October 2008
IMF Country Report No. 08/346

Togo: First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Modification of Performance Criteria and Augmentation of Access—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Togo

In the context of the first review under the three-year arrangement under the Poverty Reduction and Growth Facility and request for modification of performance criteria and augmentation of access, the following documents have been released and are included in this package:

- The staff report for the First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Modification of Performance Criteria and Augmentation of Access, prepared by a staff team of the IMF, following discussions that ended on Tuesday, September 9, 2008, with the officials of Togo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 12, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release summarizing the views of the Executive Board as expressed during its September 22, 2008 discussion of the staff report that completed the review;

- 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 Togo*
Memorandum of Economic and Financial Policies by the authorities of Togo*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $18.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

TOGO

First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Modification of Performance Criteria and Augmentation of Access

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

Approved by Robert Sharer and Adnan Mazarei

September 12, 2008

Arrangement	Togo's three-year PRGF arrangement was approved on April 21, 2008, in an amount equivalent to SDR 66.06 million (90 percent of quota). The authorities are requesting an augmentation of access in an amount equivalent to SDR 18.35 million (25 percent of quota) to help mitigate the impact of global price shocks and recent flooding.
Mission	Lomé, August 27–September 9, 2008
Interlocutors	President Gnassingbé, President of the National Assembly Bonfoh, Prime Minister Houngbo, Finance Minister Ayassor, the National Director of the BCEAO Gozan, other senior officials, and representatives of labor unions, employer associations, NGOs, the donor community, and the media. The mission coordinated with overlapping World Bank and technical assistance missions, and with donors. Mr. Nsonde (Executive Director's office) participated in the discussions.
IMF mission team	Mr. Mumssen (head), Ms. Ocampos, Mr. Rosa (all AFR), Ms. Gicquel (PDR), and Mr. Yao (resident representative).
Management visit	Mr. Portugal (Deputy Managing Director), Mr. Plant (AFR) and Mr. Sarr (EXR), Mr. Rutayisire (Executive Director) visited Togo during August 31–September 2, 2008.
Outreach	AFR and EXR organized a seminar for parliamentarians, with a keynote speech by Mr. Portugal.

Contents Page

Executive Summary 3

I. Recent Developments and PRGF Performance 4

II. Outlook and Policies for 2008-09 5
A. Macroeconomic Outlook...5
B. Policy Response to Global Price Shocks...6
C. Budget Policies...7
D. External Financing 8
E. Structural Reforms 9
F. Program Monitoring and Risks..10

III. HIPC Process and PRSP 11

IV. Staff Appraisal 11

Tables

1. Selected Economic and Financial Indicators, 2005-10 12
2. Balance of Payments, 2006-10..13
3. Central Government Financial Operations, 2007-10 14
4. Monetary Survey, 2005-09...16
5. Official External Debt, 2007-10 17
6. Proposed Schedule of Disbursement Under PRGF Arrangement, 2008-11 18
7. Indicators of Capacity to Repay the Fund, 2006-15.................................19

Appendix I: Letter of Intent 20
Table 1. Quantitative Performance Criteria and Indicative Targets 26
Table 2. Structural Conditionality for 2008 27
Attachment: Amendments to Technical Memorandum of Understandings................29

Executive Summary

- **Togo has been hit by the surge in global food and fuel prices as well as severe flooding this summer.** Togo is among the economies most adversely affected by the global price shocks, with estimated balance of payments impact of 6 percent of GDP. The flooding displaced thousands, destroyed vital transport infrastructure, and damaged food crops, resulting in an estimated export loss of 3 percent of GDP.

- **This has clouded the near-term economic outlook.** Real GDP growth is projected to slump to just ¾ percent for this year, while inflation is expected to reach 9 percent, driven by higher food and fuel prices. The current account deficit is projected to widen from 6½ to 11 percent of GDP. A modest recovery is expected for 2009.

- **The policy response to these shocks has focused on mitigating their social impact and supporting agriculture.** The government has cleared wage and pension arrears, introduced temporary wage supplements, raised the minimum wage, sold grain reserves, and introduced a modest fertilizer subsidy, while eschewing price controls and tax exemptions.

- **All relevant performance criteria for the first review were met, some by wide margins, and implementation of the structural reform program was satisfactory.** Good revenue collection and restrained spending resulted in a large primary surplus in the first half of 2008. A moderate revision to the end-2008 fiscal primary balance target is proposed to reflect the revenue losses and new expenditures resulting from the price shocks and flooding.

- **The draft 2009 budget targets a balanced primary fiscal position and improved prioritization of spending.** This will be supported by continued improvements in revenue administration and expenditure control. Spending on education, health, infrastructure is to be boosted significantly, supported by resumption of donor assistance. Structural reforms in 2009 will continue to focus on fiscal governance and the reform of state-owned banks and enterprises.

- **Staff recommends the completion of the first review and augmentation of access of 25 percent of quota (equivalent to SDR 18.35 million) to help close the financing gaps created by the price shocks and flooding.** This would complement domestic adjustment and additional external financing from others. The augmentation would be disbursed in two equal tranches following the first and second reviews.

I. Recent Developments and PRGF Performance

1. **Togo's economy, already being among the hardest hit by the surge in global food and oil prices, has suffered severe disruption caused by heavy flooding in early August.** The flooding displaced thousands, destroyed roads and bridges, paralyzed trade and transport, and damaged food crops, resulting in an estimated export loss of about 3 percent of GDP. This adds to the large balance of payments impact of the surge in world oil and food prices, estimated at nearly 6 percent of GDP in 2008, reflecting Togo's high fuel imports, owing to its role as a regional transport hub and reliance on diesel-based electricity generation. While Togo is nearly self-sufficient in food production, surging food prices have created social tensions and severely eroded real incomes, particularly for urban dwellers without access to subsistence agriculture. Inflation rose to 8½ percent in July 2008 on a twelve-month basis, driven by a 24 percent food price surge.

2. **The authorities have kept a tight lid on spending, exceeding the end-June 2008 primary fiscal balance target by a wide margin.** Revenues were higher than projected, as strong customs and nontax revenues offset lower profit and value added tax receipts resulting from slower growth and higher input costs. Spending was extremely restrained, reflecting an emphasis on fiscal discipline (to retain room for maneuver in the second half of the year), sharply reduced recourse to accelerated spending procedures, and slow implementation of domestic investment projects (resulting in spending below the indicative floor for priority outlays). This resulted in a large primary fiscal surplus and a substantial accumulation of government deposits, while wage and pension arrears were reduced. All relevant performance criteria were met (Appendix I, Table 1).

3. **Structural reforms have also progressed well (Appendix I, Table 2).** A General Finance Inspectorate has been set up to monitor the use of public resources. A new mechanism for monthly monitoring of budget execution, designed with IMF technical support, has significantly shortened the time lag in analyzing fiscal data and allowed policymakers to make timely and informed spending decisions. The launch of a phosphate audit has been delayed somewhat, while the benchmark on introducing a framework for regular treasury bill auctions has been implemented three months early. The first treasury bill auction, held in September 2008, was almost three times oversubscribed. The authorities have also made substantial progress in preparing other reforms, including treasury reorganization, bank restructuring, domestic arrears clearance, and an audit of the energy sector.

4. **Togo has made major strides in normalizing relations with external creditors.** On May 29, 2008, the World Bank's Board approved an exceptional IDA allocation of US$146 million to help clear all of Togo's arrears as well as US$17.6 million in budget support. On June 12, 2008, the Paris Club agreed to reschedule Togolese debt on Naples terms, cancelling US$347 million of arrears and debt service due during the consolidation period and rescheduling US$392 million. The AfDB's Board approved on July 22, 2008, the

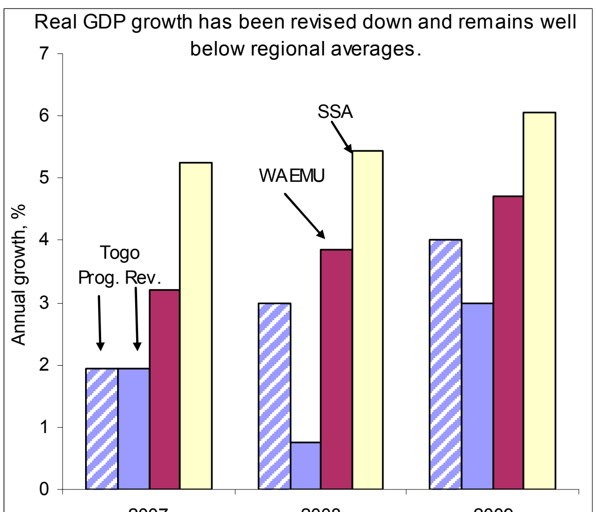
clearance of Togo's arrears (US$24 million) through its Fragile States Facility, while also consolidating all 2008 debt service. The EU has committed part of its grant envelope to clear Togo's arrears to the EIB, with all 2008 debt service consolidated into the operation. Togo is expected to reach the HIPC decision point later this year. In this context, the authorities expect to secure debt rescheduling and arrears clearance from a few remaining multilateral and non-Paris Club creditors.

5. **The President appointed a new Prime Minister in early September.** Mr. Gilbert Houngbo is a former UNDP Director for Africa. Economic policies are not expected to change.

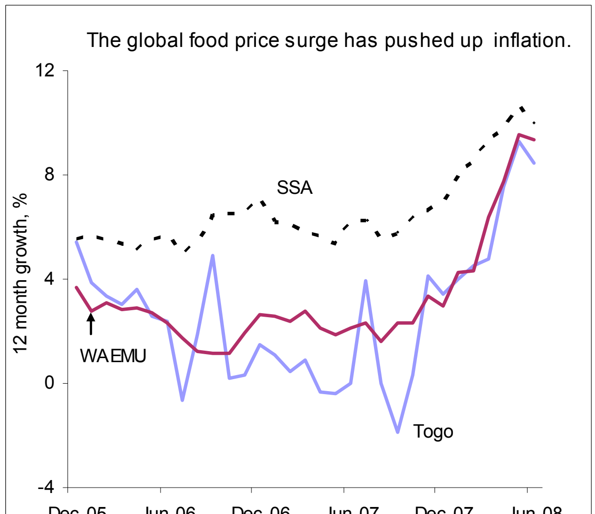
II. Outlook and Policies for 2008-09

A. Macroeconomic Outlook

6. **The price shocks and the flooding have brought economic growth to a near halt.** Real GDP growth projections have been lowered from 3 percent to ¾ percent for 2008, and from 4 to 3 percent for 2009, reflecting: (i) the disruption of regional transport and damage to food crops caused by the flooding; (ii) the adverse impact of the global price shocks on the transport sector, industrial production, construction, the electricity sector, and consumer demand, and (iii) delays in rehabilitating the phosphate sector. Inflation is expected to peak in 2008, at 9 percent, reverting to 2 percent in 2009 as local food prices are expected to decline from their recent peak. Money and credit growth are projected to decelerate significantly, reflecting reduced trade financing, dissaving, and the recent increase in the BCEAO repo rate.



Sources: National authorities and Fund staff estimates.



Sources: National authorities and Fund staff estimates.

7. **The current account deficit is projected to widen to 11 percent of GDP in 2008, from 6½ percent in 2007, driven by higher oil prices and flood-related disruption of exports.** The destruction of roads and bridges along Togo's main traffic artery from the Port of Lomé to the landlocked countries in the north has severely disrupted exports and Togo's vital transport sector. The recent surge of world phosphate prices will have only limited benefit for export revenues in the short run as production remains constrained by decrepit equipment. Gross international reserves are projected to fall from just over to well below three months of imports.

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

	2007	2008		2009		2010
	Est.	Program[1]	Revised[2]	Program[1]	Revised[2]	Program
	(Percent of GDP, unless otherwise indicated)					
Real GDP (percent change)	1.9	3.0	0.8	4.0	3.0	4.0
CPI (annual average, percent change)	1.0	4.1	9.1	3.8	1.9	2.5
Broad money (M2, percent change)	18.2	10.0	6.0	...	10.0	…
Total revenue and grants	18.7	19.5	18.4	21.2	21.1	21.8
Revenue	17.0	17.2	16.6	17.5	17.3	17.6
Total expenditure and net lending	20.6	21.9	21.3	22.9	23.7	23.8
Domestic primary expenditure	16.7	17.2	17.2	16.9	17.3	17.0
Overall balance (payment order basis)	-1.9	-2.4	-2.9	-1.7	-2.6	-1.9
Primary balance	0.2	0.0	-0.6	0.6	0.0	0.6
Change in domestic arrears	-0.8	0.0	-0.2	-0.4	-0.5	-0.7
Current account balance	-6.4	-7.9	-10.9	-6.7	-9.2	-7.1
Exports of Goods and Services	41.9	44.4	40.4	45.3	43.6	44.8
Imports of Goods and Services	62.5	68.0	67.5	69.4	70.6	69.8
External public debt[3]	79.2	64.2	57.7	60.8	53.6	30.2

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

[1] Country Report No. 08/146.

[2] Revised program reflects impact of global food and fuel shocks and recent flooding.

[3] Assumes external debt/arrears relief in 2008-2010, in line with potential HIPC/MDRI debt relief.

