

**FOR
AGENDA**

EBS/83/168

CONFIDENTIAL

August 10, 1983

To: Members of the Executive Board
From: The Acting Secretary
Subject: Togo - Mid-Term Review of the Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on the mid-term review of the stand-by arrangement for Togo. A draft decision appears on page 18.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Kratz (ext. 72852) or Mr. Carstens (ext. 74887).

Att: (1)

INTERNATIONAL MONETARY FUND

TOGO

Mid-Term Review of the Stand-By Arrangement

Prepared by the African Department

(In Consultation with the Exchange and Trade Relations,
Fiscal Affairs, Legal and Treasurer's Departments)

Approved by J.B. Zulu and W.A. Beveridge

August 9, 1983

I. Introduction

On March 4, 1983, the Executive Board approved Togo's request for a 13-month stand-by arrangement 1/ in an amount equivalent to SDR 21.4 million (75 per cent of quota), phased to be purchased in five installments (Table 1). So far, Togo has made one purchase of SDR 2.0 million under the arrangement. As of June 30, 1983, the Fund's holdings of Togo's currency, the CFA franc, subject to repurchase amounted to SDR 19.9 million or 69.9 per cent of quota; if the remaining amount available under the stand-by arrangement is purchased, the Fund's holdings of Togo's currency subject to repurchase would rise to SDR 39.3 million, or 137.9 per cent of quota.

The program provided for a Fund review as a performance criterion prior to mid-June 1983, which was to focus principally on the Government's financial position and on arrears, on the measures adopted in respect of public enterprises and producer prices, and on the results of external debt rescheduling negotiations with the Paris Club and commercial banks. The review could not be completed on schedule because of delays in the rescheduling negotiations. The Paris Club members agreed on new terms on April 11-12 and the commercial banks on July 29, 1983. Discussions that provided the basis for the mid-term review were held in Lomé and Dakar during June 6-16, 1983. 2/

The attached letter from the Minister of Economy and Finance to the Managing Director, dated August 4, 1983, reviews the developments since

1/ EBS/83/30 of February 7, 1983.

2/ The staff team which carried out the discussions was composed of Mr. Carstens (head), Mr. Fiator, Mrs. Wilson, Mr. Fassassi, and Miss Earll (secretary)(all of the African Department). Mr. Kratz joined the mission for the final few days to participate in the discussions.

Table 1. Togo: Schedule of Proposed Purchases ^{1/} and of Repurchases,
1983-84
(In millions of SDRs)

	1983				1984				Total
	Jan.- March	April- June ^{2/}	July- Sept.	Oct.- Dec.	Jan.- March	April- June	July- Sept.	Oct.- Dec.	
<u>Purchases</u>									
Stand-by arrangement	2.00	5.80	5.79	5.79	2.00	...	...	...	21.38
Ordinary resources	0.54	2.64	2.63	2.63	0.91	...	...	...	9.35
Borrowed resources	1.46	3.16	3.16	3.16	1.09	...	...	...	12.03
<u>Repurchases</u>									
Credit tranches	--	--	--	--	--	0.94	2.56	1.66	5.16
<u>Net purchases</u>	2.00	5.80	5.79	5.79	2.00	-0.94	-2.56	-1.66	16.22
<u>Total Outstanding</u>									
<u>Fund credit</u>									
<u>(cumulative)</u>									
In millions of SDRs	19.92	25.72	31.51	37.30	39.30 ^{3/}	38.36	35.80	34.14	
As per cent of quota	69.89	90.25	110.56	130.88	137.89 ^{3/}	134.60	125.61	119.79	

Source: IMF, Treasurer's Department.

^{1/} Purchases under the proposed 13-month stand-by arrangement through March 1984. Net purchases after March 1984 are provisional and do not take into account any purchases that may be made under subsequent arrangements.

^{2/} Delayed until after completion of mid-term review by the Fund.

^{3/} Equivalent to 76.56 per cent of new proposed quota (or SDR 29.4 million credit outstanding).

the beginning of the program period and indicates the areas in which continuing adjustment efforts are proposed for 1983. The objectives of the program are summarized in Section II of this paper; performance and prospects are reviewed in Section III; policies for the remainder of 1983 are set out in Section IV, while the staff appraisal and the proposed decision are included in Section V. Summaries of Togo's relations with the Fund and the World Bank, as well as effective exchange rates, are shown in the attached Appendices.

In conducting the review, close cooperation was maintained with the World Bank, which, following approval of a Structural Adjustment Credit (SAC) in May, was itself in the process of finalizing arrangements for technical assistance and training in key institutions responsible for economic management, external debt, and public enterprises.

An expert from the Fund's fiscal panel was in Lomé during the first half of 1983; as part of his assignment he assisted the authorities in monitoring the performance under the program. A request for a resident representative was received in early April and the authorities have accepted the candidate proposed who will take up the assignment later this summer. The staff will remain in close contact with the Togolese authorities, and a team is expected to visit Lomé shortly after the Annual Meetings to carry out the the 1983 Article IV consultation discussions and to review the budget proposal for 1984. Negotiations for a new program to be supported by further use of Fund resources are envisaged for early 1984.

II. Background

The 1983 financial program was adopted by the Togolese authorities as part of a comprehensive adjustment effort which also includes a structural adjustment program agreed with the World Bank. The targets of the financial program were established for 1983 as a whole (Table 2). It was assumed that real GDP would decline by 2.4 per cent and that the rate of inflation would be around 9 per cent. The program aimed at containing the external current account deficit in relation to GDP at around 21.6 per cent. The overall balance of payments deficit was to be limited to SDR 44 million, or slightly less than half the deficit originally estimated for the previous year. The program aimed at reducing the deficit on consolidated government operations on a commitment basis by three percentage points to 3.2 per cent of GDP (CFAF 9.1 billion) in 1983, while at the same time reducing external payments arrears by CFAF 10 billion through net cash payments. The expansion in net domestic assets of the banking system was to be limited to 23.5 per cent and broad money was forecast to decrease by 7.6 per cent.

