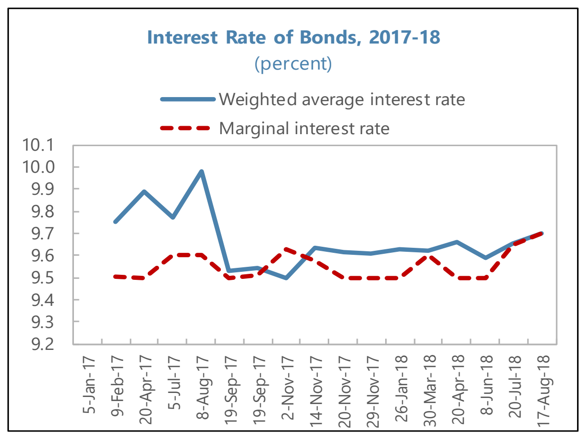
The projected balances were met on both the overall balance and the domestic primary balance (with a very small margin) because of underexecution of public investment.



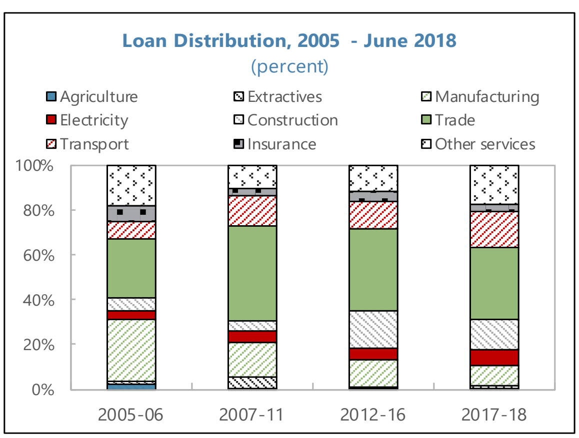
External financing was significantly less than projected and the ceiling on domestic financing was missed because some revenue accrued in 2018 was paid with a delay in 2019.



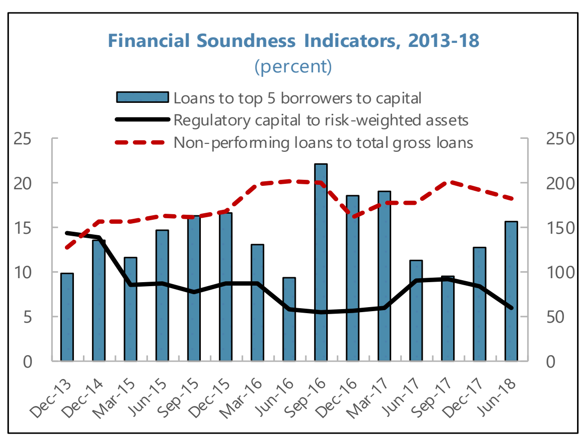
Interests rate on bonds are broadly stable.



Although some diversification is noted relative to the past, loans remain concentrated on a few sectors.



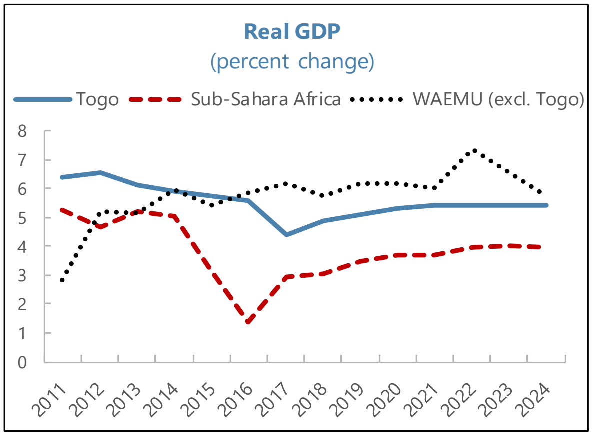
NPLs remain high; capital cushions are diminishing; and concentration does not fall below its 2016 lowest level.



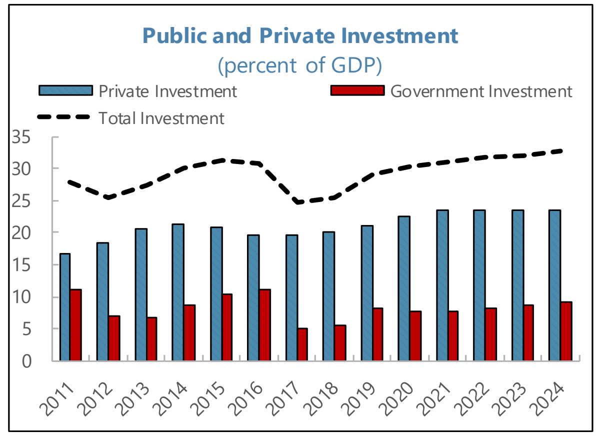
Sources: UMOA Titres; BCEAO; Togolese authorities; and IMF staff estimates.

Figure 5. Togo: Medium-Term Economic Prospects, 2011–24

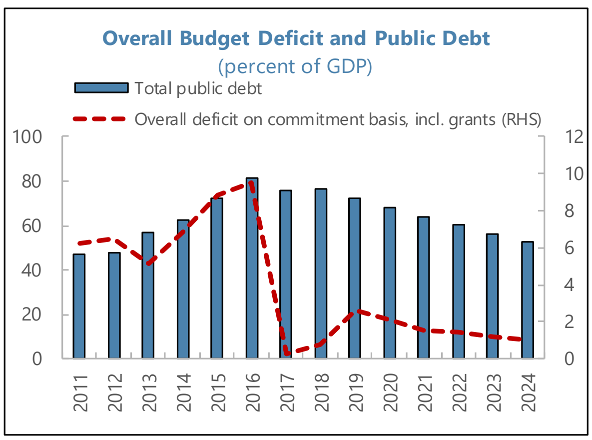
While Togo is expected to continue growing faster than Sub-Saharan Africa, growth is slightly slower than the rest of WAEMU.



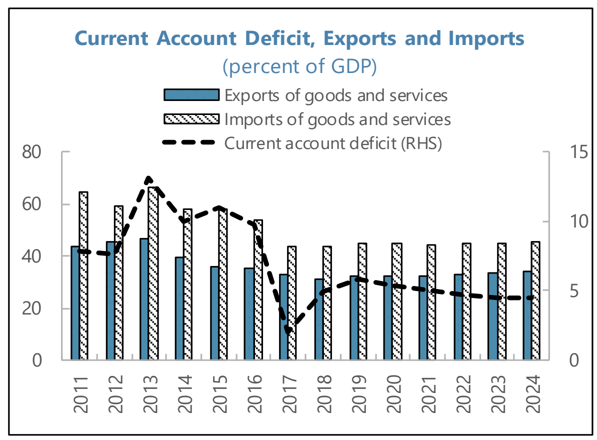
The driver of growth is expected to shift from public to private investment, as the former is returning to its level before the surge.



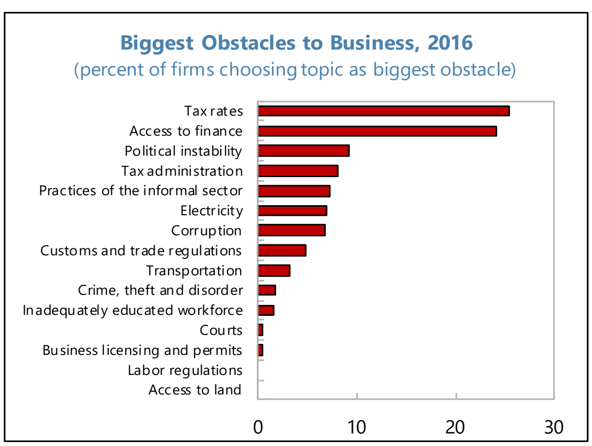
As fiscal consolidation is expected to continue, public debt should follow a downward path.



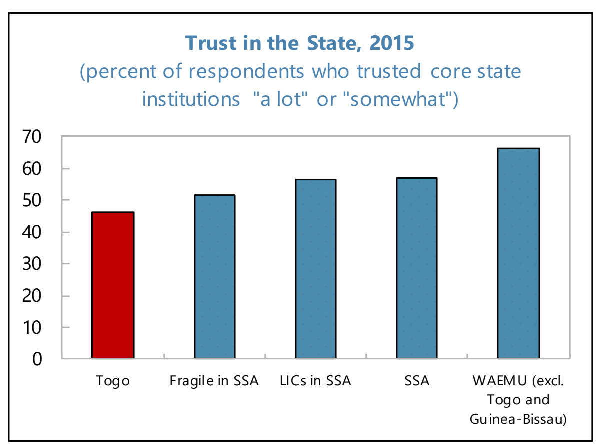
The external current account is expected to converge to its fundamentals as government imports are contained.



Togolese companies complain about complexity, lack of clarity, and discretion in the tax system.



The below-averge trust in core state institutions is a sign of the need to improve the quality and capacity of Togo's institutions.



Sources: Togolese authorities; IMF staff estimates; and Afrobarometer, Dispatch No. 112, August 2016.

Table 1. Togo: Selected Economic and Financial Indicators, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Estimates			Projections					
	(Percentage change, unless otherwise indicated)								
National income, prices, and exchange rates									
Real GDP	5.6	4.4	4.9	5.1	5.3	5.4	5.4	5.4	5.4
Real GDP per capita	3.0	1.9	2.3	2.5	2.7	2.8	2.8	2.8	2.8
GDP deflator	1.5	0.8	1.7	2.3	3.0	3.0	3.0	3.0	3.0
Consumer price index (average)	0.9	-0.2	0.9	1.4	2.0	2.0	2.0	2.0	2.0
GDP (CFAF billions)	2,649	2,789	2,975	3,199	3,469	3,767	4,089	4,440	4,821
Exchange rate CFAF/US$ (annual average level)	592.8	580.9	555.2	…	…	…	…	…	…
Real effective exchange rate (appreciation = –)	-1.0	0.7	-1.1	…	…	…	…	…	…
Terms of trade (deterioration = –)	-1.4	25.1	-6.0	-0.4	1.7	0.2	3.4	0.9	0.9
	(Percentage change of beginning-of-period broad money)								
Monetary survey									
Net foreign assets	5.8	1.7	0.5	1.7	1.7	1.7	1.6	1.5	1.5
Net credit to government	-2.3	9.5	2.7	-1.3	1.2	0.0	0.1	0.0	0.0
Credit to nongovernment sector	7.5	1.7	3.1	5.6	7.5	8.3	8.2	8.3	8.6
Broad money (M2)	12.6	10.0	9.0	9.2	9.3	9.3	9.3	9.3	9.4
Velocity (GDP/end-of-period M2)	1.9	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7
	(Percent of GDP, unless otherwise indicated)								
Investment and savings									
Gross domestic investment	33.5	25.9	26.8	31.1	32.0	32.9	33.6	34.2	34.8
Government	13.9	6.3	6.8	10.1	9.5	9.5	10.2	10.7	11.4
Nongovernment	19.6	19.6	20.0	21.0	22.5	23.4	23.4	23.4	23.4
Gross national savings	23.7	23.8	21.9	25.2	26.7	27.9	28.9	29.6	30.3
Government	4.3	6.0	6.0	7.4	7.4	8.0	8.8	9.6	10.3
Nongovernment	19.4	17.9	15.9	17.8	19.3	19.9	20.1	20.1	20.0
Government budget									
Total revenue and grants	21.6	21.4	23.9	24.0	24.4	24.8	25.4	26.0	26.7
Revenue	18.7	18.2	20.3	19.9	20.3	20.7	21.3	21.9	22.6
Tax revenue	16.8	16.1	16.5	17.6	17.7	18.1	18.6	19.1	19.6
Total expenditure and net lending	31.1	21.6	24.7	26.6	26.5	26.3	26.9	27.2	27.7
Domestic primary balance[1]	-4.5	0.8	2.4	1.6	2.5	2.7	2.7	2.8	2.8
Overall primary balance (commitment basis, incl. grants)	-7.2	1.5	1.6	-0.2	0.7	1.0	1.0	1.1	1.1
Overall balance (commitment basis, incl. grants)	-9.5	-0.3	-0.8	-2.7	-2.1	-1.5	-1.4	-1.2	-1.0
Overall primary balance (cash basis, incl. grants)	-7.2	-0.3	-1.8	-0.2	0.7	1.0	1.0	1.1	1.1
Overall balance (cash basis, incl. grants)	-9.5	-2.1	-4.2	-2.6	-2.1	-1.5	-1.4	-1.2	-1.0
External sector									
Current account balance	-9.8	-2.0	-4.9	-5.9	-5.3	-5.0	-4.7	-4.5	-4.5
Exports (goods and services)	35.3	33.1	31.3	32.1	32.3	32.5	33.2	33.6	34.1
Imports (goods and services)	-53.7	-43.5	-43.6	-45.0	-44.8	-44.5	-44.8	-45.0	-45.4
External public debt[2]	20.2	19.7	20.5	22.2	21.8	21.4	21.0	20.4	19.7
External public debt service (percent of exports)[2]	4.9	5.9	4.9	3.9	3.9	3.6	3.8	4.4	4.8
Domestic public debt[3]	61.2	55.8	55.7	50.0	46.6	42.8	39.3	36.1	33.1
Total public debt[4]	81.4	75.5	76.2	72.2	68.4	64.2	60.3	56.5	52.8
Total public debt (excluding SOEs)[5]	78.0	72.3	73.6	70.1	66.6	62.7	59.1	55.5	52.0

Sources: Togolese authorities and IMF staff estimates and projections.

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

[2] Includes state-owned enterprise external debt.

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

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

[5] Includes prefinancing debt and domestic arrears.

Table 2a. Togo: Central Government Financial Operations, 2017–24

(Billions of CFA Francs)

	2017	2018			2019			2020	2021	2022	2023	2024
	Est.	Prog.[1]	3rd Rev.	Est.	Budget	Prog.	Proj.	Proj.	Projections			
Revenue and grants	595.8	723.5	723.5	710.8	800.0	767.0	767.1	845.7	933.4	1,039.9	1,155.7	1,285.6
Total revenue	507.3	606.5	606.5	604.9	668.7	635.8	635.9	703.4	778.8	872.1	973.5	1,087.8
Tax revenue	449.0	518.3	518.3	491.9	585.1	552.2	563.0	612.7	680.3	759.8	846.2	943.4
Tax administration (CI)	247.2	297.9	291.3	259.8	342.0	309.1	313.5	344.5	390.3	444.9	504.3	572.2
Customs administration (CDII)	201.8	220.4	226.9	232.1	243.1	243.1	249.5	268.2	290.1	314.9	341.9	371.2
Nontax revenue	58.2	88.2	88.2	113.0	83.6	83.6	72.9	90.7	98.5	112.3	127.2	144.4
Grants	88.5	117.0	117.0	105.9	131.3	131.2	131.2	142.3	154.5	167.8	182.2	197.8
Budget support	48.3	41.6	41.6	33.2	20.4	20.4	20.4	22.1	24.0	26.1	28.3	30.7
Project	40.2	75.3	75.3	72.7	110.9	110.9	110.9	120.2	130.5	141.7	153.9	167.1
Expenditure and net lending	603.6	857.3	815.3	733.8	813.9	813.9	852.3	918.4	989.6	1,098.1	1,208.1	1,335.5
Of which: Dom. primary expenditures	484.9	534.3	534.3	532.6	546.5	546.5	584.9	617.1	675.4	760.5	850.8	954.7
Current expenditure	429.0	515.5	515.5	532.2	529.4	529.4	529.4	588.8	631.4	682.0	731.1	786.7
Primary current spending	380.4	444.5	444.5	461.8	451.2	451.2	451.2	491.9	536.1	582.0	631.9	686.1
Wages and salaries	192.8	204.0	204.0	200.4	215.2	215.2	215.2	233.6	255.4	277.3	301.1	326.9
Goods and services	84.3	114.7	114.7	144.9	111.2	111.2	111.2	124.2	134.9	146.4	159.0	172.6
Transfers and subsidies	103.3	125.8	125.8	116.5	124.8	124.8	124.8	134.0	145.8	158.2	171.8	186.5
Interest	48.6	71.0	71.0	70.4	78.2	78.2	78.2	96.9	95.3	100.0	99.2	100.6
Domestic debt	38.7	56.9	56.9	61.6	66.8	66.8	66.8	88.3	85.0	87.9	85.6	85.5
External debt	9.9	14.1	14.1	8.8	11.3	11.3	11.3	8.6	10.3	12.0	13.7	15.1
Public investment	174.5	299.8	299.8	201.7	284.5	284.5	322.9	329.6	358.2	416.1	477.0	548.8
Domestically financed	104.4	89.8	89.8	70.8	95.3	95.3	133.7	125.2	139.3	178.5	219.0	268.6
Foreign financed	70.0	210.0	210.0	130.9	189.2	189.2	189.2	204.4	218.9	237.7	258.0	280.2
Net Lending[1]	0.1	42.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic primary balance	22.3	30.2	72.2	72.3	122.2	89.3	51.0	86.3	103.5	111.6	122.6	133.1
Overall primary balance (commitment basis, incl. grants)	40.8	-62.9	-20.9	47.3	64.3	31.3	-7.0	24.3	39.1	41.8	46.8	50.7
Overall balance (commitment basis, incl. grants)	-7.8	-133.9	-91.9	-23.0	-13.9	-46.8	-85.1	-72.6	-56.2	-58.2	-52.4	-49.9
Overall balance (commitment basis, excl. grants)	-96.3	-250.8	-208.9	-128.9	-145.2	-178.1	-216.4	-215.0	-210.8	-226.0	-234.6	-247.7
Change in arrears and accounts payable and receivable	-50.4	-64.8	-64.8	-100.8	-35.4	-35.4	0.6	0.0	0.0	0.0	0.0	0.0
Change in arrears and accounts payable	-50.4	-64.8	-64.8	-64.8	-35.4	-35.4	-35.4	0.0	0.0	0.0	0.0	0.0
Change in accounts receivable	0.0	0.0	0.0	36.0	0.0	0.0	-36.0	0.0	0.0	0.0	0.0	0.0
Overall primary balance (cash basis, incl. grants)	-9.6	-127.7	-85.7	-53.4	28.9	-4.1	-6.3	24.3	39.1	41.8	46.8	50.7
Overall balance (cash basis, incl. grants)	-58.2	-198.7	-156.7	-123.8	-49.3	-82.2	-84.5	-72.6	-56.2	-58.2	-52.4	-49.9
Overall balance (cash basis, excl. grants)	-146.8	-315.6	-273.7	-229.7	-180.6	-213.5	-215.7	-215.0	-210.8	-226.0	-234.6	-247.7
Financing	106.4	275.3	233.4	189.7	120.5	152.8	154.1	215.0	210.9	226.2	234.8	247.9
Domestic financing (net)	27.3	48.0	6.0	59.3	-56.4	-24.0	-22.8	22.3	0.1	1.4	-0.4	0.6
External financing (net)	79.1	227.3	227.4	130.4	176.9	176.9	176.9	192.7	210.8	224.7	235.3	247.4
Grants	88.5	117.0	117.0	105.9	131.2	131.2	131.2	142.3	154.5	167.8	182.2	197.8
Budget support loans	0.0	7.9	7.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	29.8	134.7	134.7	58.2	78.3	78.3	78.3	84.1	88.4	95.9	104.2	113.1
Amortization (incl. IMF repayments)	-39.2	-32.3	-32.3	-33.7	-32.7	-32.7	-32.7	-33.7	-32.1	-39.0	-51.1	-63.5
Financing gap/unidentified financing	40.3	40.3	40.3	40.0	60.1	60.6	61.6	0.0	-0.2	-0.2	-0.2	-0.3
IMF-ECF	40.3	40.3	40.3	40.0	60.1	60.6	61.6	…	…	…	…	…
Memorandum Item:												
Nominal GDP (CFAF billions)	2,788.6	2,957.5	2,974.9	2,975.0	3,198.6	3,198.4	3,198.6	3,469.2	3,766.6	4,089.5	4,440.0	4,820.6

Sources: Togolese authorities and IMF staff estimates and projections.

[1] The original program for 2018 includes FCFA 42 billion (1.4 percent of GDP) of projected cost for the recapitalization of the two merged state owned banks (reported under net lending).

Table 2b. Togo: Central Government Financial Operations, 2017–24
(Percent of GDP)

	2017	2018			2019			2020	2021	2022	2023	2024
	Est.	Prog.[1]	3rd Rev.	Est.	Budget	Prog.	Proj.	Proj.	Projections			
Revenue and grants	21.4	24.5	24.3	23.9	25.0	24.0	24.0	24.4	24.8	25.4	26.0	26.7
Total revenue	18.2	20.5	20.4	20.3	20.9	19.9	19.9	20.3	20.7	21.3	21.9	22.6
Tax revenue	16.1	17.5	17.4	16.5	18.3	17.3	17.6	17.7	18.1	18.6	19.1	19.6
Tax administration (CI)	8.9	10.1	9.8	8.7	10.7	9.7	9.8	9.9	10.4	10.9	11.4	11.9
Customs administration (CDII)	7.2	7.5	7.6	7.8	7.6	7.6	7.8	7.7	7.7	7.7	7.7	7.7
Nontax revenue	2.1	3.0	3.0	3.8	2.6	2.6	2.3	2.6	2.6	2.7	2.9	3.0
Grants	3.2	4.0	3.9	3.6	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Budget support	1.7	1.4	1.4	1.1	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Project	1.4	2.5	2.5	2.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Expenditures and net lending	21.6	29.0	27.4	24.7	25.4	25.4	26.6	26.5	26.3	26.9	27.2	27.7
Of which: Dom. primary expenditures	17.4	18.1	18.0	17.9	17.1	17.1	18.3	17.8	17.9	18.6	19.2	19.8
Current expenditures	15.4	17.4	17.3	17.9	16.6	16.6	16.6	17.0	16.8	16.7	16.5	16.3
Primary current spending	13.6	15.0	14.9	15.5	14.1	14.1	14.1	14.2	14.2	14.2	14.2	14.2
Wages and salaries	6.9	6.9	6.9	6.7	6.7	6.7	6.7	6.7	6.8	6.8	6.8	6.8
Goods and services	3.0	3.9	3.9	4.9	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6
Transfers and subsidies	3.7	4.3	4.2	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Interest	1.7	2.4	2.4	2.4	2.4	2.4	2.4	2.8	2.5	2.4	2.2	2.1
Public investment	6.3	10.1	10.1	6.8	8.9	8.9	10.1	9.5	9.5	10.2	10.7	11.4
Domestically financed	3.7	3.0	3.0	2.4	3.0	3.0	4.2	3.6	3.7	4.4	4.9	5.6
Foreign financed	2.5	7.1	7.1	4.4	5.9	5.9	5.9	5.9	5.8	5.8	5.8	5.8
Net Lending[1]	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic primary balance	0.8	1.0	2.4	2.4	3.8	2.8	1.6	2.5	2.7	2.7	2.8	2.8
Overall primary balance (commitment basis, incl. grants)	1.5	-2.1	-0.7	1.6	2.0	1.0	-0.2	0.7	1.0	1.0	1.1	1.1
Overall balance (commitment basis, incl. grants)	-0.3	-4.5	-3.1	-0.8	-0.4	-1.5	-2.7	-2.1	-1.5	-1.4	-1.2	-1.0
Overall balance (commitment basis, excl. grants)	-3.5	-8.5	-7.0	-4.3	-4.5	-5.6	-6.8	-6.2	-5.6	-5.5	-5.3	-5.1
Change in arrears and accounts payable and receivable	-1.8	-2.2	-2.2	-3.4	-1.1	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears and accounts payable	-1.8	-2.2	-2.2	-2.2	-1.1	-1.1	-1.1	0.0	0.0	0.0	0.0	0.0
Change in accounts receivable	0.0	0.0	0.0	1.2	0.0	0.0	-1.1	0.0	0.0	0.0	0.0	0.0
Overall primary balance (cash basis, incl. grants)	-0.3	-4.3	-2.9	-1.8	0.9	-0.1	-0.2	0.7	1.0	1.0	1.1	1.1
Overall balance (cash basis, incl. grants)	-2.1	-6.7	-5.3	-4.2	-1.5	-2.6	-2.6	-2.1	-1.5	-1.4	-1.2	-1.0
Overall balance (cash basis, excl. grants)	-5.3	-10.7	-9.2	-7.7	-5.6	-6.7	-6.7	-6.2	-5.6	-5.5	-5.3	-5.1
Financing	3.8	9.3	7.8	6.4	3.8	4.8	4.8	6.2	5.6	5.5	5.3	5.1
Domestic financing (net)	1.0	1.6	0.2	2.0	-1.8	-0.8	-0.7	0.6	0.0	0.0	0.0	0.0
External financing (net)	2.8	7.7	7.6	4.4	5.5	5.5	5.5	5.6	5.6	5.5	5.3	5.1
Grants	3.2	4.0	3.9	3.6	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Budget support loans	0.0	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	1.1	4.6	4.5	2.0	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.3
Amortization (incl. IMF repayments)	-1.4	-1.1	-1.1	-1.1	-1.0	-1.0	-1.0	-1.0	-0.9	-1.0	-1.2	-1.3
Financing gap/unidentified financing	1.4	1.4	1.4	1.3	1.9	1.9	1.9	0.0	0.0	0.0	0.0	0.0
Residual gap	1.4	1.4	1.4	1.3	1.9	1.9	1.9	…	…	…	…	…
IMF-ECF	1.4	1.4	1.4	1.3	1.9	1.9	1.9	…	…	…	…	…
Memorandum Item:												
Nominal GDP (CFAF billions)	2,788.6	2,957.5	2,974.9	2,975.0	3,198.6	3,198.4	3,198.6	3,469.2	3,767	4,089	4,440	4,821

Sources: Togolese authorities and IMF staff estimates and projections.

[1] The original program for 2018 includes FCFA 42 billion (1.4 percent of GDP) of projected cost for the recapitalization of the two merged state owned banks (reported under net lending).

Table 3. Togo: Balance of Payments, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
		Estimates				Projections			
					(Billions of CFA Francs)				
Current account balance	-258.7	-56.1	-146.3	-187.4	-185.6	-188.8	-192.7	-200.5	-215.4
Trade balance on goods	-571.7	-373.8	-450.3	-491.4	-520.5	-541.3	-572.3	-613.4	-664.4
Of which: petroleum products, net	-95.6	-97.1	-99.5	-102.5	-116.6	-122.7	-130.4	-138.3	-151.2
Exports	614.2	591.5	589.2	654.9	716.2	783.1	874.2	964.7	1,064.7
Imports	1,185.9	965.3	1,039.5	1,146.3	1,236.7	1,324.3	1,446.5	1,578.1	1,729.1
Services, net	84.7	82.3	83.6	79.8	88.0	88.3	99.5	110.0	121.0
Primary income, net	25.8	2.9	10.8	6.9	11.2	11.2	11.3	11.7	12.4
Secondary income, net	202.4	232.5	209.5	217.3	235.7	252.9	268.8	291.2	315.6
Capital account balance	163.6	141.4	171.5	209.2	219.0	229.8	241.3	253.7	267.0
Current and capital account balance	-95.2	85.3	25.2	21.9	33.4	41.0	48.6	53.2	51.7
Financial account (- = inflow)	-159.8	117.8	53.3	72.8	14.0	12.4	18.4	21.3	8.8
Direct investment, net	179.7	-70.3	-74.3	-85.9	-103.7	-121.2	-142.0	-160.2	-178.4
Portfolio investment, net	-160.5	176.6	25.1	11.3	9.0	2.7	-0.4	-4.3	-8.9
Of which: general government, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-179.1	11.6	102.5	147.5	108.7	130.9	160.9	185.8	196.2
Of which: general government, net	-138.3	-79.1	-130.4	-176.9	-192.7	-210.8	-224.7	-235.3	-247.4
Errors and omissions	2.5	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	67.1	-30.2	-28.1	-51.0	19.4	28.6	30.2	31.9	42.8
Financing	-67.1	-10.1	-11.9	-10.7	-19.4	-28.6	-30.2	-31.9	-42.8
Change NFA[1]	-67.1	-10.1	-11.9	-10.7	-19.4	-28.6	-30.2	-31.9	-42.8
Financing gap	…	40.3	40.0	61.6	0.0	0.0	0.0	0.0	0.0
IMF ECF	…	40.3	40.0	61.6	…	…	…	…	…
					(Percent of GDP)				
Current account balance	-9.8	-2.0	-4.9	-5.9	-5.3	-5.0	-4.7	-4.5	-4.5
Trade balance on goods	-21.6	-13.4	-15.1	-15.4	-15.0	-14.4	-14.0	-13.8	-13.8
Of which: petroleum products, net	-3.6	-3.5	-3.3	-3.2	-3.4	-3.3	-3.2	-3.1	-3.1
Exports	23.2	21.2	19.8	20.5	20.6	20.8	21.4	21.7	22.1
Imports	44.8	34.6	34.9	35.8	35.6	35.2	35.4	35.5	35.9
Services, net	3.2	3.0	2.8	2.5	2.5	2.3	2.4	2.5	2.5
Primary income, net	1.0	0.1	0.4	0.2	0.3	0.3	0.3	0.3	0.3
Secondary income, net	7.6	8.3	7.0	6.8	6.8	6.7	6.6	6.6	6.5
Capital account balance	6.2	5.1	5.8	6.5	6.3	6.1	5.9	5.7	5.5
Current and capital account balance	-3.6	3.1	0.8	0.7	1.0	1.1	1.2	1.2	1.1
Financial account (- = inflow)	-6.0	4.2	1.8	2.3	0.4	0.3	0.5	0.5	0.2
Direct investment, net	6.8	-2.5	-2.5	-2.7	-3.0	-3.2	-3.5	-3.6	-3.7
Portfolio investment, net	-6.1	6.3	0.8	0.4	0.3	0.1	0.0	-0.1	-0.2
Of which: general government, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-6.8	0.4	3.4	4.6	3.1	3.5	3.9	4.2	4.1
Of which: general government, net	-5.2	-2.8	-4.4	-5.5	-5.6	-5.6	-5.5	-5.3	-5.1
Errors and omissions	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	2.5	-1.1	-0.9	-1.6	0.6	0.8	0.7	0.7	0.9
Financing	-2.5	-0.4	-0.4	-0.3	-0.6	-0.8	-0.7	-0.7	-0.9
Change in NFA[1]	-2.5	-0.4	-0.4	-0.3	-0.6	-0.8	-0.7	-0.7	-0.9
Financing gap	…	1.4	1.3	1.9	0.0	0.0	0.0	0.0	0.0
IMF ECF	…	1.4	1.3	1.9	…	…	…	…	…
Memorandum items:									
BCEAO NFA (in months of next year's WAEMU imports)	3.9	3.9	4.3	…	…	…	…	…	…
BCEAO NFA (in million USD)	10,494	12,963	14,856	…	…	…	…	…	…
BCEAO NFA (in percent of broad money)	37.7	38.7	39.7	…	…	…	…	…	…

Sources: Togolese authorities and IMF staff estimates and projections.
[1]In line with WAEMU BoP methodology, includes commercial bank NFA and Togoloese public sector NFA holdings at the BCEAO.