B. Policy Response to Global Price Shocks

8. **Togo's policy response to the food price shock has been well balanced.** The authorities have resisted tax exemptions, export bans, and price controls that have been introduced in other countries, and instead focused on mitigating the social impact and boosting food production over the medium term, specifically through: (i) social dialogue; (ii) sale of grain reserves; (iii) wage and pension arrears clearance to (mostly urban) public employees who often lack access to subsistence farming; (iv) sale of fertilizer and seeds at subsidized prices (keeping them at 2007 levels), (v) appeal for donor support and regional financing to raise productivity in agriculture. The government hopes to boost agricultural productivity through investment in rural infrastructure, better storage and distribution systems, and improved competition.

9. **Retail prices for gasoline and diesel were raised by 18 percent in August, along with measures to limit the adverse impact on households and enterprises.** The new price level ensures an adequate pass-through of world prices. The authorities agreed with the private oil companies (which import and sell all fuel products in Togo) on a new price-tax structure that keeps effective taxation and margins for enterprises broadly unchanged. Prices for kerosene were not raised, given its widespread use by poor households. To mitigate the impact of high consumer prices, the government introduced temporary lump-sum wage supplements to public sector employees and doubled the minimum wage, to around US$60 per month, comparable with other WAEMU countries. To mitigate the impact on enterprises, the government has decided to reduce Togo's corporate tax rate, which is among the highest in the region, by 7 percentage points, with a new top rate of 33 percent.

C. Budget Policies

10. **A moderate downward revision to the primary fiscal balance target for 2008 was agreed to reflect the impact of the price shocks and flooding.** The shocks are projected to reduce tax revenues by about ½ percent of GDP in 2008 and require additional spending of about 1¾ of GDP, largely on account of emergency flood repairs, but also reflecting the fertilizer and seed subsidies, temporary wage supplements, fuel support to the electricity sector, and clearance of wage and pension arrears. This will be partly covered by contingency lines, with additional savings coming from the delay of local elections and projected delays in executing the domestic investment program. There was agreement on the need to execute the other budget allocations to the extent possible to counterbalance the economic downturn and safeguard essential social services. Overall, the primary fiscal balance objective for 2008 was revised down by ½ percent of GDP, while arrears clearance for wages and pensions was raised by ¼ percent of GDP to help mitigate the impact of the shocks on the population. The resulting modest fiscal loosening is unlikely to affect inflation significantly, as wages remain contained, spending is partly on imports, and economic activity is well below capacity.

11. **The 2009 budget aims for a balanced primary fiscal position, supported by revenue measures and reallocation of spending to priority sectors, while implementing the domestic arrears clearance strategy.** The envisaged primary fiscal adjustment of ½ percent of GDP would be a step toward a sustainable medium-term fiscal position in which domestic revenues broadly cover domestic spending and arrears clearance. The tax-GDP ratio is projected to increase by ¾ percent of GDP as corporate tax losses (resulting from the economic downturn and the reduction in the profit tax rate) are more than offset by ongoing administration reforms, reduction of exemptions, and increases in alcohol and tobacco excises. A reduction in untargeted nonwage spending will create room for higher social and flood-related infrastructure spending, bank and enterprise restructuring, and domestic arrears clearance. The draft budget includes higher foreign-financed project spending as Togo resumes full cooperation with development partners and implements the I-PRSP. It also includes contingencies for exogenous shocks, including possible shortfalls in external disbursements.

D. External Financing

12. **The price shocks and flooding have created large financing gaps, for which the authorities are seeking external support, including a PRGF augmentation.** Since the start of the PRGF-supported program, world oil and food prices have risen rapidly, adding substantially to import costs. In addition, the destruction caused by the flooding has severely disrupted exports of good and services. Even after netting out the projected fall in import demand, these shocks are projected to worsen the goods and services balance by 3¾ and 2¾ percent of GDP in 2008 and 2009 respectively. These financing gaps are expected to be covered by a drawdown in reserves, higher transfers, and additional external support from creditors and donors. The impact on the budget is projected at about 2 percent of GDP for both 2008 and 2009, reflecting revenue losses, emergency flood repairs, seed and fertilizer subsidies, fuel support to the electricity sector, wage supplements, and clearance of wage and pension arrears. These costs are expected to be covered primarily by domestic adjustment, including revenue efforts and domestic spending reallocation, with the remainder financed by additional external disbursements and debt relief.

Text Table 2. Togo: Impact of Price Shocks and Flooding 2008-09[1]

(Changes from Country Report No. 08/146, in percent of GDP)

	2008	2009
	Balance of Payments	
Good and services balance deterioration	3.7	2.7
Oil price increase	1.7	2.5
Food price increase	0.7	0.3
Flood impact on exports	3.1	2.0
Other [2]	-1.7	-2.1
Potential financing	3.7	2.7
Transfers	0.1	0.3
Additional external debt flow relief	0.3	0.2
Reserves	2.2	1.2
PRGF Augmentation	0.5	0.5
Other, including new budget support	0.6	0.6
	Budget	
Additional costs	2.0	1.9
Revenue losses	0.4	0.7
Fertilizers/seeds/food support	0.5	0.3
Flood repairs	0.8	0.9
Domestically financed	0.8	0.4
Externally financed	0.0	0.5
Wage arrears clearance and transfers	0.4	0.1
Policy measures / Financing	2.0	1.9
Revenue measures	0.0	0.7
Domestic spending cuts	1.2	0.4
Domestic financing	0.0	-0.3
Net increase in project support	0.0	0.2
Additional external debt flow relief	0.3	0.2
Additional budget support	0.1	0.3
BCEAO credit (PRGF augmentation)	0.5	0.5

[1] Reflects upward revision of world oil and food prices relative to Country Report No. 08/146 and the impact of flooding. This is in addition to the oil price rise already projected at the time (with a net cost of 3 percent of GDP). The 2008 average oil price

[2] Includes changes in exports of certain goods caused by other factors, and the reduction in import demand due to higher oil prices and lower real income (partly offset by new imports for reconstruction).

13. **An augmentation in amount equivalent to SDR 18.35 million (25 percent of quota) is proposed to help close the new financing gaps for 2008 and 2009, complementing Togo's strong domestic adjustment efforts and additional donor support.** The

augmentation, which will ensure that the program is fully financed through mid-2009, is justified by a number of factors:

- The augmentation is part of a concerted effort by development partners to address the recent shocks. Concessional financing from other sources through additional debt flow relief (recently granted by the Paris Club and two multilaterals), new project support for the food crisis and infrastructure rehabilitation, and additional budget support is projected at about 2¼ percent of GDP for 2008–09, and the augmentation would add 1 percent of GDP to help close the financing gaps for the two years.

- Togo has a good policy track record since 2006 and has responded prudently to the price shocks, avoiding policies that cause large economic distortions and focusing instead on social impact mitigation and measures to boost food production.

- The authorities' revised economic program includes an appropriate domestic adjustment effort, including significant reallocation of domestic spending and strong efforts to compensate revenue losses, while allowing the pass-through of higher oil and food prices to the private sector.

- With the augmentation, Togo's contribution to the international reserves of the BCEAO would not fall too far below three months of the country's imports.

- Togo's capacity to repay the Fund would remain strong, supported by the currency union arrangement and solid debt repayment indicators, see Table 7. The augmentation would not materially affect debt sustainability indicators, as the net present value of external public debt would increase from 21¾ to 22½ percent of GDP in 2010 (after HIPC and MDRI relief).

E. Structural Reforms

14. **The authorities are committed to maintaining the positive momentum on fiscal governance reforms (see Table 2 of Appendix I), whose implementation will require continued technical assistance by the Fund and others.** To broaden the tax base, the authorities intend to reduce tax exemptions and improve the control of the free economic zone. To help restore supplier confidence and liquidity, the authorities intend to regularize Togo's large domestic arrears by issuing tradable bonds (and cash for small amounts) to suppliers whose claims have been verified by the recent external audit. In this context, it will be critical to strengthen the management and monitoring of domestic debt. Another priority will be to strengthen treasury and cash management by reorganizing and strengthening the treasury based on WAEMU directives and by introducing regular treasury bill auctions.

15. **Preparations are underway to strengthen the financial position of Togo's state-owned banks and attract strategic investors, supported by IMF and World Bank technical assistance.** The authorities plan to securitize nonperforming loans (NPLs) held by three large undercapitalized public banks. The bonds are to be designed to be easily tradable so

that the banks can manage their liquidity and rebalance their portfolios. The total amount of securities to be exchanged is projected at about 7 percent of GDP. They would have relatively long maturities to stretch out the budget cost (estimated at about 1 percent of GDP annually). The authorities also intend to set up a structure and mechanism for recovering, settling, and restructuring NPLs, and to support the development of a secondary market for securities. In parallel to the securitization, the authorities are seeking to attract strategic investors for all three state-owned banks.

16. **Reforms of the phosphate and energy sectors will be vital for reviving economic growth.** Decrepit mining equipment, the bankruptcy of the joint venture company, and power shortages have led to a worrisome decline in the extraction of Togo's high-quality phosphate, to less than a quarter of potential capacity. Moreover, the company has not been able to ensure a stable supply and has therefore not fully benefited from the recent surge in world prices. The World Bank-financed phosphate audit will help the authorities to formulate a long-term reform strategy to boost investment and production, including by attracting a strategic investor. To overcome persistent energy shortages, the authorities are purchasing and rehabilitating equipment, preparing a performance contract with the local electricity company, and elaborating an energy sector development strategy in close consultation with the World Bank.

F. Program Monitoring and Risks

17. **The December 2008 performance criterion on the primary fiscal balance was revised down moderately in response to the price shocks and flooding.** The attached Letter of Intent (LOI), Appendix I, updates the authorities' letter and accompanying Memorandum of Economic and Financial Policies dated March 28, 2008. Tables 1 and 2 of Appendix I show quantitative and structural conditionality through end-2009. An amended Technical Memorandum of Understanding is also attached. The disbursement schedule has been revised to reflect an augmentation of access, to be disbursed in equal tranches following the first and second reviews (Table 6).

18. **The authorities have demonstrated strong policy commitment in the face of severe shocks, but significant risks still lie ahead.** Political and social tensions could intensify in the current difficult environment characterized by consumer price shocks, flooding-induced damage, and a sharp economic downturn. Possible delays in implementing donor-financed projects and in rebuilding the infrastructure destroyed by the flooding could hamper the recovery and intensify social pressures. Delays in restructuring the large state-owned banks, accounting for more than half of system deposits, could jeopardize stability. Further exogenous shocks could deepen the economic downturn, such as: (i) deterioration of the terms of trade, including further oil and food price rises; (ii) a worsening energy crisis; and (iii) bad weather affecting agriculture.

III. HIPC Process and PRSP

19. **Executive Board consideration of the HIPC decision point is envisaged for later this year.** A Bank-Fund HIPC DSA data reconciliation mission has confirmed that Togo meets the debt eligibility criterion under the fiscal window based on end-2007 data (see preliminary HIPC document).

20. **The authorities plan to finalize Togo's full PRSP by mid-2009, with broad stakeholder participation, identified donor support, and clear prioritization of reforms.** Given Togo's capacity and financing constraints, a critical challenge will be to identify specific development partners for priority reforms. The donor conference in Brussels on September 18-19, 2008, is an opportunity to advance these discussions.

IV. Staff Appraisal

- The policy response to the global food and oil price shocks has rightly focused on social impact mitigation and support of agriculture, while avoiding administrative controls and tax exemptions.

- The near-term challenge is to address the adverse economic effects of the price shocks and the recent devastating flooding, while safeguarding priority spending in 2008.

- The draft 2009 budget is an important step toward a sustainable fiscal position, aiming at a balanced primary position and higher spending on health, education, and infrastructure, while starting to implement the domestic arrears clearance strategy.

- In addition to maintaining the momentum on fiscal governance reforms, the authorities should continue their efforts to restructure state-owned banks and enterprises.

- Resumption of financial and technical support and debt relief will be critical for program success; Togo is expected to reach the HIPC decision point later this year.

- Program risks remain significant, but the authorities have demonstrated their ability and commitment to manage economic and social pressures.

- Based on Togo's good policy track record and the strength of the program, staff recommends the completion of the first review.

- In light of the severe exogenous shocks, staff supports the augmentation of access to PRGF resources requested by the authorities.

