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EBS/94/169

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August 24, 1994

To: Members of the Executive Board

From: The Secretary

Subject: Togo - Staff Report for the 1994 Article IV Consultation and Request for Arrangements Under the Enhanced Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1994 Article IV consultation with Togo and its request for arrangements under the enhanced structural adjustment facility. A draft decision appears on page 25.

This subject, together with the policy framework paper for Togo (EBD/94/144, 8/24/94), is tentatively scheduled for discussion on Friday, September 16, 1994.

Mr. Sacerdoti (ext. 38514) or Mr. J. Williams (ext. 36517) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the African Development Bank (AfDB), the European Communities (EC), and the GATT Secretariat, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

TOGO

Staff Report for the 1994 Article IV Consultation and Request for Arrangements Under the Enhanced Structural Adjustment Facility

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by C. Brachet and C. Puckahtikom

August 22, 1994

Contents | Page

Contents | Page

Contents

Page

Charts

I. Introduction

The 1994 Article IV consultation discussions with Togo and preliminary discussions on a program that could be supported by arrangements under the enhanced structural adjustment facility (ESAF) were initiated in Lomé during October 27-November 12, 1993, continued during January 23-February 11, 1994 and were concluded during June 18-July 2, 1994. 1/ The Togolese representatives in these discussions included the Ministers of Economy and Finance, Defense, Planning, Commerce and Transport, and Employment and the Civil Service, as well as the National Director of the Central Bank for West African States (BCEAO) and other senior officials. Mr. Calamitsis and Mr. Sacerdoti were received by President Eyadema and Prime Minister Koffigoh toward the end of the first mission. Mr. Sacerdoti was received by Prime Minister Kodjo during the third mission.

The last Article IV consultation discussions with Togo were carried out in March 1992, together with the negotiations on the program supported by the third annual ESAF arrangement; the Executive Board concluded the consultation and approved a third annual ESAF arrangement on May 20, 1992 (EBS/92/80 and SUR/92/38). 2/ On that occasion, Executive Directors expressed concern about the relaxation of the adjustment effort and the consequent deterioration in Togo's economic and financial performance, although they recognized that this deterioration was due in part to unsettled domestic political conditions. They stressed the need to step up the pace of structural reform and contain costs in all sectors in order to improve competitiveness and promote more sustainable growth. Directors also urged the authorities to intensify efforts to reduce the fiscal deficit

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1/ The staff representatives (all of the African Department, except as indicated) included Messrs. E. Sacerdoti (head), and G. Belet, who participated in all three missions; Mr. J.C. Williams, who participated in the first and second missions; Mrs. M. Kabedi, who participated in the first and third missions; Messrs. F. Rozwadowski and M. El Qorchi, who participated in the second mission; and Messrs. R. Abdoun and V. Bodart, who participated in the third mission. The assistants were Ms. Magne (ADM) in the first mission, Mrs. Klotz in the second mission, and Ms. Le in the third. Mr. Calamitsis joined the first mission on November 7, 1993. The staff team collaborated closely with the World Bank Resident Mission; Mr. Daniel, the Resident Representative and/or Ms. Zlaoui from World Bank headquarters participated in the discussions on the policy framework paper. Mr. Koissy, Alternate Executive Director for Togo, participated in the policy discussions during the first mission. Mr. Kpetigo, Assistant to the Executive Director for Togo, participated in the policy discussions during the third mission.

2/ Togo is on the standard 12-month consultation cycle; the Executive Board was notified in September 1993 and in March, April, and July, 1994 of the delays in conducting the 1993 Article IV consultation (EBD/93/145, EBD/94/38, EBD/94/77 and EBD/94/111.

through a comprehensive program aimed at broadening the tax base and containing expenditure.

In a meeting held in Dakar, Senegal, on January 11, 1994, the African Heads of State and Government of the franc zone decided to strengthen their adjustment efforts by devaluing the CFA franc, from CFAF 50 to CFAF 100 per French franc, effective January 12, 1994. To accompany this realignment, the Togolese authorities have adopted a reinforced medium-term macroeconomic and structural adjustment program. In support of this program, the Government of Togo has requested, in a letter to the Managing Director dated August 12, 1994, a three-year arrangement under the ESAF in an amount equivalent to SDR 65.16 million (120 percent of quota), and the first annual arrangement thereunder in an amount equivalent to SDR 21.72 million (40 percent of quota) (Attachment to Appendix I). Attached to the letter is the authorities' memorandum of economic and financial policies for the program year July 1, 1994-June 30, 1995. The Togolese authorities have also prepared, in collaboration with the staffs of the Fund and the World Bank, a policy framework paper (PFP) for the period 1994-97 (EBD/94/144, 8/24/94). The PFP was transmitted to the Managing Director of the Fund and the President of the World Bank on August 12, 1994.

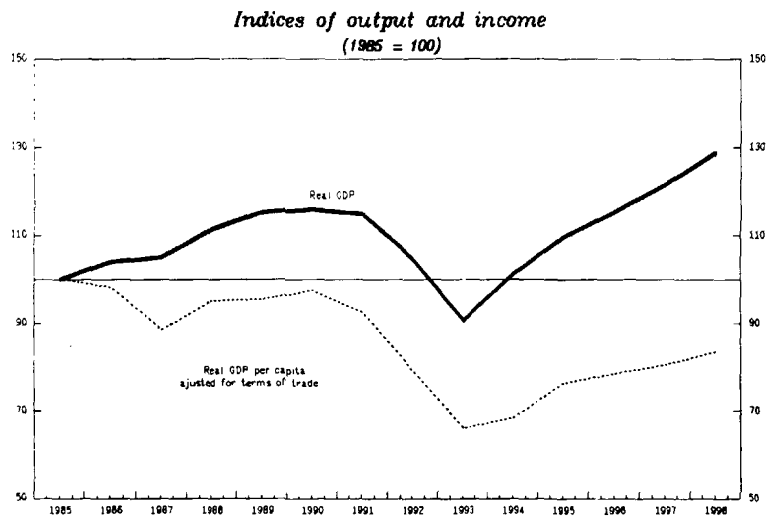
The proposed access under the requested ESAF arrangements takes into account the strength of Togo's program and the prospects for returning to external viability. The projected schedule of disbursements under the proposed arrangement is set out in Appendix VII, Table 1. As of July 31, 1994, Togo's outstanding use of Fund resources amounted to SDR 47.8 million (88 percent of quota), reflecting outstanding disbursements under the previous SAF/ESAF arrangements. If the full amount available under the requested ESAF arrangements is disbursed, and after taking into account scheduled repurchases, Togo's outstanding use of Fund resources would rise to SDR 91.27 million (168 percent of quota) by end-June 1997 (Appendix VII, Table 2). Togo has continued to meet its financial obligations to the Fund in a timely manner.

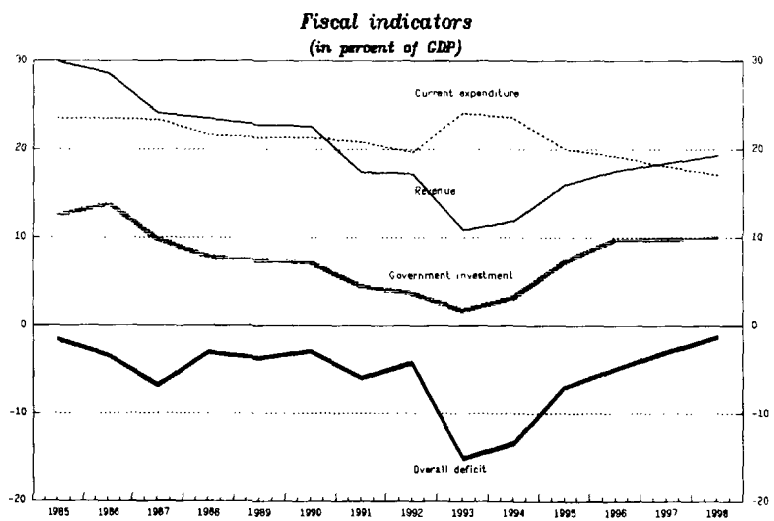
The World Bank Group has provided considerable financial and technical assistance to Togo, including four structural adjustment credits (SACs). Under the last SAC (SAC IV), two tranches were disbursed, of which the second, for US$15 million, was disbursed in July 1994. The Bank has also disbursed in 1994 a tranche of US$4 million under a sectoral adjustment loan for education and health. The Bank is presently preparing an Economic Recovery Credit, which will consist of two tranches of US$15 million each.