Table 4. Togo: Monetary Survey, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024
		Estimates				Projections			
					(Billions of CFA Francs)				
Net foreign assets	528.0	552.5	560.2	588.8	620.0	653.5	688.9	726.1	765.4
BCEAO	87.9	89.1	66.1	69.5	73.2	77.1	81.3	85.7	90.4
Assets	448.5	528.4	426.3	426.3	426.3	426.3	426.3	426.3	426.3
Liabilities	-360.6	-439.3	-360.2	-356.8	-353.1	-349.2	-345.0	-340.6	-335.9
Commercial banks	440.1	463.4	494.1	519.3	546.8	576.4	607.5	640.4	675.0
Assets	773.5	773.8	748.2	740.4	740.4	740.4	740.4	740.4	740.4
Liabilities	-333.3	-310.5	-254.1	-221.2	-193.6	-164.1	-132.9	-100.0	-65.4
Net domestic assets	938.2	1064.6	1213.0	1344.6	1491.1	1651.2	1827.1	2020.1	2235.8
Credit to government (net)	32.2	166.5	209.2	186.4	208.7	208.8	210.2	209.8	210.4
BCEAO	-12.1	-10.3	26.6	19.6	19.6	19.6	19.6	19.6	19.6
Commercial banks	44.3	176.8	182.6	166.8	189.1	189.2	190.6	190.2	190.8
Credit to nongovernment sector	1152.5	1176.9	1225.7	1321.3	1460.9	1629.0	1810.7	2013.5	2241.9
of which: Credit to private sector	1094.3	1099.3	1085.7	1198.1	1331.7	1477.6	1636.4	1812.2	2006.9
Other items (net)	115.1	138.1	82.6	17.1	25.1	25.4	24.4	25.0	29.0
Shares and other equities	131.4	140.7	139.3	146.0	153.3	161.2	169.5	178.2	187.4
Total broad money liabilities	1466.2	1617.0	1773.2	1933.4	2111.1	2304.7	2515.9	2746.2	3001.2
Money supply (M2)	1419.5	1561.5	1702.0	1858.6	2032.3	2221.6	2428.4	2653.9	2904.0
Currency Outside Depository Corporations	246.5	299.8	336.0	341.0	345.2	349.5	351.8	354.1	356.3
Transferable Deposits	513.8	539.8	556.5	620.5	654.9	684.6	710.2	727.7	738.8
Other Deposits	659.2	722.0	809.5	897.1	1032.2	1187.6	1366.4	1572.2	1808.9
Non-liquid liabilities (excl. from broad money)	46.7	55.5	71.2	74.8	78.8	83.0	87.5	92.3	97.2
					(Annual change, as a percent of beginning-of-period broad money)				
Net foreign assets	5.8	1.7	0.5	1.7	1.7	1.7	1.6	1.5	1.5
BCEAO	-5.5	0.1	-1.5	0.2	0.2	0.2	0.2	0.2	0.2
Commercial banks	11.3	1.6	2.0	1.5	1.5	1.5	1.4	1.4	1.3
Net domestic assets	7.6	8.9	9.5	7.7	7.9	7.9	7.9	7.9	8.1
Credit to government (net)	-2.3	9.5	2.7	-1.3	1.2	0.0	0.1	0.0	0.0
Credit to nongovernment sector	7.5	1.7	3.1	5.6	7.5	8.3	8.2	8.3	8.6
Other items (net)	-4.3	1.6	-3.6	-3.8	0.4	0.0	0.0	0.0	0.2
Shares and other equities	1.9	0.7	-0.1	0.4	0.4	0.4	0.4	0.4	0.3
Total broad money liabilities									
Money supply (M2)	12.6	10.0	9.0	9.2	9.3	9.3	9.3	9.3	9.4
Currency Outside Depository Corporations	0.4	3.8	2.3	0.3	0.2	0.2	0.1	0.1	0.1
Transferable Deposits	6.8	1.8	1.1	3.8	1.9	1.5	1.2	0.7	0.4
Other Deposits	5.4	4.4	5.6	5.1	7.3	7.6	8.0	8.5	8.9
Non-liquid liabilities (excl. from broad money)	0.8	0.6	1.0	0.2	0.2	0.2	0.2	0.2	0.2
Memorandum items:									
Velocity (GDP/end-of-period M2)	1.9	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7
					(Percent of GDP)				
Net foreign assets	19.9	19.8	18.8	18.4	17.9	17.3	16.8	16.4	15.9
BCEAO	3.3	3.2	2.2	2.2	2.1	2.0	2.0	1.9	1.9
Assets	16.9	18.9	14.3	13.3	12.3	11.3	10.4	9.6	8.8
Liabilities	-13.6	-15.8	-12.1	-11.2	-10.2	-9.3	-8.4	-7.7	-7.0
Commercial banks	16.6	16.6	16.6	16.2	15.8	15.3	14.9	14.4	14.0
Assets	29.2	27.8	25.1	23.1	21.3	19.7	18.1	16.7	15.4
Liabilities	-12.6	-11.1	-8.5	-6.9	-5.6	-4.4	-3.2	-2.3	-1.4
Net domestic assets	35.4	38.2	40.8	42.0	43.0	43.8	44.7	45.5	46.4
Credit to government (net)	1.2	6.0	7.0	5.8	6.0	5.5	5.1	4.7	4.4
BCEAO	-0.5	-0.4	0.9	0.6	0.6	0.5	0.5	0.4	0.4
Commercial banks	1.7	6.3	6.1	5.2	5.4	5.0	4.7	4.3	4.0
Credit to nongovernment sector	43.5	42.2	41.2	41.3	42.1	43.2	44.3	45.3	46.5
of which: Credit to private sector	41.3	39.4	36.5	37.5	38.4	39.2	40.0	40.8	41.6
Other items (net)	4.3	5.0	2.8	0.5	0.7	0.7	0.6	0.6	0.6
Shares and other equities	5.0	5.0	4.7	4.6	4.4	4.3	4.1	4.0	3.9
Total broad money liabilities	55.3	58.0	59.6	60.4	60.9	61.2	61.5	61.9	62.3
Money supply (M2)	53.6	56.0	57.2	58.1	58.6	59.0	59.4	59.8	60.2
Currency Outside Depository Corporations	9.3	10.7	11.3	10.7	10.0	9.3	8.6	8.0	7.4
Transferable Deposits	19.4	19.4	18.7	19.4	18.9	18.2	17.4	16.4	15.3
Other Deposits	24.9	25.9	27.2	28.0	29.8	31.5	33.4	35.4	37.5
Non-liquid liabilities (excl. from broad money)	1.8	2.0	2.4	2.3	2.3	2.2	2.1	2.1	2.0

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

Table 5. Togo: Financial Soundness Indicators of the Banking System, 2014–18Q2
(In Percent)

	2014	2015	2016	2017	2018Q2
Capital adequacy					
Regulatory capital to risk-weighted assets	14.0	8.7	5.8	8.4	6.0
Regulatory Tier 1 capital to risk-weighted assets	12.5	8.0	4.6	7.4	4.4
Common equity Tier 1 to risk-weighted assets (Solvency ratio)	n.a.	n.a.	n.a.	n.a.	4.3
Provisions to total assets	16.7	14.0	13.9	16.1	13.9
Capital to assets	5.7	4.3	2.9	4.3	3.5
Asset quality and composition					
Loans to total assets	56.5	55.5	49.1	46.8	46.2
Loans to top 5 borrowers to capital	136.3	166.6	186.0	128.7	157.2
Sectoral distribution of credit (percent of total credit)					
Agriculture and fishing	0.3	0.3	0.3	0.2	0.3
Extracting industries	0.7	0.8	0.8	1.8	1.7
Manufacturing	11.5	11.6	9.2	9.4	7.4
Electricity, gas, and water	4.4	3.7	6.0	8.9	6.7
Building and construction	18.0	22.7	21.4	13.1	11.7
Commerce	37.2	33.6	34.6	33.8	31.9
Transport and Communication	12.0	11.2	10.6	14.1	16.2
Services	3.5	2.9	2.5	3.6	2.7
Collectives and Social Services	12.5	13.3	14.8	15.0	21.3
Non-performing loans to total gross loans	15.6	16.8	16.2	19.3	18.3
Bank provisions to non-performing loans	69.2	66.2	77.3	77.8	81.9
Non-performing loans net of provisions to total loans	5.4	6.4	4.2	5.0	3.9
Non-performing loans net of provisions to capital	53.3	82.1	70.8	54.4	51.3
Earnings and profitability					
Average cost of funds	3.1	2.8	3.1	3.3	n.a.
Average lending rate	9.9	7.8	7.8	8.2	n.a.
Average interest rate spread	6.8	5.0	4.7	4.9	n.a.
Return on assets (ROA)	0.7	0.6	2.6	1.1	n.a.
Return on equity (ROE)	11.9	11.7	98.6	28.1	n.a.
Non interest expenses to net banking income	64.5	64.1	64.3	63.8	n.a.
Personnel expenses to net banking income	27.0	26.7	26.7	27.1	n.a.
Liquidity					
Liquid assets to total assets (liquid asset ratio)	26.3	24.8	17.6	19.5	17.4
Liquid assets to deposits	38.5	37.2	28.5	30.9	26.4
Loans to deposits ratio	92.7	93.9	90.6	87.2	82.4
Deposits to total liabilities ratio	68.3	66.5	61.9	63.1	65.9
Demand deposits to total liabilities	29.8	27.0	26.6	25.8	27.4
Term deposits and loans to total liabilities	38.5	39.5	35.3	37.3	38.6

Source: BCEAO

Table 6. Togo: Quantitative Performance Criteria and Indicative Targets, September and December 2018
(Billions of CFA Francs)

	2018							
	End-September				End-December			
	Indicative Targets	Adjusted	Actual	Status	Performance Criteria	Adjusted	Actual	Status
Performance criteria								
Domestic primary fiscal balance (floor)	-6.5		30.7	Met	72.2		72.3	Met
Non-accumulation of arrears on external public debt[1]	0.0		0.0	Met	0.0		0.0	Met
Net domestic financing (ceiling)[2]	80.2	58.9	49.6	Met	6.0	16.0	59.3	Not met
Government contracting or guaranteeing of nonconcessional external debt (ceiling)[1]	0.0		0.0	Met	0.0		0.0	Met
Government guaranteeing of domestic loans to suppliers and contractors (ceiling)[1]	0.0		0.0	Met	0.0		0.0	Met
Government guarantees on bank prefinancing for public investments (ceiling)[1]	0.0		0.0	Met	0.0		0.0	Met
Indicative targets								
Total fiscal revenue (floor)	394.2		413.9	Met	606.5		604.9	Not met
Total domestically financed social spending (floor)	164.4		129.5	Not met	219.3		210.4	Not met
Net domestic arrears accumulation (ceiling)[3]	...				0.0	8.2	-64.8	Met
Memorandum Item								
Overall primary balance[4]	-115.6		17.2		-85.7		47.3	
Government contracting or guaranteeing of nominal concessional external debt	92.7		13.6		142.6		58.2	
NPV of new non-concessional external debt contracted as a result of debt management operations (maximum)	260.3		0.0		260.3		0.0	

Sources: Togolese authorities; and IMF staff estimates.

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

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

[3] Indicative target at end-December 2018 calculated cumulatively from the beginning of 2018. The target will be adjusted for one half of the deviation from projected external

[4] With arrears repayment as envisaged in the 2018 budget.

Table 7. Togo: Indicators of Capacity to Repay the Fund, 2019–29[1]

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Projections					
Fund obligations based on existing and prospective credit											
In millions of SDRs											
Principal	8.7	7.5	1.8	2.5	12.6	22.7	35.2	35.2	32.7	22.7	12.6
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit											
In millions of SDRs	8.7	7.5	1.8	2.5	12.6	22.7	35.2	35.2	32.7	22.7	12.6
In billions of CFAF	7.0	6.0	1.4	2.0	10.1	18.1	28.2	28.2	26.2	18.1	10.1
In percent of government revenue	1.1	0.8	0.2	0.2	1.0	1.7	2.3	2.1	1.8	1.1	0.6
In percent of exports of goods and services	0.7	0.5	0.1	0.1	0.7	1.1	1.6	1.4	1.2	0.8	0.4
In percent of debt service[2]	9.9	7.8	1.8	2.2	8.5	12.6	16.5	15.4	14.0	10.1	5.7
In percent of GDP	0.2	0.2	0.0	0.0	0.2	0.4	0.5	0.5	0.4	0.3	0.1
In percent of quota	5.9	5.1	1.2	1.7	8.6	15.4	24.0	24.0	22.3	15.4	8.6
Outstanding IMF credit											
In millions of SDRs	185.4	177.9	176.2	173.6	161.1	138.4	103.2	67.9	35.2	12.6	0.0
In billions of CFAF	148.6	142.1	140.7	138.7	128.9	110.8	82.6	54.4	28.2	10.1	0.0
In percent of government revenue	23.4	20.2	18.1	15.9	13.2	10.2	6.8	4.0	1.9	0.6	0.0
In percent of exports of goods and services	14.5	12.7	11.5	10.2	8.6	6.7	4.6	2.7	1.3	0.4	0.0
In percent of debt service[2]	211.2	185.1	182.2	149.0	109.3	77.1	48.2	29.7	15.1	5.6	0.0
In percent of GDP	4.6	4.1	3.7	3.4	2.9	2.3	1.6	1.0	0.5	0.2	0.0
In percent of quota	126.3	121.2	120.0	118.3	109.7	94.3	70.3	46.3	24.0	8.6	0.0
Net use of IMF credit (millions of SDRs)											
Disbursements	75.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	11.0	7.5	1.8	2.5	12.6	22.7	35.2	35.2	32.7	22.7	12.6
Memorandum items:											
Nominal GDP (in billions of CFAF)	3,199	3,469	3,767	4,089	4,440	4,821	5,234	5,683	6,170	6,699	7,273
Exports of goods and services (in billions of CFAF)	1,027	1,122	1,224	1,359	1,494	1,644	1,805	1,983	2,177	2,392	2,628
Government revenue (in billions of CFAF)	636	703	779	872	973	1,088	1,216	1,346	1,492	1,649	1,820
Debt service (in billions of CFAF)[2 3]	70	77	77	93	118	144	171	183	187	179	176
CFAF/SDR (period average)	801	799	799	799	800	800	800	800	800	800	800

Sources: IMF staff estimates and projections.

[1] Includes proposed extension and augmentation of access.

[2] Total debt service includes IMF repurchases and repayments.

[3] Includes state-owned enterprises debt.

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

Amount	Availability date	Conditions for disbursement[1]
SDR 25.17 million (17.1 percent of quota)	May 5, 2017	Following Executive Board Approval of an ECF arrangement
SDR 25.17 million (17.1 percent of quota)	September 15, 2017	Observance of continuous and end-June 2017 performance criteria and completion of the first review under the arrangement
SDR 25.17 million (17.1 percent of quota)	March 15, 2018	Observance of continuous and end-December 2017 performance criteria and completion of the second review under the arrangement
SDR 25.17 million (17.1 percent of quota)	September 15, 2018	Observance of continuous and end-June 2018 performance criteria and completion of the third review under the arrangement
SDR 25.17 million (17.1 percent of quota)	March 15, 2019	Observance of continuous and end-December 2018 performance criteria and completion of the fourth review under the arrangement
SDR 25.17 million (17.1 percent of quota)	September 15, 2019	Observance of continuous and end-June 2019 performance criteria and completion of the fifth review under the arrangement
SDR 25.14 million (17.1 percent of quota)	December 15, 2019	Observance of continuous and end-September 2019 performance criteria and completion of the sixth review under the arrangement
SDR 176.16 million (120 percent of quota)	Total amount of the arrangement	

Sources: Togolese authorities; and IMF staff estimates.

[1] In addition to the generally applicable conditions under the Extended Credit Facility

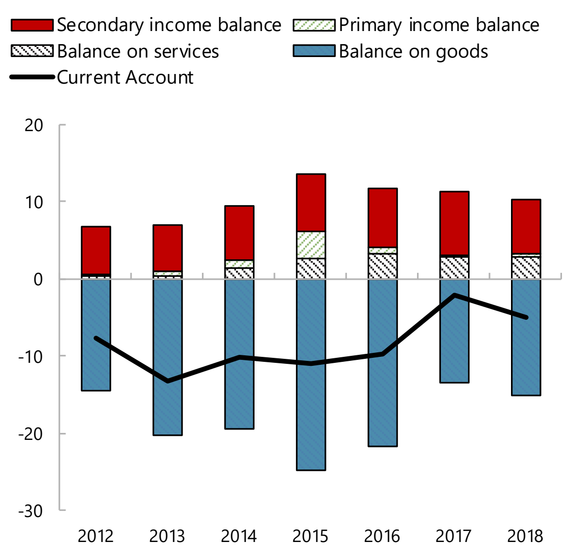
Annex I. External Sector Assessment

Togo's external position in 2018 is broadly consistent with fundamental and desirable policy settings. The current account deficit was large in the recent past mainly due to imported investment goods but recovered markedly in 2017 and is estimated to have been around the norm in 2018. The current account deficit is projected to remain narrow over the medium term, reflecting reduced imports of capital goods, stronger export supported by structural changes, and prudent fiscal balances. The fiscal adjustment required by the ECF-supported program and structural policies identified as part of the National Development Plan, which aims to improve the business and institutional environment and boost productivity, are necessary to keep the current account contained, and to contribute to regional stabilization polices. The authorities agreed with the thrust of this analysis.

1. **The current account balance (CAB) is estimated at -4.9 percent of GDP in 2018.** Compared to the average of the past five years, the CAB improved mainly due to continued decline in the demand for capital goods imports, and commodity prices in late 2018 and an overall improvement in terms of trade (Figure 1). From the lowest level in 2013, the CAB has improved significantly, especially following the start of the ECF-supported program in 2017 and the slowdown in public and private investment demand (partly related to the political crisis in 2017). The deficit is projected to remain around the norm over the medium term supported by fiscal and structural policies, but it may increase marginally over the long-term as investment needs could intensify.

Annex 1. Figure 1. Togo: Current Account Balance – Key Components, 2012–18

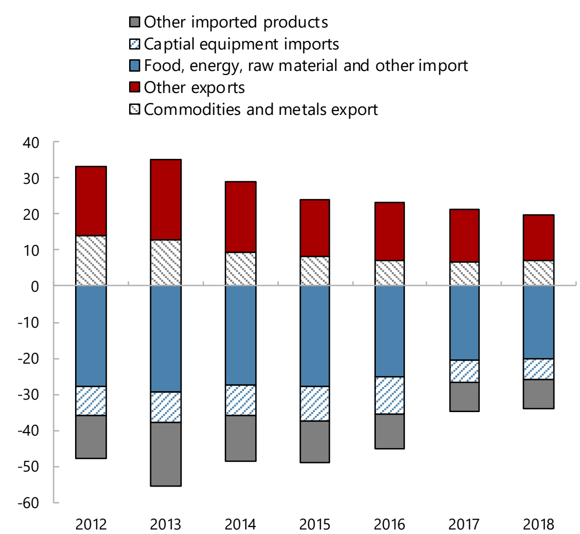
(percent of GDP)



Sources: Togolese authorities; and IMF staff estimates.

Annex 1. Figure 2. Togo: Export and Import Key Components, 2012–18

(percent of GDP)



Sources: Togolese authorities; and IMF staff estimates.

2. Although exports are relatively diversified, they are concentrated in low-value added products such as raw material, unprocessed agricultural produces, and re-exports. Key export items are mining products including phosphates and clinker, and agricultural products (all classified under commodities in Figure 2). While these are important drivers for exports and overall economic activity, more progress is needed to improve the value-added products and the supply chain. On the import side, food, energy, raw material and capital equipment constitute the larger share. In recent years, the decline of other imported products and, especially since 2017, of capital goods imports by the public and private sectors have contributed to the improvement in CAB. However, as capital is still scarce in Togo, investment needs are large, which may weaken the CAB over the long-run.

3. Togo's current account deficit is mainly financed by public borrowing and foreign direct investments (FDI). This includes concessional lending, grants and government borrowings, and the ECF financing in 2017-18. Going forward, if the framework in the National Development Plan is successfully implemented, FDI is expected to provide more financing of the CAB, which will reduce the reliance on portfolio investments and regional borrowing.

4. The EBA-lite current account (CA) model suggests that the CA gap is broadly nil.[1] Based on the EBA-lite methodology, the current account norm is estimated to be around -5.4 percent implying that the CA gap was around 0.15 percent in 2018 (Table 1). The EBA-lite methodology accounts for the fundamentals, and cyclical and policy variables. Key policy variables include fiscal policy, public health expenditures, financial sector policy, foreign exchange reserves, capital account openness, and monetary policy.

Annex 1. Table 1. Togo: EBA-lite Current Account and Reel Effective Exchange Rate Models

Current Account Model		IREER Model	
CA-Actual	-4.9%	Ln(REER) Actual	4.56
Cyclical Contributions (from model)	0.4%	Ln(REER) Fitted	4.65
Cyclically adjusted CA	-5.3%	Ln(REER) Norm	4.65
CA-Norm	-5.6%	Residual	-0.08
Cyclically adjusted CA Norm	-6.0%	Policy Gap	0.0%
Multilaterally Consistent Cyclically adjusted CA Norm	-5.4%		
CA-Gap	0.15%		
of/which Policy gap	0.8%		
Elasticity of current account (trade balance) to REER	-0.26		
REER Gap	-0.6%		-9.1%
CA-Fitted	-4.7%		
Residuals	-0.2%		

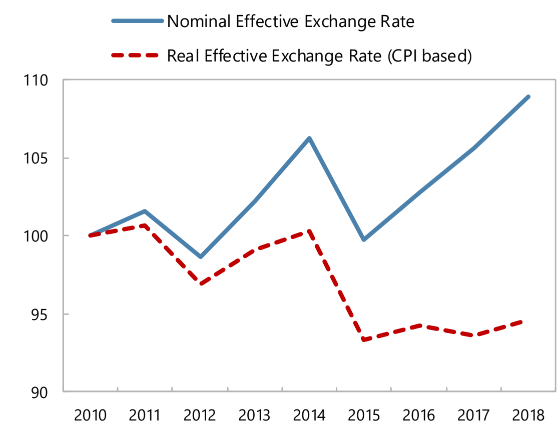
Sources: Togolese authorities; and IMF staff estimates.

[1] The assessment is based on the revised EBA-lite methodology implemented since October 2018.

5. As a currency union member, while fiscal policy, and credit and social policies are still determined at the country level, foreign exchange interventions, monetary policy and capital account openness are regional-level policies. Taking these into account, the country level-policy gaps still exist, which need to be addressed to ensure external sustainability. The CA model does not suggest any misalignment of the real effective exchange rate (REER), which should be maintained at its current level going forward through fiscal, labor market, and other structural policies.

6. The real effective exchange rate depreciation started contributing to the current account balance only a few years ago. After a depreciation in 2015, Togo's REER (CPI based) has been stable despite a minor nominal appreciation in 2018 partially reflecting the strengthening of the Euro (to which WAEMU's CFAF is pegged) against the US dollar. Relatively lower inflation in Togo has helped to keep the REER relatively stable (Figure 3). Going forward, external sustainability should be supported by competitiveness enhancing policies through improvement in the business environment.

Annex 1. Figure 3. Togo: Nominal and Real Effective Exchange Rate, 2010–18



Sources: Togolese authorities; and IMF staff estimates.

7. The overall assessment of the REER gap is based on the CA model. Compared to the CA model, the REER results indicate substantial misalignment. Given that Togo is a currency union member, and that CFAF is pegged, the divergence of the model outcomes should be interpreted with caution. The impact of country-level polices may have limited impact on the nominal exchange rate developments, which in most cases drives the real exchange rate, particularly with low inflation rate. In general, REER model results are less reliable for countries with a short sample span or that have experienced large structural changes that are not well captured by the regression.[2] Given the major data revision in 2017 and 2018, which brings current account balance significantly higher than historical average, it should be noted that the overall assessment is subject to some degree of uncertainty.[3]

[2] International Monetary Fund, 2016, Methodological Note on EBA-Lite, IMF Policy Paper.

[3] The CA deficits in 2017 and 2018 are significantly smaller than the historical average, but closer to the CA norm. Given that the assessment is based in the CA model, it should be noted that the overall assessment is subject to some degree of uncertainty as CA balance data is still provisional.

Annex II. Financial Access and Inclusion in Togo

While the provision of financial services has systematically improved in Togo and banking sector development is above WAEMU and SSA low-income averages, there is scope to further expand the financial sector's contribution to the population's ability to deal with shocks as well as firms' financing needs. In particular, reducing intermediation costs and lowering collateral requirements—including facilitation of the collateral legal framework—could improve financial access and inclusion significantly in Togo.

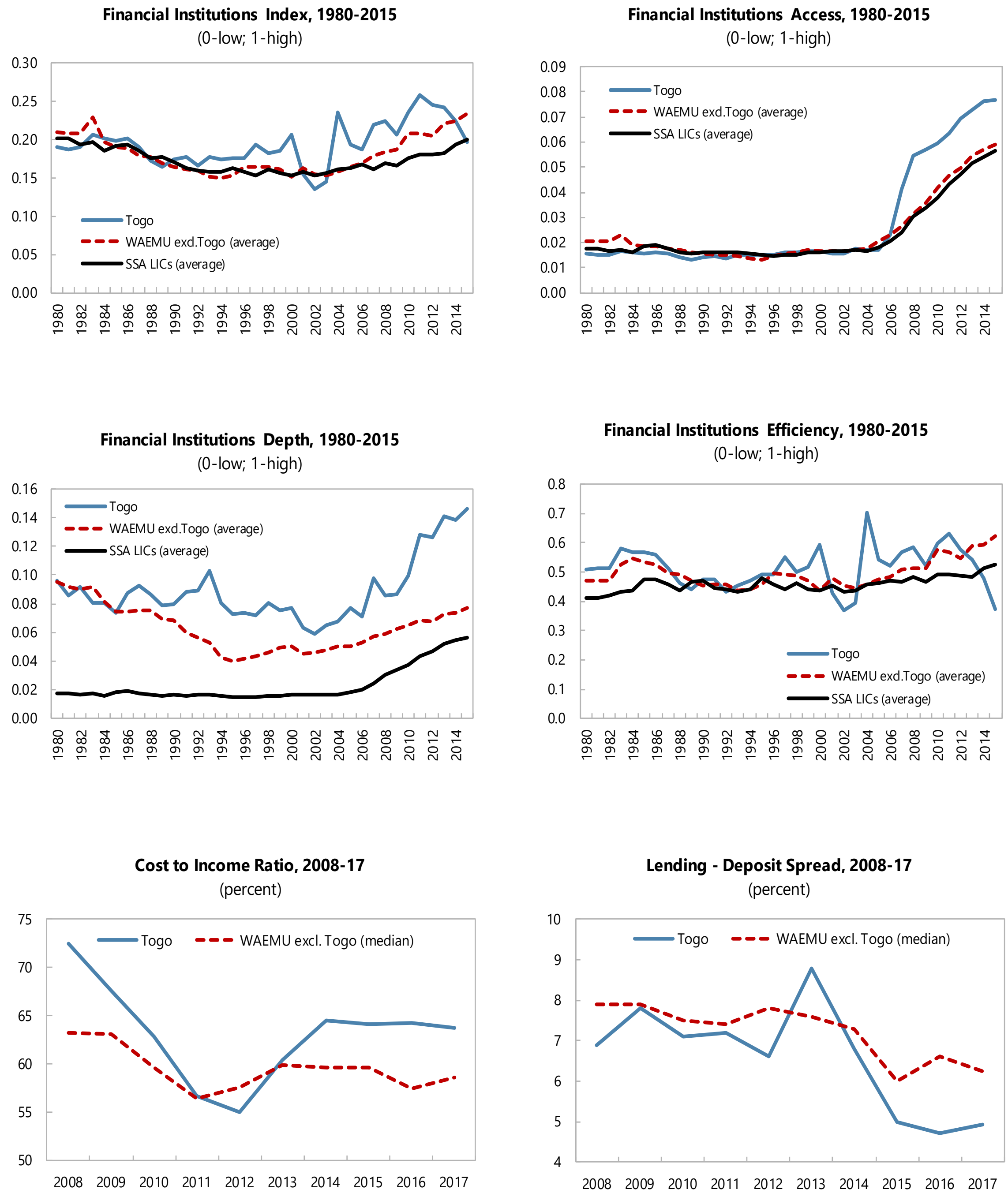
1. Togo enjoys a relatively large and competitive financial sector (Figure 1). The Togolese banking system comprises 14 banks, including two major pan-African banking groups, Ecobank and Oragroup, the country's largest banks in terms of total assets in 2018. The country has the highest total banking assets-to-GDP ratio among low-income SSA countries. The credit market is deep, with the share of formal private sector credit to GDP at 42 percent at end-2018. The microfinance sector—which serves the informal and agricultural sectors—is relatively well developed. Microfinance institutions (MFIs) serve more clients as a percentage of the population (37 percent) than any other WAEMU country, including the informal sector. The insurance sector is relatively competitive, with twelve insurance companies present in Togo. The national pension system is dominated by the National Pension Fund (*Caisse de Retraite du Togo*) and the National Social Security Fund (*Caisse Nationale de Sécurité Sociale*) which have systematically recorded structural deficits and financial sustainability difficulties due to weak governance and lack of diversification of assets.