Table 1. Togo: Selected Economic and Financial Indicators, 2005–10

	2005	2006	2007	2008	2009	2010
	Actual		Estim.	Program [1]		
	(Percent change, unless otherwise indicated)					
National income, prices, and exchange rates						
Real GDP	1.2	3.9	1.9	0.8	3.0	4.0
Real GDP per capita	-1.4	1.4	-0.6	-1.7	0.4	1.4
GDP deflator	7.7	0.3	1.3	4.8	1.2	2.3
Consumer price index (annual average)	6.8	2.2	1.0	9.1	1.9	2.5
GDP (CFAF billions)	1,112.0	1,159.8	1,197.7	1,264.3	1,317.0	1,400.7
Exchange rate CFAF/US$ (annual average)	526.9	522.4	478.5	…	…	…
Real effective exchange rate (annual average)	2.5	-1.4	0.5	…	…	…
Terms of trade (deterioration -)	-3.7	6.2	6.7	…	…	…
Monetary survey						
Net foreign assets [2]	-2.8	19.2	1.4	-8.1	0.0	…
Credit to government [2]	-1.2	-0.7	1.1	2.0	-1.3	…
Credit to the nongovernment sector [2]	6.6	0.4	14.9	4.4	8.4	…
Broad money (M2)	1.4	22.1	18.2	6.0	10.0	…
Velocity (GDP/ end-of-period M2)	3.5	3.0	2.6	2.6	2.4	…
	(Percent of GDP, unless otherwise indicated)					
Investment and savings						
Gross domestic investment	11.8	12.8	12.1	13.7	17.6	18.5
Government	2.8	3.4	2.0	5.0	7.1	7.1
Nongovernment	9.1	9.4	10.1	8.7	10.5	11.4
Gross national savings	6.6	6.2	5.7	2.8	8.4	11.4
Government	-0.7	-0.4	0.1	2.1	4.6	5.1
Nongovernment	7.2	6.6	5.6	0.7	3.8	6.3
Government budget						
Total revenue and grants	16.9	18.3	18.7	18.4	21.1	21.8
Revenue	15.7	16.9	17.0	16.6	17.3	17.6
Total expenditure and net lending	20.4	22.1	20.6	21.3	23.7	23.8
Domestic primary expenditure	16.2	18.0	16.7	17.2	17.3	17.0
Overall balance (payment order basis)	-3.5	-3.8	-1.9	-2.9	-2.6	-1.9
Primary balance [3]	-0.5	-1.1	0.2	-0.6	0.0	0.6
Change in domestic arrears	1.9	-0.4	-0.8	-0.2	-0.5	-0.7
External sector						
Current account balance	-5.3	-6.6	-6.4	-10.9	-9.2	-7.1
Exports (goods and services)	40.3	42.3	41.9	40.4	43.6	44.8
Imports (goods and services)	57.2	61.8	62.5	67.5	70.6	69.8
External public debt	90.3	83.9	79.2	57.7	53.6	30.2
Of which: arrears	28.6	29.5	31.4	0.0	0.0	0.0
External public debt service (percent of exports)	10.6	9.2	9.1	6.1	4.9	4.4
Gross international reserves (months of imports)	2.0	3.1	3.1	2.7	2.6	2.9

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

[1] Revised from Country Report No. 08/146 to reflect impact of food and fuel shocks and recent flooding. Assumes external debt and arrears rescheduling/relief in 2008-2010 in line with potential debt relief under the HIPC initiative and MDRI.

[2] Percent of broad money at the beginning of the period.

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

Table 2. Togo: Balance of Payments, 2006–10

	2006	2007	2008	2009	2010
		Estim.	Program [1]	Program [1]	Program [1]
	(Billions of CFA francs)				
Current account balance	-76.2	-76.4	-137.3	-121.3	-99.2
Trade balance	-244.1	-271.0	-348.7	-367.0	-364.3
Exports	339.8	336.5	353.9	401.7	441.0
Domestic exports	238.0	217.5	194.1	235.8	275.8
Of which: Cotton	15.6	12.0	12.1	10.0	10.2
Coffee	4.5	5.4	6.2	6.5	6.7
Cocoa	7.9	4.5	8.6	8.9	9.3
Phosphates	16.6	18.0	43.8	69.0	82.0
Cement & clinker	59.1	57.0	49.5	52.0	54.6
Reexports	101.8	119.0	159.8	165.9	165.2
Imports, f.o.b.	-583.9	-607.5	-702.7	-768.7	-805.2
Of which: Petroleum products	-237.2	-246.2	-330.7	-343.2	-341.7
Services (net)	17.4	25.3	7.1	12.3	14.9
Credit	150.7	165.8	157.4	173.1	187.0
Debit	-133.2	-140.4	-150.3	-160.8	-172.0
Income (net)	-19.8	-20.8	-7.8	-8.4	-7.7
Current transfers (net)	170.2	190.0	212.2	241.8	258.0
Private	154.2	169.6	189.2	191.8	197.9
Public	16.0	20.4	23.0	50.0	60.1
Capital and financial account	96.1	64.1	54.8	75.5	85.5
Direct investment	39.8	30.1	31.6	50.0	62.9
Portfolio investment, incl. bond	33.7	3.2	-8.2	0.0	1.8
Other investment	22.6	30.8	31.4	25.4	20.8
General government	-10.1	-17.9	-5.5	0.4	2.4
Disbursements	9.5	2.0	18.0	20.0	22.4
Amortization	-19.6	-19.9	-23.5	-19.6	-20.0
Banks, net foreign assets [3]	-2.2	13.4	10.0	0.0	0.0
Other capital, errors, and omissions	34.9	35.3	26.9	25.1	18.4
Overall balance	19.9	-12.3	-82.5	-45.9	-13.7
Financing	-19.9	12.3	82.5	45.9	13.7
Central bank net foreign assets [3]	-59.4	-18.9	27.5	0.0	-28.0
Of which : Past use of Fund resources	-3.6	-3.2	-0.7	0.0	0.0
Arrears, net change	39.5	38.6	0.8	0.0	0.0
Flow rescheduling	0.0	0.0	21.9	12.4	12.6
Clearance of debt/arrears	0.0	7.4	403.4	0.0	267.2
Debt/arrears cancellation	0.0	-7.4	-232.0	0.0	-267.2
Debt and arrears rescheduling	0.0	0.0	-171.5	0.0	0.0
Exceptional financing	0.0	0.0	32.3	28.0	21.6
PRGF financing	...	...	15.3	12.4	12.4
PRGF augmentation	...	...	6.5	6.5	0.0
Other committed financing	...	...	10.5	9.2	9.2
Unidentified financing	0.0	0.0	0.0	5.4	7.5
Memorandum items:	(Percent of GDP, unless otherwise indicated)				
Current account balance	-6.6	-6.4	-10.9	-9.2	-7.1
Exports of goods and services	42.3	41.9	40.4	43.6	44.8
Imports of goods and services	61.8	62.5	67.5	70.6	69.8
Gross int. reserves (months of imports)	3.1	3.1	2.7	2.6	2.9

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

[1] Revised from Country Report No. 08/146 to reflect impact of food and fuel shocks and recent flooding. Assumes external debt and arrears rescheduling/relief in 2008-2010 in line with potential debt relief under the HIPC initiative and

[2] Including late interest on arrears through 2007.

[3] Negative sign indicates increase.

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

	2007	2008			2009			2010
	Actual	H1-Act.	Prog.¹	Rev.²	H1-Prog.	Prog.¹	Rev.²	Rev.²
	(Billion of CFA francs)							
Revenue and grants	223.7	111.1	243.6	232.8	128.0	281.2	278.4	306.0
Total revenue	203.3	109.6	214.6	209.8	108.0	232.1	228.4	245.9
Tax revenue	195.9	100.3	203.5	198.7	103.0	225.6	215.4	239.0
Tax administration (DGI)	89.7	42.2	91.0	86.2	44.0	105.7	97.5	108.7
Customs administration (DGD)	106.2	58.2	112.5	112.6	59.0	119.9	117.9	130.3
Nontax revenue	7.4	9.3	11.0	11.0	5.0	6.6	13.0	6.9
Grants (projects) ³	20.4	1.4	29.0	23.0	20.0	49.1	50.0	60.1
Expenditures and net lending	246.5	90.5	273.9	269.3	142.9	303.3	312.1	333.3
Memo: Dom. primary expenditures	*200.5*	*81.1*	*214.5*	*217.3*	*106.7*	*224.2*	*228.4*	*237.5*
Current expenditures	222.4	83.1	214.0	205.9	103.9	220.3	218.2	234.1
Domestic primary current spending	186.5	75.5	190.6	189.9	93.7	197.7	197.5	209.6
Wages and salaries	64.3	29.9	72.2	73.2	33.7	78.0	78.0	83.6
Goods and services	53.6	19.5	54.4	53.7	27.5	59.7	56.0	60.5
Transfers and subsidies	62.0	20.2	46.0	50.0	25.0	44.0	48.0	50.5
Other/unclassified	2.7	1.0	1.0	1.0	0.0	0.0	0.0	0.0
Bank and SOE restructuring	3.9	4.8	17.0	12.0	7.5	16.0	15.5	15.0
Foreign-financed current spending	10.2	0.0	5.0	5.0	4.5	10.6	7.0	11.2
Interest	25.7	7.6	18.4	11.0	5.7	12.1	13.7	13.3
Domestic debt	2.9	3.6	3.8	3.2	2.0	4.0	5.3	5.6
External debt	22.8	4.0	14.6	7.8	3.7	8.1	8.4	7.7
Public investment	24.1	7.1	59.9	63.4	39.0	83.0	93.9	99.2
Domestically financed	14.0	5.6	23.9	27.4	13.0	26.5	30.9	27.9
Foreign financed	10.1	1.5	36.0	36.0	26.0	56.5	63.0	71.3
Net lending	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Domestic primary balance	2.8	28.3	0.0	-7.6	1.3	8.0	0.0	8.4
Overall balance, payment order basis	-22.8	20.6	-30.3	-36.6	-14.9	-22.1	-33.7	-27.3
Domestic arrears and treasury float	-9.3	-3.1	0.0	-3.1	-3.0	-5.3	-6.0	-9.8
External interest arrears	20.7	0.3	8.7	0.3	0.0	0.0	0.0	0.0
Overall balance, cash basis	-11.4	17.8	-21.6	-39.3	-17.9	-27.4	-39.7	-37.1
Financing	12.2	-29.5	-3.1	7.0	-0.1	3.7	6.3	8.0
Domestic financing (net)	12.2	-31.5	-7.5	-7.5	-5.6	-4.0	-6.5	-7.0
Banking system	5.8	-23.2	5.2	9.4	-6.3	-1.9	-6.2	-4.9
Nonbank financing	6.4	-8.3	-12.7	-16.9	0.8	-2.1	-0.3	-2.1
External financing (net)	0.0	1.9	4.5	14.6	5.4	7.6	12.8	15.0
Drawings ³	2.0	0.0	12.0	18.0	7.7	18.0	20.0	22.4
Amortization due	-19.9	-11.3	-22.7	-23.5	-9.5	-23.8	-19.6	-20.0
Arrears on amortization	17.9	0.5	4.8	0.5	0.0	0.0	0.0	0.0
Contingency for debt service	0.0	0.0	-0.5	-2.3	0.0	0.0	0.0	0.0
Debt flow relief (int. & amort.)	...	12.7	10.9	21.9	7.2	13.5	12.4	12.6
Clearance of debt & arrears stocks	...	-374.0	-384.0	-425.1	0.0	0.0	0.0	-267.2
Debt/arrears stock rescheduling	0.0	163.7	175.8	193.2	0.0	0.0	0.0	0.0
Debt/arrears stock cancellation	0.0	210.3	208.3	232.0	0.0	0.0	0.0	267.2
Exceptional financing	0.0	16.4	24.7	32.3	18.0	20.3	28.0	21.6
PRGF-linked BCEAO credit	0.0	9.1	15.9	21.7	12.7	12.7	18.8	12.4
Other identified financing ⁴	0.0	7.3	8.8	10.5	5.3	7.6	9.2	9.2
Residual/unidentified financing	-0.8	-4.7	0.0	0.0	0.0	3.5	5.4	7.5

(cont.)