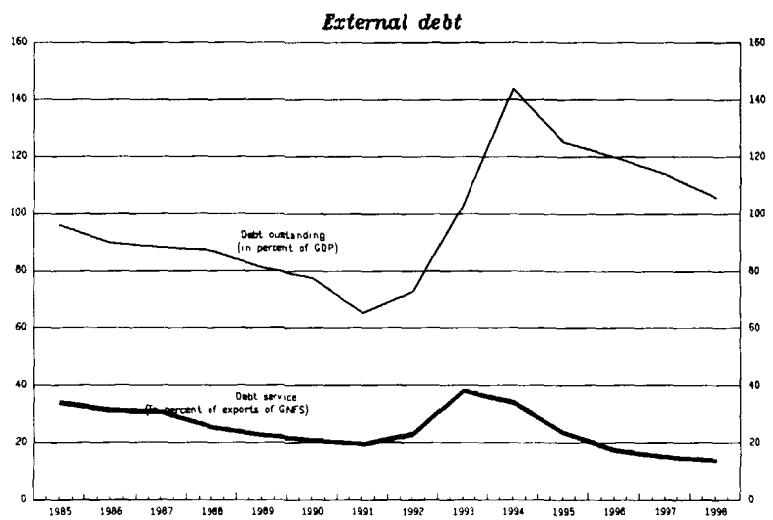
The ESAF arrangement for Togo is included in Appendix I. Summaries of Togo's relations with the Fund and World Bank Group are provided in Appendices II and III, respectively. Statistical issues are presented in Appendix IV, Basic Data in Appendix V, Selected Social and Demographic Indicators in Appendix VI, and Statistical Tables in Appendix VII.

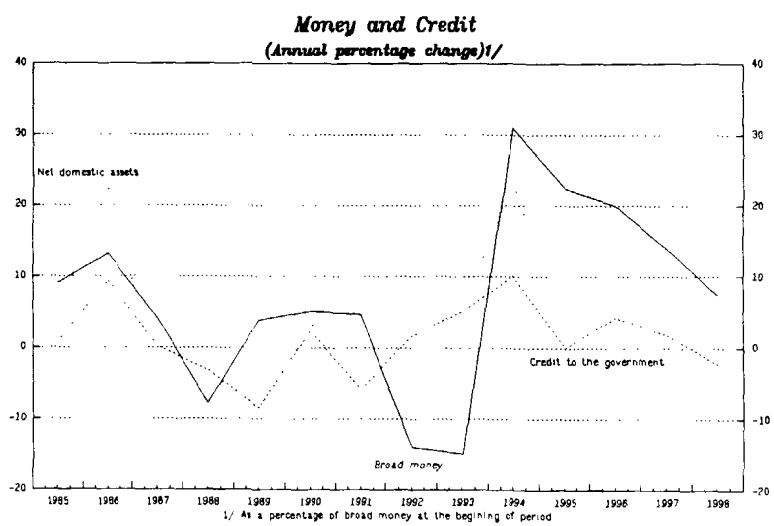
CHART No 1
Togo

Selected Economic indicators, 1985-98









II. Performance Under the 1992 Program and Recent Developments 1/

1. Background

Togo's previous three-year ESAF arrangement and the first annual arrangement thereunder were approved by the Executive Board on May 31, 1989. Performance in the first two years of the arrangement was broadly satisfactory and the amounts available under these arrangements were disbursed in full. Nevertheless, weaknesses in economic and financial performance began to emerge in 1991, because of rising social and political tension in the transition to a multiparty democracy. In 1991, real GDP fell by 1 percent and fiscal performance weakened noticeably. Government revenue was low because of sluggish economic activity, and there was a relaxation of spending discipline, notably on wages. Consequently, the overall fiscal deficit (excluding grants) widened to 7.9 percent of GDP, and both domestic and external payment arrears were accumulated.

It was against this slackening of performance that the adjustment program for 1992, supported by the third annual arrangement under the ESAF, was framed. The key policy measures were to include a comprehensive tax reform centered on a strengthening of tax administration; an improvement in public sector resource management aimed at slowing the growth of the wage bill and curtailing unproductive expenditure; stepped-up restructuring of the public enterprise sector, with special emphasis on the phosphate mining company (OTP) and the agricultural produce marketing board (OPAT); and the promotion of private sector initiatives and human resource development.

In the event, the social and political tensions worsened significantly in 1992, exacerbating the difficulties in economic and financial management. The main structural reforms and key policy measures could not be implemented according to program schedule; as a result, most of the end-September 1992 performance criteria were not observed. With the declaration of a general strike in mid-November 1992, the midterm review was postponed, and then canceled, so that the second disbursement under the arrangement was not made.

2. Real sector developments

The Togolese economy, which had suffered from sporadic work stoppages during 1992, was crippled by a general strike that began in mid-November 1992 and brought the modern sector of the economy to a halt essentially through the second half of 1993. As a result, real GDP declined by almost 9 percent in 1992 and by an estimated additional 13.5 percent in 1993 (Chart 1 and Appendix VII, Table 3). This deterioration was concentrated in

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1/ The quality and timeliness of economic data in Togo, which had been broadly adequate through 1990-91, has been adversely affected by the strikes and prolonged sociopolitical turbulence, and resulting budgetary constraints. The information in this section is based on the staff's preliminary assessment of developments in 1992 and 1993.

manufacturing and services (accounting for roughly 24 percent and 43 percent of GDP, respectively), where combined output fell by about 40 percent over the two-year period. In contrast, production in the primary sector rose by about 18 percent over 1992-93, as climatic conditions were favorable and the rural work force was augmented by an influx of urban dwellers who returned to villages to escape urban strife and shortages. Cotton production, declined in 1993, however, as farmers responded to payments delays by the Marketing Board in 1992 by shifting to food crop production.

During the first half of 1994, economic activity picked up only modestly as continued political uncertainty negatively affected activity in manufacturing and services. Farm outturn, however, continued to perform well, with the coffee and cotton crops expected to rise by 25 percent and 22 percent, respectively. Food crop production is also continuing at a high level.

Retail prices are unofficially estimated to have risen by 3.7 percent in 1992. In 1993, demand was depressed by the reduction in purchasing power, causing retail prices to fall by 3.6 percent. Following the devaluation in January 1994, the price index rose by 38 percent in the period January-May 1994; the rate of increase, however, decelerated in April and May to an average of 2 percent a month.

Reflecting the tight government financial situation and suspension of aid from a number of donors, public investment was drastically curtailed in 1992-93; private investment also fell off abruptly and total gross investment as a ratio of GDP contracted by more than two thirds, to 6 percent, between 1991 and 1993. Gross domestic savings are estimated to have dropped from 11.5 percent of GDP in 1991 to a negative 2.4 percent in 1993 as real income plunged and government dissaving approached 13 percent of GDP (Chart 2).