2. While access to financial services for individuals has been strong, several risk factors are present in the banking sector, which can threaten the availability of credit going forward (Figure 1, Text figure 1). Net interest margins are among the lowest in the WAEMU, while the cost-to-income ratio has been on the rise and is higher than the WAEMU median. The overall efficiency of the banking sector has been declining. Some liquidity indicators have also deteriorated. Risks in the lending environment, unresolved nonperforming assets at the two state-owned banks, and inadequate supervision of the microfinance sector raise systemic risks. While there are big pockets of vulnerabilities related to the two state-owned banks,[1] some private banks also display thin capital buffers, high NPLs, loan concentration, common exposure to trade and manufacturing activities, and eroded margins.

3. Progress has been made in increasing access to formal accounts and financial inclusion (Figure 2). Over the last decade, the share of the population (age 15+) with access to some form of financial services has increased from less than 10 percent to 45 percent–out of which 34 percent at a financial institution– driven primarily by the usage of banking services among individuals; the expansion of mobile money accounts (MMAs), has been more limited.

[1] See the Selected Issues Paper on "State-Owned Banks, Privatization and Macro-Financial Performance in SSA" accompanying the Staff Report.

Annex 2. Figure 1. Togo: Financial Development: Financial Institutions

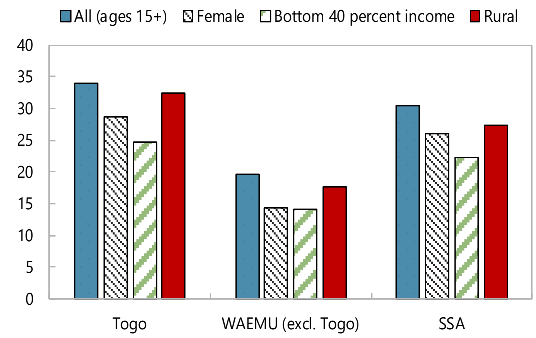


Sources: Svirydzenka, K. 2016, "Introducing a New Broad-based Index of Financial Development", IMF Working Paper No. 16/5; BCEAO; and IMF staff estimates.

Annex 2. Figure 2. Togo: Financial Access and Inclusion

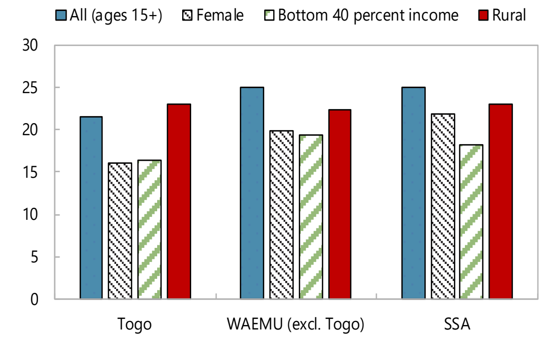
While Togo shows better performance than WAEMU, SSA low-income averages on the provision of basic financial infrastructure…

Account at Financial Institution, 2017
(percent of population ages 15+)



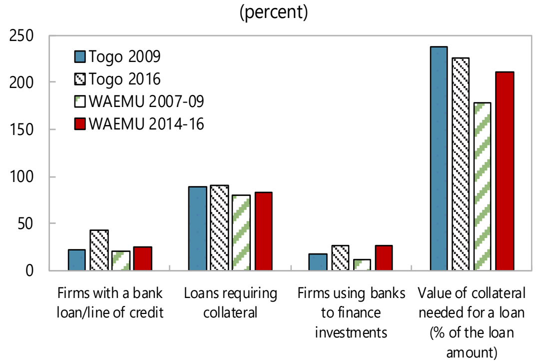
…there is lower penetration rate of mobile money accounts, especially for female and bottom 40% of income distribution.

Mobile Money Account, 2017
(percent of population ages 15+)



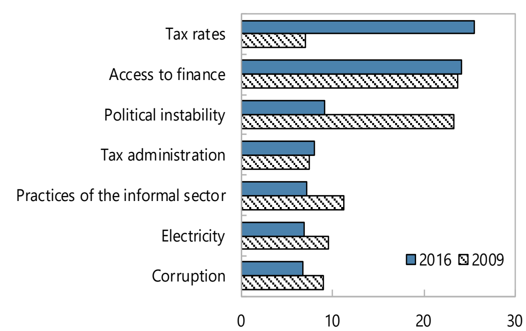
The proportion of Togolese firms have better access to finance than WAEMU, SSA low-income averages, however a higher proportion of loans require collateral-exceeding the loan value 1.5 times, for small firms…

Financial Access, 2009-16
(percent)



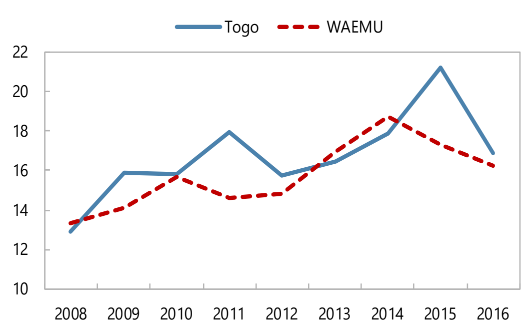
…and one quarter of Togolese firms still see acess to finance as the biggest obstacle to business. Only one quarter of firms use bank loans to finance investments.

Biggest Obstacles to Business, 2009-16
(percent of firms choosing topic as biggest obstacle)



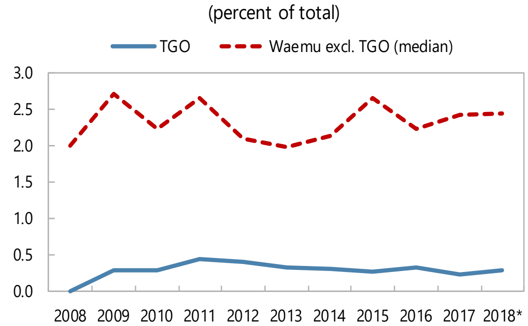
The savings rate has been declining since the 2015 peak…

Gross National Savings, 2008-16
(percent of GDP)



…while the proportion of bank credit to agriculture remains extremely low.

Credit to Agriculture, 2008-18
(percent of total)



*Data as of end-June 2018.

Sources: Global Findex Database; BCEAO; and IMF staff estimates.

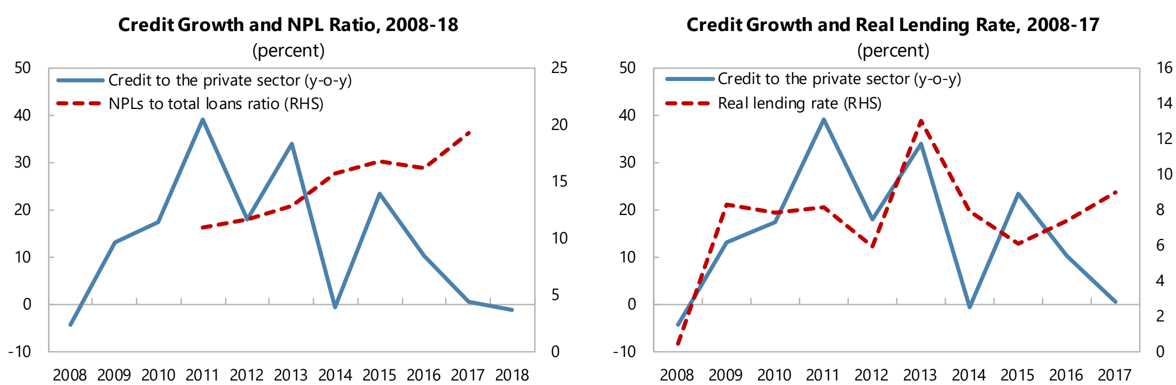
4. Although agricultural producers have access to finance through MFIs and informal credit, commercial banks have provided low and declining amounts of credit to agriculture (Figure 2). While banks must develop the expertise and tools to take agricultural risks, countries with less developed banking sectors and similarly risky weather patterns have more active bank lending to agriculture, as do other countries in the region with similarly difficult land titling issues. As showed in World Bank (2016),[2] there are several distortions that affect private incentives to invest in commercial agriculture related to the poor formulation and implementation of policies in the sector (i.e., skewed policy and regulation, tax code, poor public service delivery, lack of local infrastructure) – considerably reducing the profitability of productivity-enhancing investments by commercial and smallholder agriculturalists.

5. Despite developments in the Togolese financial sector, some outstanding weaknesses should be addressed to improve firms' access to credit (Figure 1). In 2016, access to credit came second among the most pressing obstacle to doing business; and was the main obstacle for a quarter of firms (Figure 2). In addition to access, the cost of finance is an issue. Until very recently, lending interest rates in Togo were in line with or less than those in other WAEMU countries. In 2013, Togo's bank real lending rate rose above that in the other WAEMU countries, to 12.5 percent, and after a period of decline, it picked up again in 2015, approaching 10 percent at end-2017. This reflects both higher spreads and an increased cost of funds, as would occur with greater risk in the system or increased demand for funds relative to supply. Collateral is another concern. Collateral requirements are high, particularly for small enterprises. Some segmentation is also present, with more difficult access to the financial system for MMSE relative to large corporates – a significant barrier to the growth of the formal enterprise sector.

Annex 2. Text Figure 1. Togo: Credit Growth, Non-Performing Loans and Lending Rate

The elevated level of NPLs has been a significant constraint for the financing of the economy, especially after the 2015 oil price shock affecting intra-regional trade.

Lending interest rates in Togo have been on the rise since 2015, above WAEMU median.



Sources: BCEAO; and IMF staff estimates.

[2] World Bank (2016), "Togo - Systematic Country Diagnostic," Washington, D.C.: World Bank Group

6. **Since 2015, the lack of supply of loanable funds has been more limiting than demand-side factors, manifesting itself via higher real interest rates and lower lending** (Text Figure 1). Until 2015, the co-movement of interest rates and lending volumes in Togo were consistent with shifts in the demand for credit as their main driving force (higher real interest rates, and higher lending). Since 2015 the correlation becomes negative (higher real interest rates, and lower lending), suggesting that constraints to the supply of financing driving investment levels have become a more dominant determinant of interest rates and lending levels.

Identifying Constraints to Financial Access of Firms

7. **We apply a micro-founded general equilibrium model[3] to identify ways to boost access to finance for MSMEs.** The model is calibrated to quantify the most binding constraints to financial inclusion and hence to growth and productivity. Three financial frictions are at work: participation costs (ψ) limiting access to credit for smaller and poorer entrepreneurs; intermediation costs (χ) due to asymmetric information between banks and borrowers leading to net interest spreads; and imperfect enforceability of contracts (λ) resulting in collateral requirements and smaller collateral leverage ratios. To carry out the estimation, macroeconomic and financial indicators specific to Togo are included in the model to determine parameters values and transition paths.[4]

8. **The results point to high collateral requirements and high cost of intermediation as the main borrowing constraints** (Text Figure 2). Based on the calibration, the charts in the panel below illustrate the effects of relaxing individually each of the three financial constraints on the number of firms accessing credit, GDP, total factor productivity, income inequality, interest rate spreads, and NPL ratios, suggesting that the tradeoff between access and financial stability needs to be taken into account.

- ***Participation costs***. There is some scope, although limited, to lower participation costs, such as fixed transaction costs, documentation requirements, and other access barriers could lead to higher investment, productivity, and GDP. The access of SMEs/SMIs in the agricultural sector to bank credit (0.3 percent of total credit), which is currently a major impediment to the development of the agricultural sector should be facilitated by the Agricultural Finance Incentive Mechanism *(Mécanisme incitatif de financement agricole*, MIFA), a specific form of insurance based on the sharing of agricultural risk (non-rainfall and various hazards). A range of additional measures will be needed to increase productivity/bankability and the finance for agriculture. To this end, the Ministry of Agriculture launched the census of the various actors involved in the

[3] Dabla-Norris, E., et al. ,2015, "Identifying Constraints to Financial Inclusion and Their Impact on GDP and Inequality," NBER Working Paper, No. 208.

[4] These values are: gross savings (%GDP, average): 16.7; value of collateral needed for a loan (% of the loan amount: 226; Percent of firms with a bank loan/line of credit: 42; Non-performing loans (%): 18.3; interest rate spread: 5. Employment share distribution constructed using micro data. Sources: World Bank Enterprise Surveys and World Development Indicators.

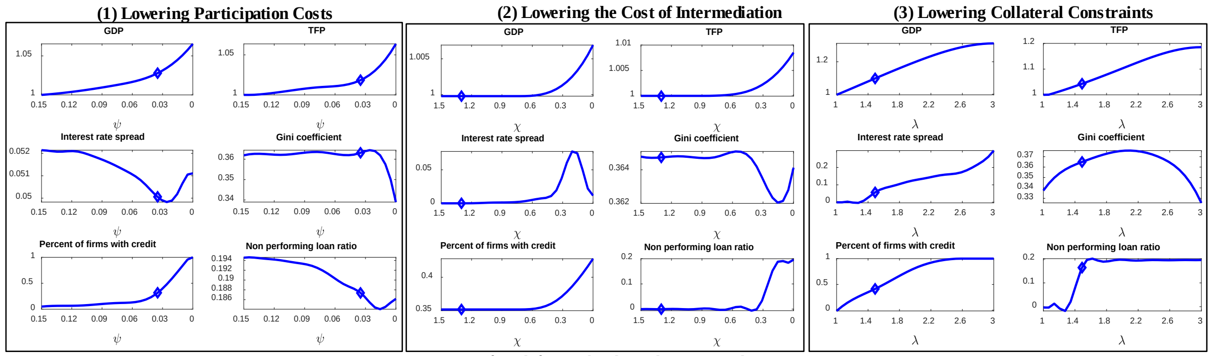
agricultural value chains, to better structure them and to set up a global system of support/guidance and development of clusters.

- ***Intermediation costs***. Lowering these costs could yield significant benefits in terms of more firms accessing credit. To this end, reforms are expected to help reduce real lending rates, namely improve the land management system to create more collateral and strengthen credit underwriting and recovery systems. An important measure that the authorities could undertake in this area is enhancing the coverage of credit information bureaus by expanding information sharing.
- ***Collateral constraints***. Tackling several structural constraints (such as the insolvency framework and the capacity to recover value from collateral, enhance enforcement, credit culture) could substantially increase the share of firms with access to credit in Togo. This, in turn, could enable additional economic activity.

9. Tackling the inefficiencies in the existing credit infrastructure and problems with enforceability of loan agreements could lower the cost of financing and reduce collateral requirements. The credit bureau system needs to be further strengthened. Although significant improvement has been made recently, financial service providers indicate that the data is incomplete. Moreover, unpredictable court decisions contribute to the high perceived risk of lending and decrease the value of collateral. Weaknesses in the rule of law have contributed to many banks limiting their activities to what they perceive as less risky segments of the market. Lastly, efforts are needed to increase the capacity of the judiciary to interpret and efficiently enforce creditors' rights; ensure proper incentives for banks to pursue enforcement and liquidation claims; improve the insolvency law and increase its usage to facilitate the restructuring of viable companies; and introduce voluntary out-of-court workout guidelines.

10. A comprehensive strategy for increasing the availability of long-term finance in Togo– a critical driver of growth– must combine policies to grow the pool of funds with policies to promote the optimal allocation of funds across the public and private sector. Measures aimed at reducing the level of informality and increasing domestic savings in the financial system and resolve asset quality issues could increase long-term financing for the private sector. Strengthening the credit infrastructure and reducing the risk perception in the banking sector will create incentives for banks to lend at longer maturities. Further improvements in the business environment will be critical to increasing the flow of foreign investment capital and make enterprises in Togo more attractive to long-term finance providers. The restructuring of the social insurance system with a view to improve its functioning and governance would not only provide income security for retirees and other beneficiaries but would also release funds needed to develop the economy in the long term. Additional funds (e.g., for healthcare) could be developed to increase the population's resilience to shocks, mobilize savings and channel them into long-term investments; while the size and complexity of the domestic capital markets could be increased by the resumption of SOEs privatization.

Annex 2. Text Figure 2. Togo: Relaxing the Constraints to the Financial Inclusion of Firms



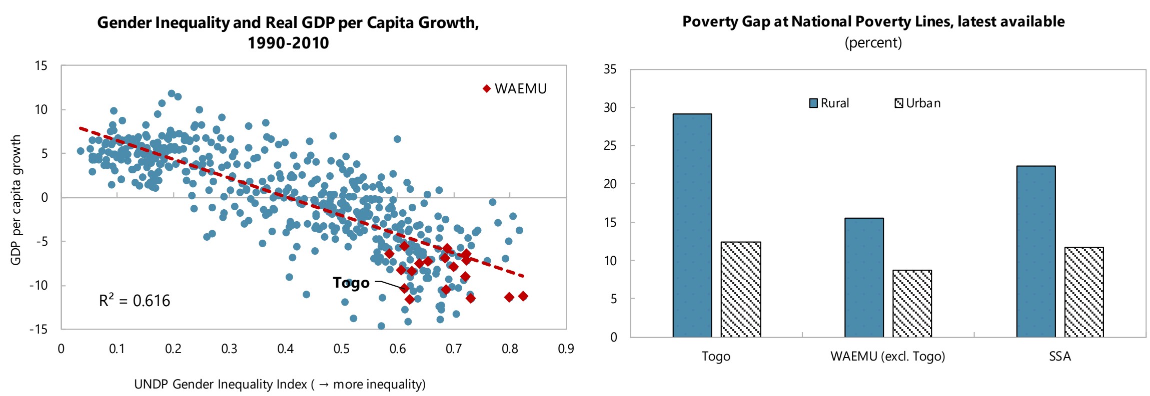
(from left to right, dot indicates initial position)

Annex III. Gender Inequality and Development in Togo[1]

Togo fares well relative to sub/regional peers in terms of gender workforce participation and legal rights but could benefit much more from women empowerment. While many gender-based legal restrictions were removed from the legal framework, major differences persist between the legal context and the social norms. Togolese women are at the center of the economy, with a relatively high participation rate in the labor market. However, women continue to be overrepresented in the informal and agriculture sectors and among the poor, while the gender gap in educational attainment is the highest in the world. Substantial progress is needed with reducing income and gender inequalities to achieve sustained growth.

1. **A growing body of empirical evidence suggests that inequality—income or gender related—can impede economic growth** (Text Figure 1). Income and gender inequality, including from legal gender-related restrictions, impede growth mainly in countries at earlier stages of development, with large growth losses in sub-Saharan Africa. Moreover, inequality of gender and inequality of income tend to be linked (IMF, 2016).[2] Women's economic empowerment—including through higher levels of school enrollment, equal rights, greater safety, and financial inclusion—can help enhance economic resilience and reduce income inequality, thus supporting economic stability and sustainable growth.

Annex 3. Text Figure 1. Togo: Social Indicators



Sources: UNDP and IMF staff estimates.

2. **In Togo, the key gender-related constraints include weak access to higher education, access to assets and economic leadership, and more broadly, limited employment opportunities in the formal sector.** Togo's 2017 Gender Inequality Index (GII) – although higher than WAEMU and SSA averages and slowly improving over time– points to difficulties in several areas, including: high maternal mortality ratio (368 deaths per 100,000 live births) and adolescent

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[1] Prepared by Irina Bunda and Shirin Nikaein Towfighian.

[2] Hakura et al, 2016, "Inequality, Gender Gaps and Economic Growth: Comparative Evidence for Sub-Saharan Africa," IMF Working Paper No. 16/111

birthrate (89.1 births per 1,000 women ages 15-19), and the small share of adult female population with secondary education (26.3 percent) compared with male (52.3 percent) (Text Table 1). Togo's Gender Development Index– based on gender disaggregated Human Development Index– points to further inequalities in gender-disaggregated income, life expectancy in health, and expected average years of schooling. Inequality of opportunities, such as unequal access to education, health services, financial markets and resources as well as differences in empowerment is strongly associated with income inequality. In Togo, the extreme poverty headcount ratio has only modestly come down relative to the 1990s; while income inequality has increased and is above WAEMU and SSA averages (text Figure 1).

Annex 3. Text Table 1. Togo: Gender Inequality Index (GII) and Components, 2017

Country	GII value	Maternal mortality ratio	Adolescent birth rate	Share of seats in parliament	Population with at least some secondary education		Labour force participation rate	
					Female	Male	Female	Male
Togo	0.57	368.0	89.1	17.6	26.3	52.5	75.8	79.4
Sub-Saharan Africa	0.57	549.1	101.3	23.5	28.8	39.2	65.2	74.0
WAEMU (exc. TGO)	0.62	489.3	120.2	15.5	10.8	20.6	59.2	76.5
LICs	0.56	433.5	91.0	22.4	25.0	34.3	57.4	79.6
Low human development	0.59	553.9	98.4	21.7	18.5	30.7	59.3	74.7
Medium human development	0.5	175.9	41.3	21.8	42.9	59.4	36.8	78.9

The Gender Inequality Index (GII) measures gender gaps in three arears: health, empowerment (education and political representation) and economic status

Sources: Human Development Report; and IMF staff estimates.

3. **Togo fares well relative to sub/regional peers in terms of women's legal rights but more should be done to acknowledge and enforce normative law over customary law, especially in rural areas.** The Togolese Constitution approves equality and prohibits discrimination, including on the basis of sex. Although several gender-based legal restrictions were removed early on, customary law is still recognized as a valid source of law– although at no higher legal value than modern law– and several discriminatory provisions persist. Major differences persist between the legal context and the social norms (GIZ Report, 2018).[3] Togo has a superposition of normative and customary law, which prevents women for accessing assets. In a rural context, where women are more excluded from decision-making than they are in the urban context, they have no opportunity to acquire land. Similarly, women are also excluded from inheritance processes, despite legislation in force under international law. Only some widows can acquire land, but their daughters will be excluded from their inheritance.

4. **The legal framework, while favorable, suffers from application in the field.** The duality of modern law and customary law leaves behind inequalities and prohibitions on family, social, economic, community and political. Several initiatives on many levels (legal, technical) to change existing customary practices and certain socio-economic and cultural norms that undermine gender

[3] Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), 2018, "Gender Analysis for Priority Development Areas of GIZ in Togo."

equality have been undertaken: revision of legal texts (family code, penal code, land code); design and implementation of various programs, awareness raising, training, creation of listening centers, support and training of women to manage income-generating activities, support for production and processing equipment for women's groups, development of religious and traditional arguments to combat customary practices that undermine gender equality.

5. **In Togo, female economic empowerment stemming from poor access to wealth/assets is a key constraint.** Women's access to financial services, healthcare services, inheritance rights for daughters, women's access to land non-land asset use, control and ownership is only partial (World Economic Forum, 2018). For instance, access to credit is free by law for both men and women, however, the law does not prohibit discrimination by creditors based on sex or gender, or marital status in access to credit. In practice, women's poor access to credit at the level of financial institutions (banks) is often due to high collateral requirements. Women earn, on average, 33 percent less than men. In urban areas, nonetheless, Togolese women can develop very lucrative activities (the so-called "Nana Benz").

6. **The issues of women's economic empowerment are considered by the National Policy for Equity and Gender Equality and its Action Plan.** Togo has an inclusive finance program that allows women to access credit. The government has set up mechanisms such as the National Fund for Inclusive Finance (FNFI), the National Agency for Promotion and Guarantee of SME/SMI Financing (ANPGF). The proportion of public procurements allocated to Women and Young entrepreneurs was increased from 20 percent to 25 percent in 2019. In 2018, this measure led to a significant increase in the creation of firms with about direct and indirect 4,000 jobs.

7. **Gender budgeting considerations should be integrated in the budget policies, programs, and processes in fundamental ways.** Gender budgeting considers how government programs and policies can promote women's economic development and gender equality. It considers how these ideas can be incorporated into laws, regulations, and practices that govern the budget. In Togo, recommendations should target gaps in both opportunities and outcomes, for instance equalizing school enrollment rates for boys and girls and boosting overall education attainment levels. The recent measure to initiate reflections to include specific gender-budgeting indicators in the standard framework of performance indicators for performance-based budgeting, is a step in the right direction.

8. **Gender-based disparities in education are a key constraint to achieving actual gender parity in Togo.** Primary education is free and compulsory; however, as of 2017, 49 percent of women were illiterate compared to 23 percent of men. While 39 percent of women do not have access to the media, this is the case only for 24 percent of men. While 33 percent of female versus 48 percent of male have enrolled in secondary education, only 3 percent of female adults versus 17 percent of male have a diploma. Obstacles to girls' education include: early marriages, traditional roles in contributing to household chores, socio-cultural burdens, family poverty.

9. **Educational outcomes have been strongly associated with gender and wealth**. Poverty is one of the obstacles to schooling for children, especially girls and often explains the average

years of schooling for girls and boys. There is a six-year schooling gap by gender in low versus high-income families; with only 3 years of schooling for girls from the poorest families. Togo has undertaken reforms in education with free primary school fees, halving secondary school fees for girls, which has lengthened the number of years of schooling for the children of low-income parents, especially girls. In 2017, primary education attainment for the age 25-54 population was 61 percent for female, compared to age 65+ where it was only 8.6 percent.

10. Gender-based disparities in education prevent Togolese women from developing their full economic potential, in turn supporting growth and stability. Labor force participation in Togo is high at about 76 percent in 2017, with women at the center of the economy. However, in general women tend to have low-paid economic activities generally learned in the informal sector. Reducing gender inequality requires women in Togo to gain greater economic power through adequate technical knowledge, access to markets and financial services beyond microfinance. Only 20 percent of the professional and technical workers are female; only 16 percent are R&D personnel; 30 percent are legislators, senior officials and managers. Only 0.6 percent of the female labor force is high-skilled, versus 3.2 percent for male. Female labor force participation rate in technical and professional jobs would rise with an increase in spending on education.

11. To combat deeper inequality of opportunities, such as unequal access to labor force, health, education and financial access between men and women, policy makers should focus on more targeted policy interventions. Such measures include implementing the WAEMU regional gender strategy and increase female education and training, supported by national plans to foster job creation. A crucial component of human capital improvements in Togo, depends on eliminating the gender disparity in educational attendance and outcomes. Raising women's education attainment will have significant positive impacts on productivity, growth and poverty reduction. It will also help curb the fertility rate.[4] Beyond education, addressing skills mismatches will be equally important; strengthening training and vocational programs, enhance private-public sector coordination.

12. Demographic trends and improvements in enrollment, retention and transition should be considered in the design of critically-important education policies. Both a significant increase in budget resources and their effective deployment will be needed to ensure quality education and reduce gender and rural-urban disparities. In addition, it will be important to focus on building basic infrastructure, increasing the teacher-student ratio, and reducing gender disparity in educational attendance and outcomes. Boosting infrastructure—particularly on social protection and public services—will help close gender gaps in education.

13. Investing in education and health is critical to improve the accessibility and quality of education tailored to labor market needs and strengthen health outcomes. Continued efforts to enhance the availability, accessibility and affordability of quality services—including sexual and reproductive health and rights for women and girls—are central to achieving progress. The need to

[4] Less educated women tend to have a higher fertility rate, and in Togo 37 percent of all women reported unmet demand for family planning; with the average number of children per woman at 4.45 in 2017 (World Economic Forum, 2018).

expand coverage, improve quality, and reduce disparities between genders and between rural and urban areas will require additional fiscal space. To increase fiscal space for these expenditures, well-targeted social transfer schemes can be considered. In addition, significant efforts are still required to increase overall domestic revenue mobilization.