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

	2007	2008			2009			2010
	Actual	H1-Act.	Prog.[1]	Rev.[2]	H1-Prog.	Prog.[1]	Rev.[2]	Rev.[2]
				(Percent of GDP)				
Revenue and grants	18.7	8.8	19.5	18.4	9.7	21.2	21.1	21.8
Total revenue	17.0	8.7	17.2	16.6	8.2	17.5	17.3	17.6
Grants (projects) [3]	1.7	0.1	2.3	1.8	1.5	3.7	3.8	4.3
Expenditures and net lending	20.6	7.2	21.9	21.3	10.8	22.9	23.7	23.8
Memo: Dom. primary expenditures	16.7	6.4	17.2	17.2	8.1	16.9	17.3	17.0
Current expenditures	18.6	6.6	17.1	16.3	7.9	16.6	16.6	16.7
Domestic primary current spending	15.6	6.0	15.2	15.0	7.1	14.9	15.0	15.0
Wages and salaries	5.4	2.4	5.8	5.8	2.6	5.9	5.9	6.0
Goods and services	4.5	1.5	4.4	4.2	2.1	4.5	4.3	4.3
Subsidies and transfers	5.2	1.6	3.7	4.0	1.9	3.3	3.6	3.6
Other/unclassified	0.2		0.1	0.1	0.0	0.0	0.0	0.0
Bank and SOE restructuring	0.3	0.4	1.4	0.9	0.6	1.2	1.2	1.1
Foreign-financed current spending	0.9	0.0	0.4	0.4	0.3	0.8	0.5	0.8
Interest	2.1	0.6	1.5	0.9	0.4	0.9	1.0	1.0
Domestic debt	0.2	0.3	0.3	0.3	0.2	0.3	0.4	0.4
External debt	1.9	0.3	1.2	0.6	0.3	0.6	0.6	0.6
Public investment	2.0	0.6	4.8	5.0	3.0	6.3	7.1	7.1
Domestically financed	1.2	0.4	1.9	2.2	1.0	2.0	2.3	2.0
Foreign financed	0.8	0.1	2.9	2.8	2.0	4.3	4.8	5.1
Domestic primary balance	0.2	2.2	0.0	-0.6	0.1	0.6	0.0	0.6
Overall balance, payment order basis	-1.9	1.6	-2.4	-2.9	-1.1	-1.7	-2.6	-1.9
Domestic arrears and treasury float	-0.8	-0.2	0.0	-0.2	-0.2	-0.4	-0.5	-0.7
External interest arrears	1.7	0.0	0.7	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	-1.0	1.4	-1.7	-3.1	-1.4	-2.1	-3.0	-2.6
Financing	1.0	-2.3	-0.2	0.6	0.0	0.3	0.5	0.6
Domestic financing (net)	1.0	-2.5	-0.6	-0.6	-0.4	-0.3	-0.5	-0.5
Banking system	0.5	-1.8	0.4	0.7	-0.5	-0.1	-0.5	-0.3
Nonbank financing	0.5	-0.7	-1.0	-1.3	0.1	-0.2	0.0	-0.1
External financing (net)	0.0	0.2	0.4	1.2	0.4	0.6	1.0	1.1
Drawings [3]	0.2	0.0	1.0	1.4	0.6	1.4	1.5	1.6
Amortization due	-1.7	-0.9	-1.8	-1.9	-0.7	-1.8	-1.5	-1.4
Arrears on amortization	1.5	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Contingency for debt service	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	0.0
Debt flow relief (int. & amort.)	...	1.0	0.9	1.7	0.5	1.0	0.9	0.9
Clearance of debt & arrears stocks	...	-29.6	-30.7	-33.6	0.0	0.0	0.0	-19.1
Debt/arrears stock rescheduling	0.0	12.9	14.1	15.3	0.0	0.0	0.0	0.0
Debt/arrears stock cancellation	0.0	16.6	16.7	18.3	0.0	0.0	0.0	19.1
Exceptional financing	…	1.3	2.0	2.6	1.4	1.5	2.1	1.5
PRGF-linked BCEAO credit	…	…	1.3	1.7	1.0	1.0	1.4	0.9
Other identified financing [4]	…	…	0.7	0.8	0.4	1.0	0.7	0.7
Residual/unidentified financing	-0.1	-0.4	0.0	0.0	0.0	0.3	0.4	0.5
Memorandum items								
Social spending [5]	6.4	2.75	8.9	7.7	5.9	10.5	9.9	11.6
Investment and social spending [5]	8.5	…	12.7	11.1	7.7	13.6	14.0	14.9
Of which: foreign financed	2.2	…	5.5	3.6	2.0	5.7	5.7	6.5
Nominal GDP (CFAF billions)	1,198	1,264	1,250	1,264	1,317	1,327	1,317	1,401

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

[1] Original program, see Country Report No. 08/146

[2] Revised program. Revisions reflect the impact of the surge in world food and fuel prices and the recent flooding.

[3] Includes project financing yet to be identified.

[4] IDA grants, and other identified financing.

[5] Includes health and education (including salaries), and pension transfers.

Table 4. Togo: Monetary Survey, 2005–09

	2006	2007	2008			2009
	Dec.	Dec.	March	June	Dec. Prog.[1]	Dec Prog.[1]
	(Billions of CFA francs)					
Net foreign assets	206.7	212.2	215.9	240.8	174.7	174.7
BCEAO	151.3	170.2	165.5	172.6	142.7	142.7
Assets	185.0	193.0	213.6	233.8	193.5	203.5
Liabilities	33.7	22.8	48.1	61.2	50.8	60.8
Commercial banks	55.4	42.0	50.4	68.2	32.0	32.0
Assets	91.3	85.9	103.9	116.0	65.4	65.4
Liabilities	35.9	43.9	53.5	47.9	33.4	33.4
Net domestic assets	186.1	252.3	274.3	240.5	317.7	366.9
Credit to the government (net)	9.8	14.0	10.0	3.4	23.4	17.2
BCEAO	-13.6	-7.8	-19.9	-25.8	1.6	-4.6
Commercial banks	23.4	21.8	29.8	29.2	21.8	21.8
Credit to the rest of the economy	196.2	254.7	251.6	258.0	275.1	316.4
Other items (net)	-19.9	-16.4	12.7	-20.9	19.2	33.3
Money supply (M2)	392.8	464.5	490.3	481.3	492.4	541.6
Currency in circulation	100.1	122.0	112.9	115.7	129.3	142.2
Bank deposits	292.7	342.5	377.4	365.6	363.1	399.4
	(Annual change, percent of beginning-of-period broad money)					
Net foreign assets	19.2	1.4	0.8	6.2	-8.1	0.0
BCEAO	18.5	4.8	-1.0	0.5	-5.9	0.0
Commercial banks	0.7	-3.4	1.8	5.6	-2.2	0.0
Net domestic assets	2.9	16.9	4.7	-2.5	14.1	10.0
Credit to the government (net)	-0.7	1.1	-0.9	-2.3	2.0	-1.3
Credit to the rest of the economy	0.4	14.9	-0.7	0.7	4.4	8.4
Other items (net)	3.3	0.9	6.3	-0.9	7.7	2.9
Money supply (M2)	22.1	18.2	5.6	3.6	6.0	10.0
Currency in circulation	11.5	5.6	-2.0	-1.3	1.6	2.6
Bank deposits	10.6	12.7	7.5	5.0	4.4	7.4
Memorandum items						
Velocity (GDP/ end-of-period M2)	3.0	2.6	2.3	2.4	2.6	2.4

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

[1] Revised from Country Report No. 08/146 to reflect impact of food and fuel shocks and recent flooding. Assumes external debt and arrears rescheduling/relief in 2008-2010 in line with potential debt relief under the HIPC initiative and MDRI.

Table 5. Togo: Official External Debt, 2007-10

	2007			Debt service (proj.) [3]					
				2008		2009		2010	
	Nominal Stock	*Of which arrears* [1]	NPV of Debt [2]	Amort.	Interest	Amort.	Interest	Amort.	Interest
				(Millions of U.S. dollars)					
Total	2,204.8	850.5	1,803.5	72.9	23.2	75.2	21.3	73.0	19.3
Multilateral	1,124.1	199.1	783.2	39.9	10.7	39.5	9.8	39.5	8.9
Bilateral and Commercial	1,080.7	651.4	1,020.2	33.0	12.5	35.7	11.5	33.6	10.4
Bilateral	1,048.1	636.0	988.8	25.9	12.3	28.2	11.4	33.1	10.3
Paris Club	964.3	634.9	922.7	18.3	11.4	20.5	10.6	21.7	9.7
Other Official Bilateral	83.8	1.1	66.1	7.6	0.9	7.7	0.8	11.4	0.6
Commercial	32.6	15.4	31.4	7.1	0.1	7.5	0.1	0.4	0.1
				(Billions of CFA Francs)					
Total	982.4	379.0	803.6	32.5	10.3	33.5	9.5	32.5	8.6
Multilateral	500.9	88.7	349.0	17.8	4.8	17.6	4.4	17.6	4.0
Bilateral and Commercial	481.6	290.3	454.6	14.7	5.6	15.9	5.1	15.0	4.6
Bilateral	467.0	283.4	440.6	11.5	5.5	12.6	5.1	14.8	4.6
Paris Club	429.7	282.9	411.2	8.2	5.1	9.1	4.7	9.7	4.3
Other Official Bilateral	37.4	0.5	29.4	3.4	0.4	3.4	0.4	5.1	0.3
Commercial	14.5	6.9	14.0	3.2	0.1	3.3	0.1	0.2	0.1
				(Percent of GDP)					
Total	82.0	31.6	67.1	2.6	0.8	2.5	0.7	2.3	0.6
Multilateral	41.8	7.4	29.1	1.4	0.4	1.3	0.3	1.3	0.3
Bilateral and Commercial	40.2	24.2	38.0	1.2	0.4	1.2	0.4	1.1	0.3
Bilateral	39.0	23.7	36.8	0.9	0.4	1.0	0.4	1.1	0.3
Paris Club	35.9	23.6	34.3	0.6	0.4	0.7	0.4	0.7	0.3
Other Official Bilateral	3.1	0.0	2.5	0.3	0.0	0.3	0.0	0.4	0.0
Commercial	1.2	0.6	1.2	0.2	0.0	0.3	0.0	0.0	0.0
				(Percent of Revenue)					
Total	483.3	186.4	395.3	15.5	4.9	14.7	4.2	13.2	3.5
Multilateral	246.4	43.6	171.7	8.5	2.3	7.7	1.9	7.2	1.6
Bilateral and Commercial	236.9	142.8	223.6	7.0	2.7	7.0	2.2	6.1	1.9
Bilateral	229.7	139.4	216.7	5.5	2.6	5.5	2.2	6.0	1.9
Paris Club	211.4	139.2	202.3	3.9	2.4	4.0	2.1	3.9	1.8
Other Official Bilateral	18.4	0.2	14.5	1.6	0.2	1.5	0.2	2.1	0.1
Commercial	7.1	3.4	6.9	1.5	0.0	1.5	0.0	0.1	0.0

Sources: Togolese authorities; and Fund and World Bank staff estimates.

[1] Includes principal and interest in arrears as well as late interest before debt relief.

[2] Includes arrears.

[3] Excluding debt service on the augmentation of PRGF access.

Table 6. Togo: Proposed Schedule of Disbursement Under PRGF Arrangement, 2008-11

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

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

Table 7. Togo: Indicators of Capacity to Repay the Fund, 2006-15 1/

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Projections							
Fund obligations based on existing credit										
(in millions of SDRs)										
Principal	4.3	4.3	1.1	-	-	-	-	1.3	2.7	2.7
Charges and interest	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Fund obligations based on existing and prospective credit										
Principal	4.3	4.3	1.1	-	-	-	-	1.3	8.0	12.5
Charges and interest	0.4	0.5	0.4	0.6	0.7	0.7	0.8	0.8	0.7	0.7
Total obligations based on existing and prospective										
In millions of SDRs	4.8	4.8	1.5	0.6	0.7	0.7	0.8	2.1	8.8	13.2
In billions of CFAF	3.7	3.5	1.1	0.4	0.5	0.5	0.5	1.5	6.1	9.2
In percent of government revenue	1.9	1.7	0.5	0.2	0.2	0.2	0.2	0.5	1.9	2.7
In percent of exports of goods and services	0.7	0.7	0.2	0.1	0.1	0.1	0.1	0.2	0.7	1.0
In percent of debt service 2/	8.9	8.2	3.4	1.4	1.7	1.5	1.5	3.3	12.9	18.7
In percent of GDP	0.3	0.3	0.1	0.0	0.0	0.0	0.0	0.1	0.3	0.5
In percent of quota	6.5	6.5	2.0	0.7	0.9	1.0	1.0	2.8	11.9	17.9
Outstanding Fund credit 2/										
In millions of SDRs	5.4	1.1	31.2	58.0	75.6	84.4	84.4	83.1	75.0	62.6
In billions of CFAF	4.2	0.8	22.1	41.1	53.4	59.4	59.2	58.3	52.6	43.9
In percent of government revenue	2.1	0.4	10.6	18.0	21.7	22.0	20.7	19.2	16.3	12.8
In percent of exports of goods and services	0.9	0.2	4.3	7.1	8.5	8.8	8.2	7.5	6.3	4.9
In percent of debt service 2/	10.1	1.9	70.8	146.3	192.8	171.9	170.9	132.6	110.1	88.7
In percent of GDP	0.4	0.1	1.8	3.1	3.8	4.0	3.8	3.5	3.0	2.3
In percent of quota	7.4	1.5	42.6	79.0	103.0	115.0	115.0	113.2	102.2	85.2
Net use of Fund credit (millions of SDRs)	(4.3)	(4.3)	30.1	26.8	17.6	8.8	-	(1.3)	(8.0)	(12.5)
Disbursements	-	-	31.2	26.8	17.6	8.8	-	-	-	-
Repayments and Repurchases	4.3	4.3	1.1	-	-	-	-	1.3	8.0	12.5
Memorandum items:										
Nominal GDP (in billions of CFAF)	1,160	1,198	1,264	1,317	1,401	1,486	1,576	1,672	1,774	1,881
Exports of goods and services (in billions of CF	490	502	511	575	628	675	725	780	838	900
Government revenue (in billions of CFAF)	196	203	210	228	246	270	286	304	322	342
Debt service (in billions of CFAF) 2/	41	43	31	28	28	35	35	44	48	49

Sources: IMF staff estimates and projections.

1/ Assumes a PRGF augmentation of SDR 18.35 million (25 percent of quota) to be disbursed in two equal disbursements after completion of the first and second review of the PRGF arrangement.
2/ Total debt service includes IMF repurchases and repayments.

APPENDIX I. LETTER OF INTENT

Lomé, Republic of Togo
September 12, 2008

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

Dear Mr. Strauss-Kahn:

Further to my letter dated March 28, 2008, and the accompanying Memorandum of Economic and Financial policies (MEFP), I am pleased to report on the good progress the Togolese authorities have made in implementing our three-year economic program supported by the IMF's Poverty Reduction and Growth Facility (PRGF), notwithstanding the severe shocks that have affected Togo's economy this year. I would also like to set out our policy commitments for the remainder of this year and for 2009, including measures to address the surge in global food and fuel prices and the devastating flooding in late July/early August, for which we are seeking additional financial support from the IMF and other development partners.

The profound political and economic reforms undertaken since 2006 have helped Togo overcome its long-lasting socio-political crisis and reengage with the international community, two critical preconditions for reviving the economy and improving the living conditions of our people. The important economic reforms we advanced in the context of the IMF's Staff-Monitored Program helped stabilize the economy, restore fiscal discipline, raise transparency of economic management, and initiate the restructuring of state-owned banks and enterprises.