Table 2. Togo: Selected Economic and Financial Indicators, 1980-83

	1980	1981	1982	1983	
				Pro-gram	Re-vised
(Annual per cent changes, unless otherwise specified)					
National income and prices					
GDP at constant prices	0.8	-4.8	-3.2	-2.4	-3.0
GDP deflator	9.6	12.4	8.0	9.2	9.7
Consumer prices	12.3	19.7	12.5	...	...
External sector (on the basis of CFA francs)					
Exports, f.o.b.	48.1	-13.6	2.6	5.8	1.8
Imports, f.o.b.	4.6	-8.5	8.4	5.0	5.0
Export volume	14.8	-4.7	-6.6	-4.7	-4.3
Import volume	-7.6	-24.3	-6.1	-6.8	-4.5
Terms of trade (deterioration -)	-6.0	-11.2	1.3	-6.9	1.3
Nominal effective exchange rate (depreciation -)	-0.45	-4.39	-5.2	...	1.7 ^{1/}
Real effective exchange rate (depreciation -)	0.48	3.63	-3.6	...	...
Consolidated government operations					
Revenue and grants	31.5	-14.3	19.3	5.8	4.4
Total expenditure	3.5	-11.9	18.3	-2.5	-5.2
Money and credit					
Net domestic assets ^{2/}	19.3	2.1	2.5	23.5	24.8
Government	14.4	216.3	-10.5	62.0	72.7
Private sector ^{2/}	19.7	-12.6	5.7	14.3	14.8
Money and quasi-money (M ₂)	9.1	38.6	16.5	-7.6	1.2
Velocity (GDP relative to M ₂)	3.5	3.0	2.5	2.7	2.4
Interest rate (annual rate, one year savings deposit)	7.5	7.5	9.5	9.5	7.5 ^{3/}
(In per cent of GDP)					
Consolidated government deficit ^{4/} (including grants)	6.0	5.7	6.2	3.2	2.7
Consolidated government deficit ^{4/} (excluding grants)	7.5	7.4	8.1	5.0	6.1
Domestic bank financing	0.5	3.5	-0.6	3.3	3.3
Foreign financing (net)	1.8	1.8	7.9	2.8	8.4
Consolidated government savings	9.9	4.7	4.7	6.1	6.2
Government payments arrears (end of period)	8.4	10.4	25.2	1.7 ^{5/}	...
Of which: external	(2.7)	(7.9)	(22.5)	(-- ^{5/})	(--)
Gross domestic investment	39.6	26.0	24.4	24.1	24.1
Gross domestic savings	19.6	7.7	3.8	6.7	6.7
Current account deficit (including grants)	16.9	17.0	20.4	21.6	21.3
Current account deficit (excluding grants)	23.2	22.9	26.0	27.3	27.5
External debt ^{6/} inclusive of use of Fund credit	86.4	97.1	113.5	110.8	112.0
Debt service ratio ^{7/}					
Before rescheduling	61.6	71.8	78.8	71.1	70.4
After rescheduling	25.4	33.3	71.6	58.5 ^{8/}	43.3 ^{8/}
Interest payments (in per cent of exports of goods, f.o.b.) ^{9/}	15.8	20.7	24.6	19.8	23.9
(In millions of SDRs, unless otherwise specified)					
Overall balance of payments	2.9	31.8	-66.2	-44.1	-6.1
Gross official reserves (months of projected imports) (end of period)	2.7	5.8	6.8	...	...
External payments arrears (end of period)	24.7	60.4	162.3	-- ^{5/}	--

^{1/} End-December 1982 to end-June 1983.

^{2/} Domestic credit net of long-term external liabilities of banks and of other items (net).

^{3/} Effective March 22, 1983.

^{4/} On commitment basis.

^{5/} Assuming consolidation of external arrears not settled through cash payments.

^{6/} Disbursed.

^{7/} Public external debt service due, in per cent of exports of goods, f.o.b.

^{8/} Includes moratorium and penalty interest, and reduction of arrears through cash payments.

^{9/} Interest due before rescheduling.

III. Performance Under the Program

To attain the program targets, important fiscal measures were introduced with the 1983 budget, and a number of structural measures were taken in December 1982 with regard to state enterprises to achieve greater operational efficiency in that sector. Producer prices for both coffee and cocoa were raised for the 1982/83 crop year, and electricity rates were raised by 19 per cent in April 1983. A list of measures under the 1983 financial program and the status of their implementation is provided in Table 3 below.

As a result of the implementation of most of the adjustment policies envisaged in the program, in the first quarter of 1983 fiscal and monetary performance has been in accordance with the program and the quantitative performance criteria have been observed so far. The end-June performance criteria are likely to have been met as well, including a further reduction in external government payments arrears through net cash payments of at least SDR 4.1 million (Table 4).

Revised estimates indicate that real GDP will decline by 3 per cent in 1983 or somewhat more than assumed under the program; this reflects in particular the regional drought as well as economic and political conditions in major West African countries, which have adversely affected economic activity in the agricultural and commercial sectors in Togo. At the same time, the rate of inflation as measured by the GDP deflator is now estimated to rise slightly to almost 10 per cent, reflecting both the effects of the drought on local food prices and those on imported goods of the depreciation of the CFA franc along with the French franc vis-à-vis other major currencies.

During the first four months of 1983, while revenue fell somewhat short of estimates mainly due to the low level of commercial activity, this has been more than offset by restraint on current expenditure. For the year as a whole, notwithstanding a projected revenue shortfall of CFAF 3.5 billion, mostly due to the above-mentioned unfavorable developments in agriculture and commerce, the overall government deficit is now projected to reach only CFAF 7.6 billion (2.7 per cent of GDP) compared to the target of CFAF 9.1 billion (3.2 per cent of GDP) (Table 5). The smaller deficit reflects mainly higher than expected grants, though also the tightening of expenditure control, especially following the completion of the 1982 civil service census. To further strengthen revenue collection and expenditure control and to improve budgetary management, in early May 1983 a State Secretariat for the Budget was established, with the new State Secretary being directly responsible to the Minister of Economy and Finance. In line with their commitment under the program, the authorities have inventoried domestic payments arrears and, pending verification of some claims, their level is now estimated at about CFAF 18 billion; this includes CFAF 7.0 billion arrears recorded at the Treasury as at end-1982, compared to CFAF 4.9 billion previously estimated. Domestic

Table 3. Togo: Measures Under the 1983 Financial
Program: Current Status of Implementation

Program	Status of Implementation
1. <u>Fiscal measures</u>	
a. Tax reform, including increase in rates of tax on services and expansion of base for production tax	Reform proposal and estimates of impact completed. To be implemented beginning in September.
b. Reduce personnel expenditure by 5 per cent from 1982 overall wage bill	Incorporated in the 1983 budget. Actual expenditure strictly monitored.
c. Reduce other current budget expenditure (excluding debt service) by CFAF 2.4 billion	Incorporated in the 1983 budget. Actual expenditure strictly monitored.
d. Set up monthly expenditure monitoring system	Monitoring system in place.
e. Reschedule external debt	Rescheduling agreement with Paris Club signed on 4/12/83, and with commercial banks on _____.
f. Make inventory of domestic arrears not recorded in Treasury accounts, prior to mid-term review	Inventory carried out. Results being reviewed.