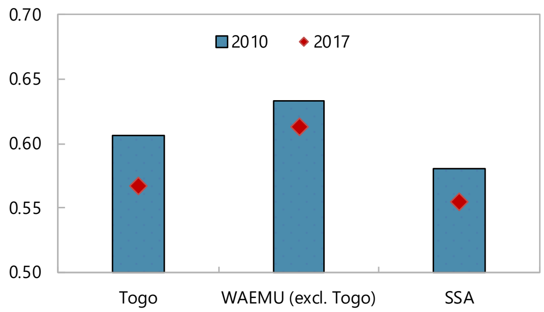
14. Greater progress on enhancing gender equality could significantly increase Togo's growth prospects. The estimated coefficients of income and gender inequality and years of schooling in econometric analyses done in IMF (2015)[5] can be used to quantify the average annual GDP per capita growth that could materialize if Togo's income and gender inequality and education levels were to reach those observed in benchmark African and Asian countries. The results indicate that Togo real GDP per capita growth rate could significantly benefit from decreases in income and gender inequality and improvements in education opportunities. Bringing the average level of income inequality in Togo to the level observed in benchmark countries could potentially increase annual real GDP per capita growth by about 0.5-1.8 percentage points. Closing gender inequality and female legal equity gaps has the potential to boost annual per capita income growth by about 0.2-0.4 and 0.4-0.5 percentage points, respectively. The results also suggest that differences in years of schooling could explain about 0.1-0.3 percentage points of Togo's shortfall in the income per capita growth rate compared to benchmark African and Asian countries.

[5] International Monetary Fund, 2015, "Inequality and Economic Outcomes in Sub-Saharan Africa." October 2015 Regional Economic Outlook: Sub-Saharan Africa

Annex 3. Figure 1. Togo: Gender Inequality, 2010–17

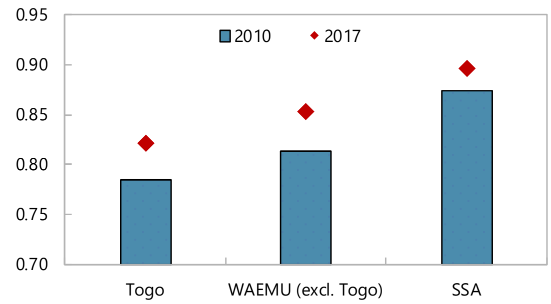
Togo's GII fares well relative to peers given its high workforce participation and legal rights, but could benefit more from women empowerment.

Gender Inequality Index
(index 0-1, 0=gender equality)



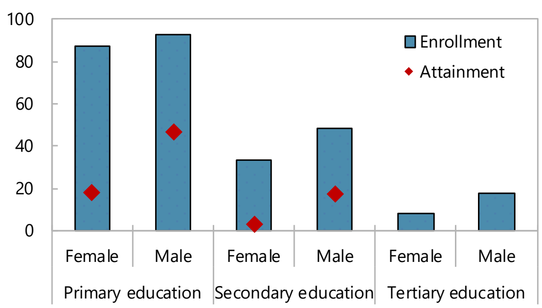
The low GDI points to several difficulties relative to regional peers and the low development index frontier (high maternal mortality ratio and adolescent birthrate, and the small share of adult female population with secondary education)

Gender Development Index
(index 0-1, 1=no gender gap)



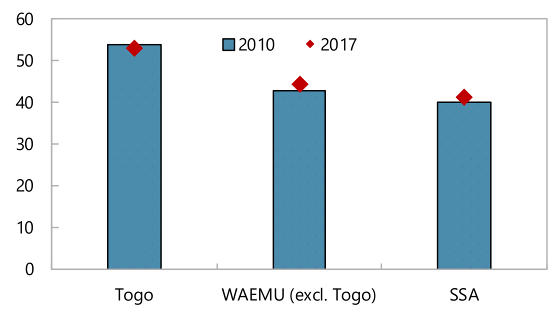
Gender-based disparities in education are a key constraint to achieving actual gender parity in Togo.

Education Enrollment and Attainment, 2017
(percent)



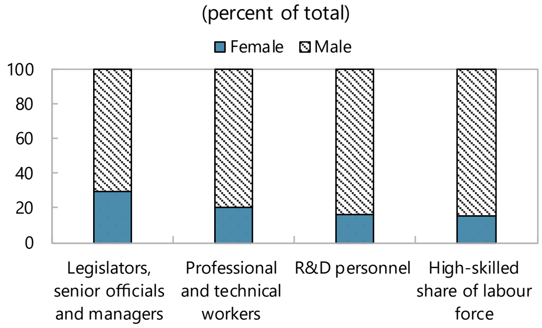
Togolese women are at the center of the economy, also very present in the tertiary--this high participation rate could be leveraged more.

Female Employment in Non-Agriculture
(percent of total employment in non-agriculture)



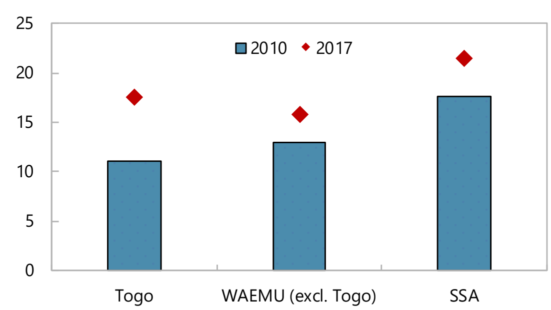
A crucial component of human capital improvements in Togo, depends on eliminating the gender disparity in educational attendance and outcomes. Investing in education is critical to improve the accessibility and quality of education tailored to labor market needs.

Economic Leadership, latest available
(percent of total)



By a measure of political empowerment–political representation –Togo has made progresss recently but still lags the SSA average.

Women in National Parliaments
(percent of seats held by women)



Sources: World Development Indicators; Human Development Report; World Economic Forum Global Gender Gap, and IMF staff estimates.

Annex IV. Capacity Development Strategy

As a low-income fragile country, Togo faces capacity and institution building challenges. An extensive agenda of IMF Technical Assistance (TA) has been implemented since the beginning of the ECF-supported program. This assistance is coordinated with the IMF-supported program and covers the areas of revenue administration, public financial management (PFM), financial sector, and statistics. The implementation of the TA recommendations has been somewhat uneven so far, due mostly to capacity constraints.

Policy Priorities

1. **The priorities under the ECF-supported program and recent economic developments require extensive capacity development (CD).** The key policy priorities under the authorities' program supported by the ECF are to (i) pursue fiscal consolidation to ensure debt sustainability; (ii) enhance fiscal governance on revenue administration and PFM; and (iii) solve the problems of the two public banks to ensure financial stability and prevent future fiscal costs. Recent developments call for continued CD: revenue is lower than projected at the start of the ECF arrangement; despite marked progress, several PFM reforms remain to be completed; fiscal and economic statistics are weak and inconsistent; and banking sector reforms are delayed and NPLs are high.

Past Technical Assistance and Capacity Building

2. **Despite progress made by the authorities in the areas where the IMF provided CD, some obstacles to effective absorption of CD remain.** Since the start of the current ECF arrangement, TA has been focused on: (i) tax policy; (ii) tax and customs administration; (iii) public investment management; (iv) cashflow and debt management; (v) fiscal accounting and reporting; (vi) public financial management; and (vii) statistics. The implementation of CD recommendations has been uneven across sectors; obstacles are mostly related to capacity weaknesses, insufficient prioritization, and internal coordination issues. Notwithstanding the priority given to revenue mobilization, revenue performance has improved more slowly than expected.

CD Priorities and Objectives

Tax Policy

3. **In FY2020 the authorities aim to strengthen the revenue collection through permanent tax policy measures and follow-up on tax expenditures.** Despite measures taken in recent years, revenue outturns remain below program approval projections and the revenue structure consists of an increasing share of non-tax revenues, which includes temporary items such as license fees and fluctuating items such as dividends. In February 2012, a mission from the IMF's Fiscal Affairs Department conducted a diagnosis of the Togolese fiscal system and noted its complexity as well as the presence of certain inconsistencies. A reform strategy was proposed, which aimed to simplify the tax system and improve its neutrality. Another FAD assessment of the tax system took place in

2017 and provided recommendations on how to move towards an efficient tax system conducive to economic growth. The objective is to strengthen revenue collection through permanent tax policy measures. These measures concern (i) the tax on capital income, (ii) the corporate tax, (ii) the value added tax (VAT); the proposals aimed at widening the tax base as well as introducing new taxes (e.g., property tax, telecommunication tax). At the same time, the objective is to simplify the tax system and reduce the burden of paying taxes for firms and individuals. In addition to the tax policy review, the authorities intend to proceed with an overhaul of the exemption and tax expenditure system, and address revenue loss due to evasion. The next FAD assessment of the tax system is scheduled for 2019.

Revenue Administration

4. **Reforms will focus on consolidating the performance of the Togolese Revenue Authority (OTR) in a sustainable manner by achieving full coordination between customs and tax authorities.** The lack of collaboration between tax and customs undermines OTR's ability to fight fraud and tax evasion. The close relationship between the tax and the customs administrations is the main added value of a revenue office. The authorities are receiving significant TA on both tax and customs administration and benefit from the expertise of several long-term advisors. On tax administration, the objectives are to increase the enforcement powers of OTR and adopt risk management principles, in order to move from exclusively tracking revenue to risk management. The authorities are taking steps to (i) improve the monitoring of tax arrears collection; (ii) limit VAT losses; (iii) strengthen the control over companies operating in special economic zones and streamlining the various exemptions; and (iv) complete the taxpayer registry. On customs administration, the objective is to establish a proper system for the automated management of risks and achieve coordination with the tax directorate, which requires, at the minimum, the synchronization of tax and customs databases. The authorities are also taking steps to move to a complete dematerialization of all customs declarations and implement a rigorous control of customs valuations.

Public Financial Management

5. **CD in PFM is focused on public investment efficiency, cash management, fiscal reporting, and implementing program-based budgeting:**

- *Public investment:* The 2016 Public Investment Management Assessment (PIMA) ranked Togo in the bottom quartile of countries in the public investment management index (at 0.3 in a scale of 0-1).[1] Collection of project data by line ministries was generally poor with sporadic monitoring reports and as a result, public investment projects have been selected based on insufficient technical and financial information. A workgroup was appointed within the Public Investment Program (PIP) committee, and it has elaborated a methodological guidance note to rank investment projects accordingly. Improvements to the guidance note were made with the

[1] IMF (2016), "Evaluation de la gestion des investissements publics (PIMA), " Fiscal Affairs Department (FAD), May 2016.

support of an IMF FAD technical assistance mission in August 2018. A multi-year program budgeting process is now under preparation and the public investment program (PIP) covering 2019-21 was published as an annex to the 2019 Budget. A circular letter was issued in December 2018 requiring that future investment projects should be selected based on a cost-effectiveness methodological guidance and only such projects can be included in the PIP and the budget. At the end of each fiscal year, a report for all completed major projects, including ex-ante and ex-post assessments, will be prepared. A follow-up PIMA mission is scheduled to take place in FY2020.

- *Arrears management:* A system was set up to prevent accumulation of new arrears. The authorities prepared an arrears clearance plan and issued circulars to financial services of government entities providing directives to prevent arrears. They continue to strengthen the implementation of the cash plan and the control of commitment authorizations. Furthermore, 32 accounts of general government entities in commercial banks were closed and balances transferred to the Treasury Single Account (TSA), with the medium-term objective of centralizing all revenues and spending in the TSA and start developing cash management instruments.

- *Program-based budgeting:* The July 2018 FAD mission launched officially the new EU-funded three-year PFM TA project and installed a new Resident Advisor (long-term). The project covers budget formulation, execution and reporting, and cash and debt management. The authorities have decided to implement program budgeting starting in 2020, instead of the initially agreed timeline of 2022. A program-based budget for 2019-21 was prepared for the entire government and presented for information to Parliament in June 2018. The main results achieved so far include: (i) support for the development of results-based budgeting tools; (ii) technical capacity building for stakeholders; and (iii) experimentation with the 2019-21 program budget for the State. The institutional requirements are being put in place with TA help to ensure prompt and smooth roll-out of this reform.

Debt Management

6. Strengthen Capacity and Reduce Refinancing Risk in the Debt Portfolio. The last debt management performance assessment (DEMPA) completed in 2010 identified significant weaknesses. In response, debt management has been centralized to a new Directorate and a draft manual of procedures has been developed. The Medium-Term Debt Strategy is being updated, with technical assistance from the IMF and the World Bank; the latest joint TA mission took place in mid-2018.

Macroeconomic and Fiscal Analysis

7. The latest 2016 PEFA evaluation assigned the D + rating to the PI-14 macroeconomic and fiscal forecast component, resulting from a lack of collaboration between the Directorate of Forecasting (DP) and that of the budget and the non-use of the PRECOMAT model for the preparation of budget forecasts. Technical assistance was provided by Western AFRITAC in May 2017 focusing on i) Eviews environmental training and Excel functionalities, ii) the revision of the model architecture, the updating of the databases and assumptions, iii) the development of a first version of the macroeconomic framework for the 2017-2022 period, as well as iv) the proposal for a more user-friendly and restructured version of the model. The August 2018 TA and training mission financed by the European Union worked with DP staff to improve the model. The PRECOMAT 3.0 model is currently operational and is being used for macroeconomic forecasting.

Statistics

8. CD in statistics is aiming to strengthen the compilation and dissemination of macroeconomic data and financial statistics and advance the participation in GDDS. The authorities have benefited from training in GFSM 2001/2014, implementation of 2015 as the new base year for the national accounts, and fine tuning of the TOFE bridge tables. In external sector statistics, TA has (i) identified significant inconsistencies including the need to harmonize the banking data used by the balance of payment statistics with the monetary statistics and (ii) provided a comprehensive review of the components of Togo's international investment position (IIP), including the recording of debt instruments.

Authorities' Views

9. The authorities agree with the thrust of the CD strategy. They see the CD as being aligned with their reform agenda. The CD from the IMF has helped in the design and implementation of their reform agenda by providing specific measures and supporting the roll-out. The implementation and absorption of the recommendations could be improved through more training and outreach.

Key CD Priorities and Objectives for FY2020:

Priorities	**Objectives**
Revenue administration	(i) Increase domestic revenue generation, including by reduced tax exemptions; (ii) modernize customs administration, including extension of SYDONIA World to cover all clearance phases; and (iii) coordination/synchronization of tax and customs databases.
Fiscal policy	Strengthen the fiscal/tax policy unit at the Ministry of Finance.
Public financial management	(i) Improve public investment efficiency, including implementation of the methodological guide for prioritization of investment based on a cost-benefit analysis; (ii) improve the coverage and quality of fiscal reporting; and (iii) implement program-based budgeting.
Statistics	(i) Strengthen the compilation and dissemination of macroeconomic data and financial statistics; and (ii) participation in GDDS.

Appendix I. Letter of Intent

MINISTRY OF ECONOMY AND FINANCE	**REPUBLIC OF TOGO**
	Travail-Liberté-Patrie
---------------	**---------**
OFFICE OF THE MINISTER	

N°………………./MEF/CAB	

Lomé, June 10, 2019

To

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

Dear Ms. Lagarde:

1. The government requests the completion of the fourth review under Togo's ECF arrangement based on a satisfactory implementation of the program. We met five out of six quantitative performance criteria (QPCs) at end-December 2018 as well as five out of seven structural benchmarks (SBs). In line with the ECF-supported program, fiscal consolidation remained on track during the second half of 2018. The overall primary balance and the overall balance outperformed targets by large margins. We reached the WAEMU fiscal deficit criterion—not exceeding 3 percent of GDP—in 2017 and 2018, two years ahead of the timeline agreed by all member States. Structural fiscal reforms have also progressed. In collaboration with IMF staff, we have been monitoring the monthly data on the stock of payment arrears by age. We have strengthened the implementation of our cash plan and the control of commitment authorizations to prevent the accumulation of new arrears. In addition, important measures have been taken to prioritize public investment projects. We have started the design of a multi-year program budget process to improve our ability to achieve medium-term results.

2. The government remains committed to pursue the fiscal consolidation in 2019, while accommodating some urgent spending needs. The revised macroframework broadly preserves the fiscal objective of the ECF-supported program and ensures that Togo adheres to the regional convergence criteria and contributes to the joint WAEMU countries' efforts of maintaining strong regional reserves. Appropriate safeguard measures will be taken to ensure transparency, recording, accountability, and oversight of this urgent spending. To address the reliance on one-off and uncertain revenue sources and safeguard the hard-won fiscal consolidation gains, we are taking measures to bolster permanent revenue. On structural reforms, in addition to the measures in the first half of 2019, we will implement measures as structural benchmarks for the second half of 2019

in the following areas: strengthen the tax arrears collection unit; reduce VAT leakages by tightening the control over reimbursement claims; expand online submission of customs declarations; revise and enforce the multi-year public investment program; and complete some milestones for the move to program budgeting.

3. The government requests a waiver for the nonobservance of the performance criterion on net domestic financing at end-December 2018. This deviation is mainly due to the recording of certain revenues planned for 2018 but paid in 2019. The effective underperformance is minor (0.2 percent of GDP) and we are taking corrective measures, including strengthening permanent revenue sources. The government requests modification of the PCs on the domestic primary balance and the net domestic financing for end-June and end-September 2019 to reflect the additional urgent spending. These waiver and modification of PCs do not alter the thrust of the objectives of our ECF-supported program. We also propose redesigning and resetting the structural benchmark on the privatization of the first public bank. Finally, in line with the agreement at the time of the program approval, the fifth and sixth reviews of the program will take place on a quarterly schedule.

4. We are confident that the policies set out in the attached MEFP will enable us to achieve our program objectives. However, we will take any further measures that may become necessary for this purpose. We will consult with IMF staff on the adoption of such measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultations. We will provide such information as the IMF may request in connection with progress in implementing our economic and financial policies. We authorize the publication of the staff report for the fourth review under the ECF arrangement combined with the 2019 Article IV consultation, this letter of intent, and the attached MEFP and technical memorandum of understanding.

Very truly yours,

/s/
Sani Yaya

Minister of Economy and Finance

Attachment I. Memorandum of Economic and Financial Policies

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

2. The government is committed to pursuing bold reforms of the Togolese economy, notably on fiscal adjustment and in the financial sector. We will take all necessary actions to preserve the hard-won fiscal consolidation; continue reducing public debt to a sustainable level; address weaknesses in the financial sector; and persevere with structural reforms, including on governance. We will pursue efforts under the 2018-2022 National Development Plan (*Plan National de Développement* – PND). Our main objective consists of transforming structurally the economy to promote strong, sustainable, resilient, and inclusive growth, generating decent employment and improving social welfare. In this regard, actions will be undertaken in the following three strategic axes: (I) establish a logistics hub of excellence and a first-class business center in the subregion; (ii) develop poles for agricultural processing, manufacturing, and extractive industries; and (iii) consolidate social development and strengthen the mechanisms for inclusion.

RECENT ECONOMIC DEVELOPMENTS

3. Economic growth has decelerated in 2017 but regained good momentum in the second half of 2018 on the back of the strong recovery of export-oriented sectors. Robust performance of phosphate extraction and cotton production, as well as the tertiary sector, including airport activities, supported the growth recovery. Bank credit to the private sector has remained broadly flat in 2018. Economic growth is estimated at 4.9 percent in 2018 (compared with 5.6 percent in 2016 and 4.4 percent in 2017). Headline inflation stood at 2 percent (year-on-year) in March 2019. The current account deficit declined significantly in 2017, increased in 2018 but remains smaller compared to previous years. This overall improvement is mainly due to the vigorous fiscal consolidation measures we have implemented and the decrease in imports, including capital goods. Our actions have helped reduce the pressure on regional reserves–estimated at 4.3 months of imports of goods and services at end-2018, compared with 3.9 months at end-2017.

4. Notwithstanding some difficulties encountered in the implementation of the budget in 2018, the overall pace of fiscal consolidation continues. Total revenue increased significantly, from 18.2 percent of GDP in 2017 to 20.3 percent of GDP in 2018. This improvement was driven by customs receipts and non-tax revenue. However, revenue collection relies more and more on exceptional and non-permanent sources. On the other hand, we have faced growing social demands of the population, which have led to an overspending of 0.5 percent of GDP on current expenditure. Domestically-financed investment contributed to our fiscal consolidation efforts, as originally planned. Although foreign-financed investment has been lower than expected, the execution rate has improved significantly compared to 2017. As a result, we achieved the target on the domestic primary balance, which reflects the efforts under the government's control. The targets on the overall primary balance and overall fiscal balance were reached with large margins. We have achieved the objective of domestic arrears clearance (by about 2 percent of GDP) by strengthening our arrears management and improving our ability to raise funds in the regional market.

5. **Despite a slight increase in debt in 2018, the downward trajectory is not at risk**. After a rapid increase, between 2011 and 2016, public debt declined from 81 percent of GDP in 2016 to 75.5 percent in 2017 and to 76.2 percent in 2018. Excluding State-owned enterprises (SOEs) debts, these ratios are of 78 percent, 72 percent, and 74 percent, respectively. If the January 2018 issuances of government securities that were used to repay arrears pertaining to the 2017 fiscal year had been recorded in the 2017 debt stock, the government debt would have shown a continuous downward trend. This trend is the result of a major shift in fiscal policy since early 2017, with the phasing out of pre-financing and the implementation of corrective measures aimed at reducing public debt to a sustainable level. While investments undertaken up to 2016 had helped to partly address infrastructure deficiencies, the incurred debt service payments were large, notably for pre-financing, putting increasing pressures on budgetary resources. Government's efforts to clear domestic arrears have also contributed to reducing the level of total public debt.

PROGRAM IMPLEMENTATION

6. **Five out of six quantitative performance criteria (QPCs) at end-December 2018 were met**. We met the performance criterion on the domestic primary balance. We have not contracted any non-concessional external debt and have met all our debt service obligations. Moreover, we did not issue any guarantees to domestic suppliers or contractors, nor did we pre-finance any public investment. However, we did not meet the net domestic financing target; the deviation relative to the program target amounts to 1.5 percent of GDP. This deviation is mainly due to the recording of certain revenues committed in 2018 but paid in 2019. We met the indicative target on domestic arrears; we have made significant efforts to clear the full amount of domestic arrears targeted under the program for 2018. The indicative target for domestic revenue was missed with a small margin. The indicative target on social expenditure was also missed (by 0.3 percent of GDP) but our social expenditure execution rate improved significantly compared with 2017.

7. **We met five out of seven structural benchmarks**. All four structural fiscal benchmarks (SBs) on public expenditure management and business environment for end-December 2018 were met. With a view to improve the analysis and monitoring of budget execution, we have sent to IMF staff, since July 2018, monthly data on the stock of payment arrears by age, and, to prevent the accumulation of new arrears, we have strengthened the implementation of our cash plan and the control of commitment authorizations. In addition, with a view to improving the efficiency of public investment projects, important measures have been taken to analyze the maturity of public investment projects before they are budgeted. Circulars were sent to all ministries and institutions of the Republic to mandate the use of the methodological guidance on investment project selection and prioritization, and require that only projects subjected to, and ranked under, this methodological guidance be included in the public investment plan and the budget. We have continued to design a multi-year program budget process to improve our ability to achieve

medium-term results. A new budget calendar incorporating reform innovations, empowering stakeholders, and identifying deliverables has been developed and adopted. It is intended to be more comprehensive by integrating all stages of development, and more inclusive by taking into account all key stakeholders. At the program budget level, the main results achieved to date include: (i) support for the development of results-based budgeting tools; (ii) technical capacity building for stakeholders; and (iii) experimentation with the 2019-21 program budget for the State.

8. **Our efforts to improve the business environment have begun to yield tangible results**. We have put in place mechanisms and procedures to facilitate land registration. We have strengthened the role of the Credit information Bureau (BIC) by amending the uniform law No. 2016-005 of March 14, 2016 regulating credit information bureaus (BICs) in WAMU member States, which allows banks and financial institutions, while participating in the system for sharing credit information or the credit history of their customers, to more accurately assess credit risk and consequently reduce the cost of credit. We are in the process of addressing the important weaknesses that remain, particularly in the banking sector (AML/CFT) and the judicial system. We have launched a multisectoral national risk assessment, with technical assistance from the World Bank, and are currently drafting the general report on the basis of the consolidated sectoral reports.

9. **With a view to ensure financial stability and prevent risks to the budget, we have initiated the privatization process of the two public banks.** We have completed the process of evaluating the legal and regulatory aspects required for the privatization of the first public bank. However, due to the continuation of negotiations, we are faced with delays in finalizing the preliminary draft sale contract that could be submitted to the Banking Commission. We have drafted the terms of reference for the recruitment of a transaction advisor for the privatization of the second public bank. The strategic plan for its privatization was drafted with a slight delay relative to the program deadline.

ECONOMIC OUTLOOK AND POLICIES FOR 2019

Medium-term Outlook and Risks

10. **Economic growth is expected to approach 5.5 percent over the medium term, with the economy reaping the benefits of large public investment completed in recent years and increasing FDI inflows.** With improved business environment and public infrastructure (new roads and an expanded port and airport), the private sector is expected to play an increasing role as the engine of growth. Inflation is expected to stabilize around 2 percent in coming years, within the WAEMU community norm of 3 percent. The current account deficit would remain around 4 percent of GDP, as lower demand for capital goods and other imports persists, while exports of cotton, phosphates, agriculture, and light manufacturing goods continue to grow. Downside risks to growth include capacity constraints in the implementation of structural reforms and further economic slowdown among our main regional trading partners. Also, security risks have recently intensified in the subregion. These risks require urgent action to stave off deterioration. Otherwise, these security

risks could hinder private investment (domestic and foreign), tourism, and derail government's efforts to transform Togo into a regional hub for transportation and financial activities.

Fiscal policy

11. We will address some urgent spending in 2019 while maintaining the thrust of our program objectives. We will include an additional urgent spending of 1.5 percent of GDP in 2019 and postpone to 2020 some less urgent expenditure of 0.3 percent of GDP. On this basis, the overall fiscal balance (commitment basis), initially targeting a deficit of 1.5 percent of GDP, will loosen to 2.7 percent of GDP in 2019. The overall fiscal deficit will loosen by about 0.3 percentage point of GDP to about 2 percent of GDP in 2020 and remain below 2 percent of GDP in the medium term. These fiscal deficits broadly preserve the large fiscal consolidation envisaged at program approval. They are also consistent with the WAEMU deficit criterion of an overall fiscal deficit not exceeding 3 percent of GDP. We will protect social and development spending. We will likely have to incur maintenance spending of 0.5 percent of GDP in connection with the urgent spending but will discuss it in future reviews of our ECF-supported program. We will also design development projects for the northern region of the country and will seek grant financing from our partners.

12. We will take appropriate measures related to the urgent spending to limit the risks of fiscal loosening, preserve WAEMU regional stability, and promote good governance. We will strengthen permanent revenue to compensate for one-off or temporary revenue in 2018 and safeguard the fiscal position in the medium and long term. The additional urgent spending will be treated as other government operations and will be handled in line with their existing respective budgetary and procurement procedures. We will ensure that the urgent spending is in line with the principles of transparency, recording, accountability, and oversight. The related measures will include an ex-post audit of these operations by an independent entity, notably the Court of Audit. Further financial integrity safeguards will include a requirement to record the operations related to this additional urgent spending on the budget, both for the request of the approval as well as for the reporting of the execution. Off-budget operations will be avoided.

13. We remain committed to the planned debt reduction over the medium term. Public debt declined from 81.4 percent of GDP in 2016 to 75.5 percent of GDP in 2017, which was followed by a slight uptick to 76.2 percent of GDP in 2018. It is projected to follow a downward trajectory from 2019 and will fall below the WAEMU debt criterion of 70 percent of GDP starting from 2020. Excluding SOEs debt, public debt is projected to converge to the WAEMU debt criterion from 2019. Continued debt reduction over the medium term remains a policy priority to ensure fiscal and external sustainability and create a solid foundation for sustained economic growth. Total public debt is expected to fall below the debt sustainability benchmark for countries with medium debt carrying capacity by 2023.

14. We will implement WAEMU regional policies. We met the convergence criterion on the overall fiscal balance in 2017 and 2018, two years ahead of the deadline agreed by all WAEMU member countries. Our fiscal consolidation and public debt reduction policies contribute to the joint efforts of member countries to maintain regional reserves at a robust level.

15. We are redoubling our efforts to bolster permanent revenues. Despite measures taken in recent years, revenue outturns remain below program approval projections and the revenue structure consists of an increasing share of non-tax revenues, which includes temporary items such as license fees and fluctuating items such as dividends. To address these weaknesses, we are committed to introducing further measures. On tax policy, we are processing the results of the recently finalized land survey with a view to improve the implementation of property tax collection and apply the relevant provision introduced recently in the tax code. A new tax on motor vehicle was also introduced in the tax code. Furthermore, turnovers of telecom companies will be subjected to a 5 percent tax. On revenue administration, we continue to implement reforms that include increasing the enforcement powers of the revenue administration and better coordination between customs and tax authorities. To that end, we will introduce an import lump sum deposit for importers deemed to be inactive pertaining to corporate taxation (SB for end-June 2019) and will prohibit the merchandise customs clearance for importers with outstanding tax arrears (SB end-June 2019). We are increasing the number of tax return audits by cross-checking with information provided by third parties and implementing rigorous control of customs valuations.

