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AGENDA**

EBS/89/208
Correction 1

CONFIDENTIAL

November 14, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Togo - Midterm Review Under the First Annual Arrangement
Under the Enhanced Structural Adjustment Facility

The following corrections have been made in EBS/89/208
(10/31/89):

Page 10, third full para., lines 3-6: for "The reforms are...the
discontinuation"
read "The reforms include...
the discontinuation"

Page 11, first full para., line 7: for "(CFAF 5.1 billion)."
read "(CFAF 5.5 billion)."

Page 36, Appendix IV: Table V inadvertently omitted.

Page 36 and corrected pages are attached.

Att: (3)

Table 3. Togo: Monetary Survey, 1987-89

(In billions of CFA francs; end of period)

	1987	1988				1989							
	Dec.	March	June	Sept.	Dec.	March		June		Sept.		Dec.	
						Prog.	Actual	Prog.	Actual	Prog.	Proj.	Prog.	Proj.
Foreign assets (net)	64.59	69.79	74.12	60.61 1/	56.50 1/	58.40	66.75	62.72	66.17	60.61	65.21	59.19	64.11
Central Bank	72.18	74.56	75.14	57.21	44.44	...	49.67	...	49.56	...	...	...	...
Deposit money banks	-7.58	-4.77	-1.02	3.40	0.07	...	5.08	...	4.61	...	...	...	...
Treasury	—	—	—	—	12.00	...	12.00	...	12.00	...	...	...	...
Domestic assets (net)	128.89	118.01	113.19	120.37	122.23	128.17	121.28	128.76 2/	121.83	129.75	127.63	132.00	130.47
Claims on the Government (net) 3/	27.03	21.17	21.64	19.48	20.96	19.01	17.68	19.90 2/	18.86	17.42	17.42	17.96	17.96
Claims on the economy	100.20	99.94	97.90	101.32	103.31	111.99	106.46	111.69	104.62	115.16	111.68	116.86	114.16
OPAT and OTP	(21.33)	(22.76)	(17.28)	(17.86)	(19.05)	(23.00)	(22.16)	(21.30) 2/	(16.93)	(19.10)	(19.10)	(20.71)	(20.71)
Other	(78.87)	(77.18)	(80.62)	(83.46)	(84.26)	(88.99)	(84.30)	(90.39)	(87.69)	(96.06)	(92.76)	(96.15)	(93.45)
Long-term foreign borrowing	-3.19	-3.13	-3.12	-3.09	-2.98	-2.83	-2.92	-2.83	-2.83	-2.83	-2.83	-2.83	-2.83
Other items (net)	4.85	0.03	-3.23	2.66	0.95	—	0.07	—	1.18	—	1.18	—	1.18
Money and quasi-money	189.21	183.52	183.01	176.68 1/	174.43 1/	182.29	183.72	187.20	183.49	186.08	188.30	186.91	190.08
Currency and demand deposits	95.24	87.33	82.32	70.75	65.24	...	...	...	71.31	...	...	...	...
Time deposits	93.97	96.19	100.68	105.93	109.19	...	...	...	112.18	...	...	...	...
SDR allocation	4.28	4.28	4.31	4.31	4.31	4.28	4.28	4.28	4.51	4.28	4.51	4.28	4.51

Sources: Central Bank of West African States (BCEAO); and staff estimates and projections.

1/ In July 1988, the BCEAO made a statistical adjustment to the estimates for net foreign assets and currency in circulation for all member countries of the West African Monetary Union. In the case of Togo, this led to a downward correction of both items by CFAF 11.4 billion.

2/ Performance criterion.

3/ Includes foreign deposits of the Treasury from December 1988.

cent. Net foreign assets increased by CFAF 3.5 billion more than programmed in the first half of this year while money and quasi-money rose somewhat less than expected.