Table 3 (continued). Togo: Policy Measures Under the 1983 Financial Program: Current Status of Implementation

Program	Status of Implementation
2. <u>Public enterprises</u>	
a. Close SOTEXMA by end-1982	Closed December 1982.
b. Privatize TOGOROUTE by end-June 1983	Negotiations on privatization underway.
c. Provide for utilization of STH's storage capacity by end-June 1983	Experts to conduct study being recruited.
d. Decide on SNS before completion of Fund review	Study by IBRD-financed experts completed in June. Decision to be taken by end-September based on results of study.
e. Reorganize the hotel sector following recommendations of IBRD	Interministerial commission created to propose concrete measures based on IBRD report. Hotel management contracts being renegotiated.
3. <u>Price policies</u>	
a. Increase producer price for coffee from CFAF 215/kg to CFAF 235/kg, and for cocoa from CFAF 225/kg to CFAF 235/kg	Implemented by decree of December 2, 1982 for coffee and of October 26, 1982 for cocoa.
b. Increase consumer electricity rates on average by 5% effective January 1983, pending conclusions of study on electricity tariffs to be completed by mid-1983	Electricity rates raised on average by 19 per cent effective April 1, 1983.

Table 3 (concluded). Togo: Policy Measures Under the 1983 Financial Program: Current Status of Implementation

Program	Status of Implementation
<hr/>	
4. <u>Other measures</u>	
a. Improve debt management	Technical assistance to be provided by IBRD beginning in October 1983.
b. Create body to coordinate and monitor program implementation	Commission Nationale Interministerielle du Programme de Stabilisation created by Decree of February 11, 1983.

Table 4. Togo: Quantitative Performance Criteria, 1983

	End-Dec. 1982	1983				
		Change during period from January 1 to		June 30	Sept. 30	Dec. 31
		Ceiling	Actual				Ceiling
(In billions of CFA francs)						
Net domestic assets <u>1/</u>	73.7	5.9	-5.4	9.3	13.5	18.3
Net claims on Government	12.8	1.2	-3.3	3.8	6.6	9.3
Net external borrowing <u>2/</u> contracted or guaranteed by the Government with a maturity of 1-12 years		--	--	--	--	--
Domestic government payments arrears <u>3/</u>	7.0		-0.9			--
(In millions of SDRs)						
	Total outstanding at end-1982	1983				
		Cumulative reduction through net cash payments by:				
		March 31	June 30	Sept. 30	Dec. 31	
		Program	Actual	Program	Program	
External government payments arrears	162.3	2.6	3.7 <u>4/</u>	7.8	15.6	26.5

1/ Domestic credit minus long-term external liabilities of banks and other items (net).

2/ Excludes borrowing on concessional terms as defined by the Development Assistance Committee of the OECD and amounts related to debt rescheduling.

3/ Recorded at the Treasury.

4/ Cash payments to settle external arrears during the first quarter of 1983 totaled the equivalent of SDR 3.7 million. However, the level of arrears rose during that period by SDR 10.4 million on a net basis as no payments were made on debt to be renegotiated with official and private creditors. Togo remained current on its debt service obligations not subject to rescheduling.

Table 5. Togo: Consolidated Government Operations, 1/ 1981-83

(In billions of CFA francs)

	1981	1982	1983	
			Program	Revised
Revenue and grants	71.1	84.8	87.4	88.5
Revenue	66.9	79.9	82.4	78.9
Tax revenue	53.9	63.4	70.0	63.7
Of which: OTP and OPAT	(11.8)	(14.9)	(16.0)	(15.0)
Other	13.0	16.5	12.4	15.2
Of which: OTP and OPAT	(5.5)	(6.0)	(3.3)	(4.3)
Grants	4.2	4.9	5.0	9.6
Expenditure and net lending	85.7	101.4	96.5	96.1
Current expenditure	60.2	72.1	70.1	71.0
Personnel	23.9	26.8	24.0	24.4
Interest on external debt due before rescheduling	13.2	16.3	18.6	20.6 2/
Other 3/	23.1	29.0	27.5	26.0
Capital expenditure	26.5	29.2	26.4	25.1
Unclassified expenditure and net lending	-1.0	0.1	--	--
Overall deficit (-) on commitment basis	-14.6	-16.6	-9.1	-7.6
Payments arrears 4/ (decrease -)	4.0	36.5	-10.0	-25.5
Domestic	-7.3 5/	0.6 5/	-- 5/	-11.0
External	11.3	35.9	-10.0	-14.5
Overall deficit (-) on cash basis	-10.6	19.9	-19.1	-33.1
Domestic financing	9.1	1.7	11.0	9.3
Banking system 6/	9.8	-1.6	9.3	9.3
BCEAO	8.6	1.1	7.2	7.2
Of which: counterpart of Fund drawings (net)	(5.9)	(--)	(7.2)	(7.6)
Other banks	1.2	-2.7	2.1	2.1
Other domestic financing	-0.7	3.3	1.7	--
External financing	4.6	-21.2	8.1	23.8
Borrowing	12.4	10.0	18.2 7/	17.9 7/
Rescheduling of current maturities	24.9	2.1	23.9	37.2
Repayment of Principal due before rescheduling	-32.7	-33.3	-34.0	-31.3
Errors and omissions	-3.1	-0.4	--	--
<u>Memorandum items:</u>				
Rescheduling arrears	--	--	50.2	49.1
Stock of arrears (end of period)	26.6	67.2	4.9	...
Domestic	6.4 5/	7.0 5/	4.9 5/	...
External	20.2	60.2	--	--
Adjustment for exchange rate changes	...	4.1	--	3.4

Sources: Treasury, OTP, SNI, BCEAO, IBRD; and staff estimates.

1/ Includes Treasury operations, external debt service and payments arrears, government operations directly financed by OTP, and expenditure financed by foreign grants or loans; excludes the Social Security Fund (CNSS).

2/ Includes CFAF 8.1 billion moratorium and penalty interest.

3/ Includes expenditure for the University of Benin, the University Hospital Center, the School of Administration (ENA), the Retirement Fund, and local authorities.

4/ Does not include consolidation of arrears.

5/ Domestic arrears recorded in the Treasury accounts only.

6/ Monetary data.

7/ Of which CFAF 4.2 billion disbursements under the Structural Adjustment Credit from the IBRD.

arrears will be reduced by about CFAF 11 billion in 1983, which was not provided for in the program (see Section IV below).