16. To complement the measures adopted in previous reviews of the ECF-supported program, the Government is committed to accelerating revenue collection and ensuring its permanency. In particular, we will focus on the following elements:

- Improve the monitoring of tax arrears collection (66 percent for large companies and 48 percent for medium-sized companies by end-2017). The government will seek to increase the collection rate of tax arrears by formalizing the creation of the Revenue Collection and Receivables Recovery Unit and strengthening its risk analysis role (structural benchmark at end-October 2019);

- Reduce VAT losses: the proportion of non-paying VAT returns is high (56 percent of all returns for large companies and 62.3 percent for medium-sized companies in 2018). Non-paying VAT returns (nil or reimbursement claims) will be reduced through the roll-out of hardware and software for the setting up of cash registers; the formulation of a strategy for selecting spot checks based on risks; and the appointment of focal points at medium and large taxpayers' unit to centralize the results of spot checks (structural benchmark at end-October 2019). The VAT prepayment system will be extended to public entities, state-owned enterprises, and some large private companies (such as in the construction, cement, and transportation sectors).

- The control over companies operating in special economic zones will be strengthened, including over their warehouses and clearance areas.

- The government will perform an analysis of the capacity of the customs IT system and prepare an action plan for the complete dematerialization of all customs declarations. First, online submission of declarations and attachments will be made mandatory for the clearance of imports for the 30 largest importers or tax filers, by enabling this feature in ASYCUDA World (structural benchmark at end-October 2019).

- The reliability of the inventories will be improved through capacity building for mid-level personnel to check monthly returns and the early detection of small errors rather than focus on the subsequent detection of serious anomalies.

- Despite the substantial reduction in tax expenditures (exemptions), revenue losses for the State remain significant; further streamlining efforts will be undertaken.

17. The Government is determined to safeguard the hard-won fiscal consolidation. To achieve this goal, improved revenue mobilization will be accompanied by strict limits on domestically financed current and capital expenditures and measures to avoid the building-up of new arrears. Concerning foreign-financed capital expenditure, we will take full advantage of grants and concessional project financing. Emphasis will be placed on the reallocation of funds to social spending, in accordance with our National Development Plan. We will make efforts to meet the indicative social spending target, set in consultation with development partners, to identify effective and appropriate social spending. We will also endeavor to improve the targeting of spending in order to shift resources to higher priority areas. We will continue our efforts to clear arrears to the private sector and avoid any further build-up. We plan to further refocus our policies on sustainable and inclusive growth through targeted social spending and investments financed sustainably (see below).

Structural Reforms

18. In the context of realigning the level of expenditure with available resources, we will strengthen the efficiency of public spending to support economic growth. We will accelerate the implementation of the recommendations of the public investment management assessment ("PIMA"). The multi-year public investment programming will be strengthened by ensuring consistency with the realistic resource envelopes of the medium-term budgetary framework, which would make it binding for the following year and indicative for the two years thereafter (structural benchmark at end-October 2019). We will prepare a program-budget document covering the period 2020-2022. To this end, we will develop a standard framework of performance indicators to define the guiding principles and train the stakeholders in ministries and institutions (structural benchmark at end-October 2019). We will also initiate steps to include specific gender- budgeting indicators.

19. We will improve the efficiency of social expenditure to promote growth inclusiveness in a context of fiscal consolidation. We have already completed a comprehensive spending review. We will enhance transfer programs to the most vulnerable households. We will also take measures for women's economic empowerment and poverty alleviation, which disproportionately affects women. In addition, we will endeavor to ensure that men and women, and boys and girls, have the same legal rights and enforce these rights. By end-September 2019, we will be implementing a system to improve the monitoring of the implementation of social expenditure.

20. As public investment is being rationalized, we will continue to improve further the business environment to foster private investment. In recent years, we made great strides to improve the business environment and were amongst the countries with the largest improvement under the latest Doing Business Indicators. We will address the remaining weaknesses, including on access to credit and tax payments. We will further strengthen the support for SMEs/SMIs by enhancing the measure taken recently to facilitate access to public purchases for SMEs/SMIs and reducing payment delays. We will create a specialized structure to assist SMEs/SMIs in carrying out feasibility studies to improve the bankability of projects. We shall establish a formal framework to facilitate regular exchanges between the Government and private sector members.

Financial sector reforms

21. The Government has committed to pursuing privatization efforts in the financial sector, in consultation with the Banking Commission. In 2018, the Parliament adopted the necessary legal framework to complement the general 2014 privatization law and allow specifically the privatization of the two public banks (BTCI and UTB). Although the privatization transaction for the first public bank is encountering some delays, progress is underway. A negotiation committee was set up by the Government to carry out discussions with potential buyers. We continued negotiations but could not reach an agreement until end-May 2019. Thus, we are revising our strategy and will submit this revised strategy by end-June 2019 (modified structural benchmark for end-June 2019). This strategy will include a tender process to be launched by end-August 2019. The privatization process will be finalized by end-December 2019 (structural benchmark at end-December 2019). The privatization process for the second public bank is proceeding as planned. The draft terms of reference for hiring a transaction advisor for its privatization was completed; the hiring of this transaction advisor is underway. We drafted a strategic plan for its privatization with a slight delay relative to the program deadline. The tender for the privatization of the second public bank is planned to be launched by August 2019 (structural benchmark at end-August 2019). The two banks' Executive management will keep the Banking Commission fully informed of all developments and discuss any course of action.

22. We will approach the Banking Commission in order to assess the overall soundness of the banking system. As a large number of NPLs is concentrated in a few banks, including the two state-owned banks, the measures to address the weaknesses of these two banks will help curb the high level of NPLs. We will take the necessary measures to enable the Togolese Debt Collection Agency -*Société de Recouvrement du Togo* - to better collect the state-owned banks' NPLs which were securitized during the last round of privatization. We will work with the Banking Commission to ensure that all banks comply with the new BCEAO regulation on capital.

23. We will build on our good performance to further improve access to financial services and financial inclusion. Our performance shows improvement on a number of key indicators, including the number of accounts at financial institutions; we will pursue efforts in collaboration with the BCEAO to also improve our performance in other areas such as the penetration rate of mobile money accounts. Regarding firms' access to bank financing, we will take further measures to address some remaining obstacles, notably on collateral. Consequently, we will accelerate procedures for obtaining land title and mortgage registration certificates which would provide reliable security. We will endeavor, in collaboration with the Banking Commission, to lift the obstacles related to the permission and the access to the Credit Information Bureau.

24. We will take the necessary steps to strengthen the AML/CFT regime and the effectiveness of the judicial sector. Based on the findings of the national risk assessment, we will implement an action plan to swiftly address the weaknesses identified in the national AML/CFT framework. In the judicial field, we will speed up liquidation procedures by requiring compliance with regulatory deadlines. We will operationalize the Lomé Commercial Court, which deals with commercial disputes. We will train judges specialized in banking law to enable them to judge disputes between banks and their customers objectively and fairly.

Governance

25. The Government remains committed to continuing efforts to improve governance and institutions. The reforms will focus on the following areas:

- *Continuing fiscal governance reforms,* including publishing fiscal data, deepening revenue mobilization reforms, selecting, and prioritizing public investment projects based on rigorous cost-benefit criteria, ensuring closer monitoring of public enterprises, and establishing procedures for systematic follow-up of audit reports by oversight bodies.

- *Strengthening anticorruption measures.* HAPLUCIA, the Anti-Corruption Agency became operational in 2017 and is currently scrutinizing corruption cases following a corruption awareness campaign launched in September 2018. Two new laws to strengthen the asset disclosure regime are being adopted: (i) a law requiring the disclosure of assets by all civil service agents, professionally and politically-exposed to corruption, and (ii) a framework law for the full implementation of the United Nations Convention on Corruption.

- *Combating money laundering and terrorist financing (AML/CFT):* a new law on AML/CFT was adopted in 2018 and transposes domestically the Uniform Act on AML/CFT adopted by the WAEMU. Togo is currently undergoing a national ML/TF risk assessment and the report is expected to be published in June 2019. Based on the National risk assessment, an action plan will be implemented to mitigate the identified risks and gaps. We will continue to strengthen the overall AML/CFT framework and exert increased vigilance regarding suspicious transactions as well as update the on-site inspection schedule of the AML/CFT supervisors.

- *Improvement of the judicial system:* an annual compendium of judicial and prison statistics is being developed and will be published and distributed through appropriate channels, including the Internet. The new Commercial Courts Act provides for accelerated procedures for the settlement of small-value claims, at low cost. We will produce a roadmap to ensure effective implementation of this procedure by end-September 2019.

- *Streamlining border procedures and other market regulations.* Automated procedures are a powerful tool to facilitate trade and support modern practices of customs management.

Borrowing Policies and Debt Management

26. We will continue our prudent borrowing policies and further strengthen debt management to contain our public debt vulnerabilities. Although our risk of external debt distress is moderate, we are recognizant of the high level of our domestic debt which creates a high risk of overall public debt distress. Following the recent reorganization of the debt directorate, we will fully staff this directorate and will implement the recently approved procedures manual for debt management activities. We will enhance transparency and engage in more active communication with primary dealers and investors to support smooth functioning of the market and its development.

27. We plan to proceed with a debt reprofiling operation in 2019. The operation consists of borrowing externally at more favorable terms to repay outstanding domestic or regional debt. It is expected to reduce the NPV of total public debt. This operation is expected to be facilitated by a Policy-Based Guarantee from the World Bank; discussions are underway to this end. We have contracted a consultancy firm to advise us on this debt reprofiling operation.

PROGRAM MONITORING AND DATA PRODUCTION ISSUES

28. We request a waiver for the nonobservance of the quantitative performance criterion on the net domestic financing at end-December 2018. This underperformance is mainly due to certain revenues planned for 2018 but paid in 2019; the effective underperformance of domestic financing is only 0.2 percent of GDP. Moreover, starting with 2019, the Government has taken corrective measures to strengthen permanent tax revenue so that our fiscal consolidation objectives for 2018/2019 are preserved and the overall objectives of the program remain achievable.

29. We also request a modification of two performance criteria at end-June and end-September 2019. The change in the domestic primary balance and the net domestic financing in 2019 is due to the additional urgent spending explained earlier. The change in net domestic financing also takes into account the 2019 recording of revenue committed in 2018 and paid in 2019.

30. In line with the agreement at the time of the program approval, the fifth and sixth reviews of the program will take place on a quarterly schedule, based on quantitative performance criteria, indicative targets, and structural benchmarks (Tables 2 and 3a-b). The performance criteria and indicators are defined in the attached Technical Memorandum of Understanding (TMU), along with the relevant adjustors. As initially agreed, the program should end around end-2019 or early 2020. Accordingly, the fifth and sixth reviews of the program will be based on performance criteria for end-June 2019 and end-September 2019, respectively, and discussions of the program by the IMF Board will take place on or after September 15, 2019 and December 15, 2019, respectively. The program is financed with support from development partners, while ECF disbursements will close the remaining financing needs.

31. The government will continue to strengthen the institutional capacity to ensure adequate monitoring of the program. The Permanent Secretariat for Reform Policies and Financial Programs (*Secrétariat permanent chargé des politiques de réformes et des programmes financiers –SP-PRPF*) will provide (i) technical program monitoring and quarterly progress reports; (ii) liaison between national structures, technical and financial partners; and (iii) coordination of technical assistance. We recognize the weaknesses of our statistics and will take remedial measures in this regard. We will strengthen the staffing within the National Statistics and Accounting Institute (*Institut national de la Statistique et des Études économiques et démographiques – INSEED*). We have already reduced the lags in the production of final national accounts. In addition, efforts are being made to rebase the GDP according to the 2008 SCN, for production by July 2019, of the accounts for the new base year (2016). For the 2017 accounts, they will be produced by end-December 2019. We will take steps to avoid any delay in the production of final national accounts. We will continue to improve data quality. We have made progress in compiling and producing fiscal reports, particularly the government financial operations table (*Tableau des Opérations Financières de l'Etat*). We will make all necessary efforts to ensure consistency of data across various sources, such as the budget execution data (*i.e. TOFE*) and the debt outturn data. We will ensure that the budget projections for the following year are based on estimates of budget execution of the current year. We will make full use of technical assistance from various sources to strengthen our institutional capacity.

32. We are confident that the policies included in this memorandum will allow achieving the objectives of our economic program. We stand ready, however, to take any further measures that may become necessary to ensure the success of its policies, after consultation with the IMF. During the program period, we will not introduce or intensify restrictions on payments and transfers for current international transactions or introduce or modify any multiple currency practice without the IMF's prior approval, conclude bilateral payment agreements that are incompatible with Article VIII of the IMF's Articles of Agreement, or introduce or intensify import restrictions for balance of payments reasons.

Table 1. Togo: Quantitative Performance Criteria and Indicative Targets, September and December 2018

(Billions of CFA Francs)

	2018							
	End-September				End-December			
	Indicative Targets	Adjusted	Actual	Status	Performance Criteria	Adjusted	Actual	Status
Performance criteria								
Domestic primary fiscal balance (floor)	-6.5		30.7	Met	72.2		72.3	Met
Non-accumulation of arrears on external public debt[1]	0.0		0.0	Met	0.0		0.0	Met
Net domestic financing (ceiling)[2]	80.2	58.9	49.6	Met	6.0	16.0	59.3	Not met
Government contracting or guaranteeing of nonconcessional external debt (ceiling)[1]	0.0		0.0	Met	0.0		0.0	Met
Government guaranteeing of domestic loans to suppliers and contractors (ceiling)[1]	0.0		0.0	Met	0.0		0.0	Met
Government guarantees on bank prefinancing for public investments (ceiling)[1]	0.0		0.0	Met	0.0		0.0	Met
Indicative targets								
Total fiscal revenue (floor)	394.2		413.9	Met	606.5		604.9	Not met
Total domestically financed social spending (floor)	164.4		129.5	Not met	219.3		210.4	Not met
Net domestic arrears accumulation (ceiling)[3]	...				0.0	8.2	-64.8	Met
Memorandum Item								
Overall primary balance[4]	-115.6		17.2		-85.7		47.3	
Government contracting or guaranteeing of nominal concessional external debt	92.7		13.6		142.6		58.2	
NPV of new non-concessional external debt contracted as a result of debt management operations (maximum)	260.3		0.0		260.3		0.0	

Sources: Togolese authorities; and IMF staff estimates.

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

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

[3] Indicative target at end-December 2018 calculated cumulatively from the beginning of 2018. The target will be adjusted for one half of the deviation from projected external

[4] With arrears repayment as envisaged in the 2018 budget.

Table 2. Togo: Quantitative Performance Criteria and Indicative Targets June, September, and December 2019
(Billions CFA Francs)

	2019				
	End-June		End-September		End-December
	Performance Criteria	Proposed Performance Criteria	Performance Criteria	Proposed Performance Criteria	Indicative Targets
Performance criteria					
Domestic primary fiscal balance (floor)	0.4	-38.0	35.2	-3.2	51.0
Non-accumulation of arrears on external public debt[1]	0.0	0.0	0.0	0.0	0.0
Net domestic financing (ceiling)[2]	70.0	72.4	51.0	53.3	-22.7
Government contracting or guaranteeing of nonconcessional external debt (ceiling)[3]	0.0	0.0	0.0	0.0	0.0
Government guaranteeing of domestic loans to suppliers and contractors (ceiling)[1]	0.0	0.0	0.0	0.0	0.0
Government guarantees on bank prefinancing for public investments (ceiling)[1]	0.0	0.0	0.0	0.0	0.0
Indicative targets					
Total fiscal revenue (floor)	286.1	286.1	445.1	445.1	635.9
Total domestically financed social spending (floor)	109.3	109.3	164.0	164.0	218.6
Net domestic arrears accumulation (ceiling)[4]	0.0	0.0	0.0	0.0	0.0
Memorandum Item					
Overall primary balance	-38.8	-77.2	-23.6	-61.9	-7.0
Government contracting or guaranteeing of nominal concessional external debt[5]	39.2	39.2	58.8	58.8	78.3
NPV of new non-concessional external debt contracted as a result of debt management operations (maximum)	260.3	260.3	260.3	260.3	260.3

Sources: Togolese authorities; and IMF staff estimates.

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

[2] Performance criteria and indicative targets will be adjusted downwards by the amount corresponding to the debt management operations as described in the TMU, and subject to the constraint that these operations do not increase the net present value of the public debt stock. The adjustor is capped at the nominal equivalent of 260.3 billion CFA francs in net-present-value terms. Performance criteria will be adjusted upwards as well to offset deviations from projected external program financing, subject to a cap of CFAF 10 billion.

[3] Continous performance criterion. Performance criteria will be adjusted upwards by the amount corresponding to the debt management operations as described in the TMU, and subject to the constraint that these operations do not increase the net present value of the public debt stock. The adjustor is capped at the nominal equivalent of 260.3 billion CFA francs in net-present-value terms.

[4] Indicative targets calculated cumulatively from the beginning of 2019. Indicative targets will be adjusted for one half of the deviation from projected external program financing.

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

Table 3. Togo: Structural Benchmarks for the 4th Reviews			
Measures	**Rationale**	**Deadline**	**Status**
Send to IMF staff, starting from July 2018, monthly data on the stock of payment arrears by age.	Improve analysis and monitoring of budget execution	End-December 2018	Met
Strengthen the implementation of the cash plan and the control of commitment authorizations.	Prevent accumulation of new arrears	End-December 2018	Met
Send a circular to all line ministries to mandate the use of the methodological guidance on investment project selection, and henceforth include in the public investment plan and the budget only those that have been evaluated and selected based on this methodological guidance note.	Improve the effectiveness of public investment.	End-December 2018	Met
Put in place mechanisms and procedures to facilitate land registration.	Improve the business environment and reduce vulnerabilities to corruption	End-December 2018	Met
Finalize all legal and regulatory due diligence required for the privatization of the first public bank and have a draft sale contract that could be submitted to the Banking Commission, pending agreement with the prospective buyer.	Ensure financial stability and prevent risks to the budget	End-December 2018	Not met
Draft the terms of reference for hiring a transaction advisor for the sale of the second public bank, in consultation with IMF staff.	Ensure financial stability and prevent risks to the budget	End-December 2018	Met
Draft a strategic plan and the terms for the tender of the second public bank, in consultation with IMF staff.	Ensure financial stability and prevent risks to the budget	End-April 2019	Not met

Table 4. Togo: Structural Benchmarks for the 5th Review		
Measures	**Rationale**	**Deadline**
Revenue administration		
Set up a lump sum deposit of 10 to 15 percent on imports made by agents deemed by OTR to be inactive in connection with other taxes.	Improve tax revenue collection	End-June 2019
Prohibit the customs clearance of imported merchandise by agents and/or owners who have outstanding tax arrears.	Improve tax revenue collection	End-June 2019
Expenditure management		
Develop a document for program-based budget covering 2020-22.	Improve public expenditure efficiency and effectiveness	End-June 2019
Financial sector		
Submit a revised strategy for the privatization of the first public bank which consists of launching by end-August 2019 a call for tenders and finalizing the privatization process by end-December 2019.	Ensure financial stability and prevent risks to the budget	End-June 2019 (Proposal for modification)
Launch the tender for the sale of the second public bank.	Ensure financial stability and prevent risks to the budget	End-August 2019

Table 5. Togo: Proposed Structural Benchmarks for the 6th Review		
Measures	**Rationale**	**Deadline**
Revenue administration		
Formalize the creation (by Act of the Commissioner-General) and reinforce the risk-analysis role of the Revenue Collection and Receivables Recovery Unit in order to increase the recovery rate of tax arrears (from 66 percent in 2017 to 70 percent in 2019 for the large taxpayers unit and from 48 percent in 2017 to 60 percent in 2019 for the medium-sized taxpayers unit.	Improve tax revenue collection.	End-October 2019 (proposed structural benchmark)
(I) Start deploying hardware and software for the establishment of cash registers; (ii) formulate a strategy for the selection of risk-based spot checks; and (iii) appoint focal points in the large and medium-sized taxpayers unit to centralize the results of spot checks.	Reduce non-paying VAT returns (zero or credit) to improve tax revenue collection.	End-October 2019 (proposed structural benchmark)
Make mandatory the online submission of declarations and supporting documents for customs clearance of imports for the 30 largest importers or filers.	Improve customs duty collection and border procedures and reduce vulnerabilities to corruption.	End-October 2019 (proposed structural benchmark)
Expenditure and investment management		
Revise and enforce the multi-year public investment program.	Improve efficiency of investment.	End-October 2019 (proposed structural benchmark)
With a view to the transition to the program budgeting, develop a standard framework of performance indicators to define guiding principles and train stakeholders in ministries and institutions.	Optimize the use of budgetary resources.	End-October 2019 (proposed structural benchmark)
Financial sector		
Finalize the privatization process for the first public bank.	Ensure financial stability and prevent risks to the budget	End-December 2019 (proposed structural benchmark)

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the structural and quantitative benchmarks and performance criteria to monitor the program supported by the Extended Credit Facility from the completion of the fourth review through the end of the program. It also specifies the periodicity and the deadlines for the transmission of data to Fund staff for program monitoring purposes.

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

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

DEFINITION OF TERMS

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

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

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

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

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

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

during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

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

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

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

A debt is considered contracted for purposes of the program at the time of issuance of a "no objection" opinion by the Supreme Court, where such an opinion is required under domestic law. Otherwise, a debt will be considered contracted when it enters into effect.

QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

6. For program monitoring purposes:

The continuous quantitative performance criteria (PCs) are:

(a) a zero ceiling on accumulation of arrears on external public debt;
(b) a zero ceiling on government contracting or guaranteeing of nonconcessional external debt, except for the purpose of debt management to reprofile public debt;
(c) a zero ceiling on government guaranteeing of domestic loans to suppliers and contractors;
(d) a zero ceiling on government guarantees on bank prefinancing for public investments.

The periodic PCs for end-June 2019 and end-September 2019 and indicative targets (ITs) for end-December 2019 are:
(e) a floor on domestic primary fiscal balance;
(f) a ceiling on net domestic financing.

The indicative targets (ITs) for end-June 2019, end-September 2019, end-December 2019 are:

(a) a floor on total fiscal revenue;
(b) a floor on total domestically-financed social spending;
(c) a ceiling on net domestic arrears accumulation.

A. Domestic Primary Fiscal Balance (floor)

Definition

7. **The domestic primary fiscal balance** is defined as the difference between (i) the government's fiscal revenue and (ii) total fiscal expenses, net of interest and capital spending financed by donors and lenders. The balance will be calculated cumulatively from the beginning of the calendar year. The balances at end-June 2019 and end-September 2019 (performance criteria) and the balances at end-December 2019 (indicative targets) must be equal to or greater than the amounts indicated in Table 1 of the attachments to the MEFP. The data are sourced from the Government Financial Operations Table (*Tableau des opérations financières de l'État* – TOFE), prepared monthly by the Directorate-General of Economic Studies and Analyzes of the Ministry of Economy and Finance (statistical TOFE). The statistical TOFE will be prepared by the Directorate of Economy in close cooperation with revenue offices and the Treasury. The data provided by the Directorate of Economy will take precedence for program purposes.

Reporting Deadlines

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

B. Arrears on External Public Debt

Definition

9. The government will not accumulate payment arrears on external public debt (continuous performance criterion). For purposes of the PC on the non-accumulation of new external payment arrears, arrears are defined as external debt obligations of the government that have not been paid when due in accordance with the relevant contractual terms (taking into account any contractual grace periods). This PC excludes arrears on external financial obligations of the government subject to rescheduling. This criterion excludes arrears on debts subject to dispute or renegotiation. The source of the data is the Public Debt Directorate.

C. Net Domestic Financing (ceiling)

Definition

10. **Government net domestic financing** is defined as the sum of (i) net credit from the banking sector to the government; (ii) net domestic nonbank financing of the government; and (iii) unidentified financing. The net domestic financing will be calculated cumulatively from the beginning of the calendar year. Net domestic financing at end-June 2019 and end-September 2019 (performance criteria) and net domestic financing at end-December 2019 (indicative targets) must be equal to or less than the amounts indicated in Table 1 appended to the MEFP.

11. Adjustors. The ceiling on net domestic financing will be adjusted downwards by the amount of domestic debt retired as a result of debt management operations. For the purposes of this performance criterion, the definition of "debt-management operations" in paragraph 19, below, shall apply. The adjustor related to debt-management operations is capped at the nominal equivalent of the net present value of CFAF 260.3 billion after converting the nonconcessional external debt into CFA francs using the prevailing exchange rate at the time of the transaction. The ceiling on net domestic financing shall also be adjusted upwards to make up for gaps between projected and actual external financing for the program, subject to a cap of CFAF 10 billion.

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

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

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

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

Reporting Deadlines

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

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

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

Definition

18. Other than as specified below, the government undertakes not to contract or financially guarantee any new nonconcessional external debt at maturities of one year or more (continuous performance criterion). Nonconcessional external debt is defined as all external debt with a grant element of less than 35 percent (http://www.imf.org/external/np/pdr/conc/calculator/default.aspx). The level of concessionality of loans is calculated based on a discount rate of 5 percent. This performance criterion applies not only to the debt as defined in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014, but also to any commitment contracted or guaranteed for which no value has been received. However, this criterion does not apply to rescheduling that take the form of new debts, or to bond borrowing, Treasury bills, and Sukuk or other instruments issued in CFA francs on the WAEMU regional financial market. For the purposes of this performance criterion, "government" is understood to cover not only the definition given in paragraph 2 above, but also public institutions of an industrial or commercial nature (*établissements publics à caractère industriel et commercial* – EPIC), public administrative agencies (*établissements publics administratifs* – EPA), public scientific and technical institutions, public professional establishments, public health agencies, local authorities, public enterprises, national corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies.

19. This performance criterion will be adjusted upwards by the amount of nonconcessional external borrowing used for debt-management operations that improves the overall public debt profile. For debt-management operations executed in 2019, this adjustor will be capped at the nominal equivalent of the net present value of CFA francs 260.3 billion after converting the nonconcessional external debt into CFA francs using the prevailing exchange rate at the time of the transaction. For the purposes of this performance criterion, "debt-management operations" will be limited to the exchange of domestic debt for nonconcessional external debt. The NPV of the domestic debt to be reprofiled shall be calculated as the sum of the discounted debt service flows using a discount rate of 5 percent. The NPV of the external debt to be acquired shall be calculated in the same manner. The net effect of a debt-management operation will be calculated as the difference between, on the one hand, the NPV of the domestic debt to be reprofiled, and on the other hand, the sum of the net cost of the domestic debt repurchase, the NPV of the external debt to be acquired, and any fees associated with the external debt issuance. The net effect of a debt-management operation must be to either reduce or leave unchanged the total stock of public debt in NPV terms. Should any operation involving the contracting or guaranteeing of nonconcessional external debt lead to an increase in the stock of debt in NPV terms, the operation will not be considered as a debt-management operation and would constitute a non-observance of this performance criterion. Before undertaking any debt-management operations, the government will consult with the IMF staff and will provide IMF staff with data on the terms of the debt to be exchanged and the terms of the new non-concessional debt to be contracted, along with data on all fees and costs associated with the transaction, as well as any costs and fees associated with compensating current domestic bondholders and lenders for not holding the debt which will be retired to maturity.

E. Government-Guaranteed Domestic Loans to Suppliers and Contractors

Definition

20. The government is committed to not providing any new financial guarantees for domestic loans to its suppliers or contractors (continuous performance criterion). The concept of "government" used for this performance criterion includes the definition of government in paragraph 2, public institutions of an industrial or commercial nature (EPIC), public administrative agencies (EPA), public scientific and technical institutes, public vocational establishments, public health agencies, local authorities, public enterprises, national corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies.

F. Government Guarantees on Bank Pre-financing for Public Investments

21. The government undertakes not to guarantee any new bank pre-financing for public investments (continuous performance criterion). In a typical pre-financing arrangement, a private company granted a public works contract by the government obtains a loan from a domestic commercial bank or a group of commercial banks. The Ministry of Economy and Finance guarantees this loan and, at the same time, signs an unconditional and irrevocable *substitution of debtor* agreement to service all principle and interest, which are paid automatically from the Treasury account at the BCEAO. The concept of "government" used for this performance criterion includes the definition of government in paragraph 2, public institutions of an industrial or commercial nature (EPIC), public administrative agencies (EPA), public scientific and technical institutions, public professional establishments, public health agencies, local authorities, public enterprises, national corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies.

G. Total Fiscal Revenue (Floor)

Definition

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

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

Reporting Deadlines

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

H. Domestically-Financed Social Spending (Floor)

Definition

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

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

Reporting Deadlines

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

I. Net Domestic Arrears Accumulation (Ceiling)

Definition

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

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

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

Reporting Deadlines

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

STRUCTURAL BENCHMARKS

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

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

34. For the end-June 2019 structural benchmark on strengthening budget preparation and the performance orientation of budget decision-making, the authorities will develop a document for program-based budget covering 2020-22. The authorities will also make all necessary efforts to undertake the following actions:
(1) Regulatory framework: make appointments to the financial controller positions in line ministries and institutions;
(2) Information systems: finalize the three new re-coding components (development, execution, and accounting) of the information system (SIGFiP) that are necessary to the implementation of program-based budgeting;
(3) Parliamentary approval: launch discussions in Parliament on budget orientations.