For the year as a whole, net foreign assets are likely to exceed the programmed level by CFAF 4.9 billion because of the favorable rescheduling under the Paris Club. This is likely to be only partly offset by a somewhat-lower-than-programmed increase in net domestic assets, as credit to the private sector is projected to pick up toward the end of the year. Thus, money and quasi-money are projected to increase by 9 percent, compared with the programmed rate of increase of 7.2 percent and the projected rate of growth of nominal GDP of 6 percent. The resulting decline in the velocity of circulation from 2.32 to 2.26 is a partial reversal of the sharp increase in velocity in 1988, and is likely to be sustainable in view of the increase in interest rates at end-1988 and early 1989. Interest rates are significantly positive in real terms--6 percent for savings deposits and up to 13 percent for lending rates.

The financial position of the Togolese banking system is basically sound. The reorganization of the two banks experiencing difficulties is progressing largely as scheduled. In the case of the Banque Togolaise de Développement (BTD), the rehabilitation plan has been under way since 1988. The Caisse Nationale de Crédit Agricole (CNCA) is scheduled to commence liquidation procedures before the end of 1989. The financing of the liquidation was confirmed at a donors' meeting in early October. A feasibility study for a new rural credit system, which was conducted by the Food and Agriculture Organization, was also discussed at that meeting; bilateral discussions continue on the modalities and the financing for this new system.

Togo will continue to pursue a flexible interest rate policy in the context of the reforms currently under way within the West African Monetary Union (WAMU). The reforms include the elimination of the preferential discount rate, the discontinuation of sectoral credit ratios, changes in procedures for prior authorizations, strengthened banking supervision, and revised procedures for crop financing to ensure a better recovery of crop loans.

5. Structural policies

a. Tax reform

The introduction of a comprehensive tax and tariff reform is a key element of structural policies in 1989. It involves (a) the integration of the turnover tax on domestic production and the current tax on imports into a three-tier value-added tax; (b) the harmonization and simplification of the taxes on imports into four ranges--5 percent for capital goods and agricultural imports, 10 percent for intermediate and essential consumer goods, 20 percent for ordinary consumption goods, and 35 percent for luxury goods; (c) the further reduction of exemptions;

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(d) the application of a uniform minimum statistical tax to all imports; and (e) the updating of standard price quotations to better reflect current values. The approval of the tax and tariff reform by the Council of Ministers was a structural performance criterion for end-June. For technical reasons, primarily connected with the need to conduct additional simulations of alternative tax rates to ensure that the reform would not lead to any revenue losses, the preparation of the draft law took longer than expected. It was approved by the Council of Ministers on September 13 and will be voted by the Parliament in its October session. Thus, the program objective of implementing the reform as of January 1990 is expected to be met.

b. Public enterprise reform

As part of the ongoing process of rationalizing the operations and increasing the efficiency of public enterprises, their financial relations with the Government are being clarified in the context of the ESAF program. As planned, the general principles for the assumption by public enterprises of their debt service liabilities were established by end-September and agreements were reached with seven key enterprises on the amounts to be paid in 1990 (CFAF 5.5 billion). These enterprises account for 40 percent of the turnover of public enterprises and 50 percent of public enterprise employment. The remaining enterprises will reach agreements with the Government as their financial situations permit, and the amounts of these agreements will be renegotiated as their financial situations improve.

Concurrent with these efforts, the Government is undertaking a study of the taxation of public enterprises with the purpose of submitting them to general tax regulations by 1990. With the regular payment of debt service and tax liabilities, enterprises would no longer be required to provide ad hoc contributions to the budget. Thus, these changes would not provide significantly larger government revenue but would help improve the environment for rational and efficient operations of the enterprises.

The redefinition of the institutional framework of public enterprises is also being pursued as planned. The Government has now approved the Reform Committee's recommendations for improving the autonomy and accountability of these enterprises with the aim of adopting them into law from January 1990. In this framework, wholly state-owned enterprises will be considered autonomous management units and semipublic companies will be subjected to the provisions of the commercial code and will thus be removed from the direct control of the Government.