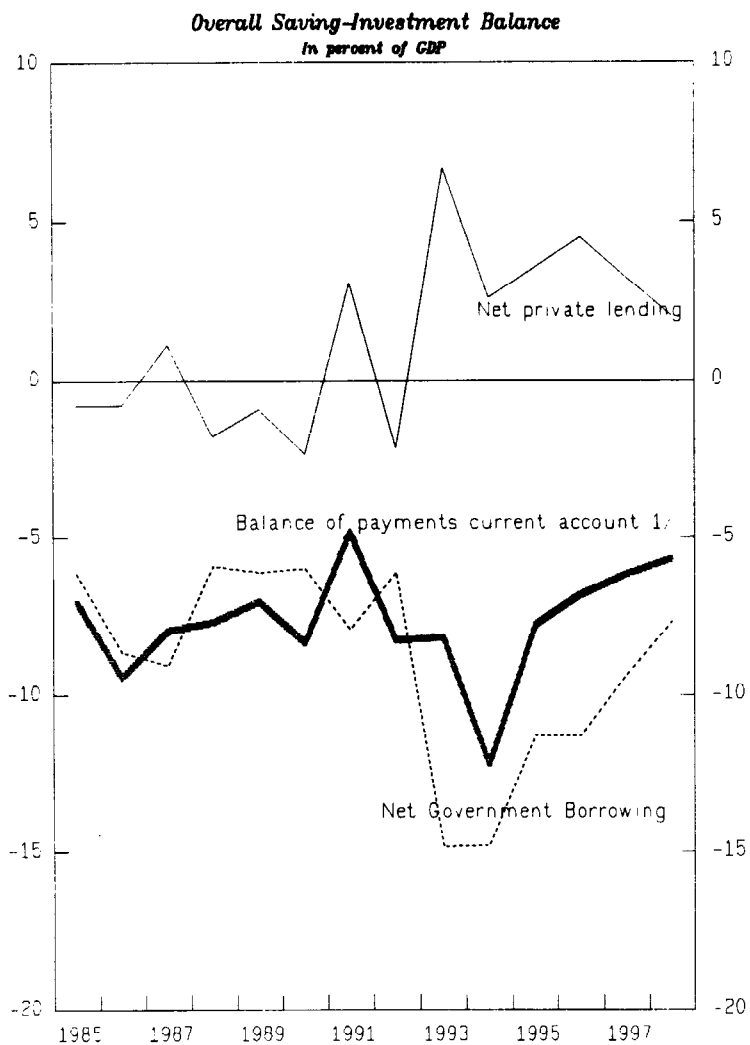
3. Fiscal developments

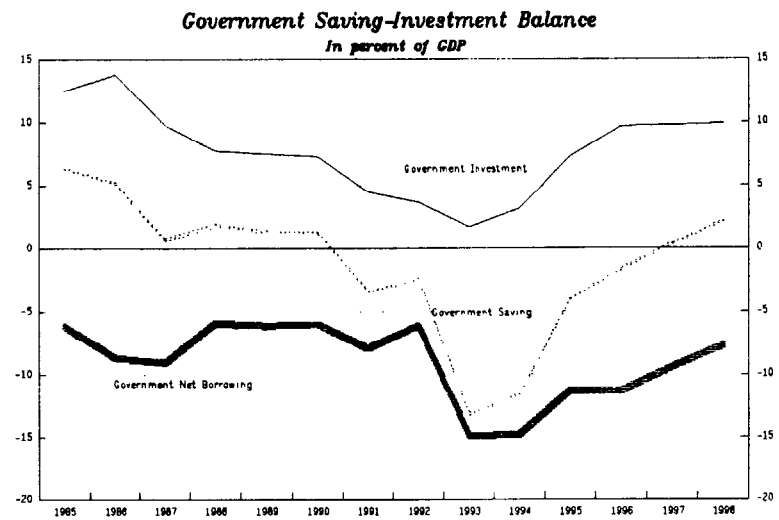
Fiscal performance in 1992-93 was particularly affected by the social situation. In 1992, despite an abrupt fall in revenue, an even sharper decline in expenditure (mainly discretionary spending and investment) lowered the deficit to 6.2 percent of GDP. With external financing drying up, domestic and external payments arrears rose by 1.9 percent and 1.6 percent of GDP, respectively.

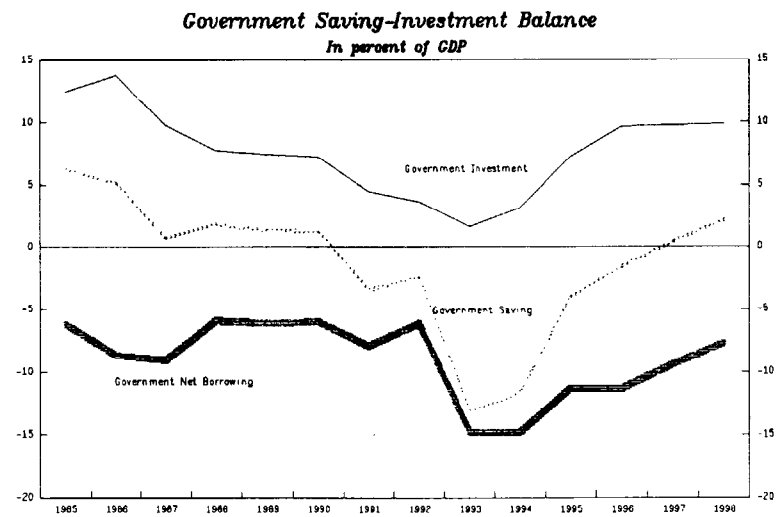
Given the general strike, the fiscal situation deteriorated further in 1993. Revenue fell by 47 percent, as trade-related tax collections plunged, and revenue from public enterprises fell by over one half. To improve performance, revenue-enhancing measures were incorporated into the 1993 Budget (adopted in July 1993), including: (a) a special withholding tax to be collected at customs or by wholesalers, and applied toward future income or profits tax liabilities; (b) a tax on the purchase of airline tickets; and (c) increases in the rates of various stamp taxes. However, with the economic dislocations persisting through most of 1993, the effect of these new measures was felt only partially. Moreover, the withholding tax entered

CHART N.2
TOGO

Saving Investment Balance, 1985 - 1998







Source : Togoleses authorities and Staff estimates
1/ Excluding project grants

into effect only in July 1994, because of delays in preparing the implementing regulations. Nevertheless, the rate of collection of fiscal revenue rose steadily as the economy began to recover; tax receipts (mainly customs duties and domestic sales taxes) rose appreciably in November-December 1993, albeit to a level that remained about 20 percent below that in 1991.

Although revenue was down sharply, the Government had some success in curtailing discretionary spending. However, at CFAF 93 billion, total expenditure was more than twice as high as revenue, and the overall deficit (excluding grants) rose from 6.2 percent of GDP in 1992 to more than 15 percent in 1993. 1/

To finance this deficit, the Treasury had recourse for CFAF 17 billion 2/, or 4.8 percent of GDP, to extraordinary borrowing from large public enterprises; for CFAF 3.2 billion to the Central Bank, thereby exceeding the statutory ceiling; and drew down CFAF 4.9 billion in deposits abroad. Nevertheless, domestic and external payments arrears accumulated sharply, to the equivalent of 8 percent and 5.6 percent of GDP, respectively, with more than half of domestic payments arrears corresponding to unpaid salaries and social security contributions. 3/ External payments arrears to multilateral institutions, which are nonreschedulable, rose to CFAF 3.4 billion at end-1993, or CFAF 6.8 billion at the new exchange rate. Also at the new rate, arrears to Paris Club creditors amounted to CFAF 39.3 billion at end-1993, of which CFAF 1.8 billion was canceled by France in January 1994.

In the first half of 1994 the overall budgetary situation remained serious, as revenue remained well below the levels achieved in 1991-92, reflecting continued depressed domestic demand and imports. At CFAF 27 billion, revenue fell CFAF 11 billion short of primary current expenditure; investment expenditures were minimal, in view of the continued suspension of foreign aid. To finance the deficit, the Government had further recourse to exceptional borrowing from public enterprises (CFAF 5 billion), and to Central Bank advance (CFAF 3.2 billion) in excess of the statutory limit. External payments arrears were accumulated further (CFAF 25 billion), including nonreschedulable arrears to multilateral organizations (CFAF 1 billion).

1/ The 1993 wage bill amounted to CFAF 38.5 billion, but would have reached about CFAF 45 billion in the absence of the strike, which affected between one fourth and one half of total personnel, depending on the period.

2/ Of this amount, a part represented advances against future taxes, debt service, and dividends, payable by the enterprises.

3/ A comprehensive survey of nonwage arrears is still underway; see Memorandum of Economic and Financial Policies, paragraph 29.

4. Monetary and credit trends

Reflecting the contraction in economic activity, the loss of confidence and related capital flight, and also part of the urban population fleeing to neighboring countries, broad money declined by 14 percent in 1992, and by a further 15 percent in 1993 (Appendix VII, Table 5); these declines exceeded the fall in GDP (22 percent). With moderate increases in net bank domestic assets, almost entirely traceable to the Government, net foreign assets dropped to CFAF 23 billion at end-1993, from CFAF 81 billion in 1991.

The BCEAO has recently introduced important reforms in the functioning of the money market and the conduct of monetary policy, including weekly auctions and the establishment of an intra-regional interbank market. In addition, a system of required reserves on sight deposits and short-term credits has been introduced, with the ratio set at 1.5 percent. At the same time, lending rates and deposit rates have been liberalized, with the provision that lending rates cannot exceed a usury rate set at twice the discount rate; deposit rates are free, except for passbook savings accounts.

In the aftermath of the devaluation the functioning of the money market was strongly affected by the large inflow of liquidity in a number of countries of the Western African Economic and Monetary Union (WAEMU). With large capital inflows, depressed demand for loans, and banks still hesitant to lend to the private sector, Togolese commercial banks (similar to banks in other states of the WAEMU), held rising unremunerated balances with the Central Bank during the period February-May 1994. In May 1994, banks were able to place in the money market less than 10 percent of the amount they have on offer.

Following the devaluation, in mid-January the Central Bank raised the discount rate by 4 percentage points to 14.5 percent, and the repurchase rate to 12.75 percent, up from 8.75 percent. The fixed rate on savings deposits also was raised, from 4.5 percent to 8 percent. On June 27, 1994, the discount and repurchase rates were lowered by 2.5 percentage points, and on August 2, 1994 by an additional 1 percentage point, as a response of the Central Bank to the abundant liquidity in the market.