35. For the end-June 2019 structural benchmark on the first public bank, submit to IMF staff a revised strategy for the privatization of the first public bank, which consists of launching by end-August 2019 a call for tenders and finalizing the privatization process by end-December 2019.

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

37. For the end-October 2019 structural benchmark on improving tax revenue collection, the Revenue Authority will formalize the creation, by Act of the Commissioner-General, and reinforce the risk-analysis role of the Revenue Collection and Receivables Recovery Unit in order to increase the recovery rate of tax arrears from 66 percent in 2017 to 70 percent in 2019 for large companies (DGE) and from 48 percent in 2017 to 60 percent in 2019 for the medium-sized companies (DME).

38. For the end-October 2019 structural benchmark on reducing non-paying VAT returns (zero or credit) to improve tax revenue collection, the Revenue Authority will (I) start deploying hardware and software for the establishment of cash registers; (ii) formulate a strategy for the selection of risk-based spot checks; and (iii) appoint focal points in the DGE/DME to centralize the results of spot checks.

39. For the end-October 2019 structural benchmark on improving customs duty collection and border procedures, the customs administration will make mandatory the online submission of declarations and attached documents for the consumption of imports for the 30 largest importers or registrants, by enabling this feature in ASYCUDA World. The authorities will also perform an analysis of the capacity of the customs IT system and prepare an action plan for the complete dematerialization of all customs declarations.

40. For the end-October 2019 structural benchmark on improving the efficiency of investment, the multi-year public investment program will be revised and enforced by ensuring coherence with the realistic resource envelopes of the medium-term budgetary framework, which would make it binding for the following year and indicative for the two years thereafter. The authorities will also accelerate the implementation of the recommendations of the public investment management assessment ("PIMA").

41. For the end-October 2019 structural benchmark on the budgetary resources' optimization and the transition to the program budgeting, the authorities will develop a standard framework of performance indicators to define guiding principles and train stakeholders in ministries and institutions. Reflections to include specific gender- budgeting indicators will also be initiated.

42. For the end-December 2019 structural benchmark on the first public bank, the authorities will finalize the privatization process.

Reporting Deadlines

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

INTERNATIONAL MONETARY FUND

TOGO

June 10, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

Prepared By

The African Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(as of April 30, 2019)

Membership Status: Joined August 1, 1962; Article VIII

General Resources Account:	**SDR million**	**% of Quota**
Quota	146.80	100.00
IMF's holdings of currency	127.69	86.98
Reserve Tranche Position	19.20	13.08

SDR Department:	**SDR million**	**% of Quota**
Net cumulative allocation	70.33	100.00
Holdings	73.26	104.16

Outstanding Purchases and Loans:	**SDR million**	**% of Quota**
ECF Arrangements	118.65	80.82

Latest Financial Arrangements:

Type	Date of arrangement	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ECF[1]	May 05, 2017	May 04, 2020	176.16	100.68
ECF[1]	Apr 21, 2008	Jul 26, 2011	95.41	95.41
ECF[1]	Sep 16, 1994	Jun 29, 1998	65.16	54.30

Overdue Obligations and Projected Payments to the Fund[2]
(SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2019	2020	2021	2022	2023
Principal	8.73	7.48	1.76	2.52	12.59
Charges/Interest		0.00	0.00	0.00	0.00
Total	8.73	7.48	1.76	2.52	12.59

[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	Enhanced 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.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Safeguards Assessments

An updated safeguards assessment of the BCEAO, completed in April 2018, found that the central bank has maintained a strong control environment since the last assessment in 2013 and its governance arrangements are broadly appropriate. In addition, audit arrangements have been strengthened, the accounting framework adopted International Financial Reporting Standards (IFRS) beginning with the 2015 financial statements, and a 2016 external quality review of the internal audit function found broad conformity with international standards. The BCEAO's risk management framework established in 2014 is also progressing well with implementation of its work across the bank.

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 655.957 = €1.

Last Article IV Consultation

Togo is on a 24-month consultation cycle. The latest Article IV consultation was completed by the Executive Board on May 5, 2017 (Country Report No.17/127).

Technical Assistance

Capacity development is currently focused on measures to: (i) increase domestic revenue mobilization and modernize the customs administration; (ii) improve PFM, including investment management and program-based budgeting; and (iii) strengthen the compilation and dissemination of statistics.

Resident Representative

Mr. Sampawende Jules Tapsoba

RELATIONS WITH OTHER IFI'S

- World Bank Group

  http://www.worldbank.org/en/country/togo

- African Development Bank

  https://www.afdb.org/en/countries/west-africa/togo/

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; a rebasing is underway.

- **Price statistics**: Base year for CPI index is 2008.

- **Fiscal sector statistics:** Data on budget execution and government arrears have improved but some significant weaknesses remain, including on consistency of data across sectors and sources. 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. Coverage is incomplete and there are consistency issues between the IIP and other balance of payment data.

- **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.

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. Progress has been made on this front and national accounts through 2013, 2014 and 2015 were published respectively in early 2017, June 2017 and early 2018. The provisional accounts for 2016 and 2017 will be published before the end of 2019. 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.

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. 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).

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 May 2019)					
Economic Variable	Date of latest observation	Date received	Frequency of Data[2]	Frequency of Reporting[2]	Publication
Exchange Rates	April 2019	May 2019	M	M	Published
International Reserve Assets and Reserve Liabilities of the Monetary Authorities	March 2019	May 2019	M	M	Published
Reserve/Base Money	March 2019	May 2019	M	M	Published
Broad Money	March 2019	May 2019	M	M	Published
Central Bank Balance Sheet	March 2019	May 2019	M	M	Published
Consolidated Balance Sheet of the Banking System	March 2019	May 2019	M	M	Published
Interest Rates	March 2019	May 2019	M	M	Published
Consumer Price Index	April 2019	May 2019	M	M	Published
Revenue, Expenditure, Balance and Composition of Financing – General Government[1]	December 2018	April 2019	M	M	Not published
Revenue, Expenditure, Balance and Composition of Financing– Central Government	December 2018	April 2019	M	M	Not published
Stocks of Central Government and Central Government-Guaranteed Debt	February 2019	May 2019	M	M	Not published
External Current Account Balance	December 2018	May 2019	A	A	Published
Exports and Imports of Goods and Services	December 2018	May 2019	A	A	Published
GDP/GNP	December 2018	May 2019	A	A	Published
Gross External Debt	February 2019	May 2019	M	M	Not published
International Investment Position[3]	December 2018	May 2019	A	A	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.

TOGO

June 10, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

Approved By
Dominique Desruelle (IMF) and Marcello Estevão (IDA)

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

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

Togo's risk of external debt distress continues to be moderate, while the overall risk of debt distress is high—unchanged from the previous Debt Sustainability Analysis (DSA) published in December 2018. While the mechanical results point to a low risk of external debt distress, judgment was applied given vulnerabilities arising from high domestic debt, which could, for example, likely lead to a reprofiling operation that would lead to an increase in external debt. Togo's public debt is on a downward trajectory despite an increase in 2018 compared with 2017. Togo's high public debt is the result of, among other factors, high deficits, contingent liabilities, and accumulated arrears. There is very little space to absorb shocks on total public debt. Baseline projections show that Togo's PV of total PPG debt (external plus domestic)-to-GDP ratio will decline below the new debt distress benchmark of 55 percent starting in 2023, down from 72 percent in 2018—with the bulk constituting domestic debt obligations. This analysis highlights the need for sustained fiscal consolidation, improved debt management, and

[1] Togo's Composite Indicator (CI) is 2.86, which corresponds to a medium debt-carrying capacity as confirmed by the April 2019 WEO data and 2017 Country Policy and Institutional Assessment (CPIA).

strong macroeconomic policies to reduce the public debt to prudent levels over the medium term.

PUBLIC DEBT COVERAGE

1. Togo public debt includes obligations of the central government and public entities. Debt data includes external and domestic obligations of the central government, including arrears to suppliers and guaranteed debt, as well as external and domestic debt of state-owned enterprises (SOEs). Domestic debt is defined as debt denominated in franc de la Communauté Financière d'Afrique (CFAF), while external debt is defined as debt contracted or serviced in a currency other than the CFAF. The choice of coverage based on currency, rather than residency is due to the difficulty of monitoring the residency of creditors for debt traded in the WAEMU regional market.

Text Table 1. Togo: Public Debt Coverage

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

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

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

BACKGROUND ON DEBT

2. Public debt increased substantially during 2010-16, reflecting public infrastructure investments financed by both domestic and external borrowing. Total public debt exceeded 80 percent of GDP in 2016, up from 47 percent of GDP in 2010. A key driver of the increase in public debt was the rise in recourse to the regional financial market and investment pre-financing. The stock of government securities in the regional market increased from 15.2 percent of GDP to 28.8 percent between 2013 and 2016, with an increasing use of both Treasury bills and bonds. In addition, the stock of domestic arrears to suppliers, which is included in domestic debt, remained relatively high during this period, amounting to CFAF 334 billion (12.6 percent of GDP) by end-2016.

3. The government halted investment pre-financing and replaced the related obligations with bonds at more favorable conditions. Beginning in 2013, the government initiated a new financing tool that consisted of private sector contractors pre-financing public infrastructure development through domestic commercial bank loans to be repaid by the government. The ensuing debt obligations were not included in public debt. The pre-financing contracts were generally obtained through direct negotiations (instead of competitive bids). The government has now discontinued this problematic public financial management practice and has exchanged the outstanding obligations with bonds at a lower interest rate and longer maturity. The profile of domestic debt has been revised accordingly.

4. **Following the fiscal consolidation that started with the ECF program, total public debt (in percent of GDP) declined in 2017 and remained below pre-program levels in 2018.** The fiscal consolidation initiated in 2017 aimed at putting the debt-to-GDP ratio on a downward trajectory. By end-2017, total public debt dropped by 5.8 percentage points of GDP from the previous year, reaching 75.5 percent, and the domestic debt stock fell by 5.4 percentage points from 2016, reaching 55.8 percent.[2] Total public debt increased somewhat in 2018 and was reported at 76.2 percent of GDP by December 2018. This slight increase is primarily due to some revenue recorded in accounts receivable (and not in cash) in 2018, resources borrowed in January 2018 to repay arrears connected to the fiscal year 2017, exchange rate depreciation, and capitalization of accrued interest on Sukuk bonds. While Togo's total debt-to-GDP ratio has started to decline, it remains the highest within the WAEMU.[3]

5. **Togo's external debt sustainability has been assessed as moderate in recent past with high overall risk of debt distress.**

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

	End-2013			End-2016			End-2017			End-2018		
	Billions of CFAF	Percent of public debt	Percent of GDP	Billions of CFAF	Percent of public debt	Percent of GDP	Billions of CFAF	Percent of public debt	Percent of GDP	Billions of CFAF	Percent of public debt	Percent of GDP
Total Public Debt	**1,222**	**100.0**	**57.2**	**2,155**	**100.0**	**81.4**	**2,106**	**100.0**	**75.5**	**2,266**	**100.0**	**76.2**
Total Central Government	1,106	90.5	51.8	2,066	95.8	78.0	2,016	95.7	72.3	2,191	96.7	73.6
Total SOEs	116	9.5	5.4	90	4.2	3.4	90	4.3	3.2	74	3.3	2.5
External Debt	**306**	**25.0**	**14.3**	**535**	**24.8**	**20.2**	**550**	**26.1**	**19.7**	**610**	**26.9**	**20.5**
Central Government	**295**	**24.1**	**13.8**	**519**	**24.1**	**19.6**	**538**	**25.6**	**19.3**	**601**	**26.5**	**20.2**
Multilateral	147	12.0	6.9	168	7.8	6.3	192	9.1	6.9	238	10.5	8.0
o/w IMF	69	5.7	3.2	42	2.0	1.6	69	3.3	2.5	94	4.2	3.2
Bilateral[1]	25	2.1	1.2	43	2.0	1.6	41	1.9	1.5	41	1.8	1.4
Paris Club	7	0.5	0.3	6	0.3	0.2	6	0.3	0.2	6	0.3	0.2
Non-Paris Club	19	1.5	0.9	37	1.7	1.4	35	1.7	1.2	35	1.5	1.2
Commercial Banks[1]	123	10.1	5.8	308	14.3	11.6	306	14.5	11.0	322	14.2	10.8
SOEs	**11**	**0.9**	**0.5**	**16**	**0.7**	**0.6**	**12**	**0.6**	**0.4**	**9**	**0.4**	**0.3**
Multilateral	1	0.1	0.1	3	0.1	0.1	2	0.1	0.1	2	0.1	0.1
Commercial	9	0.8	0.4	14	0.6	0.5	9	0.4	0.3	7	0.3	0.2
Domestic Debt	**916**	**75.0**	**42.9**	**1,621**	**75.2**	**61.2**	**1,556**	**73.9**	**55.8**	**1,656**	**73.1**	**55.7**
Central Government	**811**	**66.4**	**38.0**	**1,547**	**71.8**	**58.4**	**1,478**	**70.2**	**53.0**	**1,590**	**70.2**	**53.5**
T-Bills (Bons du Tresor)	111	9.1	5.2	189	8.7	7.1	148	7.0	5.3	127	5.6	4.3
Bonds (Emprunts Obligataires)[2]	213	17.4	10.0	574	26.6	21.7	807	38.3	28.9	958	42.3	32.2
Domestic Arrears	290	23.8	13.6	334	15.5	12.6	310	14.7	11.1	225	10.0	7.6
Pre-2006	249	20.4	11.7	173	8.0	6.5	173	8.2	6.2	155	6.8	5.2
Post-2006	-	0.0	0.0	122	5.6	4.6	100	4.8	3.6	34	1.5	1.2
Liquidated SOEs	41	3.4	1.9	39	1.8	1.5	36	1.7	1.3	36	1.6	1.2
Banking System	196	16.1	9.2	451	20.9	17.0	213	10.1	7.6	280	12.4	9.4
SOEs	**105**	**8.6**	**4.9**	**74**	**3.4**	**2.8**	**79**	**3.7**	**2.8**	**66**	**2.9**	**2.2**

Sources: Togolese authorities and Staff calculations.
[1]Figures for 2013 and 2016 differ from the previous DSA, since borrowing from some lenders that was subsequently classified as commercial was instead reported as bilateral.
[2]Includes SUKUK.

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

[3] WAEMU Staff Report, March 2019 (IMF Country Report No. 19/90).

BACKGROUND ON MACRO FORECASTS

6. **The baseline macroeconomic assumptions for the present DSA rely on sustainable real GDP growth, price stability with inflation below the WAEMU criterion of 3 percent, a stabilizing current account deficit, and continuing fiscal discipline.** The short-term growth projections remain moderate—at an annual average of 5.2 percent over 2019-20—as socio-political uncertainties linger. Over the long term (2020-39), potential growth is estimated at an annual average of 5.4 percent supported by stronger private sector activity. The overall primary balance (commitment basis, including grants) is anchored on a surplus of 1.0 percent of GDP over 2021-29 to bring public debt comfortably below the debt distress threshold, after which it would decrease and approach a deficit of 2 percent of GDP by 2039 to provide space for social and investment spending while safeguarding debt vulnerabilities. Total PPG debt will decline below the new benchmark (PV of debt-to-GDP ratio of 55 percent) in 2023; the NPV of debt-to-GDP ratio is projected to decline further to 31 percent by 2029 and 26 percent by 2039.[4] The current account deficit is projected to stabilize at around 4½ percent of GDP over the medium term, as lower demand for capital goods and other imports persists, while exports of cotton, phosphates, agriculture, and light manufacturing goods continue to grow. Inflation is projected to remain below the WAEMU regional convergence criterion of 3 percent.[5]

7. **Togo's debt is financed through a mix of domestic, regional and external markets:**

- The authorities aim to deepen and diversify the domestic and regional creditor base, including through working with the regional institutions to develop the secondary bond market. In the regional market, the government has extended the range of debt instruments by placing Sukuk bonds. In 2017, for instance, budget financing needs were covered through recourse to regional money and financial markets, particularly through bond borrowing and Sukuk bonds, and assistance from international development partners.

- The authorities plan to proceed with a debt reprofiling in 2019. As discussed in the staff report for the second review of the ECF-supported program, the reprofiling operation will consist of borrowing externally at more favorable terms to repurchase approximately 8 percent of GDP of outstanding domestic debt, which is more expensive and generally short term.[6] While the ECF program sets a zero ceiling on the contracting or guaranteeing of new non-concessional external debt, given the 'moderate' risk of external debt distress, and to alleviate the heavy debt service burden, the program conditionality on non-concessional borrowing was modified in 2018 on the basis that Togo can accommodate non-zero non-concessional borrowing limits if they are related to debt management operations and do not lead to an external risk rating

[4] The originally programmed benchmark NPV of debt-to-GDP ratio of 38 percent under the June 2018 LIC Debt Sustainability Framework (DSF) was expected to be reached by 2026. Under the new LIC DSF and following the upward adjustment of Togo's debt carrying capacity, the benchmark has been increased from 38 percent of GDP to 55 percent currently.

[5] Comparing to the June and December 2018 DSA, the key macroeconomic assumptions remain broadly unchanged.

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

downgrade. The program still aims at keeping Togo comfortably at moderate risk of external debt distress (i.e. below external debt burden indicators) at end-December 2019. Nonetheless, notwithstanding any debt management operation, the ongoing fiscal consolidation needs to be preserved to fundamentally address the debt burden. The impact of a possible debt reprofiling operation is reflected in a debt reprofiling scenario presented in this DSA.

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

i. Drivers of debt dynamics (Figure 3). The evolution of projection of external and public debt to GDP ratios are consistent for the current and previous DSA vintages, while they reflect major deviations from the DSA from 5 years past. This is because the public debt ratio increased significantly after 2013 and reached its highest level by 2016, which raised sustainability concerns. In terms of projections, the ECF program, which aims at putting debt on a sustainable path, is the main reason why the current and recent DSA vintages deviate from the DSA prepared in 2013. For external debt, projected debt levels remain about constant and the projected debt creating flows deviate from the five-year historical change because of projected smaller current account deficits and smaller residuals. [7] For total public debt, projected debt levels are declining because of real GDP growth and a positive primary balance, while the five-year historical change was a significant increase because of large primary deficits and a positive residual (because of the recognition of government guarantees related to pre-financing agreements).

ii. Planned fiscal adjustment. The primary balance, estimated at 1.6 percent of GDP in 2018, outperformed program targets. While a deficit of 0.2 percent of GDP is projected in 2019 due to some urgent spending, it is expected to stabilize at a surplus of about 1 percent of GDP in the medium term.

iii. Fiscal adjustment and possible growth path (Figure 4). Projected economic growth of 5.1 percent in 2019 is lower than implied by the multipliers (growth in the range of 5.2-6.7 percent). Growth is projected at 5.3 percent in 2020, which is slightly above the potential growth rate under a range of plausible fiscal multipliers (growth in the range of 4.9-5.1 percent).

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

[7] The large share of residuals in the 5-year historical change in debt creating flows is primarily due to an inconsistency in definitions used in the DSF and the BOP statistics.

Box 1. Main Assumptions in the Macroeconomic Framework

- Real GDP growth is expected to remain moderate in the near term at an annual average of 5.2 percent over 2019-20. Over the long term (2020-39), potential growth is estimated at an annual average of 5.4 percent supported by structural reforms and stronger private sector activity.

- Public investment is estimated to have dropped to 6.8 percent of GDP in 2018 and is projected to grow and reach 10 to 14 percent of GDP in the medium and long terms. Project loans are expected to grow in line with GDP while project grants grow in line with GDP up to 2028 and then remain constant in nominal terms and as a result, the share of domestically-financed investment is growing over time.

- Key commodity price projections (i.e., for oil, phosphates, cotton, cocoa, and coffee) through 2024 are sourced from the WEO prepared in April 2019 and are assumed to remain constant in real terms for the remainder of the forecast period.

- Medium-term inflation projections are unchanged from the previous DSA. Average inflation increased to 0.9 percent in 2018 (from deflation of 0.2 percent in 2017) driven by increasing costs for health and education services, restaurants, and transports. Inflation is expected to reach 2 percent in the medium-term, below the WAEMU convergence criteria.

- Medium-term projections of total revenue and grants have been increased compared to the previous DSA. Tax revenue that is projected at 17.6 percent of GDP in 2019 would meet the WAEMU revenue criterion of 20 percent of GDP in 2025 and then stabilize at 22 percent of GDP starting in 2029. Improved revenue performance is supported by several measures introduced recently by the authorities to bolster permanent revenue, both on tax policy and tax administration reforms. Such measures include the phasing out of reduced VAT rates, enhancement of property taxation, reduction of tax exemptions, cross-check of taxpayers between tax and customs administrations, and control over imports valuation. Total revenue and grants are projected to average about 26.8 percent of GDP over 2020-29.

- The overall primary fiscal balance (commitment basis, including grants) increased slightly to a surplus of 1.6 percent of GDP in 2018 from 1.5 percent in 2017. Starting in 2021 and up to 2029, the overall primary fiscal balance is anchored on a surplus of 1 percent of GDP, after which it would decrease and approach a deficit of 2 percent of GDP by 2039.

- The current account deficits for 2017 and 2018 have improved significantly compared to the previous DSA, mainly due to reported lower imports of capital goods and other components. The deficit is projected to increase in 2019 because of urgent spending and to stabilize around 4½ percent of GDP over the medium to long term, ensuring consistency with the fundamentals and desirable policy settings.

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

- Foreign direct investment, which has been very volatile, is expected to rise and stabilize around an inflow of 3.8 percent of GDP per year starting in 2025. However, these flows, as well as grants, are subject to significant risks, which may consequently alter the debt dynamics assumed in the baseline.

Box Table 1. Togo: Key Macroeconomic Assumptions (DSA June 2019 vs DSA December 2018)

	2017-19	2020-29
Real GDP Growth (percent)		
DSA June 2019	4.8	5.4
DSA December 2018	4.7	5.4
Total Revenue (percent of GDP)[1]		
DSA June 2019	23.1	26.8
DSA December 2018	23.2	24.7
Exports of goods and services (percent of GDP)		
DSA June 2019	32.2	34.2
DSA December 2018	32.8	33.1

Sources: Togolese authorities and Staff calculations.

[1] Total revenue, including grants.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

9. **Togo's debt carrying capacity is medium.** The composite indicator (CI), which captures the impact of several factors through a weighted average of an institutional indicator[8], real GDP growth, remittances, international reserves, and world growth, confirms that Togo's debt carrying capacity is classified to be 'medium', which is unchanged from the previous DSA. The debt carrying capacity, in turn, determines the PPG external debt thresholds and total public debt benchmarks.

10. **Standardized stress tests indicate that external debt is resilient while public debt is under distress.** Under standardized stress tests, all PPG external debt indicators remain below the policy relevant thresholds in the external DSA (Table 3 and Figure 1). However, using the benchmark of 55 percent, PV of public debt to GDP only falls below the threshold in 2023 in the public DSA (Table 4 and Figure 2). Togo does not have prominent economic features such as natural disasters, significant reliance on commodity exports, market financing, etc. that require additional tailored stress tests or other modules. Regarding the contingent liability stress test, a shock of 11.8 percent of GDP is used. The shock includes the default value

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

of 5 percent for financial markets, a 6.8 percent for risks associated with private-public partnerships (PPPs) given Togo's stock of around 20 percent of GDP, and 0 percent for SOE debt given that it is already included in public debt (Text Table 1).

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

Debt Carrying Capacity and Thresholds

Country	Togo
Country Code	**742**
Debt Carrying Capacity	**Medium**

Final	Classification based on current vintage	Classification based on the previous vintage
Medium	Medium 2.86	Medium 3.00

Applicable thresholds

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

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

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

Baseline

11. Under the baseline scenario, all Togo's external debt indicators continue to remain below their indicative policy-relevant thresholds (Table 1, Figure 1). Starting in 2020 after the conclusion of the ECF arrangement, new external loan financing will consist of borrowing from multilateral lenders (about 70 percent), Paris Club bilateral lenders (about 10 percent), and commercial lenders (about 20 percent). The present value of PPG external debt is projected at 17.1 percent of GDP in 2019 and should decrease to 11.6 percent by 2029. The ratio will remain below the 40 percent threshold under the baseline throughout the projection period. Similarly, debt service measures remain well below their respective thresholds and on a broadly downward trend. Improvements in debt-management practices envisaged in the authorities' ECF-supported program will give further resilience to shocks affecting debt service needs (Figure 1).

Alternative Scenarios and Stress Tests

12. Alternative scenarios reveal breaches of some relevant thresholds (Figure 1)**.** Under the most extreme shock scenario, the present value of PPG external debt-to-GDP as well as PPG external debt-to-exports ratio remain below the relevant thresholds over the projected period. This is also the case for debt service-to-export and to-revenue ratios. A tailored stress test for the combined contingent liability shock also does not cause any breach of relevant thresholds. However, under the historical scenario, which sets key macroeconomic parameters to their 10-year historical averages, the PV of debt-to-exports ratio breaches the threshold under the historical scenario in 2027, and PV of debt-to-GDP in 2023. These outcomes highlight the importance of sound macroeconomic policies.[9]

PUBLIC DEBT SUSTAINABILITY ANALYSIS

13. The inclusion of Togo's domestic public debt in the analysis worsens the vulnerability of the baseline scenario and yields an assessment of high overall risk of debt distress (Table 2, Figure 2). Togo's domestic debt burden reflects persistent high deficits in recent years and recognition of government debt of accumulated liabilities from pre-financing, liquidated loss-making SOEs, and arrears accumulation. Weak public fiscal management, including limited debt management capacity, has played a role in these developments. Domestic debt is projected to keep declining gradually from a record high of 61.2 percent of GDP in 2016. New domestic debt is assumed to be issued as a mix of bonds with a maturity of 1-3 years (15 percent of total), 4-7 years (60 percent of total), and over 8 years (25 percent of total). By the end of the projection period, repayment of arrears coupled with significant fiscal consolidation is expected to substantially reduce domestic debt and total PPG debt. The total value of new domestic issuances is projected to decrease as a share of GDP from about 6 percent a year over 2020-24 to slightly less than 3 percent a year over 2035-39. It should be noted that the external and domestic debt definitions are based on the currency denomination. Thus, while external debt should preferably include also local-currency denominated domestic debt owed to non-residents, because of difficulties in record keeping and limited non-resident participation in domestic debt, the definition of external debt is restricted to debt denominated in foreign currency.

Baseline Scenario

14. Under the baseline and alternative scenarios, indicators of the overall public debt burden (external plus domestic) show significant vulnerabilities. The PV of public debt–to-GDP in 2018 stands above the benchmark level of 55 percent. The authorities undertook a substantial fiscal adjustment with a combination of spending restraint and revenue mobilization in 2017-18, but these efforts were not fully reflected in debt numbers in 2018. Togo's PV of total public debt-to-GDP is expected to reach below the 55 percent benchmark by 2023 and to decline gradually below this benchmark thereafter (Figure 2). However, under the historical scenario and several standardized stress tests, the PV of public debt-to-GDP stays above the benchmark throughout all or most of the projection period as the country accumulates more debt to finance larger fiscal deficits. Such scenarios (essentially positing minor change from historic and

[9] The historical scenario is driven by continuing large current account deficits and significant outflows of FDI.

present performance) highlight the risks to debt sustainability facing the authorities in the absence of needed policy reforms. A significant shock to state-owned enterprises could also result in the realization of contingent liabilities that would increase debt levels notably, though such risks are difficult to quantify.

RISK RATING AND VULNERABILITIES

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

- Togo had the largest overall debt-to-GDP ratio in WAEMU in 2018, at 76.2 percent of GDP (73.2 percent excluding SOEs' debt). The ratio of NPV of overall public debt-to-GDP stands above the prudential levels, remaining above such indicative benchmark through 2023—but on a steady declining trend, under the assumption of a continued primary surplus at about 1 percent of GDP and substantial reduction in the domestic debt.

- For the external debt, under the baseline scenario, all PPG external debt sustainability indicators are expected to remain well below their indicative thresholds throughout the projection period (2019–29). While the mechanical results point to a low risk of external debt distress, judgment was applied given vulnerabilities arising from high domestic debt, which could, for example, likely lead to a reprofiling operation that would lead to an increase in external debt.

A DEBT REPROFILING SCENARIO

16. The authorities plan to proceed with a debt reprofiling operation in the second half of 2019. Staff prepared a debt reprofiling scenario based on assumptions derived from available information (Tables 5 and 6). Under this scenario, Togo's debt sustainability improves slightly. The PV of public debt would decline to 23.0 percent of GDP in 2039 compared with 26.5 percent of GDP in the baseline. The PV of external debt would be slightly higher at 14.1 percent of GDP in 2039 compared with 12.7 percent of GDP in the baseline. Alternative scenarios reveal breaches under standard stress tests. Under the most extreme shock scenario, the present value of PPG external debt-to-GDP would breach the threshold of PV of debt-to-GDP ratio but only temporarily (Figure 6). Because of the debt reprofiling, the debt service-to-revenue ratio would decrease rapidly over the next two years and then decline gradually from 33 percent in 2021 to 20 percent by 2029 (Figure 7).