Building on these early successes, we have started implementing our PRGF-supported economic program rooted in Togo's Interim Poverty Reduction Strategy Paper (I-PRSP). In the first half of this year, we have significantly strengthened the financial position of the state and advanced important structural reforms.

All quantitative performance criteria at end-June 2008 and all other relevant performance criteria were met (Table 1). The primary fiscal surplus far exceeded the program floor, reflecting good revenue collection, sharply reduced use of accelerated spending procedures, slow implementation of domestic investment projects, and fiscal prudence. As a result, we were able to clear wage arrears and accumulate substantial deposits. External debt service to multilaterals has been resumed, and the government has not contracted or guaranteed any nonconcessional external debt.

We have also made significant progress on structural reforms (Table 2). The structural performance criterion on setting up a General Inspectorate of Finance was met. This new institution will conduct regular ex-post inspections of all agencies handling public funds to ensure the efficiency and transparency of spending. The structural benchmark on implementing a new framework for monitoring budget execution was also met. This framework, based on a template and procedures developed with IMF technical support, allows us to monitor monthly budget execution with minimal lags and make well-founded policy decisions. The structural benchmark on initiating an audit of the phosphate sector is expected to be implemented about two months later than originally envisaged, as the World Bank, which is financing the audit, requested an additional call for expression of interest after only two companies responded initially. At the same time, we have implemented the benchmark on adopting an action plan for introducing regular treasury bill auctions more than three months early, and have already launched the first auction. Progress on preparing other structural reforms envisaged for December 2008 has been good: the comprehensive strategy for clearing Togo's large domestic arrears, prepared in close cooperation with IMF staff, is nearly complete; an audit of our local electricity company CEET is underway; and preparations on the complex task of strengthening the financial position BTCI have advanced significantly, alongside similar plans for other state-owned banks.

The PRGF-supported program has also allowed us to make major progress in normalizing relations with external creditors. On May 29, 2008, the World Bank's Board approved an exceptional IDA allocation of US$146 million to help clear all of Togo's arrears as well as US$17.6 million in budget support. On June 12, 2008, the Paris Club agreed to reschedule Togolese debt on Naples terms, cancelling US$347 million of arrears and debt service due during the consolidation period and rescheduling US$392 million. The AfDB's Board approved on July 22, 2008, the clearance of Togo's arrears (US$24 million) through its Fragile States Facility, while also consolidating all 2008 debt service. The EU has committed to use part of its grant envelope to clear Togo's arrears to the EIB, with all 2008 debt service consolidated into the operation. China has already delivered its share of HIPC relief through debt cancellation in 2007. We are continuing our discussions on arrears clearance and debt relief with other multilateral and non-Paris Club bilateral creditors in the context of the HIPC Initiative. We hope to reach the decision point later this year.

Unfortunately, the combination of the global food and oil price shocks and the recent severe flooding has taken a heavy toll on our economy and people this year. The surge in world oil prices has widened the current account deficit significantly and eroded the profitability of Togo's vital transport sector. The food price shock has pushed up inflation and sharply reduced real incomes. The flooding displaced thousands, destroyed roads and bridges, paralyzed trade and transport, and damaged food crops. As a result of these shocks, economic growth has come to a halt this year and large new financing gaps have emerged in the balance of payments and the budget in 2008 and 2009. While we expect real GDP growth to recover to 3 percent in 2009, the large financing gaps in the balance of payments and budget will persist as world commodity prices remain high and the rebuilding of destroyed infrastructure will stretch out well into next year.

To address the global food price surge, we have taken a number of measures to help vulnerable segments of the population while promoting local production. These policies have been supported by a social dialogue initiated by the President of Togo. To support subsistence farmers, we also sold fertilizer and seeds at subsidized prices, effectively keeping prices at the 2007 level. We have also sold grain stocks to in some local markets where shortages led to excessive price surges. To mitigate the social impact, we have cleared wage and pension arrears to public sector workers, most of which live in urban areas where the food price shock has been particularly severe. We have avoided introducing price controls, export bans, and unilateral tax exemptions that are not coordinated with other WAEMU members. Over the medium run, our main objective is to boost productivity in local agriculture by investing in rural infrastructure, improving stock and distribution systems, enhancing competition, and reducing trade barriers.

The surge in world fuel prices made the existing retail price structure unsustainable, and we thus agreed with the private oil companies on a retail price increase for gasoline and diesel in August to a level comparable with neighboring countries. We maintained tax collection on fuel products at historical levels to avoid an even larger retail price increase. To mitigate the economic and social impact (for both the food and fuel price shocks), we introduced lump-sum transfers to civil servants for the last five months of 2008. This temporary measure will be replaced by a reduction in income taxes. Moreover, we raised the minimum wage on August 1, 2008. We also decided to reduce Togo's corporate income tax rate by 7 percentage points, with a new top rate of 33 percent.

To address the devastation caused by the flooding, we have worked with donors to provide immediate emergency humanitarian relief. We are now making emergency repairs to roads and bridges to restore the vital transport links to the north, which is vital for Togo's economy as these routes support both domestic and regional trade. We have also started discussions with our development partners on the reconstruction of major bridges and roads over the next year.

For 2008, we are reallocating spending to address the adverse impact of the price shocks and the flooding while limiting the deterioration of the primary fiscal balance to ½ percent of GDP. The shocks are projected to reduce tax revenues by about ½ percent of GDP in 2008. The total cost of fertilizer and seed subsidies, grain distribution, temporary lump-sum transfers to employees, wage and pension arrears clearance, fuel support to the electricity sector, and emergency flood repairs is expected at about 1¾ percent of GDP. The resulting increase in spending will be partly covered by contingency lines, including some that were originally earmarked for bank and enterprise restructuring. We will also be able to realize savings from the postponement of local elections and the relatively slow implementation of some domestic investment projects. We will seek to implement all other 2008 budget allocations to counterbalance the economic downturn and safeguard essential social services. We are requesting additional project financing and budget support to cover the remaining gap.

Our draft 2009 budget aims to restore a balanced domestic primary fiscal position, implying a primary fiscal adjustment of ½ percent of GDP. We are targeting an increase in the tax-GDP ratio by ¾ percent of GDP, supported by continued tax administration reforms and tax policy measures, including reduction of tax and customs exemptions as well as increases in alcohol and tobacco excises. These measures should more than offset the corporate tax losses resulting from the recent shocks and the reduction in the tax rate. We will reduce untargeted nonwage spending to create room for higher health and education spending, rehabilitation of infrastructure (especially reconstruction of vital roads and bridges), the implementation of the domestic arrears clearance strategy, and state-owned bank and enterprise restructuring. As Togo resumes full cooperation with development partners and implements the I-PRSP, we expect a significant increase in foreign-financed project spending. The budget will also include contingencies for exogenous shocks and shortfalls in projected external disbursements. We will submit the draft 2009 budget to parliament in November 2008.

We will press ahead with our structural reform efforts (Table 2). Strengthening of fiscal governance will remain a central goal. Following the steps that are already envisaged for 2008, we have elaborated a set of key reforms for next year. To strengthen revenue collection, we plan to eliminate several tax exemptions and give the tax and customs administrations the authority and means to conduct onsite inspections in the free economic zone. To regularize Togo’s large domestic arrears, we will implement the domestic arrears strategy by issuing tradable bonds (and cash for small amounts) to suppliers whose claims have been verified by the recent external audit and validated by the government. This will help restore supplier confidence and liquidity, while stretching the budget cost over several years. We will also introduce a mechanism for monitoring domestic debt. We will strengthen treasury and cash management by introducing regular short-term treasury bill auctions and by reorganizing and strengthening the treasury based on WAEMU directives. We are seeking technical assistance to support some of these reforms, in particular on debt and treasury management. As part of the ongoing WAEMU reforms, Togo will adopt a new organic budget law and a transparency code for public financial management.

Another high priority will be to continue our efforts to strengthen the financial position of Togo’s state-owned banks and attract strategic investors to ensure the health of the financial sector. Much progress has been made in preparing the exchange of nonperforming loans (NPLs) held by three state-owned banks for government securities. We will ensure that these securities are tradable so that the banks can manage their liquidity and gradually rebalance their portfolios. We intend to set up a structure and mechanism for recovering, settling, and restructuring NPLs, and to support the development of a secondary market for securities. We are aiming to attract strategic investors for all three banks and are confident that at least two should be identified next year. These reform efforts are being supported by IMF and World Bank technical assistance.

To revive economic growth, it will be critical to rehabilitate the phosphate sector. Decrepit mining equipment, the bankruptcy of the joint venture company OTP/IFG, and power shortages have led to a worrisome decline in the extraction of Togo's high-quality phosphate, to less than a quarter of potential capacity. Moreover, the company has not been able to ensure a stable supply and its negotiated export prices have been well below world market prices. More recently, the implementation of a new commercial policy has allowed Togo to benefit from the recent surge in world phosphate prices. Investment in new equipment, for which we are seeking a strategic partner that can provide concessional financing, will be critical for economic growth, exports, and fiscal revenues. The World Bank-financed phosphate audit will help us formulate a long-term reform strategy. To support an economic recovery, we have taken measures to address the energy crisis by purchasing and rehabilitating generators, transmission lines, and transformers. We are preparing a performance contract with CEET, to become effective in 2009, and we intend to elaborate an energy sector development strategy. To improve the business environment, we intend to streamline regulations and procedures for the private sector.

Strong cooperation with our development partners will be critical for implementing these reforms, revive economic growth, and reduce poverty. In the September 2008 donor conference in Brussels, we will request additional financial and technical support from all our partners to help us implement our economic reform strategy, in particular by supporting priority sectors such as health, education, vital infrastructure (transport and energy), and agriculture. We are also in the process of preparing the full PRSP, which should be ready in early 2009.

To support our policies and in view of the good progress on implementing the PRGF-supported program, we request the completion of the first review and an augmentation of access to PRGF resources by an amount equivalent to SDR18.35 million (equivalent to 25 percent of quota), which will help us mitigate the adverse impact of the price shocks and the flooding on the balance of payments in 2008 and 2009. We request that the augmentation be disbursed in two equal amounts with the completion of the first and second reviews by the Executive Board of the IMF.

To monitor progress under our PRGF-supported economic program, we have specified performance criteria, indicative targets, and benchmarks through the end of 2009 in Tables 1 and 2 below. This includes a modification of the end-December 2008 performance criterion on the primary fiscal balance to reflect the impact of the recent shocks. The first review is now scheduled to be completed by September 22, 2008, instead of October 31, 2008. The second and third reviews planned for April 30 and October 31, 2009, would be based on performance relative to these targets. To that end, Togo will provide the Fund with all data required to monitor the program on a timely basis, in line with IMF policy and the Technical Memorandum of Understanding (TMU) dated March 28, 2008. Updates and amendments to this TMU are attached below.

The government considers these policies and actions sufficient to achieve the program objectives, and stands ready to take other steps as needed. Togo will continue to consult closely with the IMF staff on the adoption of such steps, and in advance of any revisions to the policies discussed here and in the March 2008 MEFP. To keep the public informed, the government will publish this letter of intent and will regularly report on its progress under the program.

We are determined to see these efforts through, in collaboration with the IMF and our other partners, and bring about a much hoped-for economic revival and improvement in the livelihoods of our people.

Sincerely yours,

/s/

Adji Otèth AYASSOR
Minister of Economy and Finance

Table 1. Togo: Quantitative Performance Criteria and Indicative Targets
December 31, 2007—December 31, 2009

	2008						2009		
	June			Sep.	Dec.		Mar.	June	Dec.
	Prog.[1]	Adj.[2]	Act.	Rev.[3]	Prog.[1]	Rev.[3]	Prog.		
	(Billion CFA francs, cumulative from end of preceding year)								
Performance criteria (for end-June and end-December 2008, and end-June 2009; indicative targets otherwise)									
Domestic primary fiscal balance (floor)	-4.5	-4.5	28.3	19.7	0.0	-7.6	9.6	1.3	0.0
Nonaccumulation of external arrears [4]	...	...	...	...	...	...	...	...	...
Net domestic financing (ceiling) [2]	1.9	-3.1	-31.5	-18.9	-7.5	-7.5	-4.3	-5.6	-6.5
Central government contracting or guaranteeing of nonconcessional external debt (ceiling) [4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets									
Total revenue (floor)	103.6	103.6	109.6	160.7	214.6	209.8	51.5	108.0	228.4
Domestic payments arrears, changes in stock (ceiling)	0.0	0.0	-3.1	-3.1	0.0	-3.1	-1.5	-3.0	-6.0
Domestically financed social and capital spending (floor)	48.9	48.9	34.7	65.0	97.8	99.7	23.7	47.4	114.9
Projected program financing	9.6	…	16.4	16.4	24.7	32.3	0.0	18.0	33.4

[1] Letter of Intent dated March 28, 2008.
[2] The ceiling on net domestic financing is adjusted to reflect deviations from projected external program financing, subject to a cap of CFAF 5 billion.
[3] Reflects the impact of the oil and food price surges and the recent flooding compared with the original program (Country Report No. 08/146).
[4] Continuous performance criterion.