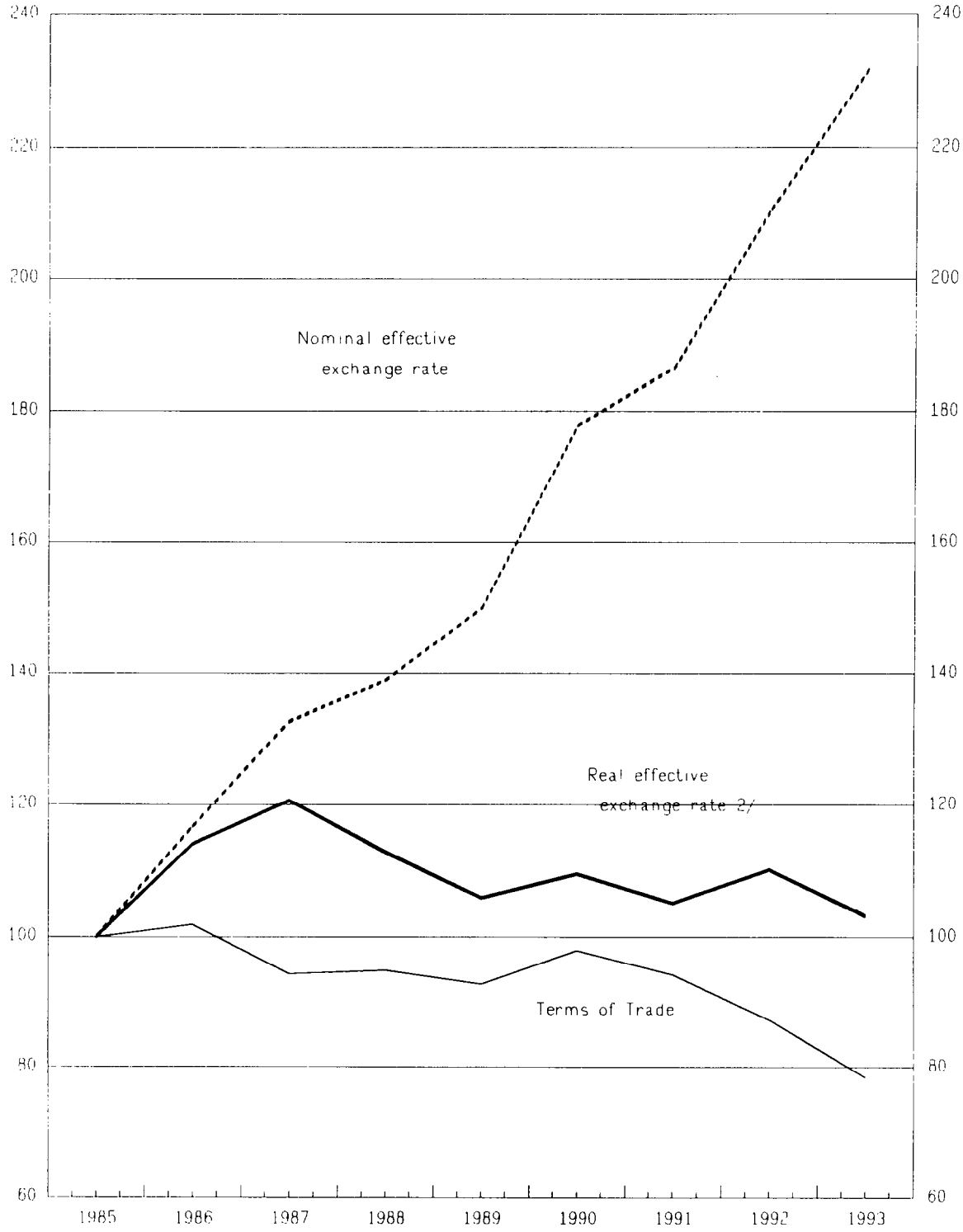
5. Balance of payments and external competitiveness

The domestic political crisis also contributed to a deterioration of Togo's balance of payments in 1992-93. Exports and imports in SDR terms fell by about 20 percent and 10 percent, respectively, in 1992. The volume of phosphate exports (2.1 million tons) dropped by one third from its level in 1991, as several export markets were lost. Meanwhile, in 1992 cotton export proceeds were adversely affected by both a smaller harvest (8.5 percent) and falling international prices (over 12 percent). The decline in imports was the result of the depressed level of economic activity and the contraction of public investment. Overall, the external current account deficit, excluding grants, widened to almost 12 percent of GDP, from 9 percent in 1991. The overall deficit surged to 11 percent of

CHART No 3
TOGO

Effective Exchange Rates and Terms of Trade 1985-93 1/

1985 = 100



1/ Information notice system weights adjusted to cover informal tradewith Ghana and Nigeria
2/ Deflated by CPI

GDP, from 3 percent the year before (Appendix VII, Tables 6 and 7), as the capital account turned sharply negative.

In 1993, imports (f.o.b.) in SDR terms receded by an additional 39 percent, because of the stagnation of the modern productive sectors, the interruption of public investment activity, and the fall in purchasing power that resulted from delays in paying wages. Domestic exports were also down sharply, by 27 percent. Phosphate export earnings continued to slide, as the volume fell to 1.5 million tons, reflecting, in addition to structural changes in world markets, closure of the mine during the first four months of the year. As a result, the external current account deficit, excluding grants, narrowed to 10.4 percent of GDP in 1993. With net capital outflows more than doubling, the overall deficit jumped to 17.5 percent of GDP.

Over the two-year period, net foreign assets plunged by CFAF 58 billion (67 percent), and Togo accumulated external payments arrears that reached CFAF 32 billion at end-1993 before the devaluation. 1/ In an effort to alleviate the pressure on the balance of payments of the monetary union resulting from an outflow of bank notes from the CFA countries, the BCEAO, in conjunction with the Bank of Central African states (BEAC), suspended the repurchase of CFA franc bank notes outside of their respective zones of issue in August 1993, and modified the regulations governing foreign exchange allocations for travel outside the zones. These changes were described in EBS/93/168 (10/20/1993).

Even without the exceptional circumstances of 1992-93, Togo's balance of payments prospects would have remained precarious as evidence mounted that domestic adjustment measures alone were not sufficient to provide the necessary stimulus to growth and economic diversification. According to available data, Togo's competitiveness prior to the devaluation had substantially eroded since 1985, particularly with respect to non-CFA countries in West Africa. Togo's trade-weighted real effective exchange rate (REER) 2/ had appreciated by about 4 percent in the 1985-93 period (Chart 3), but the bilateral REERs with Nigeria and Ghana, important regional trading partners, had risen by 630 percent and 230 percent, respectively. This had led to a substantial penetration of the Togolese market by products from neighboring countries outside the CFA zone, and this trend had intensified in recent years. During the same period, Togo's terms of trade deteriorated by about 20 percent, reflecting the weakness of world

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1/ Converted at the new exchange rate, the stock of external payments arrears thus was CFAF 64 billion at end-1993.

2/ Based on the pattern of trade as reported in the IMF Information Notice System, adjusted for informal trade with Nigeria and Ghana. However, it should be noted that these REER calculations rely on the official consumer price index as a proxy for producer price trends, which in the case of Togo has the further drawback of applying to low-income households in Lomé, and as such grossly underestimates relative changes in factor costs. In particular, the impact of the generalized wage increases in the public sector in 1991-92 are not reflected in the evolution of the REER index.

prices for cotton, coffee, cocoa, and phosphate, and only partial mitigation of these declines by lower oil import prices. The lack of profitability of the main export sectors, cotton and phosphate, was also an indicator of the inadequate competitiveness of the economy.

6. Structural reforms

An essential objective of the structural policies envisaged under the 1992 program was to improve the competitiveness of the economy through reductions of operating costs and improvements in efficiency in the phosphate and cotton sectors. While progress was made, especially with cost compression at the phosphate company (OTP) domestic adjustment measures alone fell short of re-establishing competitiveness. In particular, at the phosphate company, the wage bill increase of about 50 percent granted in 1991 was fully reversed in mid-1993, and other cost-cutting measures were taken. Despite this important effort, the company's financial situation remained difficult because of its large short-term debt and the loss of markets in 1992-93. Consequently, prospects were for the company to be operating below the break-even point in the absence of a devaluation.

The rationalization of the cotton sector by the transfer to SOTOCO of cotton marketing was originally scheduled to take effect in the second half of 1992. Because of strong resistance, however, the transfer was delayed to the 1994-95 crop year (see Section III, 4 below).

Divestiture from enterprises in which government participation is between 5 and 90 percent, which was envisaged in the program, was delayed because of the political turmoil; the legal framework for the divestiture was adopted in early June 1994; and the implementing decrees are under preparation. The revision of the labor code, aimed at introducing more flexibility in the labor market, was also delayed.

III. Report on the Discussions, Medium-Term Prospects and Policies, and the Program for 1994-95 1/

1. Key objectives for 1994-97

Discussions with the Togolese authorities took place against the background of the chaotic situation of 1991-93. The Togolese representatives saw the devaluation as an important instrument for restoring competitiveness of the export- and import-competing sectors, stimulating growth and diversification, and strengthening public finances and the balance of payments. They agreed with the staff that, given the size of recent financial imbalances and the growing penetration of the internal market by imported products, domestic adjustment alone would have been

1/ Since 1993 was an exceptional year, the following discussion of the Togolese program frequently treats the two years 1991-92 as the basis for comparisons.

inadequate to restore growth and achieve a sustainable financial position. The discussions, therefore, focused on financial and structural policies for 1994 and 1995, and on a policy framework for 1994-97 that would support the devaluation and return Togo to a growth path that would raise per capita GDP and restore fiscal and external viability. 1/

A key macroeconomic objective of the program is to raise the underlying growth rate of real GDP to 6 percent, in order to achieve a 3 percent annual increase in real per capita income. However, for 1994 and 1995, the projected real growth rate is expected to be much higher (more than 11.5 percent and more than 8 percent, respectively), as the economy recovers from the exceptionally depressed levels of 1992 and 1993. Even with these growth rates, output is not expected to return to its 1991 level before 1996. The improvement in the underlying growth rate is predicated on enhanced competitiveness, an increase in the investment ratio, a well-targeted and efficient public investment program, and structural reforms designed to increase efficiency. The authorities expect that growth will be broad-based: improved competitiveness should promote nontraditional agriculture (for instance, fruits and vegetables) and traditional export crops (cotton and coffee), small-scale manufactures (especially wood and textile products), and services (building on Togo's traditional strengths in commerce, financial services, and transportation).