AUTHORITIES' VIEWS

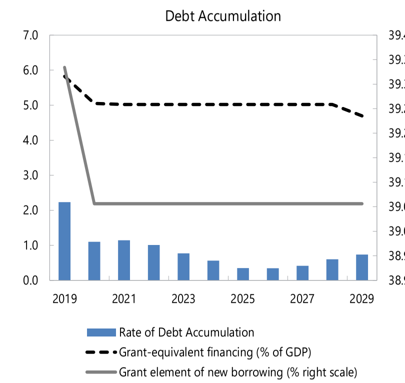
17. The authorities broadly agreed with staff's assessment of Togo's public debt situation and recommendations on debt management policy. They broadly concurred with the staff's assessment of debt composition, projections, risk ratings and distress level. Given that Togo's current level of debt is still the highest among WAEMU members and the overall risk of debt distress remains high, they recognize that the fiscal consolidation must continue to bring public debt down to sustainable level. While they have been making progress on the debt management, they highlighted the need for further improvement by making full use of IMF technical assistance, training resources, and having a resident advisor to strengthen their capacity in this area. Moreover, they plan to sell some non-financial assets to repay and reduce public debt.

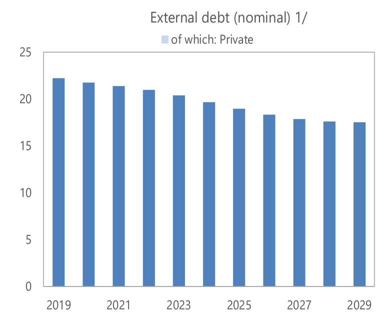
Table 1. Togo: External Debt Sustainability Framework, Baseline Scenario, 2016–39

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	20.2	19.7	20.5	22.2	21.8	21.4	21.0	20.4	19.7	17.5	19.7	20.7	19.7
of which: public and publicly guaranteed (PPG)	20.2	19.7	20.5	22.2	21.8	21.4	21.0	20.4	19.7	17.5	19.7	20.7	19.7
Change in external debt	-1.5	-0.5	0.8	1.7	-0.5	-0.4	-0.4	-0.6	-0.7	-0.1	0.2		
Identified net debt-creating flows	15.2	-1.9	0.4	2.2	1.3	0.7	0.2	-0.1	-0.2	-0.2	-0.4	9.4	0.2
Non-interest current account deficit	9.4	1.6	4.6	5.6	5.1	4.7	4.4	4.2	4.1	4.2	4.1	7.4	4.4
Deficit in balance of goods and services	18.4	10.5	12.3	12.9	12.5	12.0	11.6	11.3	11.3	11.2	10.8	16.6	11.6
Exports	35.3	33.1	31.3	32.1	32.3	32.5	33.2	33.6	34.1	36.1	40.7		
Imports	53.7	43.5	43.6	45.0	44.8	44.5	44.8	45.0	45.4	47.3	51.5		
Net current transfers (negative = inflow)	-7.6	-8.3	-7.0	-6.8	-6.8	-6.7	-6.6	-6.6	-6.5	-6.4	-6.0	-7.7	-6.6
of which: official	-1.6	-2.2	-1.1	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.2	-0.5		
Other current account flows (negative = net inflow)	-1.3	-0.5	-0.7	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.7	-1.4	-0.6
Net FDI (negative = inflow)	6.8	-2.5	-2.5	-2.7	-3.0	-3.2	-3.5	-3.6	-3.7	-3.8	-3.8	2.6	-3.5
Endogenous debt dynamics 2/	-1.0	-1.0	-1.8	-0.7	-0.8	-0.8	-0.8	-0.7	-0.7	-0.6	-0.7		
Contribution from nominal interest rate	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3		
Contribution from real GDP growth	-1.1	-0.8	-0.9	-1.0	-1.1	-1.1	-1.1	-1.0	-1.0	-0.9	-1.0		
Contribution from price and exchange rate changes	-0.3	-0.6	-1.2	...	...	...	...	...	...	...	...		
Residual 3/	-16.6	1.4	0.4	-0.4	-1.7	-1.1	-0.6	-0.5	-0.5	0.1	0.5	-13.1	-0.5
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	15.6	17.1	16.6	16.3	15.8	15.2	14.4	11.6	12.7		
PV of PPG external debt-to-exports ratio	...	...	49.8	53.4	51.4	50.1	47.6	45.2	42.3	32.0	31.1		
PPG debt service-to-exports ratio	4.9	5.9	4.9	3.9	3.9	3.6	3.8	4.4	4.8	3.7	2.3		
PPG debt service-to-revenue ratio	9.3	10.7	7.5	6.3	6.2	5.6	6.0	6.8	7.3	5.4	3.8		
Gross external financing need (Billion of U.S. dollars)	0.2	0.3	0.5	0.5	0.6	0.6	0.7	0.7	0.8	1.2	2.7		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.6	4.4	4.9	5.1	5.3	5.4	5.4	5.4	5.4	5.4	5.4	5.7	5.4
GDP deflator in US dollar terms (change in percent)	1.2	2.9	6.4	-1.0	4.1	3.6	3.7	3.4	3.7	3.0	3.0	-0.6	3.0
Effective interest rate (percent) 4/	1.8	2.0	1.7	1.3	1.3	1.4	1.6	1.6	1.7	1.9	1.7	1.5	1.6
Growth of exports of G&S (US dollar terms, in percent)	5.3	0.6	5.6	6.7	10.4	9.8	11.7	10.4	10.7	9.9	10.8	4.6	9.9
Growth of imports of G&S (US dollar terms, in percent)	-0.7	-12.9	11.9	7.3	9.2	8.5	9.9	9.5	10.2	9.5	10.3	4.4	9.3
Grant element of new public sector borrowing (in percent)	...	...	...	39.3	39.0	39.0	39.0	39.0	39.0	39.0	39.0	...	39.0
Government revenues (excluding grants, in percent of GDP)	18.7	18.2	20.3	19.9	20.3	20.7	21.3	21.9	22.6	25.0	24.7	17.9	22.5
Aid flows (in Billion of US dollars) 5/	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.6	0.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	5.8	5.0	5.0	5.0	5.0	5.0	4.7	2.6	...	5.1
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	68.7	77.3	77.8	77.8	77.8	77.8	76.6	64.3	...	76.8
Nominal GDP (Billion of US dollars)	4	5	5	6	6	7	7	8	9	13	30		
Nominal dollar GDP growth	6.9	7.4	11.6	4.1	9.6	9.2	9.3	9.0	9.3	8.6	8.6	5.1	8.5
Memorandum items:													
PV of external debt 7/	...	...	15.6	17.1	16.6	16.3	15.8	15.2	14.4	11.6	12.7		
In percent of exports	...	...	49.8	53.4	51.4	50.1	47.6	45.2	42.3	32.0	31.1		
Total external debt service-to-exports ratio	4.9	5.9	4.9	3.9	3.9	3.6	3.8	4.4	4.8	3.7	2.3		
PV of PPG external debt (in Billion of US dollars)			0.8	1.0	1.0	1.1	1.2	1.2	1.3	1.5	3.8		
(PVt-PVt-1)/GDPt-1 (in percent)				2.2	1.1	1.1	1.0	0.8	0.6	0.7	1.2		
Non-interest current account deficit that stabilizes debt ratio	10.9	2.1	3.8	3.9	5.5	5.1	4.8	4.8	4.9	4.3	4.0		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes debt of the central government and public entities.

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

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

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

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

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

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

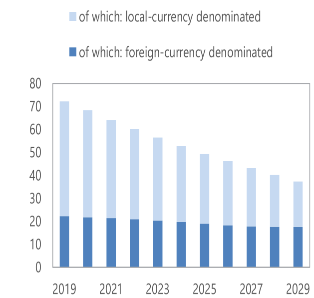
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

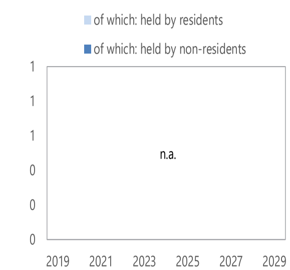
Table 2. Togo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–39

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	81.4	75.5	76.2	72.2	68.4	64.2	60.3	56.5	52.8	37.3	33.5	64.7	53.7
of which: external debt	20.2	19.7	20.5	22.2	21.8	21.4	21.0	20.4	19.7	17.5	19.7	20.7	19.7
Change in public sector debt	9.2	-5.8	0.6	-3.9	-3.9	-4.2	-3.9	-3.8	-3.7	-2.9	0.4		
Identified debt-creating flows	5.5	-5.7	-1.8	-3.6	-3.6	-3.9	-3.6	-3.6	-3.5	-2.8	0.4	-5.9	-3.3
Primary deficit	7.2	-1.5	-1.6	0.2	-0.7	-1.0	-1.0	-1.0	-1.0	-1.0	2.0	3.3	-0.9
Revenue and grants	21.6	21.4	23.9	24.0	24.4	24.8	25.4	26.0	26.7	28.8	26.4	20.5	26.6
of which: grants	2.9	3.2	3.6	4.1	4.1	4.1	4.1	4.1	4.1	3.8	1.7		
Primary (noninterest) expenditure	28.7	19.9	22.3	24.2	23.7	23.7	24.4	25.0	25.6	27.8	28.4	23.8	25.7
Automatic debt dynamics	-1.7	-4.2	-1.4	-2.6	-2.9	-2.9	-2.6	-2.6	-2.4	-1.7	-1.6		
Contribution from interest rate/growth differential	-2.2	-2.3	-2.3	-2.4	-2.5	-2.6	-2.4	-2.3	-2.2	-1.2	-1.0		
of which: contribution from average real interest rate	1.6	1.2	1.3	1.3	1.1	0.9	0.9	0.8	0.7	0.8	0.7		
of which: contribution from real GDP growth	-3.8	-3.4	-3.5	-3.7	-3.6	-3.5	-3.3	-3.1	-2.9	-2.1	-1.7		
Contribution from real exchange rate depreciation	0.6	-1.9	0.8	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	1.2	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-6.8	-0.1
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
2018 revenue arrears paid in 2019	0.0	0.0	1.2	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	3.7	-0.2	2.4	-0.7	-0.6	-0.5	-0.5	-0.4	-0.4	-0.6	-0.5	4.4	-0.6
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	71.8	67.0	63.2	59.0	55.1	51.3	47.5	31.3	26.5		
PV of public debt-to-revenue and grants ratio	...	...	300.7	279.5	259.2	238.1	216.7	196.9	178.3	108.8	100.2		
Debt service-to-revenue and grants ratio 3/	55.5	95.4	57.7	38.7	45.5	48.3	33.2	32.7	32.0	19.9	13.7		
Gross financing need 4/	19.1	18.9	13.4	8.4	10.4	10.9	7.4	7.4	7.5	4.7	5.7		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	5.6	4.4	4.9	5.1	5.3	5.4	5.4	5.4	5.4	5.4	5.4	5.7	5.4
Average nominal interest rate on external debt (in percent)	1.8	2.1	1.6	1.4	1.3	1.4	1.5	1.6	1.7	1.9	1.7	1.5	1.6
Average real interest rate on domestic debt (in percent)	3.0	1.9	2.6	2.7	2.7	2.4	2.6	2.4	2.4	2.4	2.6	1.6	2.5
Real exchange rate depreciation (in percent, + indicates depreciation)	2.8	-10.0	4.5	...	...	...	...	...	...	...	...	2.3	...
Inflation rate (GDP deflator, in percent)	1.5	0.8	1.7	2.3	3.0	3.0	3.0	3.0	3.0	3.0	3.0	1.4	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	7.1	-27.7	17.6	14.1	3.0	5.7	8.4	7.9	8.1	5.8	6.1	10.1	7.5
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-2.1	4.4	-2.2	4.1	3.2	3.2	2.9	2.8	2.6	1.8	1.6	0.0	2.6
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, government-guaranteed debt, non-guaranteed SOE debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Togo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–29

(In percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	17	17	16	16	15	14	14	13	12	12	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	17	23	29	36	**42**	**48**	**54**	**61**	**66**	**72**	**77**
B. Bound Tests											
B1. Real GDP growth	17	17	17	16	16	15	14	13	12	12	12
B2. Primary balance	17	18	20	19	19	18	18	18	17	17	16
B3. Exports	17	21	28	27	26	25	23	22	21	20	19
B4. Other flows 3/	17	26	34	33	32	30	29	27	26	24	23
B5. One-time 30 percent nominal depreciation	17	21	16	16	15	14	14	13	12	12	12
B6. Combination of B1-B5	17	27	32	31	30	28	27	26	24	23	21
C. Tailored Tests											
C1. Combined contingent liabilities	17	20	19	19	18	18	18	17	16	16	16
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	53	51	50	48	45	42	39	37	35	33	32
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	53	71	90	107	125	142	158	173	**188**	**201**	**214**
B. Bound Tests											
B1. Real GDP growth	53	51	50	48	45	42	39	37	35	33	32
B2. Primary balance	53	57	61	59	56	54	53	51	49	47	46
B3. Exports	53	76	119	113	107	100	94	88	83	77	72
B4. Other flows 3/	53	80	106	100	94	89	83	78	73	68	63
B5. One-time 30 percent nominal depreciation	53	51	40	38	36	34	32	29	27	27	26
B6. Combination of B1-B5	53	90	93	111	105	98	92	87	81	75	70
C. Tailored Tests											
C1. Combined contingent liabilities	53	61	59	56	54	52	51	48	46	44	43
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	4	4	4	4	4	5	5	5	5	4	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	4	4	4	5	7	8	9	10	11	11	12
B. Bound Tests											
B1. Real GDP growth	4	4	4	4	4	5	5	5	5	4	4
B2. Primary balance	4	4	4	4	5	5	6	6	5	5	4
B3. Exports	4	5	6	7	8	8	9	8	8	8	8
B4. Other flows 3/	4	4	4	5	6	6	7	6	7	7	6
B5. One-time 30 percent nominal depreciation	4	4	4	4	4	5	5	5	5	4	3
B6. Combination of B1-B5	4	4	6	6	7	7	8	8	8	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	4	4	4	4	5	5	6	5	5	4	4
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	6	6	6	6	7	7	8	8	7	6	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	6	6	7	8	10	12	14	15	16	17	18
B. Bound Tests											
B1. Real GDP growth	6	6	6	6	7	7	8	8	7	6	5
B2. Primary balance	6	6	6	7	7	8	8	8	8	7	6
B3. Exports	6	6	6	8	8	9	9	9	9	9	8
B4. Other flows 3/	6	6	7	9	9	9	10	9	10	10	9
B5. One-time 30 percent nominal depreciation	6	8	7	7	8	9	9	9	8	7	6
B6. Combination of B1-B5	6	7	7	8	9	10	10	9	10	10	9
C. Tailored Tests											
C1. Combined contingent liabilities	6	6	6	6	7	8	8	8	7	6	6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

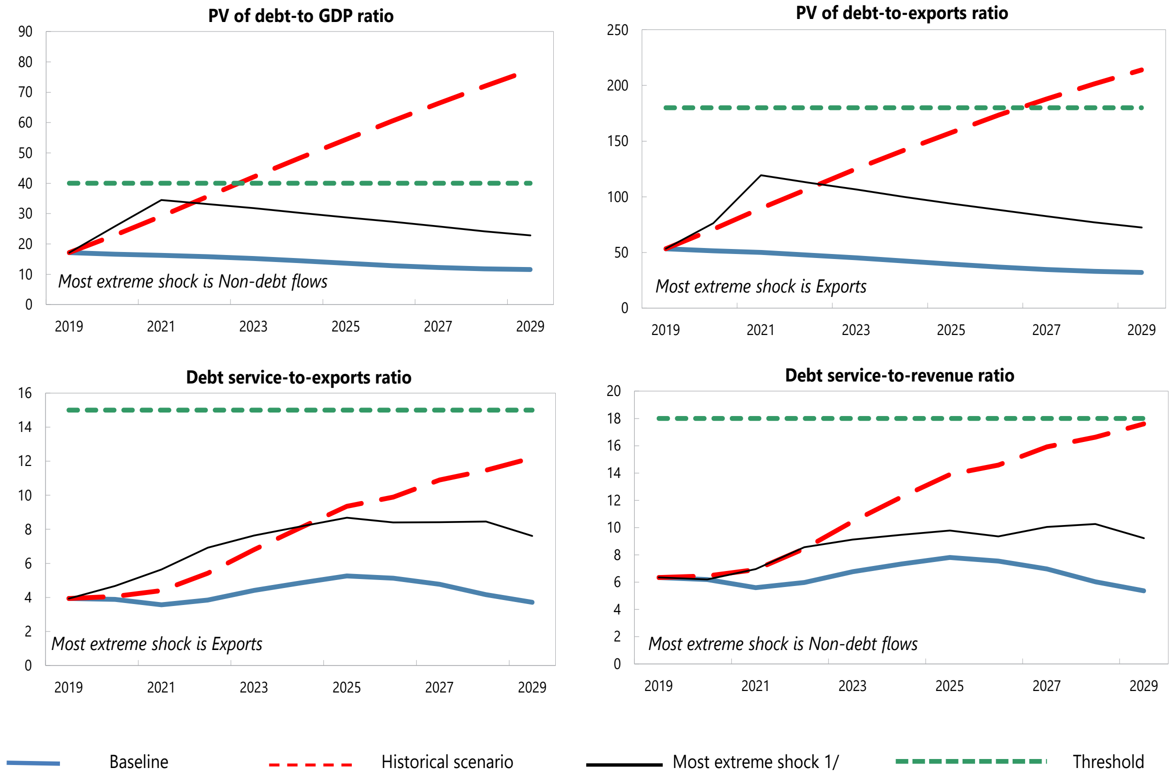
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private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

Table 4. Togo: Sensitivity Analysis for Key Indicators of Public Debt 2019–29

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	PV of Debt-to-GDP Ratio										
Baseline	**67**	**63**	**59**	**55**	**51**	**48**	**44**	**41**	**37**	**34**	**31**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	**67**	**67**	**66**	**66**	**65**	**65**	**65**	**64**	**64**	**63**	**63**
B. Bound Tests											
B1. Real GDP growth	**67**	**64**	**61**	**57**	54	50	47	44	41	38	35
B2. Primary balance	**67**	**70**	**72**	**68**	**64**	**60**	**55**	52	48	44	41
B3. Exports	**67**	**67**	**70**	**65**	**61**	**57**	53	49	46	42	38
B4. Other flows 3/	**67**	**72**	**77**	**72**	**68**	**63**	**59**	**55**	51	47	43
B5. One-time 30 percent nominal depreciation	**67**	**63**	**57**	52	47	42	37	33	29	24	20
B6. Combination of B1-B5	**67**	**66**	**63**	52	49	45	42	38	36	33	30
C. Tailored Tests											
C1. Combined contingent liabilities	**67**	**74**	**69**	**65**	**61**	**57**	53	49	45	42	39
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
	PV of Debt-to-Revenue Ratio										
Baseline	280	259	238	217	197	178	161	146	133	120	109
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	280	273	267	258	250	241	233	228	222	217	214
B. Bound Tests											
B1. Real GDP growth	280	262	244	224	205	188	171	158	145	132	123
B2. Primary balance	280	285	290	267	245	223	203	186	170	155	142
B3. Exports	280	275	281	257	234	213	194	177	161	145	132
B4. Other flows 3/	280	297	311	285	260	237	216	198	180	163	148
B5. One-time 30 percent nominal depreciation	280	263	235	208	183	160	139	120	102	86	71
B6. Combination of B1-B5	280	274	255	207	188	170	153	139	127	114	103
C. Tailored Tests											
C1. Combined contingent liabilities	280	302	279	256	234	212	192	176	161	146	134
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Debt Service-to-Revenue Ratio										
Baseline	39	46	48	33	33	32	31	29	26	24	20
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	39	46	50	35	35	35	34	33	30	30	26
B. Bound Tests											
B1. Real GDP growth	39	46	49	34	33	33	32	31	27	26	22
B2. Primary balance	39	46	50	36	36	41	46	38	29	29	27
B3. Exports	39	46	49	34	34	33	32	30	27	26	22
B4. Other flows 3/	39	46	49	35	35	34	33	31	28	28	23
B5. One-time 30 percent nominal depreciation	39	44	47	33	32	32	30	28	25	23	19
B6. Combination of B1-B5	39	44	47	32	32	31	30	28	26	25	21
C. Tailored Tests											
C1. Combined contingent liabilities	39	46	50	35	35	44	42	31	28	28	26
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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

Figure 1. Togo: Indicators of Public Guaranteed External Debt under Alternatives Scenarios, 2019–29 [1/]



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

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

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.4%	2.4%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	6	6

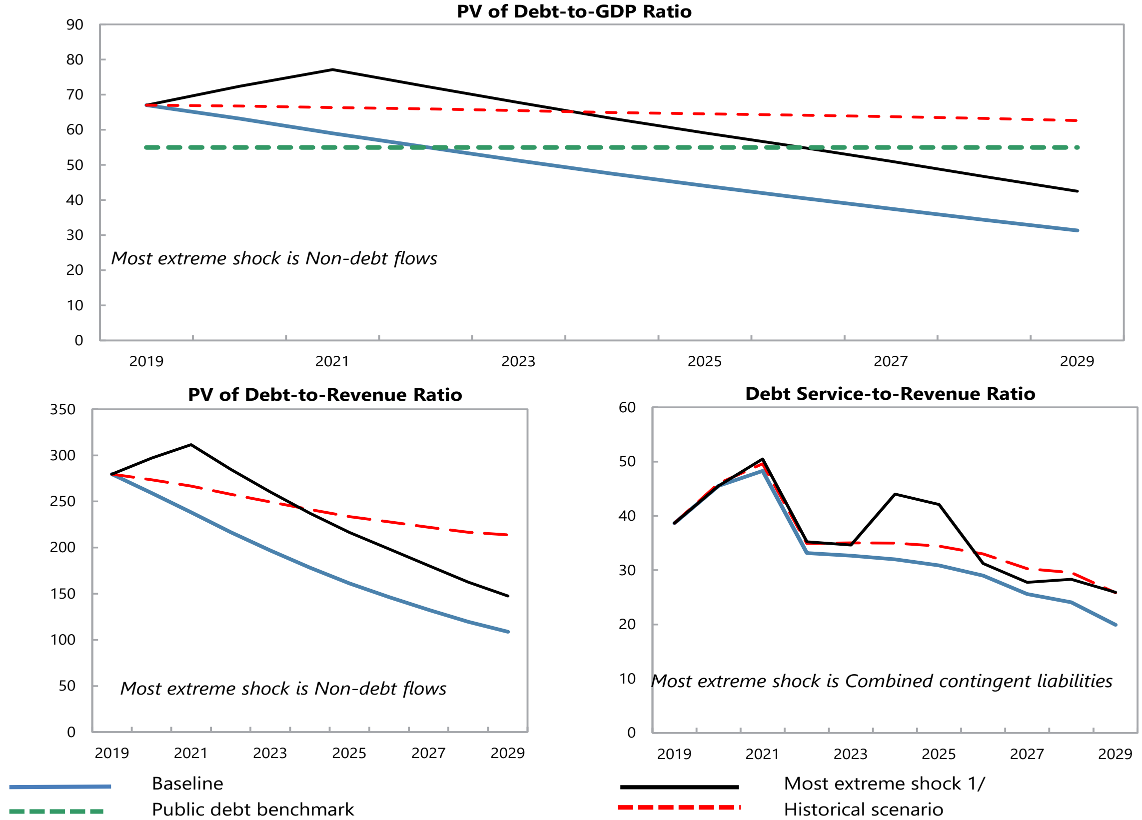
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

Figure 2. Togo: Indicators of Public Debt Under Alternative Scenarios, 2019–29



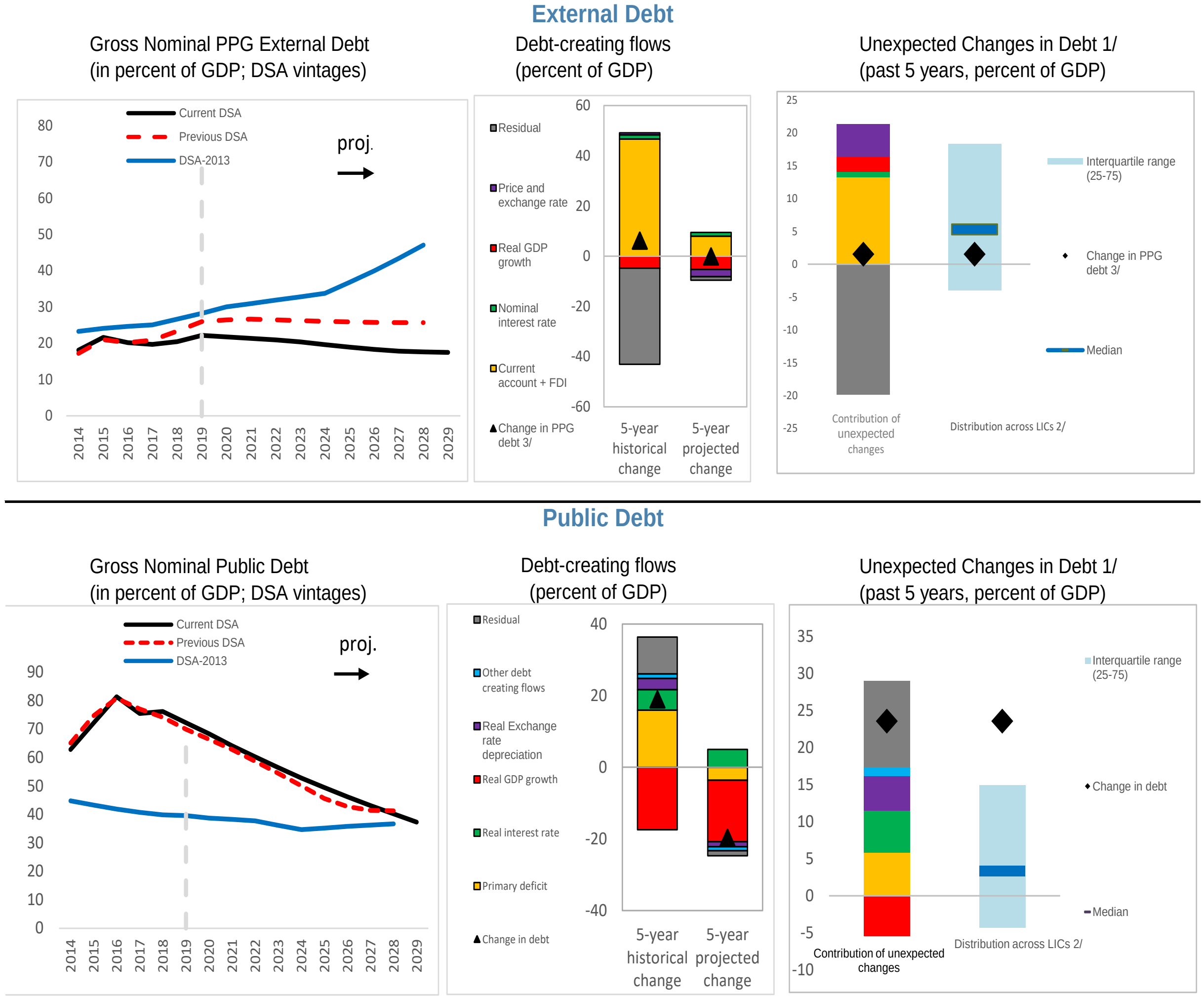
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	36%	36%
Domestic medium and long-term	64%	64%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.4%	2.4%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.5%	3.5%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	3.6%	3.6%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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



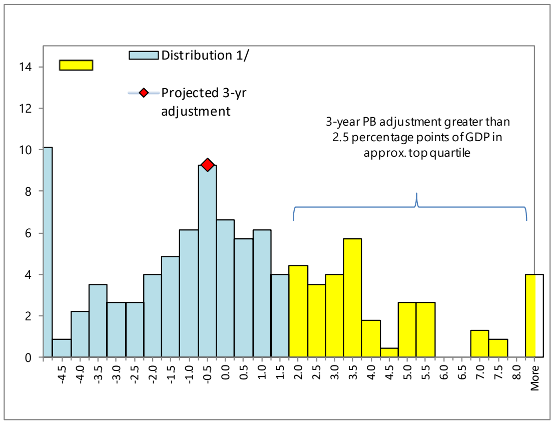
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

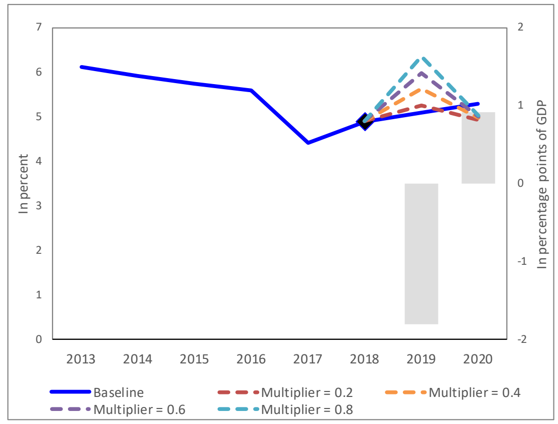
Figure 4. Togo: Realism Tools

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



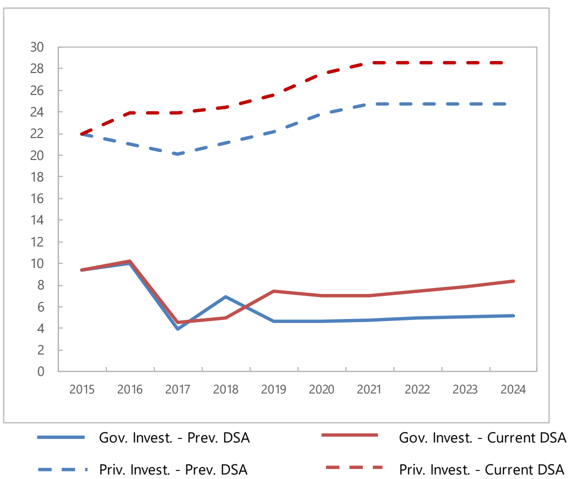
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(% of GDP)



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

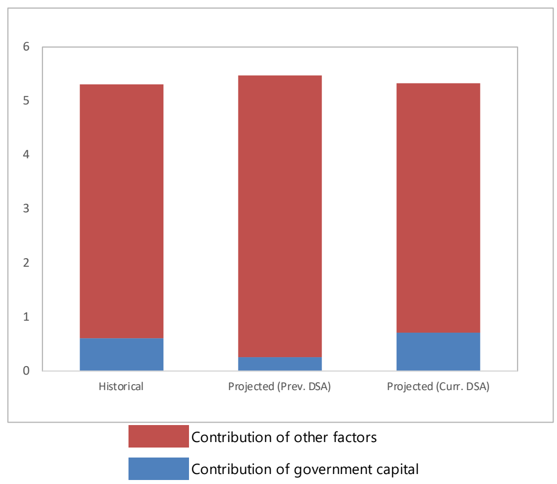


Figure 5. Togo: Qualification of the Moderate Category, 2019–29 1/

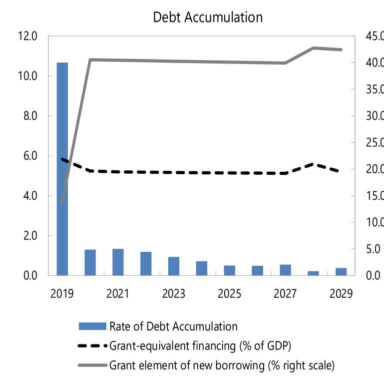
Sources: Country authorities; and staff estimates and projections.