One of the reasons for the projected, better than expected financial situation of the Government is the favorable debt rescheduling obtained by Togo in 1983. The original projections for the program year were based on certain assumptions by the staff regarding the rescheduling of Togo's external debt, by both official and private creditors. Negotiations with the Paris Club took place on April 11-12, rather than in mid-March as originally expected, and resulted in the rescheduling of (1) arrears over a five-year period with no grace, with the exception of interest on amounts previously rescheduled, which will have to be paid in 1983; (2) 90 per cent of current (1983) maturities (not previously rescheduled) with the remaining 10 per cent to be paid in equal annual installments over the grace period; and (3) 80 per cent of current (1983) maturities in relation to previously rescheduled debt. The grace period for payments under (2) and (3) will run until December 30, 1988 and the repayment period (for ten equal and successive semi-annual payments) until June 30, 1993. Negotiations on general terms with the creditor commercial banks, completed on July 29, 1983 resulted in the rescheduling over eight years of the entire debt outstanding (including principal in arrears) as at end-March 1983 at 2 per cent above LIBOR plus a rescheduling fee of 0.75 per cent, with payments being phased in such a way as to avoid undue bunching. In all, the rescheduling obtained is somewhat more favorable than the assumptions made by the staff in the program, and the resulting debt service payments in 1983 will thus be lower than in the staff's projections, namely CFAF 29 billion compared with CFAF 39 billion originally projected.

Besides agreement on debt relief from the Paris Club and the banks, another condition for completion of the mid-term review with the Fund was the adoption of a comprehensive investment program for 1983. Such a program was completed in March 1983, and was reviewed and found satisfactory by an IBRD mission at the end of that month, clearing the way for presentation of the SAC proposal to the IBRD's Executive Board. The investment program provides for CFAF 28 billion public-sector investment in 1983, mostly in ongoing projects (CFAF 24 billion). The infrastructure and communication sector accounts for nearly one half of the total, followed by rural development (39 per cent) including some projects aimed at expanding the production of export crops; the share of industry and commerce is only 16 per cent. 85 per cent of the total would be externally financed (37 per cent by grants and 48 per cent by concessional borrowing). With IBRD-financed technical assistance, investment planning and programming procedures are being improved with the objective of preparing a comprehensive investment program for 1984-86. The review by the IBRD of such an investment program is a condition for release of the second tranche of the SAC.

As regards monetary policies and developments, there was no increase in credit to the private sector during the first quarter of 1983, and

indications are that demand for credit has remained sluggish so far reflecting the regional problems indicated above (Table 6). Effective March 22, 1983, interest rates within the West African Monetary Union (WAMU), of which Togo is a member, were lowered by 2 percentage points in recognition of lower rates abroad; the rate on one-year savings deposits in WAMU is now 7.5 per cent p.a. and lending rates (long-term) are between 9 and 11 per cent p.a. Under the program credit to the private sector 1/ may grow by 15 per cent; taking account of current trends and of the expected reduction of domestic arrears, and even assuming some response in demand for credit to the lower interest rates, this appears to be an ample margin for an expansion of activity in the private sector. Broad money is now projected to rise by 1 per cent rather than decline, owing to a better balance of payments performance than originally envisaged.

The balance of payments is now projected to be in overall deficit by only CFAF 2.4 billion in 1983. This reflects mostly the favorable debt rescheduling, but also the settlement by Yugoslavia of overdue payment obligations vis-à-vis the phosphate company though this is expected to be offset in part by payment delays in respect of 1983 phosphate shipments. With the reduction of external payments arrears through net cash payments of CFAF 14.5 billion, net foreign assets of the central bank would decline by CFAF 16.9 billion (Table 7). The negative incidence of the drought on the volume of agricultural exports is more than compensated for by the combination of increases in world market prices for cocoa, coffee, and cotton and the effect in terms of local currency of the depreciation of the CFAF franc on all of Togo's exports so that the current account deficit is now forecast to be slightly smaller than originally targeted. Togo's nominal effective exchange rate depreciated by 1.7 per cent in the first 6 months of 1983 (Appendix III).

IV. Prospects and Policies for the Remaining Program Period

During the remainder of the program period, the Togolese authorities intend to continue their policy of fiscal restraint in the framework of the 1983 budget. Government expenditure will continue to be strictly controlled on a monthly basis, and there will be no wage increases, promotions or net new hiring. On the revenueside, measures to improve collection were already taken earlier in the year, and the government will ensure that these are effectively implemented. The tax reform proposal, which was completed in June with several months' delay, will be submitted to the National Assembly for adoption and implementation in September. Its main impact will thus not be felt until 1984; the impact on revenue in 1983 would be limited to CFAF 250 million. Additional resources generated by the larger than expected rescheduling obtained in 1983 will not be allowed to weaken the government's adjustment effort. According to the revised program projections, about CFAF 11 billion of additional budgetary resources now available, including the CFAF 5.0 billion counterpart of a special

1/ Net of long-term external liabilities and of other items (net).

Table 6. Togo: Monetary Survey 1980-83
(In billions of CFA francs; end of period)

	1980	1981	1982	1983	
				March	December Program
Net foreign assets	<u>4.6</u>	<u>32.1</u>	<u>47.3</u>	<u>50.3</u>	<u>30.4</u> <u>1/</u>
Central Bank	8.7	32.9	44.8	44.7	27.9
Deposit money banks	-4.1	-0.8	2.5	5.6	2.5
Net domestic assets	<u>70.4</u>	<u>71.9</u>	<u>73.7</u>	<u>68.3</u>	<u>92.0</u>
Claims on Government (net)	4.5	14.3	12.8	9.5	22.1
Credit to private sector	65.2	62.7	67.8	67.9	76.6
Foreign long-term borrowing	-2.2	-2.0	-2.3	-2.1	-2.1
Other items (net)	2.9	-3.1	-4.6	-7.0	-4.6
Money and quasi-money	<u>72.6</u>	<u>100.6</u>	<u>117.2</u>	<u>114.8</u>	<u>118.6</u> <u>1/</u>
Allocation of SDRs	<u>2.4</u>	<u>3.4</u>	<u>3.8</u>	<u>3.8</u>	<u>3.8</u>

Sources: BCEAO; and staff estimates.

1/ Revised in accordance with new balance of payments projections.