With respect to the privatization program, negotiations with a group of foreign investors for the sale of the two major textile enterprises earlier in the year did not come to fruition as expected. Negotiations with a new group are now at an advanced stage and should be

completed in early 1990. Of the six other public enterprises identified to be privatized under the program, negotiations concerning four of these are currently in process. In addition, the Government has identified three new enterprises to be privatized, and ten for which shares would be sold to the public.

c. Crop marketing

The operations of the crop marketing agency (OPAT) have been redefined with the progressive relinquishment of unrelated activities, such as hotel management. Costs have been reduced significantly and the number of employees fell from almost 1,200 at the beginning of 1988 to 250 at present. The elaboration of the second phase of the reorganization (a structural benchmark) was well under way by end-June, although not all aspects had been completed by that time. The Board of Directors approved the final element, a revised organization chart, at end-August. As envisaged, the budget for 1989/90 was approved by end-September. In addition, the per-kilogram floor prices for the 1989/90 crop year for the three principal products were announced by end-October as follows: CFAF 350 to CFAF 200 for coffee; CFAF 300 to CFAF 225 for cocoa; and unchanged at CFAF 95 for cotton. The prices were determined so as to reflect developments in the world market prices for the major commodities and to avoid any losses to the OPAT.

d. Commercial policies

The implementation of the structural elements relating to commercial practices is proceeding essentially on schedule. Price controls on domestic manufactured goods and fixed profit margins were abolished for most products by the end of January. The system for the renewal of business licenses was deregulated and export licenses for industrial products were abolished in March. The effective liberalization of certain goods that had been imported by the state trading monopoly (sugar, rice, tobacco products, and alcoholic beverages) took somewhat longer than expected. However, by end-May, all import licenses and quotas, except for a few strategic products (wheat flour, cement, and reinforcing bars) had been eliminated.

Other measures in support of the private enterprise sector are proceeding as scheduled, and include the drafting of a new charter for Togolese enterprises and the establishment of a mutual insurance fund (with assistance from the World Bank). The revised investment code will be adopted in October, together with the new tax and tariff reform. The project for creating an export processing zone is progressing with foreign participation; in early August, the Government published the institutional framework and eligibility requirements for interested enterprises.

Table IV. Togo: Medium-Term Balance of Payments
and Fiscal Scenario, 1989-92

	1989	1990	1991	1992
(Revised baseline scenario)				
Current account deficit (CFAF billions)	-20.03	-17.33	-15.17	-15.22
Current account as percent of GDP	-9.63	-8.41	-7.73	-7.53
Overall balance (CFAF billions)	-8.69	-8.58	-5.65	-2.69
Fiscal deficit (CFAF billions), excluding grants	-23.04	-21.84	-20.99	-19.40
Fiscal deficit (in percentage of GDP; excluding grants)	-5.37	-4.74	-4.24	-3.64
(Scenario A) 1/				
Change vis-à-vis revised baseline scenario 2/	5 percent lower prices of four major exports			
Current account deficit (CFAF billions)	3.30	3.80	4.15	4.40
Current account as percent of GDP	0.77	0.82	0.84	0.83
Overall balance (CFAF billions)	3.30	3.80	4.15	4.40
Effect on fiscal receipts	1.23	1.43	1.57	1.66
Fiscal deficit (in percentage of GDP; excluding grants)	0.29	0.31	0.32	0.31
(Scenario B) 3/				
Change vis-à-vis revised baseline scenario 2/	5 percent lower volumes of major agricultural exports			
Current account deficit (CFAF billions)	1.22	1.65	1.94	2.07
Current account as percent of GDP	0.28	0.36	0.39	0.39
Overall balance (CFAF billions)	1.22	1.65	1.94	2.07
Effect on fiscal receipts	0.49	0.66	0.78	0.83
Fiscal deficit (in percentage of GDP; excluding grants)	0.11	0.14	0.16	0.16
(Scenario C) 4/				
Change vis-à-vis revised baseline scenario 2/	10 percent higher oil prices			
Current account deficit (CFAF billions)	0.87	0.93	0.97	1.05
Current account as percent of GDP	0.20	0.20	0.20	0.20
Overall balance (CFAF billions) 5/	0.87	0.93	0.97	1.05
Effect on fiscal receipts	0.87	0.93	0.97	1.05
Fiscal deficit (in percentage of GDP; excluding grants)	0.20	0.20	0.20	0.20
Memorandum items:				
Original baseline scenario				
Current account deficit (CFAF billions)	-19.33	-17.83	-15.74	-13.82
Current account as percent of GDP	-9.42	-8.44	-7.72	-7.24
Overall balance (CFAF billions)	-4.52	-9.78	-6.57	-0.89
Fiscal deficit (CFAF billions), excluding grants	-21.99	-21.58	-20.71	-19.19
Fiscal deficit (in percentage of GDP; excluding grants)	-5.10	-4.66	-4.16	-3.58