In 1994 and 1995, the return to normalcy is expected to bring about an acceleration in economic activity, notably at the Port of Lomé. In addition, the repayment of arrears to government suppliers and civil servants should contribute to increases in both supply and demand. However, not all sectors are expected to show a full recovery; Togo will need to make a considerable effort to win back lost markets for phosphates and port services now that some of Togo's traditional customers have found new suppliers and new routes.

Investment is programmed to rise from about 18 percent of GDP in 1991-92 to about 21.4 percent during 1996-97. Government investment, which emphasizes economic and social infrastructure, especially in transportation, health, and education, is programmed to pick up from 4 percent of GDP in 1991-92 to about 8 1/2 percent of GDP. The recovery of public investment is to be financed mainly by an increase in foreign loans and grants in the first year of the program and improvements in government savings in later years; government dissavings in 1991-92 are expected to give way to such savings by 1997. Private saving is projected to reach about 17 percent of GDP in 1997, somewhat higher than the average of 1991-92, partly because of the expected rise in enterprises' margins.

1/ The program for 1994-95 and the framework for 1994-97 are set out in full in the authorities' Memorandum on Economic and Financial Policies attached to the letter of August 12, 1994, and the policy framework paper for 1994-97 (EBD/94/144, 8/24/94).

Given the domestic prices of the last six months and the trends of export prices, the GDP deflator is expected to rise by 30 percent in 1994 and the CPI by 36 percent on an annual average basis. Subsequently, inflation is projected to moderate, to about 4 percent on average during 1995-97, reflecting the Government's prudent wage and budgetary policies. The terms of trade are projected to improve sharply in 1995, reflecting mainly the 30 percent increase in the export price of cotton in terms of U.S. dollars which has taken place so far in 1994 and will benefit 1995 exports. 1/ Cautious credit policies, consistent with the stance taken by the West African Economic and Monetary Union, are also expected to limit the price impact of the devaluation, preserving gains in competitiveness.

While difficult to forecast at this stage, the monetary program prudently assumes a rise in velocity in 1994, with a gradual decline to its historical level by 1997. On the basis of these assumptions, the growth rate of broad money should be about 31 percent in 1994, receding to 15 percent in 1997. With domestic credit rising by considerably less, net foreign assets should increase substantially.

Regarding government finances, the authorities intend to eliminate domestic payments arrears over the course of 1994-97 and to restore medium-term viability to the budget. External payments arrears are to be fully settled in 1994 and 1995, through rescheduling, cash settlements, and buy-backs of commercial bank debt. In order to reach these objectives, government revenue, which fell from slightly over 17 percent of GDP in 1991-92 (and 22 1/2 percent in 1989-90) to less than 11 percent in 1993, will have to climb back to the equivalent of 16 percent of GDP in 1995 and to around 17 1/2 percent by 1996.

The recovery of tax receipts is predicated on far-reaching tax reforms involving a strengthening of tax administration, the introduction of a single-rate value-added tax (VAT), and measures to extend the tax base in the informal sector. Accordingly, with primary expenditure kept at 16 percent of GDP on average, the primary current fiscal balance (excluding interest outlays), would move from a deficit equivalent to 9 percent of GDP in 1993 to a surplus of 1.6 percent of GDP in 1996 and more than 3 percent in 1997.

As discussed in more detail in Section IV below, progress toward external viability should be substantial during the period through 1997. However, recourse to exceptional financing may still prove necessary but only on a small scale in 1998-2000, depending on the autonomous capital inflows and on the Government's success in strengthening the revenue base; this need could be met by a stock of debt operation in the outer years of the program.

1/ Cotton production in Togo is sold generally forward with a lead of about 9 months. Thus, most of the 1994/95 crop has been sold at mid-1994 prices.

The current account deficit (excluding grants) is projected to widen initially to 14 percent of GDP in 1994, compared with slightly over 10 percent on average in 1991-93, reflecting the technical effects of the exchange rate adjustment in the face of a prospective increase in nominal GDP of less than 45 percent. Subsequently, the sustained growth of exports (about 10 percent on average in 1995-97 in volume terms) is expected to reduce the deficit significantly to less than 8.5 percent of GDP in 1996 and below 8 percent thereafter. The debt-to-GDP ratio is projected to decline from 145 percent in 1994 to 121 percent in 1996, and the debt service ratio from 36 percent in 1994 to 20 percent in 1996 (Appendix VII, Table 8).

Structural reforms will focus on streamlining cotton marketing, the financial and managerial restructuring of the Office Togolais des Phosphates (OTP), and an acceleration of the privatization program.

2. Fiscal policy for 1994 and 1995

The Togolese authorities indicated that the primary objective of fiscal policy in 1994 and 1995 would be to reverse the recent decline in tax revenue and improve the structure of expenditure. To this end, the tax reforms initiated under the last Fund-supported program will be brought up-to-date and reinforced, emphasizing the broadening of the tax base and the coverage of the informal sector, as well as the strengthening of collection and audit procedures. The recovery of revenue will permit the allocation of more resources to social programs, investment, and the reduction of net debt to the domestic banking system (excluding net Fund transactions); at the same time, the exceptional advances obtained from public enterprises in 1993 and the first half of 1994 will be repaid and significant steps will be taken to eliminate domestic arrears.

The revenue/GDP ratio is programmed to recover from below 11 percent in 1993 to 16 percent in 1995. A number of tax reforms will be introduced during 1994-95, which could raise revenue by 1 to 1 1/2 percentage points of GDP on an annual basis. The withholding tax adopted in 1993 (as described above) was introduced in July 1994: the tax rate, currently ranging between 0.5 and 1.5 percent, will be raised to 3 percent at the beginning of 1995; the withholding tax will constitute a final tax payment for small taxpayers. In addition, the reformed taxation of foreign-financed projects, which was also adopted with the Budget Law of 1993 and eliminates tax exemptions, will become operational at end-1994. The reform introduces a tax credit system to avoid aggravating cash flow problems, as the taxes on public contracts will have to be borne by the public administration. The reform is intended to eliminate abuses of exemptions.

A key reform will involve the substitution of a generalized, single-rate, VAT, with no exemptions, for the current sales tax (TGA). The VAT will also be applied to the consumption of public services (electricity, telephone), which, heretofore, had been exempted from the TGA. The draft law and implementing decrees on the VAT are being prepared and will be submitted to Parliament at the beginning of 1995. The taxation of small

businesses will be overhauled in 1995-96, with a single tax on business income (TPU) replacing all current business taxes.

Measures to improve tax administration and collection include: (a) the establishment in June 1994 of a special department responsible for managing the accounts of the largest taxpayers; (b) the registry of taxpayers on the basis of a single identification number for all fiscal liabilities (September 1994); (c) the replacement of the current taxroll-based collection procedures by a system of self-assessment and payment by the taxpayers (end-1994); and (d) the computerized verification of tax declarations and payments, and follow-up of delinquent taxpayers (end-1994). The preparation and implementation of these new taxes and tax administration measures benefitted from Fund technical assistance in 1992-93; additional assistance will be provided during the program period.

The Togolese authorities consider it imperative that the broad integrity of the tax system be preserved in the aftermath of the devaluation. Thus, efforts to attenuate the impact of the exchange rate change on retail prices by temporarily reducing customs duties have been limited to a short list of widely consumed, socially sensitive goods (petroleum products, milk, salt, medicines, and some school supplies). The effect of these tax rate reductions is to lower estimated revenue by somewhat less than CFAF 3 billion in 1994, including CFAF 2.5 billion on account of lower petroleum taxation. In contrast, direct taxes paid by public enterprises in the export sector (phosphate company, cotton marketing) will increase substantially as a result of the exchange rate adjustment; the combined contribution of the phosphate and agricultural export sectors is projected to be equivalent to 1-2 percent of GDP per year over the program period, compared with an average of about 0.5 percent during 1990-92.

Overall, as a result of these measures and the expected pick up of activity in the formal sector of the economy, government revenue should rise from the equivalent of 10.8 percent of GDP in 1993 to 11.8 percent in 1994, and almost 16 percent in 1995, close to the objective of achieving the level of 1991 by 1996.

On the expenditure side, the program focuses on the repayment of arrears, the containment of the wage bill, and an increase in resources allocated to education and health and to priority investment. With regard to the wage bill, no increases in salary will be granted in 1994. However, to restore confidence and ensure the proper functioning of the administration, priority will be given to repaying the two full months of 1993 salary arrears still outstanding in mid-1994 (one month's arrears was paid with foreign assistance in early 1994) as well as the arrears to the civil service retirement fund. A review of civil servants' salaries will be conducted in early 1995, aimed at containing the wage bill consistently with developments in revenue. The program aims at reducing the share of total revenue absorbed by the wage bill to well below 48 percent by 1997.