Table 7. Togo: Balance of Payments, 1981-83

(In billions of CFA francs)

	1981 Prov.	1982 Est.	1983	
			Projections Program	Revised
A. Current account	-43.4	-54.4	-61.5	-60.6
Exports, f.o.b.	64.6	66.3	66.2	67.5
Cocoa	(8.2)	(5.7)	(6.0)	(5.0)
Coffee	(5.4)	(6.6)	(6.9)	(5.4)
Phosphate	(30.8)	(29.0)	(25.8)	(27.2)
Refined petroleum products	(3.0)	(--)	(--)	(--)
Clinker	(5.5)	(12.7)	(16.2)	(17.3)
Other	(11.7)	(12.3)	(11.3)	(12.6)
Imports, f.o.b.	-87.9	-95.3	-100.1	-100.1
Of which: crude oil	(-2.9)	(--)	(--)	(--)
Trade balance	-23.3	-29.0	-33.9	-32.6
Services (net)	-36.1	-41.4	-44.6	-47.0
Freight and insurance	(-16.7)	(-18.1)	(-19.0)	(-19.0)
Interest on debt due <u>1/</u>	(-13.4)	(-16.3)	(-18.6)	(-21.0)
Other	(-6.0)	(-7.0)	(-7.0)	(-7.0)
Unrequited transfers (net)	16.0	16.0	17.0	19.0
Private	(1.0)	(1.0)	(1.0)	(1.5)
Official	(15.0)	(15.0)	(16.0)	(17.5)
B. Capital account	57.7	27.4	44.9	58.2
Nonmonetary capital (net)	63.4	30.7	44.9	58.2
External borrowing	(26.5)	(27.0)	(29.0)	(29.0)
Debt amortization due	(-33.0)	(-33.3)	(-34.0)	(-36.4)
Debt rescheduling	(24.9)	(2.1)	(23.9)	(37.2)
Short-term private capital	(45.0) <u>2/</u>	(34.9) <u>2/</u>	(26.0)	(28.4) <u>3/</u>
Monetary capital (net)	-5.7	-3.3	--	--
C. Errors and omissions	-4.1	3.0	--	--
D. Overall balance (A through C)	10.2	-24.0	-16.6	-2.4
E. Allocation of SDRs	1.0	--	--	--
F. Payments arrears (decrease-) <u>4/</u>	13.1	35.9	-10.0	-14.5
G. Reserves <u>5/</u> (increase -)	-24.3	-11.9	26.6	16.9
Of which: use of Fund resources	(1.9)	(--)	(7.3)	(7.6)
Total (E through G)	-10.2	24.0	16.6	2.4

Sources: BCEAO; OTP; SNI; IBRD; and staff estimates and projections.

1/ Due before rescheduling, plus moratorium interest (CFAF 8.1 billion in 1983 (revised)).

2/ Includes, on the debit side, involuntary suppliers credit provided to Yugoslavia by OTP: CFAF 2.4 billion in 1981 and CFAF 7.0 billion in 1982.

3/ Includes settlement of overdue payment obligations to OTP by Yugoslavia (CFAF 10 billion). This is expected to be partly offset by involuntary supplier's credit by OTP due to delays in payment in respect of 1983 exports.

4/ Reduction through cash payments.

5/ Change in net foreign assets of the Central Bank.

French loan, will be used to reduce domestic arrears from their present level of approximately CFAF 18 billion (see Section III above). The reduction of external payments arrears through net cash payments after the rescheduling actually obtained will now amount to CFAF 14.5 billion (SDR 36.8 million). The performance criterion of external arrears reduction through net cash payments under the financial program remains unchanged at SDR 26.5 million, as does the phasing. It should be noted that all of Togo's external arrears relate to debt service obligations, and not to current payments.

In the state enterprise sector, while important measures were decided upon at end-1982, measures with regard to major enterprises in difficulty have been delayed (Table 4). Action with regard to those enterprises, which is also required under Togo's Structural Adjustment Program with the IBRD, will be taken promptly based on the results of the relevant studies-- in the case of the SNS, by end-September 1983. Regarding other structural measures, the price study unit established in late 1982 within the Agricultural Marketing Board, OPAT, completed a comprehensive study on agricultural producer prices in early July; decisions on producer prices will be taken promptly based on the results of this study.

The Togolese authorities are aware of the somber medium-term outlook on account of the heavy debt burden and the mediocre export prospects, and they intend to continue their adjustment policies in 1984 and thereafter. To this end the draft 1984 budget will be reviewed with a Fund mission in October/November 1984.

V. Staff Appraisal and Proposed Decision

Togo's performance to date under the current program has been satisfactory. The authorities have demonstrated their intention to bring about adjustment by taking determined and politically difficult economic measures, particularly with regard to public sector wages. As a result of these measures, as well as of larger-than-expected rescheduling and grants, Togo's financial situation in 1983 has slightly eased, and the internal and external imbalances have been reduced somewhat. The overall fiscal deficit for the year as a whole is likely to be smaller than programmed, notwithstanding the shortfall relative to program targets in tax revenue partly related to the problems encountered in the agricultural and commercial sectors. The current account deficit of the balance of payments is expected to be in line with the program target, while the overall deficit on external transactions is likely to be much smaller reflecting the special factors mentioned above rather than an underlying basic improvement.

The delay encountered in adopting the tax reform proposal is regrettable, and the authorities need to take prompt action to begin implementing the reform by September and to ensure full implementation as from the beginning of the 1984 fiscal year. Action under the program with regard to major state enterprises in difficulty--especially the steel mill--which is also required under the Structural Adjustment Program, should likewise be taken without delay to reduce the indirect burden they impose on the budget in the form of revenue losses.

Despite the improvement in Togo's financial situation in 1983, the medium-term outlook for the balance of payments remains unfavorable, mainly reflecting mediocre export prospects and the continued high debt service. Even if weather conditions returned to normal and if world market prices for Togo's major agricultural export products continued to improve, there would still remain the problem of the uncertain outlook in world markets for its most important export product, phosphate rock. Togo's already heavy debt service burden has increased further in terms of local currency as a result of the depreciation of the CFA franc vis-à-vis major currencies in which much of Togo's foreign commercial debt is denominated. Even with the assumption that 95 per cent of payments due to Paris Club creditors which were not previously rescheduled would be consolidated annually through 1988, the debt service ratio would stay around 50 per cent through 1987, with some improvement in sight from 1988 on (Table 8). ^{1/} Continued adjustment efforts will be needed over the next few years to reduce the financial imbalances further. This implies, in particular, continued wage restraint in the public sector, as well as generally prudent demand management policies. On the supply side, measures have been or will be taken in coordination with the World Bank in the context of the Structural Adjustment Program to promote investments through the adoption of clear priorities for each year as well as through a comprehensive development strategy for the future.