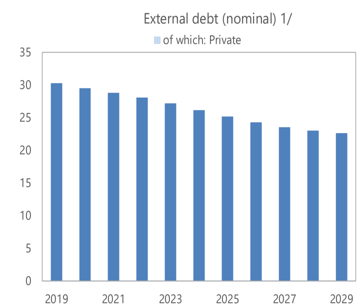
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Table 5. Togo: External Debt Sustainability Framework, Debt Reprofiling Scenario, 2016–39
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	20.2	19.7	20.5	30.3	29.5	28.8	28.1	27.2	26.1	22.6	21.8	20.7	26.2
of which: public and publicly guaranteed (PPG)	20.2	19.7	20.5	30.3	29.5	28.8	28.1	27.2	26.1	22.6	21.8	20.7	26.2
Change in external debt	-1.5	-0.5	0.8	9.8	-0.8	-0.7	-0.7	-0.9	-1.0	-0.4	-0.1		
Identified net debt-creating flows	15.2	-1.9	0.4	2.6	1.3	0.7	0.1	-0.2	-0.3	-0.4	-0.5	9.4	0.2
Non-interest current account deficit	9.4	1.6	4.6	6.0	5.1	4.7	4.4	4.2	4.1	4.1	4.1	7.4	4.4
Deficit in balance of goods and services	18.4	10.5	12.3	12.9	12.5	12.0	11.6	11.3	11.3	11.2	10.8	16.6	11.6
Exports	35.3	33.1	31.3	32.1	32.3	32.5	33.2	33.6	34.1	36.1	40.7		
Imports	53.7	43.5	43.6	45.0	44.8	44.5	44.8	45.0	45.4	47.3	51.5		
Net current transfers (negative = inflow)	-7.6	-8.3	-7.0	-6.8	-6.8	-6.7	-6.6	-6.6	-6.5	-6.4	-6.0	-7.7	-6.6
of which: official	-1.6	-2.2	-1.1	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.2	-0.5		
Other current account flows (negative = net inflow)	-1.3	-0.5	-0.7	-0.1	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.7	-1.4	-0.5
Net FDI (negative = inflow)	6.8	-2.5	-2.5	-2.7	-3.0	-3.2	-3.5	-3.6	-3.7	-3.8	-3.8	2.6	-3.5
Endogenous debt dynamics 2/	-1.0	-1.0	-1.8	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8	-0.7	-0.8		
Contribution from nominal interest rate	0.4	0.4	0.3	0.3	0.6	0.6	0.6	0.6	0.6	0.5	0.3		
Contribution from real GDP growth	-1.1	-0.8	-0.9	-1.0	-1.5	-1.5	-1.4	-1.4	-1.3	-1.1	-1.1		
Contribution from price and exchange rate changes	-0.3	-0.6	-1.2	...	...	...	...	...	...	...	...		
Residual 3/	-16.6	1.4	0.4	7.2	-2.0	-1.4	-0.8	-0.7	-0.7	0.0	0.4	-13.1	0.0
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	15.6	25.2	24.2	23.4	22.5	21.5	20.3	15.1	14.1		
PV of PPG external debt-to-exports ratio	...	...	49.8	78.6	74.8	71.9	67.7	63.9	59.6	41.8	34.7		
PPG debt service-to-exports ratio	4.9	5.9	4.9	3.9	5.0	4.6	4.8	5.3	5.6	6.5	2.5		
PPG debt service-to-revenue ratio	9.3	10.7	7.5	6.3	8.0	7.3	7.5	8.1	8.5	9.4	4.1		
Gross external financing need (Billion of U.S. dollars)	0.2	0.3	0.5	0.6	0.6	0.6	0.7	0.8	0.8	1.3	2.7		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.6	4.4	4.9	5.1	5.3	5.4	5.4	5.4	5.4	5.4	5.4	5.7	5.4
GDP deflator in US dollar terms (change in percent)	1.2	2.9	6.4	-1.0	4.1	3.6	3.7	3.4	3.7	3.0	3.0	-0.6	3.0
Effective interest rate (percent) 4/	1.8	2.0	1.7	1.3	2.3	2.3	2.4	2.4	2.4	2.2	1.7	1.5	2.2
Growth of exports of G&S (US dollar terms, in percent)	5.3	0.6	5.6	6.7	10.4	9.8	11.7	10.4	10.7	9.9	10.8	4.6	9.9
Growth of imports of G&S (US dollar terms, in percent)	-0.7	-12.9	11.9	7.3	9.2	8.5	9.9	9.5	10.2	9.5	10.3	4.4	9.3
Grant element of new public sector borrowing (in percent)	...	...	...	13.8	40.5	40.5	40.3	40.2	40.2	42.4	39.0	...	38.2
Government revenues (excluding grants, in percent of GDP)	18.7	18.2	20.3	19.9	20.3	20.7	21.3	21.9	22.6	25.0	24.7	17.9	22.5
Aid flows (in Billion of US dollars) 5/	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.6	0.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	5.8	5.2	5.2	5.2	5.2	5.1	5.2	2.6	...	5.3
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	35.1	75.9	76.4	76.6	76.7	76.8	73.0	64.3	...	72.3
Nominal GDP (Billion of US dollars)	4	5	5	6	6	7	7	8	9	13	30		
Nominal dollar GDP growth	6.9	7.4	11.6	4.1	9.6	9.2	9.3	9.0	9.3	8.6	8.6	5.1	8.5
Memorandum items:													
PV of external debt 7/	...	...	15.6	25.2	24.2	23.4	22.5	21.5	20.3	15.1	14.1		
In percent of exports	...	...	49.8	78.6	74.8	71.9	67.7	63.9	59.6	41.8	34.7		
Total external debt service-to-exports ratio	4.9	5.9	4.9	3.9	5.0	4.6	4.8	5.3	5.6	6.5	2.5		
PV of PPG external debt (in Billion of US dollars)			0.8	1.4	1.5	1.6	1.6	1.7	1.8	2.0	4.2		
(PVt-PVt-1)/GDPt-1 (in percent)				10.7	1.3	1.3	1.2	0.9	0.7	0.4	1.2		
Non-interest current account deficit that stabilizes debt ratio	10.9	2.1	3.8	-3.8	5.9	5.4	5.1	5.1	5.2	4.5	4.2		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes debt of the central government and public entities.

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

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

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

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

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

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

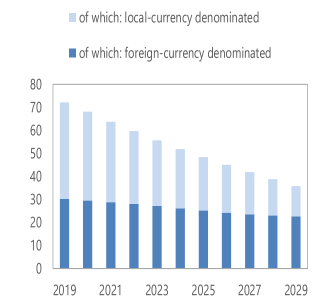
Table 6. Togo: Public Sector Debt Sustainability Framework, Debt Reprofiling Scenario, 2016–39

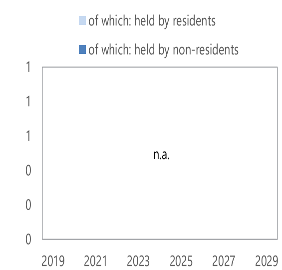
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	81.4	75.5	76.2	72.2	68.1	63.8	59.7	55.7	51.9	35.8	30.7	64.7	52.9
of which: external debt	20.2	19.7	20.5	30.3	29.5	28.8	28.1	27.2	26.1	22.6	21.8	20.7	26.2
Change in public sector debt	9.2	-5.8	0.6	-4.0	-4.0	-4.4	-4.1	-4.0	-3.8	-3.0	0.4		
Identified debt-creating flows	5.5	-5.7	-1.8	-3.6	-3.7	-4.1	-3.8	-3.8	-3.6	-2.9	0.4	-5.9	-3.5
Primary deficit	7.2	-1.5	-1.6	0.2	-0.7	-1.0	-1.0	-1.0	-1.0	-1.0	2.0	3.3	-0.9
Revenue and grants	21.6	21.4	23.9	24.0	24.4	24.8	25.4	26.0	26.7	28.8	26.4	20.5	26.6
of which: grants	2.9	3.2	3.6	4.1	4.1	4.1	4.1	4.1	4.1	3.8	1.7		
Primary (noninterest) expenditure	28.7	19.9	22.3	24.2	23.7	23.7	24.4	25.0	25.6	27.8	28.4	23.8	25.7
Automatic debt dynamics	-1.7	-4.2	-1.4	-2.6	-3.0	-3.1	-2.8	-2.7	-2.6	-1.9	-1.7		
Contribution from interest rate/growth differential	-2.2	-2.3	-2.3	-2.4	-2.6	-2.7	-2.5	-2.4	-2.2	-1.2	-1.0		
of which: contribution from average real interest rate	1.6	1.2	1.3	1.3	1.1	0.8	0.7	0.7	0.6	0.8	0.5		
of which: contribution from real GDP growth	-3.8	-3.4	-3.5	-3.7	-3.6	-3.5	-3.3	-3.1	-2.9	-2.0	-1.6		
Contribution from real exchange rate depreciation	0.6	-1.9	0.8	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	1.2	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-6.8	-0.1
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
2018 revenue arrears paid in 2019	0.0	0.0	1.2	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	3.7	-0.2	2.4	-0.7	-0.8	-0.6	-0.5	-0.5	-0.5	-0.7	-0.6	4.4	-0.7
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	71.8	67.0	62.8	58.3	54.1	50.0	46.0	28.3	23.0		
PV of public debt-to-revenue and grants ratio	...	...	300.7	279.3	257.5	235.3	212.7	192.1	172.6	98.1	86.9		
Debt service-to-revenue and grants ratio 3/	55.5	95.4	57.7	72.5	39.7	32.3	26.8	27.8	28.9	18.2	9.3		
Gross financing need 4/	19.1	18.9	13.4	16.5	9.0	7.0	5.8	6.2	6.7	4.2	4.5		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	5.6	4.4	4.9	5.1	5.3	5.4	5.4	5.4	5.4	5.4	5.4	5.7	5.4
Average nominal interest rate on external debt (in percent)	1.8	2.1	1.6	1.4	2.3	2.3	2.3	2.4	2.4	2.1	1.7	1.5	2.2
Average real interest rate on domestic debt (in percent)	3.0	1.9	2.6	2.7	2.5	2.2	2.2	2.2	2.2	1.9	2.2	1.6	2.2
Real exchange rate depreciation (in percent, + indicates depreciation)	2.8	-10.0	4.5	...	...	...	...	...	...	...	...	2.3	...
Inflation rate (GDP deflator, in percent)	1.5	0.8	1.7	2.3	3.0	3.0	3.0	3.0	3.0	3.0	3.0	1.4	2.9
Growth of real primary spending (deflated by GDP deflator, in percent)	7.1	-27.7	17.6	14.1	3.0	5.7	8.4	7.9	8.1	5.8	6.1	10.1	7.5
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-2.1	4.4	-2.2	4.2	3.3	3.3	3.1	2.9	2.8	2.0	1.6	0.0	2.8
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, government-guaranteed debt, non-guaranteed SOE debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

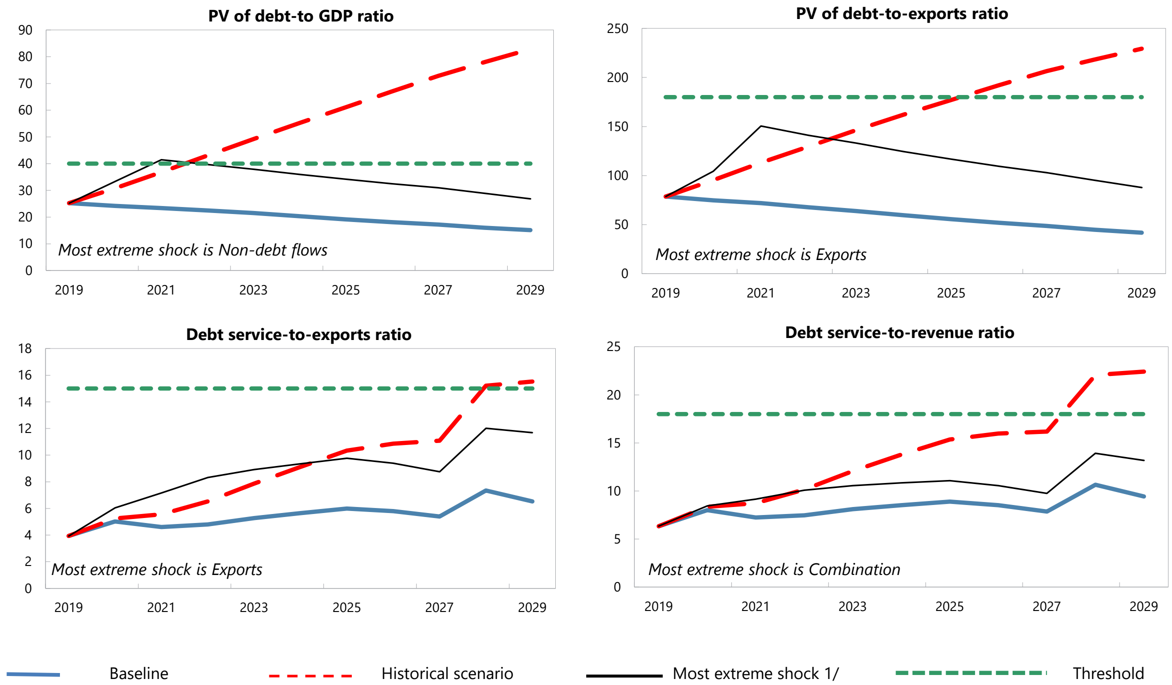
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 6. Togo: Indicators of Public Guaranteed External Debt under Alternatives Scenarios for the Debt Reprofiling Scenario, 2019–29 1/



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

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

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.4%	2.4%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	7	7

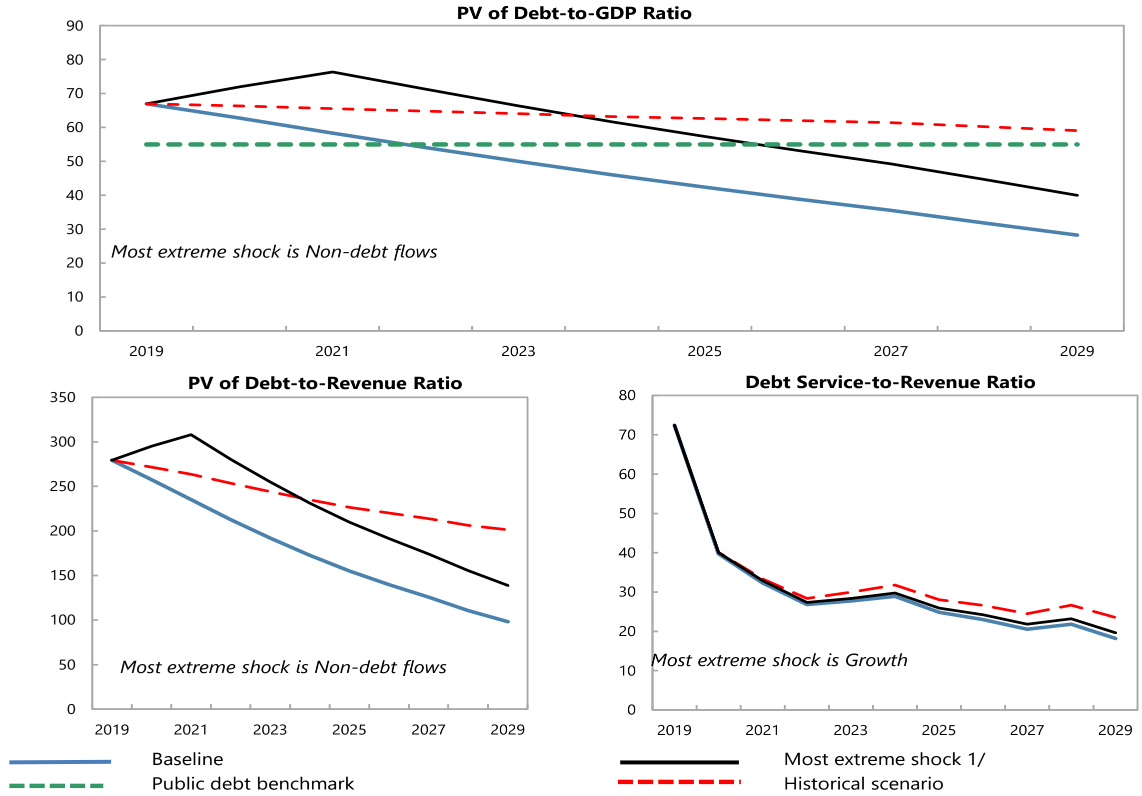
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

Figure 7. Togo: Indicators of Public Debt Under Alternative Scenarios for the Debt Reprofiling Scenario, 2019–29



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	53%	53%
Domestic medium and long-term	47%	47%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.4%	2.4%
Avg. maturity (incl. grace period)	28	28
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.5%	3.5%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	3.6%	3.6%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Statement by Mr. Raghani, Executive Director for Togo,
Mr. Razafindramanana, Alternate Executive Director for Togo, and
Mrs. Boukpessi, Advisor to the Executive Director
June 26, 2019

1. Our Togolese authorities thank Staff for the candid and constructive policy discussions held in the context of the 2019 Article IV Consultation and the Fourth Review under the Extended Credit Facility (ECF) arrangement. They also thank Management and the Executive Board for the support to their reform efforts. They highly value the Fund's engagement and look forward to a continued close cooperation.

2. The fiscal consolidation and comprehensive reforms undertaken under the ECF program continue to help Togo making important strides in strengthening macroeconomic and financial stability, achieving debt reduction while promoting durable and more inclusive growth, despite a challenging domestic and external environment. The authorities are strongly committed to implementing their ambitious—*Plan National de Développement,* PND—launched officially in March 2019, with the aim to structurally transform the economy and achieve a stronger, more sustainable and inclusive growth, create jobs and improve social welfare.

3. The strong macroeconomic performance and structural reforms achieved by Togo since the last review is encouraging. Going forward, the authorities remain committed to their agenda. They request the completion of the 4th Review under the ECF arrangement; a waiver for non-observance of a performance criterion (PC) missed mainly due to a statistical recording problem and which does not affect the program objectives; as well as the modification of PCs to accommodate the correction of this recording problem and some urgent spending.

Recent Developments and Performance under the ECF Program

4. Economic performance in Togo strengthened in 2018 with real GDP estimated at 4.9 percent (against 4.4 percent in 2017), supported by strong phosphate extraction and cotton production as well as increased activity in the tertiary sector. Inflation was low at 0.9 percent on average in 2018, well below the regional ceiling of 3 percent. Fiscal performance continues to be overall solid, with Togo meeting WAEMU fiscal deficit criterion of 3 percent of GDP since 2017. The Public-debt-to GDP ratio (excluding state-owned enterprises, SOEs) reached 73.6 percent in 2018 compared to 72.3 percent in 2017, a slight increase due to an oversight in the recording of securities. The current account deficit widened moderately at 4.9 percent of GDP in 2018. Bank credit to the private sector was kept broadly unchanged but several vulnerabilities including high level of non-performing loans (NPLs), loan concentration, inadequate buffers, and excessive exposure to trade and manufacturing activities could pose challenges to financial stability.

5. Program implementation continues to be broadly satisfactory. Five out of six quantitative performance criteria (QPCs) at end-December 2018 were met, including the floor on the domestic primary balance. The net domestic financing target was not met due to an error in the recording of some 2018 revenues that were paid in 2019. The indicative target (IT) on domestic arrears clearance was also met. While ITs on revenue and domestic social expenditure were missed—by small margins—total revenue increased significantly in 2018 thanks to customs receipts and non-tax revenue, and social spending execution improved. On the structural front, five out of seven structural benchmarks (SBs) were met including the three SBs related to public expenditure management and one to the business environment. Due to the non-conclusion of negotiations between potential buyers and the government, the SB on the privatization of one of the public banks was not observed.

Outlook and Policies Priorities for 2019 and the Medium Term

6. Our authorities take positive note of staff's growth projections of 5½ percent over the medium term. However, considering the recent public infrastructure investments (roads, port and airport) and the substantial steps undertaken in the context of the implementation of their PND, the authorities foresee higher growth rates over the medium-term. They agree with staff's assessment of the downside risks, including those related to regional security and weather. Also cognizant of potential socio-political tensions, they are determined to ensure that the upcoming local and presidential elections take place in a peaceful and secure environment.

7. While its objectives remain unchanged, the program is being adjusted to take into account recent developments and needs. Beside the two PCs on domestic primary balance and net domestic financing, one SB related to the privatization of one of the two public banks is proposed for modification and six additional SBs on revenue administration, expenditure and investment management, and financial sector are being proposed.

Meeting Urgent Needs while Pursuing Fiscal Consolidation

8. The Togolese authorities remain committed to the fiscal objectives of the ECF-program. Enhancing permanent revenue collection, pursuing public expenditures restraint while accommodating infrastructure needs and protecting social spending will guide the authorities' fiscal policy actions. However, against the background of the worsening regional environment and increased security issues which could compromise social and economic stability, the authorities will loosen the fiscal stance in 2019. A revised 2019 budget accommodating additional 1.5 percent of GDP for urgent spending and postponing 0.3 percent of GDP for less urgent spending to 2020, will be adopted. The overall fiscal deficit (commitment basis, grants included) is thus projected at 2.7 percent of GDP in 2019, still below the 3-percent threshold under the WAEMU convergence framework.

9. On the revenue side, the authorities will complement the recent tax policy measures and administrative reforms with (i) the introduction in the Tax Code of a property tax, a corporate tax, notably for telecom companies and a new tax on motor vehicle; and (ii) the

setting of an import lump sum deposit for inactive importers with regard corporate taxation, the increase in the number of cross-check of taxpayers' transactions; and a stricter valuation and collection of customs; (iii) further streamlining of tax exemptions; (iv) improving the monitoring of tax arrears collection by establishing the Revenue Collection and Receivables Recovery Unit; (v) reducing losses in VAT revenue by rolling-out cash registers and extending the VAT prepayment system to public entities, SOEs, and other large companies; and (vi) enhancing the customs software to make online submission of customs declarations possible. On the expenditure side, continued efforts will be pursued to contain domestically- financed capital expenditures while scaling up targeted social spending.

Strengthening Debt Sustainability

10. The public-debt-to GDP ratio (excluding SOEs) is projected to continue declining and reach levels below the WAEMU debt convergence criterion of 70 percent of GDP starting in 2019 (2020 when including SOEs). The authorities will pursue a prudent borrowing strategy and continue strengthening the operational capacity of the recently-reorganized debt management office (*Direction de la Dette Publique et du Financement*). Moreover, the new handbook on procedures for debt management activities, which is in line with AFRITAC's recommendations, is soon to be applied. The authorities count on enhanced technical assistance from the Fund and other development partners to further strengthen the capacity of the debt management office.

11. Furthermore, a debt reprofiling operation endorsed by a Policy-Based Guarantee from the World Bank is envisaged by end 2019. The operation will be conducted with the support from an international advisory firm and consist in contracting new external debt at more favorable maturity and rate terms to repay outstanding domestic or regional debt. This is expected to not alter Togo's assessment of moderate risk of external debt distress.

Fostering Financial Stability and Development

12. As part of their efforts to implement their PND, the authorities will endeavor to position Togo as a first-class financial center in the sub-region with several sub-regional and regional banking institutions already having their headquarters in Lomé. They, therefore, attach great importance to addressing vulnerabilities in the banking and non-banking sectors and safeguarding financial stability, in close collaboration with the WAMU banking supervisory body (*Commission bancaire).*

13. Steps are underway to privatize the two remaining state-owned banks. While the privatization of one of the banks is ongoing accordingly to the plan agreed upon with Staff, the authorities encountered delays in the privatization process of the other one: an agreement between the negotiation committee set up in that regard and the potential buyers could not be reached by the end of May 2019 as previously planned. They are elaborating a revised strategy which includes the launch of a tender process by end-August 2019, with the aim to finalize the privatization by end-December 2019. Addressing other financial sector vulnerabilities rank

high on the authorities' agenda. The privatization of the two banks – which concentrate most of the NPLs– will reduce the high level of NPLs and improve the banking system's overall soundness. In addition, important steps will be taken to operationalize the debt collection agency–*Société de Recouvrement du Togo*.

14. The authorities are also working on improving access to credit and fostering financial inclusion. Mobile money banking will be leveraged to make further inroads in that regard.

Promoting Sustainable inclusive growth and Governance

15. Sustainable growth will rest on the development of the private sector. To this end, the important strides made in recent years to improve the business climate are starting to pay off, with Togo being among the top reformers in the recent World Bank's Doing Business. The authorities intend to further strengthen the business environment to attract private sector investment, and make Togo a regional transportation hub, financial center, and manufacturing and extractive industry base.

16. Transformation will require significant infrastructure and efficient investments. In this vein, emphasis is on accelerating the implementation of the last PIMA recommendations. Steps put forward include the recent cost-effectiveness methodology for future projects and the strengthening of the multi-year public investment program. To better link fiscal policy with the PND, the application of the WAEMU directive on program-based budget is well underway with the adoption of a new budget calendar and the upcoming production of a program-budget document for 2020-2022.

17. To reduce poverty, the authorities also continue to make efforts to strengthen safety nets. They are taking targeted social and inclusive policies to support vulnerable households and reduce poverty and inequality. A system to improve the monitoring of social expenditure will be put in place by end-September 2019.

18. Measures to foster good governance and fight corruption are also being implemented. Progress in these areas include the strengthening of the institutional and judicial frameworks through the Criminal Code and the 2018 law on anti-money laundering/combating the financing of terrorism (AML/CFT) in line with WAEMU requirements and the work of the anticorruption agency —*Haute Autorité de Prévention et de Lutte contre la Corruption et les Infractions Assimilées (HAPLUCIA).* Furthermore, a law to promote asset disclosure by all civil service agents and professionally and politically-exposed people has been prepared and should be adopted shortly, as is a framework law for the full implementation of the United Nations Convention on Corruption. The authorities are also looking forward to the conclusions of the recent national multisectoral money laundering/ financing of terrorism risk assessment with the support of the World bank and stand ready to implement an appropriate action plan aiming at addressing the vulnerabilities identified.

Conclusion

19. Our Togolese authorities are pressing ahead with the implementation of an ambitious consolidation and reform agenda. In support of this plan, they are fully committed to the objectives of the ECF program, to preserve macroeconomic stability, achieve debt reduction and meet growth and social objectives. On their behalf, we would appreciate the Executive Board's completion of the Fourth Review under the ECF arrangement, approval of their requests for waivers of nonobservance and modification of performance criteria, and conclusion of the 2019 Article IV Consultation.