In order to improve efficiency in the public administration, an Interministerial Commission was established in mid-1994 to examine the possible redundancy of personnel and design personnel staffing plans by ministerial departments. The commission will also examine in 1995 the possibility of introducing a voluntary departure program. The authorities explained that, given the poor experience elsewhere in the region with departure programs as a means of reducing expenditure, they thought it prudent not to impute savings to such a scheme in the early stages of the program. The work of the commission will be discussed with Fund staff on the occasion of the midterm review and initiatives to reduce government employment will be part of the discussion for the second year program, so that the wage bill can be kept at or below 54 percent of revenue in that year and to continue declining thereafter. With regard to nonwage expenditure, a key objective is to avoid the recurrence of arrears; to that end, consumption of public utility services is to be strictly contained, with budgetary allocations in the coming years kept consistent with planned consumption.

Overall, total government expenditure will be kept around 27 percent of GDP in 1994 and 1995, with the decline in primary current spending allowing for recovery in investment expenditure, which will rise from 3 percent of GDP in 1994 to 7 percent in 1995 or close to the levels of 1989-90.

The program envisages a reduction of identified domestic arrears at the level of the Treasury by CFAF 7 billion in 1994 and by over CFAF 8 billion in 1995. In addition, arrears amounting to CFAF 2 billion, and for which no payments orders have yet been issued by the Treasury, will be settled in 1995. Nonreschedulable external arrears, representing obligations to multilateral donors, will be repaid by end-June 1995. To accelerate the repayment of arrears, and in view of the sizable liquidity currently available in the banking system, the Government will make recourse in the second half of 1994 to borrowing from domestic commercial banks, up to an amount of CFAF 12 billion, which will be repaid in 1995 with the proceeds of the already identified external financial assistance. The Government will also repay before end-December 1994 the advances from the Central Bank that exceed the statutory limit (CFAF 3 billion at end-1993). Securitization of domestic arrears may be considered in due course.

As a result of these operations and of the envisaged use of Fund resources, domestic financing of the Government is projected at about CFAF 18 billion in 1994, and a negative CFAF 2.5 billion in 1995.

Given the project aid that is in prospect, scheduled amortization, and the need to settle external arrears, exceptional financing requirements would reach CFAF 117 billion in 1994 and CFAF 97 billion in 1995. Details on sources for the financing are in Section 7 below.

3. Monetary and credit policies

Monetary and credit targets have been set consistent with the objective of containing inflation (as measured by changes in the GDP deflator) at

30 percent in 1994 and around 6 percent by 1995, and securing a rise in external reserves. The monetary targets are in line with the regional objectives of the WAEMU.

The monetary program for 1994 assumes a rise in velocity to 3.0, up from 2.2 the previous year, as economic agents are expected to reconstitute their real money balances only gradually following the CFA franc devaluation. This increase in velocity is consistent with a 31 percent increase in broad money. Bank lending to Government will expand by 10 percent of the end-1993 money stock, reflecting the net use of Fund resources (CFAF 5.3 billion) and short-term exceptional financing from commercial banks to settle arrears more rapidly and repay the Central Bank. In 1995, repayment of the 1994 bridge financing of the Government by the commercial banks will imply negative net lending to the Government, despite a net use of CFAF 11.6 billion of Fund resources.

In 1994, credit to the economy is programmed to increase by 18 percent, or less than nominal GDP growth; as credit to the major public enterprises should be strictly limited, adequate credit will be available for the rest of the private sector to finance crop credit and the needed increase in working capital. Overall, in 1994, net domestic assets are targeted to increase by some 23 percent of the end-1993 money stock, which would be consistent with an increase in net foreign assets of 7 percent of the end-1993 money stock.

The reconstitution of real money balances is expected to continue in 1995 and 1996, with velocity declining gradually to 2.3 in 1997, the level that prevailed before the abrupt fall in money holdings in 1992-93. The expected decline in velocity is also predicated on the income effect of the improvement in the terms of trade and on an interest rate policy that maintains the attractiveness of investments in CFA francs. In 1995, consistent with a decline in velocity to 2.8, the stock of broad money is projected to grow by 23 percent, compared with a nominal GDP growth rate of 15 percent. With net domestic assets programmed to grow by some 3.7 percent as credit to the Government remains flat, monetary growth would be sufficient to finance a continued increase in net foreign reserves.

During the program period, the monetary authority will seek to maintain interest rates that encourage the repatriation of capital and ensure efficient resource allocation. That would normally imply a premium over the short-term rates prevailing on the French money market and, given rapidly abating inflation to European levels, continued positive real rates.

The Central Bank is expected to introduce the necessary adaptations in the functioning of the regional money market, which has shown shortcomings in the first semester of 1994, and has led to a situation in which banks hold large nonremunerated balances at the Central Bank; liquidity control will have to remain a main objective of a more efficient money market.

4. Structural reform and price policies

In addition to structural fiscal measures, the Togolese authorities intend to undertake a program of structural reforms as outlined in the policy framework paper and accompanying policy matrix.

Structural reforms in the agricultural sector are designed to ensure that recent gains in competitiveness will result in improved incentives for production. Producer prices for cash crops (cotton and coffee) were raised significantly in June 1994 for the 1994/95 crop year. The producer price of cotton (which had been raised by 22 percent for the 1993/94 crop year) was raised by a further 32 percent to CFAF 145 per kilo for the 1994/95 crop year; this will be accompanied by a needed improvement in the income position of SOTOCO and related increase in government tax revenue, as the pass-through of the devaluation to the producer will be less than full. The price for coffee was raised from CFAF 200 per kilo to CFAF 350 per kilo. In addition, the exchange rate adjustment is expected to encourage diversification into nontraditional exports; there are already indications that domestically produced consumer staples such as millet, maize, cassava, and yams have become more competitive relative to imported foodstuffs and are gaining at the expense of traditional cash crops.

In the cotton sector, the authorities intend to continue implementing the 1992 action plan to reduce marketing, transportation, and processing costs, which are higher in Togo than in other countries in the region. In February 1994 the Government, in consultation with the World Bank, decided to transfer cotton marketing from the state agricultural crops marketing agency (OPAT) to SOTOCO. The necessary draft legislation will be presented to the National Assembly in August 1994. Measures regarding the possible relocation of OPAT employees will be devised with the assistance of donors.

In the phosphates sector, the cost-cutting measures implemented in 1993, the expected production increase (to 2.1 million tons in 1994 and 2.2 million tons in 1995) and the exchange rate adjustment are expected to raise OTP's operating profits significantly, although the company is still burdened by heavy financial costs. The allocation of its net after-tax profits will be decided by the company's Supervisory Council and reviewed with Fund and Bank staff at the time of the midterm review. A financial restructuring operation will be implemented in 1995, on the basis of a financial and management audit to be conducted with World Bank assistance before end-1994.

Elsewhere in the public sector, with the assistance of the World Bank, the Togolese authorities intend to accelerate the liquidation of loss-making enterprises, the privatization of nonstrategic corporations, and the restructuring of enterprises remaining in Government hands in order to increase their efficiency. To date, 30 enterprises that were covered by the first phase of the reform program have been privatized or liquidated. The Government intends to divest a second group of five companies. In addition, for enterprises in which the Government's stake ranges from 5-90 percent, procedures will be finalized by end-1994 for the disposition of government

holdings. As indicated in paragraph 38 of the Policy Memorandum for 1994-95, the legal framework for divestiture was adopted by the Government in June 1994, a first implementing decree concerning the establishment of the Privatization Commission was also adopted, and the remaining implementing decrees will be enacted before end-1994. The enterprises affected by the divestiture are in relatively sound financial positions and include banks, a brewery, a cement company, and a gas distribution company. Further progress is to be made in restructuring banks, with the completion of the liquidation of the agricultural credit bank (CNCA), the liquidation or recapitalization of the commercial bank (BALTEX), and the restructuring of the investment financing agency, SNI.

The authorities are also taking measures to foster the development of the private sector. To that end, institutional structures supporting the private sector are being strengthened (see policy framework paper, paragraph 50). A single window for investments in the free export zone was established in 1993, and more flexibility in hiring practices is to be provided by the new labor code, which is to enter into effect before end-1994 after some delay.

5. Social aspects

In the main, the program is expected to have a positive social impact as the economy recovers from the recession of the last three years and higher investment and competitiveness gains contribute to significant growth in per capita income. The export- and import-competing sectors of the economy, in particular, stand to benefit from higher producer prices and higher profit margins. In addition, civil servants' purchasing power is expected to be boosted by the settlement of salary arrears in addition to regular salary payments.