^{1/} See footnote 5 to Table 8 for further details.

Table 8. Togo: Debt Service Scenario, 1983-88

(In billions of CFA francs)

	1983	1984	1985	1986	1987	1988
<u>Interest</u>	20.6 <u>1/</u>	21.8	22.5	22.2	21.6	19.4
On debt outstanding as of Dec. 1982	11.2 <u>1/</u>	9.4	7.9	6.3	5.1	3.9
Moratorium interest <u>2/</u>	8.1	9.9	10.1	9.9	9.3	8.4
On use of Fund resources <u>3/</u>	0.9	1.8	2.3	2.8	2.8	2.7
On new borrowing, including BOP financing	0.4	0.7	2.2	3.2	4.4	4.4
<u>Amortization</u>	45.8	35.7	36.0	34.0	36.3	35.6
On debt outstanding as of Dec. 1982	31.3	23.7	21.2	20.3	17.4	15.0
On rescheduled debt	--	9.9	11.4	11.9	12.9	11.6
On use of Fund resources <u>4/</u>	--	2.1	3.4	1.8	6.0	9.0
On new borrowing, including BOP financing	--	--	--	--	--	--
Net cash reduction of arrears	14.5	--	--	--	--	--
<u>Debt rescheduling <u>5/</u></u>	37.2	23.3	14.1	9.8	6.2	5.3
<u>Total debt service</u>						
Before rescheduling <u>6/</u>	47.5	55.9	57.4	55.4	57.4	54.6
After rescheduling <u>6/</u>	29.2 <u>7/</u>	34.2	44.4	46.4	51.7	49.7
<u>Ratio of debt service/export of goods</u>						
Before rescheduling	70.4 <u>8/</u>	75.7	70.1	60.3	55.1	46.2
After rescheduling	43.3	46.3	54.2	50.5	49.6	42.0
<u>Memorandum items</u>						
Consolidation of arrears	49.1	--	--	--	--	--
Exports, f.o.b.	67.5	73.8	81.9	91.9	104.2	118.2

Sources: SNI, World Bank DRS, and staff estimates.

1/ Excludes original contractual interest falling due on debt vis-à-vis commercial banks in 1983 (CFAF 3.7 billion).

2/ 8.025 per cent interest rate on Paris Club debt; 2.0 per cent spread above LIBOR on debt vis-à-vis commercial banks. The LIBOR rate assumed is 10.4 per cent. Includes interest in respect of assumed rescheduling after 1983.

3/ Assumes use of Fund resources (gross) equivalent to 75 per cent of present quota each year in 1984-85 and to 50 per cent of present quota in 1986, and no net use of Fund resources in 1987-88. 10.5 per cent interest rate assumed on borrowed resources and 6.6 per cent on ordinary resources.

4/ Repurchase in 8 equal installments over 2 years for ordinary resources or 4 years for borrowed resources starting 3 years and a quarter after first disbursements.

5/ Estimates based on the assumption that only payments which were not rescheduled previously would be eligible for debt relief. It is assumed that 95 per cent of eligible maturities would be rescheduled every year through 1988. Such payments would become small in the mid-1980's because of (i) extensive Paris Club and commercial bank reschedulings which have already taken place and (ii) the assumption of continual Paris Club reschedulings throughout the period.

6/ The difference relates only to the rescheduling for each particular year.

7/ Includes net reduction of arrears through cash payments of CFAF 14.5 billion.

8/ Excludes moratorium interest.

The medium-term objective of the above policies should be to bring down the external current account deficit to a level which can be financed by long-term concessional capital inflows while gradually lowering the outstanding level of the external commercial debt. Over time Togo's new status as least developed country and the organization of an aid donor's conference (now expected to be held in late 1984 or early 1985) could lead to increased inflows of concessionary loans and grants.

The measures which have been taken in the context of the program so far and which are envisaged for the period ahead reflect the determination of the authorities to persevere with the adjustment effort. The staff believes, therefore, that the program deserves continued Fund support. Accordingly, the following draft decision is proposed for adoption by the Executive Board:

1. Togo has reviewed the progress of the program with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Togo (EB/83/30, Supplement 1, March 7, 1983) and paragraph 15 of the letter of the Minister of Economy and Finance dated January 20, 1983, attached thereto.

2. The letter dated August 4, 1983 from the Minister of Economy and Finance shall be attached to the stand-by arrangement for Togo, and the letter from the Minister of Economy and Finance dated January 20, 1983 shall be read as supplemented and modified by the letter of August 4, 1983. The Fund finds that no further understandings on any changes in performance criteria are necessary.

TOGO--Relations with the Fund

(As of June 30, 1983)

IMF data

Date of membership	August 1, 1962
Quota	SDR 28.5 million (Proposed: SDR 38.4 million)
Intervention currency and the rate SDR/Local currency equivalent	French franc; CFAF 50 = F 1 SDR 1 = CFAF 408
Fund holdings of local currency	SDR 48.4 million (169.9 per cent of quota)
Of which: credit tranches (including stand-by)	SDR 11.4 million (40.0 per cent of quota)
supplementary financing	SDR 7.3 million (25.4 per cent of quota)
enlarged access	SDR 1.5 million (5.1 per cent of quota)
Net cumulative SDR allocation	SDR 11.0 million
Holdings of SDRs	SDR 2.3 million (20.9 per cent of net cumulative allocation)
Trust Fund loans outstanding	SDR 14.66 million
Direct distribution of profits from gold sales	US\$2.37 million
Gold distribution	12,835 fine ounces

Staff contacts and technical assistance

Staff mission (review of stand-by arrangement)	June 6-16, 1983
Technical assistance by Fiscal panel expert	January 25-June 25, 1983
Staff mission (Article IV consultation and use of Fund resources)	October 27-November 15, 1982
Staff mission (use of Fund resources)	June 2-15, 1982
Staff member participation in IBRD technical assistance mission, public investment and finance	January 25-February 19, 1982
Staff mission (use of Fund resources)	November 23-December 4, 1981
Staff technical assistance, public finance statistics	November 3-27, 1981
Staff mission (Article IV consultation and review of stand-by arrangement)	July 8-22, 1981
Staff mission (use of Fund resources)	November 3-16, 1980
Staff mission (Article IV consultation)	June 30-July 12, 1980
Staff mission (completion of review of stand-by arrangement)	February 4-7, 1980
Staff mission (begin review of stand-by arrangement)	December 9-18, 1979
Staff mission (Article IV consultation and use of Fund resources and Trust Fund resources)	March 27-April 12, 1979