Table 2: Structural Conditionality for 2008

Measures	Date	Macroeconomic Rationale	Status
Fiscal governance			
Submit 2008 budget law to parliament in line with understandings with the mission.	Prior action for PRGF approval	To provide the basis for a transparent and consistent fiscal policy that aims for a balanced primary position, avoidance of new arrears, and higher growth-oriented and social spending.	Done: December 2007.
Implement a new framework for monthly monitoring of budget execution, and report data for April-June 2008 based on a new template.	Benchmark August 2008	To provide policymakers with a tool for making timely and informed spending decisions as they seek to achieve the budget objectives and mitigate the risk of fiscal slippages.	Done: July 2007.
Create a General Inspectorate of Finance under the responsibility of the Minister of Finance.	Performance criterion August 2008	To strengthen fiscal governance by introducing oversight, control, and transparency for all units handling public resources.	Done. Decree adopted on July 23. The Inspector General was appointed on August 29.
Adopt a strategy and time table for clearing domestic arrears.	Performance criterion December 2008	To restore supplier confidence, facilitate the return to regular spending procedures, and allow a gradual reduction in the government's large stock of domestic arrears.	On track. The authorities have prepared a draft in close cooperation with IMF staff.
Financial sector			
Change management and oversight of BTCI based on terms of reference prepared in consultation with the WAMU Banking Commission.	Prior action for PRGF approval	To prevent further erosion of BTCI's capital and liquidity, to restore confidence in Togo's largest bank, and in the financial sector more broadly.	Done: February 2008.
Adopt an action plan for introducing regular Treasury bill auctions in 2009.	Benchmark December 2008	To develop the domestic securities market, promote financial sector development, improve treasury management, and avoid new budgetary arrears.	Done. The Treasury has agreed with the BCEAO on a framework for issuing t-bills on a regular basis in 2009, following one initial issue this year.
Public enterprises			
Initiate an audit of the phosphate sector, based on the competitive selection of an audit company, in consultation with the World Bank.	Benchmark October 2008 (revised from August)	To prepare the restructuring of Togo's traditionally largest export sector (currently operating at only one third of capacity), including by providing options for attracting a strategic investor.	A minor delay occurred after only two firms responded to the initial call for expression of interest. At the request of the World Bank, which is financing the audit, an additional call for expressions of interest was issued, and firms were asked to submit proposals in September.
Prepare a review of the finances of the national electricity company (CEET), in consultation with the World Bank.	Benchmark December 2008	To provide the information necessary for preparing energy sector reforms and deciding on 2009 budget allocations, as rising oil prices and regionwide electricity shortages have dampened economic growth and led to increasing demands for budget support to the energy sector.	On track. The auditor has started the review and a draft report is expected in September.

Table 2 (continued): Structural Conditionality for 2009

Measures	Date	Macroeconomic Rationale	Status
Fiscal governance			
Reduce tax and customs exemptions and strengthen tax and customs control, including in the Free Economic Zone.	Benchmark June 2009	To limit leakage of tax-exempt goods into the domestic economy, which distorts economic incentives and reduces fiscal revenues.	New measure.
Make operational a new Treasury structure based on WAEMU directives.	Performance criterion June 2009	To create a functioning Treasury that has adequate control and information over revenues, spending, and cash management to ensure timely payments, avoid of arrears, and provide for real-time consistent budget execution data.	New measure.
Start implementing the domestic arrears clearance strategy by securitizing validated arrears to suppliers and setting up a mechanism for monitoring domestic debt.	Benchmark December 2009	To move toward a sustainable debt position and prevent new arrears, as Togo regularizes its large stock of domestic arrears, starts servicing long-term regional bonds, and initiates short-term treasury bill auctions.	New measure.
Financial sector			
Initiate restructuring of BTCI, including by raising its capital through issuance of government securities.	Benchmark March 2009 (revised from December 2008)	To support the financial rehabilitation of Togo's largest bank, prepare it for privatization, and set the conditions for sound financial sector development.	Significant progress has been made in preparing the exchange of BTCI's NPLs against government securities as part of a broader multi-bank scheme. Given the complexity of the operation, which is being supported by IMF and World Bank technical assistance, the time table has been extended by three months.
Set up a structure and mechanism for managing the NPLs that have been exchanged against government securities in the bank restructuring process.	Benchmark August 2009	To recover part of the budgetary cost of securitizing of NPLs and reduce the large stock of enterprise arrears and cross-debts.	New measure.
Initiate the process of identifying strategic investors for state-owned banks.	Benchmark December 2009	To reduce risks to macroeconomic stability caused by Togo's large loss-making state-owned banks and support expansion of financial intermediation.	New measure.
Public enterprises			
Phosphate sector: Prepare a development strategy based on the results of the strategic audit.	Benchmark September 2009	To promote transparency in the restructuring of the phosphate sector, which could generate additional exports of up to 10 percent of GDP at current world prices.	New measure.

AMENDMENTS TO TECHNICAL MEMORANDUM OF UNDERSTANDINGS

Paragraphs 1, 3, 5, 11, 13, and 22 of the Technical Memorandum of Understanding dated March 28, 2008 have been modified to reflect the new test dates for the quantitative performance criteria and indicative targets through end-2009 shown in Table 1 above. Paragraph 24 has been expanded with definitions for the new structural benchmarks and performance criteria shown in Table 2 above. These changes are incorporated below.

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

3. The **domestic primary fiscal balance** is defined as the difference between (i) the government's fiscal revenue and (ii) total fiscal expenditure, net of interest and current and capital expenditure financed by donors. The balances in the periods from end-December 2007 to end-September 2008 (indicative target) and end-December 2008 (performance criteria), and in the periods from end-December 2008 to end-March 2009 (indicative target), end-June 2009 (performance criteria), and end-December 2009 (indicative target) respectively, should be equal to or higher than the amounts shown in Table 1 above. The source of the data is the fiscal reporting table (TOFE) prepared monthly by the Economic Directorate of the Ministry of Finance. The data provided by the Economic Directorate will be considered authoritative in the context of the program.

5. **Net domestic financing of the government** is defined as the sum of (i) **net banking sector credit to the government** and (ii) **net nonbank domestic financing of the government**. Net domestic financing in the periods from end-December 2007 end-September 2008 (indicative target) and end-December 2008 (performance criteria), and in the periods from end-December 2008 to end-March 2009 (indicative target), end-June 2009 (performance criteria), and end-December 2009 (indicative target) respectively, should be equal to or lower than the amounts shown in Table 1 above. The ceiling on net domestic financing will be adjusted to offset deviations from projected external program financing as shown in Table 1 above, subject to a cap of CFAF 5 billion.

11. The collection of revenue in the periods from end-December 2007 to end-September 2008 (indicative target) and end-December 2008 (indicative target), and in the periods from end-December 2008 to end-March 2009 (indicative target), end-June 2009 (indicative target), and end-December 2009 (indicative target) respectively, should be equal to or higher than the amounts shown in Table 1 above. The floor on revenue will be an indicative target throughout the program period.

13. **Domestic payments arrears** includes (i) the Treasury float (payment authorizations (*ordonnancements)* issued to the Treasury but not yet settled); (ii) utility invoices for which the payment order has not yet been issued; (iii) arrears on wages and pensions for which the payment authorization has not yet been issued; and (iv) any arrears on domestic government debt, including bonds issued in CFA franc on the WAEMU regional market. The net accumulation of domestic payments arrears for the periods from end-December 2007 to end-September 2008 (indicative target) and end-December 2008 (indicative target), and in the periods from end-December 2008 to end-March 2009 (indicative target), end-June 2009 (indicative target), and end-December 2009 (indicative target) respectively, should be equal to or lower than the amounts shown in Table 1 above. The source of the data on domestic payments arrears is the Treasury for the Treasury float and the Economic Directorate for other arrears. Data on the change in arrears will be reported in the TOFE prepared monthly by the Economic Directorate of the Ministry of Finance. The ceiling on net accumulation of domestic payments arrears is an indicative target throughout the program period.

22. Total domestically financed social spending, for the periods from end-December 2007 to end-September 2008 (indicative target) and end-December 2008 (indicative target), and in the periods from end-December 2008 to end-March 2009 (indicative target), end-June 2009 (indicative target), and end-December 2009 (indicative target) respectively, should be equal to or higher than the amounts shown in Table 1 above. The data provided by the Economic Directorate will be considered authoritative in the context of the program. The floor on domestically financed social spending is an indicative target throughout the program period.

24. This section elaborates on the structural benchmarks shown in Table 2 above.

h. *Make operational a new Treasury structure based on WAEMU directives.* Following the adoption of the decree that sets up the new treasury structure, this performance criterion includes (i) the appointment of the general treasury managers in line with WAEMU directives (*Agent Comptable Central du Trésor, Receveur Général du Trésor, Payeur Général du Trésor*), and (ii) the production of the final monthly treasury balances for the months of April, May, and June 2009, including the validated entry balance for 2009, within five weeks after the end of the reference month.

i. *Reduce tax and customs exemptions and strengthen tax and customs control, including in the Free Economic Zone.* The benchmark includes the specification in the 2009 budget law of tax exemptions that are eliminated and the adoption of a decree that reduces customs exemptions. The benchmark also includes a revision of the laws and regulations governing the Free Economic Zone (FEZ) in order to ensure regular data provision by the companies established under the FEZ and to secure the legal basis for conducting onsite inspections by the tax and customs administrations.

j. *Start implementing the domestic arrears clearance strategy by securitizing validated arrears to suppliers and setting up a mechanism for monitoring domestic debt.* Under this benchmark, arrears to suppliers verified by the KPMG audit and validated by the government should be regularized through securitization and other methods (such as cash payments for smaller amounts). The regularization of arrears should include a discount and the securities should pay an interest rate that reflects market conditions. To monitor domestic debt, the Directorate of Public Debt should (i) obtain the necessary information on an ongoing basis (e.g. loan contracts, copies of creditors' invoices, data from the treasury and BCEAO, information from audits) to be able to report past debt service and project future debt service and have up-to-date outstanding stock and arrears figures, (ii) integrate all domestic debt information into an electronic database and update it on a monthly basis (including with information on new loan contracts), and (iii) produce monthly reports on paid and projected debt service, as well as outstanding stock and arrears by creditor category. The reports should include a description on any new loan, restructuring, or cancellation agreements when applicable.

k. *Set up a structure and mechanism for managing the NPLs that have been exchanged against government securities in the bank restructuring process.* The benchmark includes the establishment of a structure and mechanism for recovering, settling, and restructuring nonperforming loans. While not required for the completion of the benchmark, the structure should ideally: (i) have a steering committee with representatives of the Treasury, the BCEAO and the Justice Ministry for monitoring its operations, (ii) be designed based on the results of a feasibility study, prepared in consultation with the IMF and World Bank, (iii) establish a deadline to finalize the recovery, settling, and restructuring process, (iv) recruit a few qualified professionals in charge of the operation, and (v) have the specific power of the treasury to recover claims.

l. *Initiate the process of identifying strategic investors for state-owned banks.* This benchmark includes: (i) the issuance of a call for expression of interest for all state-owned banks included in the securitization process, (ii) the support of a privatization expert, and (iii) the preparation of a prospectus and a data room for the selected investors. While not required for the benchmark, these actions could be supported by World Bank technical assistance.

m. *Phosphate sector: Prepare a development strategy based on the results of the strategic audit.* The benchmark includes the preparation of a strategy in consultation with World Bank and IMF staff and its adoption by the Council of Ministers. While not required for the benchmark, the strategy should include specific actions aimed at improving investment levels, as well as managerial, marketing, and technical capacity. The strategy should also include specific deadlines for implementation, with the ultimate objective of bringing phosphate production and exports close to their potential levels. The strategy should also discuss options for attracting strategic investors.

INTERNATIONAL MONETARY FUND

TOGO

First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Modification of Performance Criteria and Augmentation of Access—Informational Annex

Prepared by the African Department

Approved by Robert Sharer and Adnan Mazarei

September 15, 2008

Contents Page

Appendix I—Relations with the Fund 2

Appendix II—Relations with the World Bank 7

Appendix III—Togo—Statistical Issues 10

APPENDIX I—RELATIONS WITH THE FUND

(As of August 31, 2008)

I. Membership Status: Joined August 1, 1962; Article VIII

II. General Resources Account:

	SDR million	Percent of quota
Quota	73.40	100.00
Fund holdings of currency	73.07	99.55
Reserve Position	0.33	0.45

III. SDR Department:

	SDR million	Percent of allocation
Net cumulative allocation	10.98	100.00
Holdings	0.02	0.17

IV. Outstanding Purchases and Loans:

	SDR million	Percent of quota
PRGF Arrangements	13.26	18.07

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
PRGF	4/21/08	4/20/11	66.06	13.26
PRGF	9/16/94	6/29/98	65.16	54.30
PRGF	5/31/89	5/19/93	46.08	38.40

VI. Projected Payments to the Fund[1]
(SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2008	2009	2010	2011	2012
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	0.12	0.39	0.39	0.39	0.39
Total	0.12	0.39	0.39	0.39	0.39

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

VII. Exchange Arrangement

Togo is a member of the West African Economic and Monetary Union (WAEMU) and has no separate legal tender. The exchange system, common to all WAEMU countries, is free of restrictions on the making of payments and transfers for current international transactions. The union's common currency, the CFA franc, is pegged to the euro at a rate of CFAF 655.957 = EUR 1, consistent with the official conversions rate of the French franc to the euro and the previous fixed rate of the CFA franc to the French franc of CFAF 100= F 1. On April 28, 2006, the rate of the CFA franc in terms of SDR was CFAF 769.68 = SDR 1.0. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus only reflects a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members

VIII. Safeguards Assessments

The Central Bank of West African States (BCEAO) is the common central bank of the countries of the West African Economic and Monetary Union, which includes Togo. The most recent safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment indicated progress has been made in strengthening the bank's safeguards framework since the 2002 assessment and identified some areas where further steps would help solidify it.