The program contains measures that are targeted specifically at improving social conditions. The public investment program, which is being expanded significantly, provides for labor-intensive projects in urban centers and rural areas, with the support of external assistance. The "Food for Work" programs funded by foreign donors are also to be expanded. The credit union network, which supports small projects in urban and rural areas, will be reinforced. An emergency social program, originally scheduled for 1992, will be put in place in 1994-95; the program, which is financed by external grants, will focus on the rehabilitation of the basic infrastructure for health and education and on the purchase of textbooks and school supplies. In 1994-95, the employment and training program for graduates without jobs will be continued with foreign financial assistance. This program provides jobs for a two-year period for half of the reference salary, giving early professional experience to a significant number of unemployed people.

The authorities have been concerned about easing the impact of corrective price adjustments of the devaluation on vulnerable groups. Accordingly, with due regard to budgetary implications, they have taken a number of limited fiscal measures designed to attenuate the increase in

prices of a small number of consumer staples and sensitive goods. The duties levied at customs on sugar, milk, salt, medicines, and school supplies were reduced at end-February, with a fiscal impact estimated at CFAF 200 million. In addition, tax concessions have been granted for petroleum products; these have had the effect of limiting price rises to a range of 4-12 percent, with an expected 12-month fiscal impact of CFAF 2.5 billion. Petroleum prices will be kept under close review during the program period, taking into account international price movements. Finally, while the cost of electricity will rise substantially owing to the devaluation (most electricity is imported from Ghana's Volta River Authority and paid for in foreign exchange), the Government has decided to limit the initial increase in the electricity tariff to 15 percent. This increase will take place in the second semester of 1994; it will require a temporary subsidy amounting to about CFAF 3.5 billion on a 12-month basis. The subsidy will be phased out by early 1997, as electricity tariffs are brought into line with costs. The tariff revision policy will be discussed with the staff at the time of the midterm review of the program. At the same time, cost-cutting measures will be implemented. Regarding the prices of cereals (rice and flour), the Government has decided not to modify taxes but instead to allow a full pass-through of the devaluation in order to induce a shift in consumption to locally produced substitutes.

The system of price monitoring (homologation), which covers 11 products, and which involves prior approval for price changes on the basis of actual costs, will be liberalized in 1994-95. The number of products involved will be cut to eight before end-1994.

6. External policies

On August 2, 1993 the BCEAO suspended the repurchase of CFA franc bank notes in circulation outside the CFA franc zone. According to the Togolese authorities, the rationale for this measure was to stem capital flight, in addition to strengthening fiscal control by forcing the informal sector to use official channels in making payments for international transactions. It is not envisaged that the suspension will be rescinded in the immediate future. The authorities emphasized that the limits on travel and business allowances were handled liberally, and that all bona fide requests for allowances in excess of these limits were granted.

The staff encouraged the authorities to take steps to accept the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement. The authorities noted that a move to Article VIII status would be premature in present circumstances. They indicated that, although Togo does not maintain any restrictions on payments and transfers for current international transactions, consideration of a formal acceptance of Article VIII obligations would have to be coordinated with the other member

states of the West African Economic and Monetary Union (WAEMU), 1/ and would need to await a strengthening of the external position and the return of confidence.

As indicated in the policy framework paper, the Government has liberalized further the system of foreign trade in 1992, eliminating the remaining export licensing requirements for agricultural products. The Government also intends to continue simplifying procedures for import clearance. During the course of the program period, the Government will work with its partners in the WAEMU to reach a consensus on a common external tariff in the context of a regional tax harmonization program. It will also study the possibility of reducing import taxes applicable to intra-WAEMU trade, with a view to stimulating the flow of goods and services within the Union.

7. Financing requirements for 1994 and 1995

As indicated above, Togo's total exceptional financing needs are estimated at CFAF 117 billion (SDR 145 million) in 1994, and CFAF 97 billion (SDR 120 million) in 1995. Assuming conditions similar to those obtained in 1992, debt relief from the Paris Club could amount to CFAF 73 billion in 1994 and CFAF 21.4 billion in 1995. With the support of IDA and of bilateral lenders, the Government intends to buy back in 1995, on appropriate terms, its US$60 million debt to commercial banks. To cover the remainder, some CFAF 44 billion in 1994 and CFAF 46 billion in 1995, Togo has been in discussions with multilateral and bilateral donors. Current indications are that the 1994 gap would be fully covered, and there are good prospects that assistance for 1995 will be forthcoming on the required scale.

8. Prior actions, quantitative and structural performance criteria, and benchmarks

The program includes, as prior actions, the submission to the National Assembly before end-August, 1994, of a 1994 Budget consistent with the program objectives, and of the law providing for the transfer of cotton marketing from the state marketing agency (OPAT) to the cotton processing company (SOTECO). The program includes quantitative performance criteria for end-December 1994, as well as quantitative benchmarks for end-September 1994, end-March 1995, and end-June 1995 as indicated in Appendix VII, Table 11. These quantitative benchmarks and performance criteria consist of: (a) limits on net bank credit to the Government; (b) limits on the net domestic assets of the banking system; (c) reductions in domestic and external payments arrears, with no accumulation of new arrears; (d) limits on new nonconcessional, medium- and long-term external borrowing; and (e) limits on short-term borrowing. A contingency clause will be applied to

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1/ The treaty on regional economic integration, establishing the West African Economic and Monetary Union (WAEMU), was signed by the member countries of the WAMU in Dakar, Senegal, on January 10, 1994.

the reduction of external and domestic arrears and to bank credit to the Government, providing that the arrears reduction targets will be reduced or raised and/or the limits of bank credit to the Government will be adjusted upward or downward if exceptional external assistance falls short of or exceeds program projections. 1/

Structural performance criteria comprise: (i) the implementation of tax withholding at customs and at the wholesale level by end-September 1994; and (ii) the presentation to the National Assembly of the legal texts governing the introduction of a generalized VAT by mid-March 1995. Structural benchmarks consist of: (i) the adoption of a domestic arrears reduction plan by end-1994; and (ii) the adoption before end-1994 of all decrees implementing the ordinance regulating the sale of government holdings in Togolese companies.

In addition, the program includes, as quarterly cumulative indicators (i) a floor on total government revenue, (ii) a ceiling on the wage bill, and (iii) a limit on net bank credit to the export marketing agency (OPAT) and the phosphate company OTP. The program provides for a midterm review, to be completed by end-March 1995. The review will focus on the evolution of the economic and financial situation in 1994, and the outlook for 1995, with particular attention to the 1995 budget and associated financing assurances, the revision of the electricity tariff, wage policy, progress in civil service reform, the action plan for bank restructuring, and the financial situation of OTP.

IV. Medium-term Balance of Payments Outlook

1. Medium-term outlook

Togo's medium-term balance of payments prospects should be considerably improved as long as wage and financial policies remain prudent. The current account deficit (excluding grants) is projected to widen in 1994, to CFAF 70 billion (almost 14 percent of GDP), from CFAF 50 billion (12 percent of GDP) in 1992, owing to the higher domestic currency value of traded goods and interest payments. After 1994, however, the deficit is foreseen to decline each year as the improved competitiveness of domestic producers fuels strong growth in export volumes and some substitution of domestic for imported goods. Relative to GDP, the deficit (excluding grants) is thus projected to decline to almost 8.5 percent in 1996 and about 7.5 percent in

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1/ In the event nonproject related external assistance falls short of program projections, the shortfall can be offset by a combination of lower domestic payments arrears reduction, lower external payments arrears reduction, and increase in bank credit, up to a total amount equal to the shortfall. If external assistance exceeds program projections, the excess would be used one half for additional reduction in domestic payments arrears; and one half for additional reduction in bank credit to Government. See paragraphs 29 and 34 of the Policy Memorandum for 1994-95.

1998. With official grants equivalent to 6-7 percent of GDP, this deficit would imply declining net external borrowing; thus, the external debt and debt service ratios are projected to decline during the program period and beyond, with considerable progress toward viability. However, small financing gaps will remain in the years beyond 1998, unless official external financing exceeds current prudent forecasts or private sector capital inflows pick up noticeably. As indicated above, these gaps could be covered by further debt relief, possibly within the framework of a stock of debt restructuring operation.

The volume of exports (excluding re-exports) is projected to grow rapidly, by 12 percent in 1994 and 11 percent in 1995, in response to strengthening external demand and improved competitiveness. Thereafter, export volume growth is projected to abate to a range of 9-10 percent.

Exports of phosphates (about 40 percent of total merchandise exports in 1991) are expected to rise to 2.1 million metric tons in 1994, up from a very depressed level of 1.5 million tons in 1993. Shipments are expected to rise by a further 15 percent in both 1995 and 1996, and somewhat faster in 1997 and 98, reaching 2.8 million tons by 1998. These projections nonetheless remain conservative; exports volume would still be lower than in 1990-91, reflecting Togo's likely difficulties in recovering fully the markets that have been lost.

After a decline in 1994, attributable to a small harvest in the previous year, cotton exports are projected to rebound strongly from 1995 on in response to improved competitiveness, reduced marketing costs, and ongoing efforts to improve extension services and productivity. Cotton shipments are projected to rise by 21 percent in 1995 and by 5 percent a year in 1995 and 1996. A substantial increase in the export of coffee is also projected after 1994. Nontraditional exports are expected to pick up strongly in response to improved incentives, and the liberalization of investment policies and labor legislation. Traditional re-exports are also foreseen to rise from the depressed levels of 1992-93, when the port of Lomé was closed for several months.