TOGO: Relations with IBRD and IDA

(In millions of U.S. dollars, as of March 31, 1983)

	Original amount total			Disbursed and outstanding		
	Total	IBRD	IDA	Total	IBRD	IDA
Agriculture	67.00	--	67.00 <u>1/</u>	29.26	--	29.26
Education	11.00	--	11.00	4.69	--	4.69
Roads and highways	48.20	--	48.20	31.97	--	31.97
West African Development bank	3.00	--	3.00	0.86	--	0.86
Clinker factory	60.00	60.00 <u>2/</u>	--	60.00	60.00 <u>2/</u>	--
Phosphate engineering	5.70	--	5.70	0.93	--	0.93
Other industrial <u>3/</u>	2.00	--	2.00	0.74	--	0.74
Technical assistance	<u>5.70</u>	<u>--</u>	<u>5.70</u>	<u>1.86</u>	<u>--</u>	<u>1.86</u>
Total	202.60	60.00	142.60	130.31	60.00	70.31

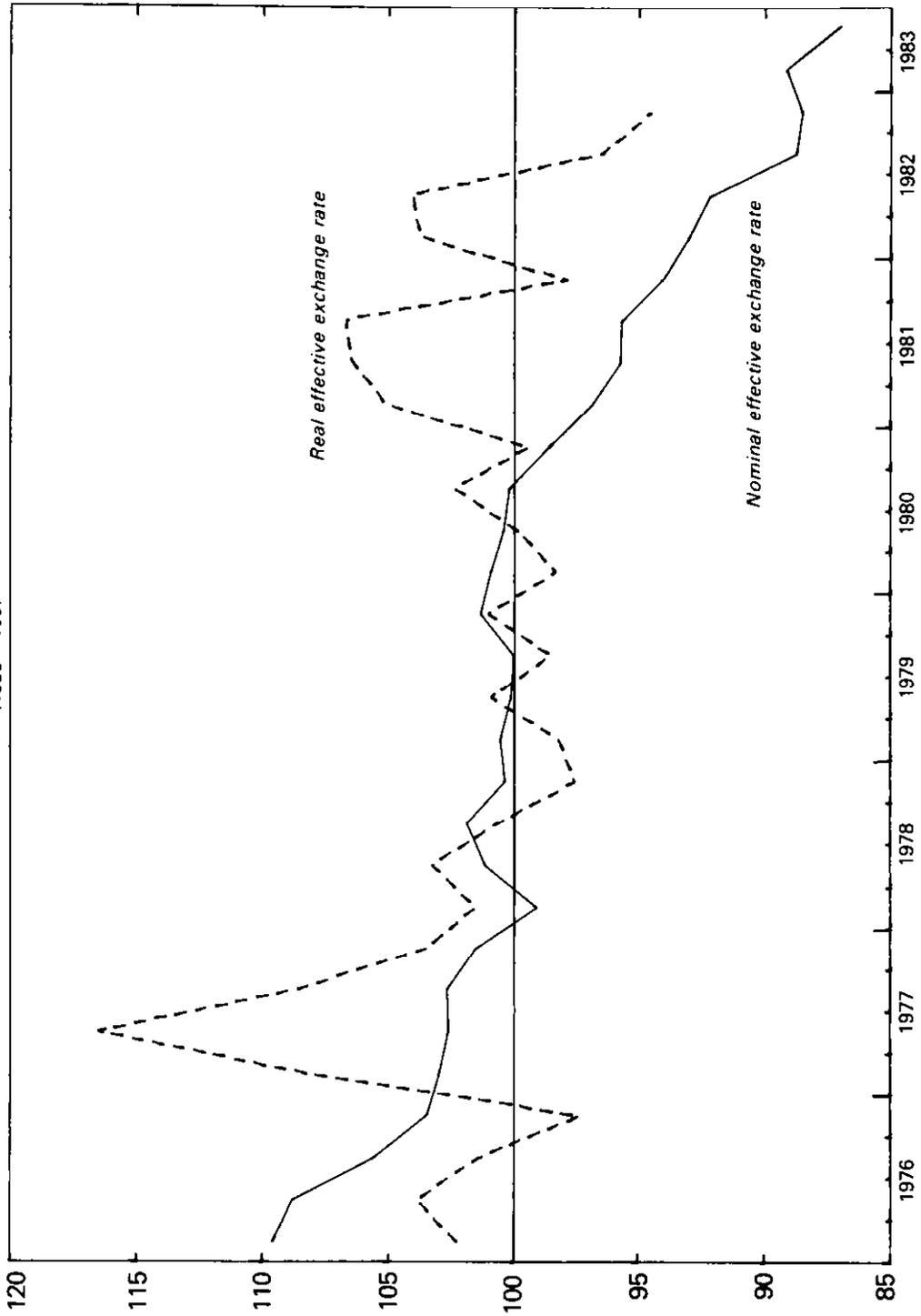
Sources: IBRD and IDA statement of loans and development credits.

1/ Of which a US\$23.5 million credit for the Second Rural Development Project in cotton-growing areas is not yet effective.

2/ Of which US\$49.5 million directly to CIMA0, jointly owned with Ghana and Ivory Coast, and US\$3.5 million to each state.

3/ Power engineering and technical assistance: Nangbeto hydroelectric dam, jointly with Benin.

CHART 1
TOGO
NOMINAL AND REAL EFFECTIVE EXCHANGE RATES¹, 1976-83
(1980 = 100)



Source: IMF Data Fund.
¹Weighted by Togo's trade with eight major industrial countries



Lomé, August 4, 1983

Mr. J. de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Larosière,

1. Under the current stand-by arrangement, approved by the Executive Board on March 4, 1983, the Government of Togo undertook to review with the Fund in mid-term the progress under the financial program, focusing principally on the Government's financial position, on the measures adopted in respect of public enterprises and producer prices, and on the results of debt rescheduling negotiations with the Paris Club and commercial banks. The Government has reviewed these elements with the Fund staff. The results of the review and the measures which the Government proposes to adopt during the remainder of the program period are outlined below.

2. Actual developments during 1982 were broadly in line with the outlook presented in my letter of January 20, 1983. The government deficit reached CFAF 16.6 billion (6.2 per cent of GDP), approximately as estimated, with both revenue and expenditure exceeding the estimates by about CFAF 2 billion. On the other hand, the balance of payments deficit was smaller than estimated and the central bank's net foreign assets increased by CFAF 11.9 billion compared to CFAF 1.4 billion estimated. This increase largely resulted from the fact that the bulk of our foreign debt was not serviced. Net domestic assets remained below earlier estimates, partly reflecting lower credit to the government. Nevertheless, reflecting the strong rise in net foreign assets, broad money increased by about 17 per cent instead of 9 per cent as estimated.