1/ Five percent lower CFA franc price of coffee, cotton, cocoa, and phosphates.

2/ The impact on all variables is negative.

3/ Five percent lower export volumes of coffee, cotton, and cocoa.

4/ Ten percent increase in the CFA franc price of oil imports at constant import volumes.

5/ Owing to the assumption of the accumulation of foreign reserves as constant in terms of months of imports, the residual financing gap would be higher.

Table V. Togo: External Public Debt and Debt Service, 1986-92 1/

	1986	1987	1988	1989		1990	1991	1992
				Prog.	Rev. Prog.			
(In billions of CFA francs)								
Interest due <u>2/</u>	17.7	16.3	16.5	16.2	17.2	16.0	14.5	13.6
Of which:								
Paris Club	(--)	(--)	(10.2)	(8.2)	(10.8)	(5.8)	(4.8)	(3.6)
London Club	(--)	(--)	(1.0)	(1.2)	(1.4)	(1.2)	(1.2)	(1.2)
Amortization due	33.5	35.5	35.4	28.7	27.9	27.5	22.9	22.7
Of which:								
Paris Club	(--)	(--)	(19.1)	(17.1)	(15.8)	(17.6)	(15.8)	(14.4)
London Club	(--)	(--)	(4.2)	(--)	(--)	(--)	(--)	(2.6)
Rescheduling	2.6	--	44.5	--	17.0	7.6	--	--
Paris Club	2.6	--	37.1	--	17.0	7.6	--	--
London Club	--	--	7.4	--	--	--	--	--
Arrears (- reduction)	2.9	28.9	-31.8	--	--	--	--	--
Total debt service (scheduled)	51.2	51.8	52.0	44.8	45.0	43.4	37.3	36.3
Principal	33.5	35.5	35.6	28.7	27.9	27.5	22.9	22.7
Interest	17.7	16.3	16.5	16.2	17.2	15.9	14.5	13.6
Total debt service (actual)	45.7	22.9	39.3	44.8	28.0	35.9	37.3	36.3
(In percent of exports of goods and nonfactor services)								
Debt service ratio								
Before rescheduling	39.8	40.4	37.8	30.5	30.8	27.1	21.8	20.1
After rescheduling	35.6	17.9	28.5	30.5	19.1	22.3	21.8	20.1
Interest payments ratio <u>3/</u>	13.8	12.7	12.0	11.0	11.7	9.9	8.4	7.5
Memorandum items:								
External debt outstanding as percent of GDP	89.6	88.0	81.7	80.7	83.5	81.7	79.1	74.8
(In billions of CFA francs)								
Debt service to IMF								
Repurchases	1.0	4.2	7.0	6.6	7.0	4.7	2.4	2.4
Charges	1.9	1.6	1.4	1.4	1.5	1.1	0.9	0.7

Sources: Société Nationale d'Investissement (SNI); IMF, Treasurer's Department; and staff projections.

1/ Data include debt and debt service to the IMF.

2/ Includes interest on new and gap financing.

3/ Interest due before rescheduling.