The BCEAO now publishes a full set of audited financial statements and improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). Furthermore, an internal audit charter has been put in place, mechanisms for improving risk management have been established, and follow-up on internal and external audit recommendations has been strengthened.

The results of continuous safeguards monitoring indicate that while certain vulnerabilities remain in internal control systems and legal structure, there has been some progress in other areas, including through: (i) improving the external audit process by adopting a multi-year audit program; (ii) establishing an audit committee; (iii) expanding disclosures on financial positions of WAEMU countries with the Fund in the notes to the annual financial statements; and (iv) further strengthening of the effectiveness of the internal audit function.

IX. Article IV Consultation

Togo is on the standard 12-month Article IV consultation cycle. The Executive Board completed the 2007 Article IV consultation on June 8, 2007.

X. Technical Assistance

A. AFRITAC West

Customs Administration

Dates	**Objectives**
November 2005	Support the modernization and simplification of customs regulations (implementation of simplified Kyoto Convention).
January-February 2006	Organization of services to ensure value control and creation of an independent data base at the Customs Administration
July 2006	Modernization of the Customs Administration.
November 2006	Regional workshop on ethics in fiscal and customs administration.
September-October 2007	Launching Sydonia++
March-April 2008	Assessment of control methods at Customs offices; optimization custom controls; and reinforcement of controls after customs clearance.

Tax Administration:

Dates	**Objectives**
October 2005	Follow-up progress in strengthening tax administration.
May-June 2006	Assessment of tax administration reforms; modernization of tax administration.
November 2006	Regional workshop on ethics in tax and customs administration.
April 2007	Help DGG to increase tax base and improve control services.
June-July 2007	Support the elaboration of a research strategy and fiscal control.
January 2008	Assessment of 2007 reports of Directorate General of Taxation; assist in 2008 fiscal control reports; improve reimbursement of VAT credits.

Public Expenditure Management:

Dates	**Objectives**
September 2005	Assessment of needs to strengthen budgetary and accounting management.
October-November 2006	Audit of government accounts in commercial banks, closure of accounts outside Treasury, centralization of government expenditures; and assessment of budget preparation, control, execution, and treasury management.
September-October 2007	Support of public accounting management at the Directorate General of Treasury and Public Accounting.

Debt Management and Financial Markets:

Dates	**Objectives**
July-August 2006	Analysis of the information flows in debt management
December 2006	Support the optimization of computerized tools for debt administration at the Directorate of Public Debt (DPD)
May-June 2007	Analyze contracts with principal donors; improve software applications for debt management at DPD.
November 2007	Verify data base; help prepare analysis of debt sustainability.

Macroeconomic Statistics

Dates	**Objectives**
September 2005	Improve public finance statistics reports and publication of data.
November-December 2005	Regional workshop on the 2001 public finance manual.
March 2006	Prepare IMF questionnaire tables based on the 2001 manual of public finance.
August 2006	Help prepare a response to IMF questionnaire on public finance.
September 2007	Regional workshop on 2001 public finance manual.
October 2007	Support the services in charge of the preparation of the tables of the government's financial operations (TOFE in French)

Real Sector Statistics

Dates	**Objectives**
December 2007	Assist Directorate General of Statistics and National Accounts in the implementation of the 1993 National Accounting System (SCN 93in French).

Microfinance Supervision:

Dates	**Objectives**
December 2005	Regulations for microfinance focused on the strengthening of microfinance cells.
May 2006	Support implementation of the systems to analyze authorization requests.
January 2007	Support inspection missions in microfinance institutions.
April 2007	Regional workshop on exchange of information.
November 2007	Support and monitor unit on money control.
January-February 2008	Support and monitor unit on inspection methods.

B. Headquarters

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Staff	December 2006	Tax administration
MFD	Staff	March 2006	Financial Sector
FAD	Staff	January 2006	Revenue Administration
TGS	Staff	June 2001	Computerization of treasury
FAD	Staff	July 2000	Public expenditure management
FAD	Resident advisor	1997	Tax administration
FAD	Resident advisor	July 1996	Customs administration
FAD	Staff	February 1995	Tax reform
FAD	Staff	September 1994	Public expenditure management
FAD	Staff	February 1992	Tax reform
FAD	Staff	November 1991	Budgetary reform

XI. Resident Representative

In September 2005, Mr. Koffi Yao became resident representative for Benin and Togo.

APPENDIX II—RELATIONS WITH THE WORLD BANK

(Updated July 22, 2008)[1]

A. Partnership in Togo's development strategy

1. Over the last decade and a half, Togo has been trapped in a cycle of political instability, economic decline, rising poverty, and donor disengagement. Togo has been in non-accrual status with the International Development Association (IDA) since May 2002, with arrears of US$146 million as of end-May 2008. During the non-accrual period, the Bank has continued to conduct analytical and advisory activities (AAA) on key aspects of socioeconomic development. Together with other partners, the Bank also supported the Government's efforts to prepare its I-PRSP and development strategies in such sectors as health, education, agriculture and rural development, and HIV/AIDS.

2. Since the Board discussion of the Country Re-engagement Note on December 14, 2004, political developments have been broadly positive. Successful implementation of initial political and economic reforms since 2005-06, including good performance under an IMF Staff Monitored Program, have laid the foundation for strengthening donor assistance to support the process of clearing Togo's arrears to IDA and other major creditors and thereby of full resumption of the Bank's operations in the country. Other donors are also seeking to increase their activities in support of Togo's recently completed its I-PRSP which was adopted by the Government on March 7, 2008. On May 29, 2008, the Bank's Board discussed the Interim Strategy Note and approved a development policy operation (the Economic Recovery and Governance Grant, ERGG) that enabled Togo to clear its arrears to IDA and thereby normalize its relations with the Bank.

B. World Bank Group strategy

3. The Bank's May 2008 Interim Strategy Note (ISN) sets out the Bank Group's plan to help Togo recover from its long period of instability and suspension of aid and begin laying the foundations for sustained, shared growth over the medium term. This will be achieved through support for the normalization of relations with the World Bank Group through the clearance of arrears (achieved at end-May 2008), and assistance to address critical social needs on the ground. The ISN aims to set realistic expectations with regard to the progress and achievements that can be realized from June 2008 through FY10. ISN support is under three main pillars in line with the I-PRSP priorities: (i) improve governance and transparency; (ii) promote the return to private sector-led growth; and (iii) provide for urgent social needs. The ISN builds on a Development Policy Needs Review (DPNR) prepared and discussed with the Government in early 2008.

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

4. The three pillars will be supported through: (i) assistance for the clearance of Togo's arrears to IDA, a requisite step for restoring normal relations between the country and the World Bank Group; (ii) investment projects, development policy operations and LICUS TF grants to provide financial and technical support for the Government's reform program under the three pillars; and (iii) analytical and advisory activities to inform the policy dialogue and the Government's reform agenda, including preparation of the full PRSP. This support will be complemented by ongoing and new World Bank regional activities in the areas of transport and transit facilitation, energy and mining.

5. Under pillar 1 (Improve Governance and Transparency), particular focus will be on supporting the Government's own reform program to improve governance, transparency and efficiency in public expenditure management as well as advance structural reforms aimed at improving governance and transparency in the key sectors of the economy (phosphates, energy, cotton and financial sector). This approach would lead over time to strengthened fiscal sustainability, enhanced transparency of State institutions and processes, improved economic governance and increased economic growth. Support would be provided through two annual development policy operations and a Financial Sector and Governance Reform TA project, in addition to the ERGG approved in May 2008. Ongoing analytical and advisory work includes a Trust Fund for Statistical Capacity Building grant and an update Public Expenditure Management and Financial Review (PEMFAR).

6. Under Pillar 2 (Promote the Return to Private Sector-led Growth), private-sector development will be critical to ensuring that Togo returns to a path of recovery and economic growth. In past decades, Togo demonstrated its capacity to be a vibrant private sector hub of West Africa. In this regard, the Bank will support the government in identifying the challenges and obstacles to, and the potential entry points for, private sector investment as a catalyst for growth in Togo through a Country Economic Memorandum on the Sources of Growth. Lending will include a Support to Growth-inducing Sectors Project and Togo's participation in the regional Abidjan-Lagos Transit and Transport Facilitation Project and possible Adjarala Hydroelectric Project.

7. Under Pillar 3 (Provide for urgent social needs), the strategy will focus on increasing the supply of, and improving access to, basic social services for the most vulnerable groups, thereby helping the Government deliver visible results to the population. Activities will help rebuild minimal effectiveness of local basic services delivery systems and improve access to economic opportunities. This will be achieved by addressing urgent infrastructure rehabilitation needs in the poorest areas of Lomé, the capital city, and by scaling up, under the Community Development Project approved in June 2008, the approach implemented in Togo since 2004 through successive LICUS TF grants.

8. Prior to the May 2008 re-engagement, the principal means for the Bank to provide support to Togo was through grants under the Low Income Country Under Stress (LICUS) Initiative. Since 2005, six grants have been provided totaling US$5.11 million. The first and second phases of a community-driven Emergency Program for Poverty Reduction (EPPR) for a combined amount of US$2.8 million, focused on two of Togo's five regions with the aim of helping to halt

the decline into extreme poverty and the deterioration of social indicators. The first phase, approved in July 2005 and closed on June 30, 2007, was fully disbursed (US$1.1 million) and had particularly satisfactory results in terms of completed sub-projects, capacity building and improved access to priority services. The second phase, approved in July 2007, is under implementation. A third phase (US$1.4 million) approved in November 2007, is extending the EPPR to all of Togo's five regions.

9. Three additional LICUS projects were also approved in November 2007, part of a comprehensive yet selective strategy aiming to (a) reform and revive the key sectors as well as create an environment for private sector-led growth (focusing on the sectors of phosphate, cotton, coffee, cocoa, energy and the Lomé port as well as on public procurement reforms) ; (b) preserve human capital (by minimizing the threat posed by Avian Influenza); and (c) achieve quick visible results on the ground (through an urban poverty infrastructure grant). These ongoing activities are critical for laying the ground for the Bank's re-engagement with Togo.

10. On the analytical side, the Bank conducted a PEMFAR and a Financial Sector Review (FSR) in the last quarter of 2005. It also completed an Urban and Per-Urban Development and Policy Note in June 2006. The Bank is working closely with the IMF on a regional Financial Sector Assessment, following which an update Togo Financial Sector Assessment may be undertaken. In addition, the Bank has supported the Government in strengthening its poverty diagnosis, information systems, and statistical capacities. A Core Welfare Indicator Questionnaire survey was carried out in 2006 to provide for up-to-date and more reliable statistics. With a view toward possible provision of interim HIPC debt relief to Togo, the Bank is providing support to strengthen the country's debt management capacity.

C. IMF-World Bank collaboration

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

Contact person: Ms. Antonella Bassani, Acting Country Director (202 473-1468), and
Ms. Christina A. Wood, Sr. Economist (202 473-5829).

APPENDIX III—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 and balance of payments statistics are compiled based on very limited information, with only few surveys and scarce data on primary agriculture and private sector services. Moreover, government finance statistics are derived from a weak accounting system, and monetary data are reported by the BCEAO with a two-month lag.

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

National accounts and consumer price index (CPI)

3. Activity in the informal and service sectors is likely underestimated due to the lack of reliable data sources. A full set of national accounts is currently compiled by extrapolating the results of the last comprehensive exercise in 1993. In late 2002, the country embarked on implementing the *1993 SNA* and the first series of NA for 2000 were prepared and work on the 2001 NA was initiated. The program has been suspended since 2005 and the NA for 2001 have not been finalized. The National Statistics Office is willing to resume the implementation of the *1993 SNA* and it is expecting technical and financial support from AFRISTAT and the West African Economic and Monetary Union Commission. AFRITAC West is also providing TA to help resume the preparation of the NA. The last AFRITAC West mission of December 2007 helped initiating an intensive training in the *1993 SNA* concepts and methods, as well as training in the application of the ERETES software for the newly-recruited statisticians.

External sector statistics

4. Balance of payments statistics and international investment position data are compiled based on bank reports, a survey of enterprises, and customs data. Informal trade, trade in services, and remittances are underestimated. Statistics are compiled with a six-month delay and are revised twice a year. A STA technical assistance mission in balance of payments statistics is scheduled to visit Lomé in early FY 2009.

Government accounts and public debt data

5. Government finance statistics are derived from a weak accounting system. The monthly TOFE (Table of Central Government Financial Operations) is based on a mixture of administrative and accounting data and is sent to AFR with a two-month lag. Current budget nomenclature does not permit the economic and functional classification of expenditure.