3. The fiscal and monetary performance in the first quarter of 1983 has been in accordance with the program. The quantitative performance criteria as of the end of March 1983 have been observed, except for the reduction of external arrears through net cash payments. Regarding the latter criterion, the programmed net reduction by SDR 2.6 million in the first quarter had been predicated on debt rescheduling negotiations being completed by end-March 1983. In the event, the negotiations were delayed beyond that date and despite cash payments in the first quarter totaling the equivalent of SDR 3.7 million, on a net basis external arrears increased by SDR 10.4 million during that period as no payments were made to service any debts expected to be rescheduled.

4. As mentioned above, debt rescheduling negotiations, originally expected to take place in March, were delayed, partly due to delays in preparing the required data. Negotiations with the Paris Club took place on April 11-12 and bilateral agreements on the 1983 rescheduling have been reached with most Paris Club members. Negotiations with the commercial

banks were completed July 29, 1983. The banks agreed to consolidate outstanding arrears and to refinance all outstanding debt. Overall, the rescheduling actually obtained was more favorable than assumed in the program, resulting in actual debt service payments (including reduction of arrears through net cash payments) in 1983 of CFAF 29 billion, instead of CFAF 39 billion projected in the program.

5. In order to attain the targeted reduction in the government deficit, expenditure measures as provided for in the program were incorporated in the 1983 budget. Regarding revenue, the process of finalizing the tax reform proposal proved more lengthy than expected. The proposal is now scheduled to be submitted to the National Assembly in September. Expenditure control has been tightened considerably and has benefited from the completion of the 1982 civil service census. To further strengthen budgetary management, in early May 1983 a State Secretariat for the Budget was established, with the new State Secretary being directly responsible to the Minister of Economy and Finance. An inventory of domestic payments arrears of the Government has been carried out in accordance with the program. Some claims still need to be verified, but the provisional total of domestic arrears is CFAF 18 billion. This includes arrears recorded at the Treasury which at end-1982 amounted to CFAF 7.0 billion compared to an estimated level of CFAF 4.9 billion.

Regarding capital expenditure, an investment program for 1983 providing for CFAF 28 billion public-sector investment was completed in March. The program provides for CFAF 28 billion public-sector investment in 1983, mostly in ongoing projects (CFAF 24 billion) in the infrastructure and rural development sectors. 85 per cent of the total would be externally financed--37 per cent by grants and 48 per cent by concessional borrowing. With technical assistance from the IBRD we have begun to improve our planning and programming procedures with the objective of preparing a comprehensive investment program for 1984-86. Regarding unprofitable state enterprises, measures have been or are being taken as provided for in the program, in cooperation with the World Bank, though some delays have been encountered largely due to difficulties in recruiting consultants. Among other structural measures, the agricultural price study unit recently established within the agricultural marketing board, OPAT, submitted in June its first draft report on producer prices for major cash crops, which will provide the basis for deciding on producer prices for the next crop year. Electricity prices were raised by an average of 19 per cent effective April 1, 1983. Concerning monetary policy, effective March 22, 1983 interest rates within the West African Monetary Union (WAMU), of which Togo is a member, were lowered by 2 percentage points in recognition of declining interest rates abroad.

6. The outlook for the year 1983 as a whole has been affected somewhat by recent developments, compared to program projections. On the one hand, as mentioned above, the rescheduling agreements have resulted in lower total debt service payments than projected in the program. The financial

situation of the phosphate company (OTP) has been eased temporarily by the receipt of overdue payments from Yugoslavia in respect of phosphate exports effected in 1981-82; at the same time, however, there have been payment delays in respect of 1983 shipments. Also, based on the new 1983 investment program, government capital expenditure in 1983 will remain below the level projected in the program, and a larger share will be financed by foreign grants and a lower proportion by foreign borrowing.

On the other hand, the recent regional drought as well as unfavorable economic conditions in the West African region have adversely affected economic activity in the agricultural and commercial sectors in Togo. This has led to a stagnation in tax revenue and a higher than usual seasonal rise in food prices, as well as to a reduction in the volume of exports of major cash crops. In addition, the depreciation of the French franc, and hence of the CFA franc, relative to the dollar and other major currencies since March 1983 has had a net negative impact on our external debt situation with the resulting increase in the domestic currency value of debt service in 1983 being estimated at some 5 per cent in 1983. This was offset only to a small extent by a net positive impact of the depreciation on our trade balance. Taking account of all these factors and of the measures we have already taken, the overall government deficit is now projected to reach CFAF 7.6 billion or 2.7 per cent of GDP, compared to the program target of CFAF 9.1 billion or 3.2 per cent of GDP, and the overall balance of payments will be in deficit by only CFAF 2.4 billion compared to CFAF 16.6 billion programmed.

7. During the remainder of the program period, the Togolese authorities intend to continue their policy of fiscal restraint in the framework of the 1983 budget. Government expenditure will continue to be strictly controlled on a monthly basis, and the freeze on wages, promotions, and new hiring will be maintained. On the revenue side, the government will ensure that the measures recently adopted to improve collection are effectively implemented. The tax reform proposal will be submitted to the National Assembly for adoption in September and implemented immediately. Its impact on revenue in 1983 would be limited to CFAF 250 million. Additional resources generated by the larger than expected external debt rescheduling obtained in 1983 will not be allowed to weaken the government's adjustment effort. Thus, according to the revised program projections, about CFAF 11 billion of additional budgetary resources now available, including the CFAF 5.0 billion counterpart of a special French loan, will be used to reduce domestic arrears. The total reduction of arrears, both external and domestic, now foreseen for 1983 is about CFAF 26 billion while the program provided only for the reduction of external arrears by CFAF 10 billion.

In the state enterprise sector, measures required under the program which have been delayed should be decided upon promptly following completion of the relevant studies--in the case of the SNS, by end-September

1983. Regarding other structural measures, decisions on producer prices will be taken promptly based on the results of the study recently prepared by the price study unit in OPAT.

The Togolese authorities are aware of the somber medium-term outlook on account of the heavy debt burden and the mediocre export prospects, and they intend to continue their adjustment effort in 1984 and thereafter. The draft 1984 budget will reflect this intent, and will be reviewed with a Fund mission in October/November 1984.

T. Tévi-Bénissan
Minister of Economy and Finance