There are inconsistencies in domestic arrears records held by different units of the Ministry of Finance and the stock of domestic debt is in the process of being audited. The Government Finance Statistics Advisor of AFRITAC West conducted a one-week mission in October 2007 to develop an action plan to address, among other things, the above-mentioned weaknesses in the source data. Comprehensive external debt data and projections on a loan by loan basis are compiled regularly. 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**.**

Monetary statistics

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 not compiled. In August 2006, as part of the authorities' efforts to implement the methodology in the *Monetary and Financial Statistics Manual*, the BCEAO reported to STA monetary data for June 2006 for all member countries (including Togo) using Standardized Report Forms (1SR-central bank, 2SR-other depository corporations, and 5SR-monetary aggregates). In response to STA's comments, the BCEAO recently provided a revised 1SR and indicated that 2SR was being revised.

Togo: Table of Common Indicators Required for Surveillance
(As of September 11, 2008)

Economic Variable	Date of latest observation	Date received	Frequency of Data[2]	Frequency of Reporting[2]	Frequency of publication[2]
Exchange Rates	August 2008	September 2008	M	Q	Not published
International Reserve Assets and Reserve Liabilities of the Monetary Authorities	June 2007	September 2007	M	Q	Not published
Reserve/Base Money	May 2008	August 2008	M	Q	Not published
Broad Money	May 2008	August 2008	M	Q	Not published
Central Bank Balance Sheet	May 2008	August 2008	M	Q	Not published
Consolidated Balance Sheet of the Banking System	May 2008	August 2008	M	SA	Not published
Interest Rates[2]	July 2008	August 2008	M	Q	Not published
Consumer Price Index	June 2008	July 2008	M	SA	Not published
Revenue, Expenditure, Balance and Composition of Financing – General Government[1]	June 2008	August 2008	M	M	Not published
Revenue, Expenditure, Balance and Composition of Financing– Central Government	June 2008	August 2008	M	M	Not published
Stocks of Central Government and Central Government-Guaranteed Debt	June 2008	August 2008	M	M	Not published
External Current Account Balance	2007	August 2008	A	OM	Not published
Exports and Imports of Goods and Services	2007	August 2008	M	OM	Not published
GDP/GNP	2007	June 2008	A	OM	Not published
Gross External Debt	June 2008	August 2008	A	OM	Not published
International Investment Position[3]	2006	July 2008			

[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.

Press Release No. 08/216
FOR IMMEDIATE RELEASE
September 22, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under Togo's PRGF Arrangement, and Approves Increase in Financial Support by US$29 million

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Togo's performance under its Poverty Reduction and Growth Facility (PRGF) arrangement. The Executive Board also approved an increase in financial support under the program by SDR 18.35 million (about US$29 million) to SDR 84.41 million (about US$132 million) to help Togo cope with global price shocks and the impact of the recent flooding. Today's decisions allow for an immediate disbursement to Togo of an amount equivalent to SDR 17.975 million (about US$28 million).

Togo's PRGF arrangement was originally approved in April 2008 (see Press Release No. 08/90).

Following the Executive Board discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chairman, said:

"The Togolese authorities are to be commended for their exemplary performance under the PRGF-supported program. All performance criteria were met, some by wide margins, reflecting improved revenue performance and fiscal discipline. Key structural reforms have moved ahead, especially in the area of public financial management.

"Togo is among the economies most adversely affected by the global food and fuel price shocks. This situation has been exacerbated by recent heavy flooding in the country, which has destroyed vital transport infrastructure. The authorities' policy response to these setbacks has rightly focused on social impact mitigation and support of agriculture. The augmentation of access to PRGF resources will support the authorities' own efforts to deal with these shocks.

“The authorities’ draft 2009 budget is an important step toward a sustainable fiscal position, and sets the stage for an economic recovery. It aims to restore a balanced primary position, boost spending on health, education, and infrastructure rehabilitation, and implement the domestic arrears clearance strategy. Togo’s structural reform agenda for the remainder of 2008 and 2009 is focused appropriately on consolidating fiscal governance reforms and advancing the reform of state-owned banks and enterprises.

“A significant increase in concessional project support will be necessary to achieve the investment and social objectives of the program. Technical assistance will be particularly important in this context, given Togo’s weak institutional capacity.

“Togo has made major strides in regularizing relations with external creditors, including the recent Paris Club rescheduling and arrears clearance operations with the World Bank and African Development Bank. Togo is eligible for assistance under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and is expected to reach the decision point later this year,”Mr. Portugal said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

Statement by Laurean Rutayisire, Executive Director for Togo
September 22, 2008

On behalf of our Togolese authorities, we thank Management for the fruitful discussion held with President Faure Gnassingbé earlier this month during Mr. Portugal's visit to Togo and for the Fund's invaluable support to the country, especially in the wake of the severe exogenous shocks that have hit Togo. In particular, our authorities would like to reiterate their appreciation to the Fund for its prompt response following the catastrophic floods last July that have claimed a number of lives, caused a humanitarian crisis and adversely affected the country's transportation infrastructure axis. Our appreciation also goes to Staff for their dedicated and relentless efforts in providing our authorities with pertinent advice and very useful technical assistance.

Since the approval of the PRGF-supported program last April, our Togolese authorities have made further significant achievements in building governance institutions, enhancing public financial management, consolidating fiscal discipline and putting in place strategies to advance structural reforms, notably in the restructuring of public enterprises and the financial sector. These actions have helped consolidate the deep political and economic reforms undertaken since 2006 and which allowed Togo to exit from a long sociopolitical crisis and renew its relations with the international community, although plain support from donors has yet to materialize.

Our authorities have implemented their program under the PRGF thus far with appreciable success. All quantitative performance criteria at end-June have been met, including those related to the domestic primary fiscal balance, the non accumulation of external arrears, the net domestic financing, and neither contracting nor guaranteeing of non concessional external debt by the central government. This accomplishment has been made in spite of the lack of sufficient grants and concessional loans to meet the country's daunting infrastructure challenges and begin coping with the recent shocks. On the structural front, my authorities have also succeeded to implement the envisaged reforms: all structural conditionalities due to date has been met, and the implementation of those due at end-October or end-December 2008 is either complete or well advanced. Notable is the creation of the general financial inspection unit (*Inspection Générale des Finances*) to monitor on a regular basis the use of public funds and ensure that expenditures are executed in an efficient and transparent manner.

The PRGF-supported program has also helped Togo make progress in normalizing its relations with external donors, notably the World Bank, the African Development Bank (AfDB), the Paris Club, the European Union (EU) and China, which resulted in grants, partial debt relief and debt restructuring.

In light of these achievements and their renewed commitment to the program, my Togolese authorities are requesting the completion of the first review under the PRGF arrangement. They are also requesting the modification of performance criteria, including the structural benchmark on the audit of the phosphates sector which is to be realized with a two-month delay due to the World Bank's request of a new public bid for the selection of the audit firm since only two firms had responded to the first tender.

While our Togolese authorities have endeavored to bring about the good performances reviewed, nevertheless adverse exogenous shocks have not spared Togo. In the last two years, Togo's economy has been hit by a series of harsh exogenous shocks. First, following a nascent recovery in 2006, the Togolese economy has grown at a moderate pace due to region-wide electricity shortages. Indeed, starting in 2006, a severe energy crisis in the region led neighboring countries-from which Togo imports most of its electricity- to cut electricity exports to Togo resulting in frequent power outages which our authorities attempted to attenuate by importing thermal power plants, only to be confronted by yet another shock involving the surge in world oil prices. This energy shock has added to the structural challenges already dampening Togo's growth potential. Since then, the country has been stricken by high world food price shock, followed in July 2008, by severe floods which have destroyed roads and bridges and resulted in the division of the country in halves, thereby preventing the circulation of goods from the *Port de Lomé* in the South to the North of Togo and to the landlocked neighboring countries.

The BoP implications stemming from these shocks have created significant financing gaps for the 2008 and 2009 program. Consequently, our Togolese authorities are also requesting a PRGF augmented access equivalent to 25 percent of Togo's quotas in order to address the impact of the shocks.

RESPONSES TO SHOCKS AND OTHER RECENT MACROECONOMIC DEVELOPMENTS

***To cope with the food price increases*,** our Togolese authorities have initiated a social dialogue and taken targeted measures to assist the vulnerable segments of the population and support local agriculture notably through: (i) distribution of fertilizers to farmers at the 2007 market prices; (ii) distribution of grain reserves in markets where shortages have caused excessive price increases; and (iii) repayment of public sector salary and pension arrears to reduce the social impact of price surges on public servants. It is also important to note that, in spite of the severity of the price shocks, our authorities have resisted pressures to set price controls, to use export restrictions, and to unilaterally grant tax or custom exemptions without concerting with other WAEMU members. Our authorities' medium-term policy response consists of: (i) boosting productivity in the agriculture sector through infrastructure investments in rural areas; (ii) improving the storage and distribution capacities; (iii) encouraging competition; and (iv) reducing barriers to trade. Promoting the first two medium-term objectives in particular will require important donor support.

In attempt to cope with the effects of the high oil prices, Our Togolese authorities have consulted with oil product companies, to adjust the prices of gasoline and fuel at the pump upward while keeping constant taxes on oil products to prevent an excessive increase in consumer prices. With the view to mitigate the economic and social impact of both oil and food price surges, the authorities have: (i) granted temporary indemnities to public servants for the last 5 months of 2008 in awaiting a personal income tax reduction; (ii) increased the minimum wage as of August 1st 2008; and (iii) reduced the business tax rate by 7 percentage points, with a maximum rate at 33 percent.

In the case of the disastrous floods of last July, the authorities have provided emergency assistance to the affected populations. They are also repairing the roads and bridges destroyed in view of restoring the transport towards the North of the country, which is vital to its economy and those of neighboring countries. Here again, the endeavor will require the strong financial and technical assistance from donors. On their part, given the urgency of the situation, our Togolese authorities are reallocating budget expenditures from current spending and some amounts initially allocated to the restructuring of public enterprises and banks while limiting the domestic primary budget balance to – 0.6 percent of GDP against an initial projected surplus of 2.2 percent of GDP. Savings will also be achieved from delays in local elections and the relatively slower execution of some investment projects.

Regarding structural reforms, actions are also underway. In the *financial management* area, the authorities have: (i) put in place a new framework for the monthly monitoring of budget execution, and communicated the April-to-June data according to the new template; (ii) created, within the ministry of finance, the Inspection Générale des Finances; (iii) prepared, in cooperation with Fund staff, a draft project on a new strategy and timeframe for the clearance of domestic arrears. In the *financial sector*, our authorities have changed the management and control bodies of the bank BTCI in line with the terms of reference prepared in coordination with the regional banking commission. They have also agreed with the BCEAO on a framework for the regular issuance of treasury bills in 2009 following a first issuance in September 2008. As regards *reforms of public enterprises*, progress is also being made, notably with the audit of the phosphates sector and the review o the financial situation of the electricity company, CEET.

POLICIES AND REFORMS GOING FORWARD

Amid the current difficult situation facing Togo, our authorities—including at the highest level—have reiterated their strong commitment to the policies and reforms laid out in their Letter of intent and Memorandum of Economic and Financial Policies of March 2008, which have been strengthened in their letter of intent of September 2008. Those actions will continue to center on the country's I-PRSP. In the meantime, the country is preparing a full PRSP which should be finalized in early 2009.

Near-term policies

To help the economy weather the difficult near-term outlook, our authorities will endeavor by the end of 2008 to counterbalance the slowing down of economic activity and to safeguard the basic social services through support to civil servants, farmers and the most vulnerable segments of the population. They will however strive to remain within the program quantitative targets regarding the fiscal, debt, financing and inflation objectives.

Medium-term agenda

Over the medium-term (2009-10), our authorities intend to execute in 2009 a budget aiming at reestablishing domestic primary budget balance notably through the pursuit of the *tax administration reforms and fiscal measures* such as the reduction of fiscal exemptions, the increase in excise taxes on alcohol and tobacco, and on-site inspections of public enterprises by the fiscal and customs administrations. At the same time, they will reduce untargeted non wage spending with the view to make space for increasing health and education outlays, rehabilitate infrastructures, and restructuring banks and public enterprises.

In order to clear the *domestic debt arrears*, our authorities will issue negotiable notes to the government’s creditors. *Cash flow management* will be strengthened through regular issuing of treasury bills and enhancing of the treasury services in line with the WAEMU requirements. *Public financial management* will also be reinforced in the next few months with a new Budget Organic Law and a transparency code.

Regarding the *banking sector*, efforts will be geared at strengthening the financial soundness of public banks and attracting strategic investors with the view to ensuring sustainability of the financial sector. These efforts are supported with the technical assistance of the Fund and the World Bank.

In order to boost economic growth, the authorities understand the critical importance of revitalizing the hard-hit *phosphates sector*. They are seeking a strategic partner for the concessional financing of new equipments. The audit of the sector, which is financed by the World Bank, will allow to elaborate a long-term reform strategy. More broadly, the revival of stronger growth will be pursued through the simplification of regulations and procedures, and the improvement of the business environment.

CONCLUSION

The challenges facing Togo remain daunting. Our Togolese authorities remain committed to implementing their ambitious program of fiscal and structural reforms geared at boosting revenues, enhancing the efficiency of social services, rebuilding infrastructure, and improving the functioning of the financial sector. Support from international community is critical to complementing their efforts, and Our Togolese authorities would appreciate Board approval of their requests for the completion of the first review under the PRGF arrangement, modification of performance criteria and augmented access to deal with the adverse impact of the exogenous shocks.