On the import side, import volume is projected to decline by 8.5 percent in 1994, reflecting the contraction of domestic consumption and higher import prices. However, import volume is expected to increase by 13 percent in 1995, as a result of the rebound in investment and economic activity in general, and to grow at an average rate of about 7.5 percent thereafter, which would be ahead of the projected increase in real GDP.

The balance of payments nonetheless will remain vulnerable to external shocks. A decline in the price of cotton by 10 percent in 1995, with export values projected to increase thereafter at the same rate as in the baseline, would widen the current account deficit by 0.7 percent of GDP. A lower growth rate of exports volume, for instance of 7.5 percent from 1995 on, instead of slightly less than 10 percent in the baseline scenario, would imply by 1998 a current account deficit equivalent to about 10 percent of

GDP, instead of 7 1/2 percent (Appendix VII, Table 9). This would imply a smaller increase in gross reserves of the banking system.

2. Capacity to repay the Fund

Togo's scheduled debt service to the Fund will rise during 1994-96 as repayments of earlier disbursements of SAF/ESAF loans fall due. Nevertheless, debt service payments to the Fund will remain relatively modest as a percent of exports of goods and nonfactor services, averaging about 2.4 percent in 1997-2007. As a percent of total debt service payments due, debt service to the Fund will increase from 7.1 percent in 1993 to 15.7 percent in 1997 and 16.5 percent in 2000 (Appendix VII, Table 10). In spite of financial difficulties and the emergence of arrears to other creditors in the past, Togo has always discharged its financial obligations to the Fund on schedule. Given the projected strengthening of its fiscal and external position, and the relatively modest amounts of the obligations coming due to the Fund, Togo can be expected to meet its future obligations to the Fund in a timely manner.

The implementation of the program nonetheless is subject to a number of risks. The projections of government revenue are heavily dependent on the value of exports and re-exports, which in turn depend on international prices and conditions in neighboring countries. There is in particular some uncertainty about the extent to which Togo will be able to regain lost market share in phosphates and in regional trade. Moreover, whereas revenue targets are attainable, given Togo's historical tax to GDP ratios, they will require a determined effort on the part of the authorities to rebuild the tax collection machinery and broaden the tax base. The ability of the Government to maintain a prudent wage and spending policy also is a key requirement for the success of the program.

V. Staff Appraisal

The Togolese economy was greatly affected by the unsettled sociopolitical conditions of 1991-93 and much of the ground gained through generally successful adjustment policies during 1986-90 was lost. There was an abrupt contraction of production, income, and government revenue and large external and domestic payments arrears were accumulated. This difficult situation notwithstanding, the authorities sought to contain the financial damage, and endeavored in 1992-93 to strengthen the tax system, curtail government expenditure, and continue their comprehensive privatization program.

With the strengthening of government authority from mid-1993, following a prolonged general strike, steps have been taken to further the adjustment process. Tax administration has been strengthened, a number of tax reforms introduced in order to improve the contribution of the informal sector to government revenue, and significant actions taken to restructure key public enterprises. The population at large nonetheless perceives that Togo is just beginning to emerge from an exceptional situation. Political

uncertainties continued through early 1994 and have been reflected in a persistently subdued level of activity. This, in turn, has caused government revenue to remain well below historical levels in the last months of 1993 and in early 1994. Although hopes of a return to social peace and political normalcy are widespread, time clearly will be needed for confidence to strengthen and domestic conditions to settle down.

Against this background, the reinforcement of the authorities' program through the adjustment of the exchange rate of the CFA franc must be welcome. The devaluation, if properly buttressed by strong fiscal and monetary policies, can be expected to boost export-oriented investment and growth, and improve budgetary and balance of payments prospects.

The staff considers that the program that the authorities have formulated for 1994-95 in the framework of their comprehensive medium-term adjustment strategy represents an appropriate response to the main challenges that confront Togo. The program entails risks which are, however, linked to the inevitable uncertainty in the speed with which the Government can restore order to the public finances.

To be sure, the program calls for a substantial strengthening of fiscal performance, with wide-ranging tax reforms to be conducted with Fund assistance, paralleled by an effort to hold the line on expenditure and, at the same time, improve its composition and raise its efficiency. Wage policy is appropriately restrictive so as to provide scope for outlays on priority infrastructure and social services, and primary current expenditure should therefore decline by at least 3 percentage points of GDP over the three years of the program period. But the programmed recovery in public investment and the need progressively to eliminate the arrears accumulated over the last three years will constrain the pace of reduction of the overall deficit and imply sizable, albeit rapidly declining, exceptional financing requirements.

In these conditions, it is essential that the envisaged tax reforms be introduced speedily and with determination, so as to achieve a rapid rebuilding of the revenue base. This is the area of greatest risk to the program. The authorities will have to be unwavering in their effort to restore normal tax collections, share in the prospective income gains of the traded goods sector, and aim at raising receipts to a level even higher than that prudently called for by the program. In addition, the firm pursuit of a prudent wage policy is crucial not only to the success of fiscal adjustment but also to holding down wage costs throughout the economy. The authorities must be encouraged to strive for further economies through a rationalization of staffing plans and a pruning of the government work force, where feasible. This may require the adoption of a volunteer departure program and other measures to shrink the payroll in the context of the second-year ESAF program.

The authorities are to be commended for avoiding any subsidy on imported staple foods and for letting relative price changes encourage shifts in consumer demand toward locally produced staples. In the area of

energy pricing, the policy of gradual and controlled adjustment of electricity rates will have to be kept under careful review, and the authorities will have to make further adjustments on a timely basis so as to ensure that the subsidy on electricity can be phased out as early as possible.

The program includes social safety net measures that focus on a few key products for which tax concessions have been granted for the vulnerable groups, and on specific employment creating initiatives, notably through a public work program. It is important that these initiatives be carefully focused on those most severely affected by the early phases of the adjustment process and that their scope be reassessed as general economic conditions improve.

The program provides for stepped-up privatization plans, which should contribute both to strengthening the public finances and to increasing economic efficiency. The authorities have already taken significant cost-cutting measures in the phosphate company and at the Port of Lomé, and they should proceed swiftly with the required restructuring of the cotton sector.

The elimination of domestic and external payments arrears must be a priority of the program, to restore orderly supply conditions and normalize relations with creditors. The stretching over four years of the reduction in domestic arrears has been imposed by the tight fiscal situation that remains in prospect and the need to be conservative in estimating revenue growth. The staff would want to encourage the authorities to use any potential saving on the wage bill and electricity subsidies to speed up arrears reduction and also to envisage securitization of government debt whenever feasible. This would have the additional advantages of lowering prospective exceptional financing requirements and laying the basis for the emergence of a small financial market.

In the area of monetary policy it is important in the staff's view that the BCEAO take advantage of the money market that has been in operation since October 1993 to let market mechanisms operate with the support of appropriately designed and diversified instruments and that market-determined interest rates serve as a guide for the allocation of financial resources.

Togo continues to avail itself of the transitional arrangements under Article XIV, Section 2, but intends to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions. The staff has encouraged the authorities to accept the obligations of Article VIII, Sections 2, 3, and 4 of the Fund Articles of Agreement as soon as possible.

In the view of the staff, the authorities have shown a strong commitment to implementing the program effectively so as to take full advantage of the devaluation, to regain the ground lost in the last three years, and return to sustainable economic growth and external viability over the medium term; however, given the challenges that are being faced after

three years of instability, the authorities need to stand ready to take any additional measures that may be required to ensure rigorous implementation of the program. In light of the policy actions that have already been taken, and commitments regarding further adjustment and reform measures, the staff believes that Togo's program deserves the support of the Fund under the enhanced structural adjustment facility.

It is recommended that the next Article IV consultation with Togo be held on the standard 12-month cycle.

VI. Proposed Decision

In view of the foregoing, the following draft decision is proposed for adoption by the Executive Board:

1. The Government of Togo has requested a three-year arrangement under the enhanced structural adjustment facility, and the first annual arrangement thereunder.

2. The Fund notes the policy framework paper for Togo set forth in EBD/94/144.

3. The Fund approves the arrangements set forth in EBS/94/169.

TOGO

Three-Year and First Annual Arrangements Under the Enhanced Structural Adjustment Facility

Attached hereto is a letter with annexed Memorandum on Economic and Financial Policies of the Government of Togo dated August 12, 1994, from the Minister of Economy and Finance of Togo, requesting from the International Monetary Fund a three-year arrangement under the enhanced structural adjustment facility, and the first annual arrangement thereunder, and setting forth:

(i) the objectives and policies of the program to be supported by the three-year arrangement;

and

(ii) the objectives and policies of the program to be supported by the first annual arrangement.

To support these objectives and policies, the Fund grants the requested arrangements in accordance with the following provisions, and subject to the Instrument to Establish the Enhanced Structural Adjustment Facility Trust, as amended:

1. (a) For a period of three years from -----, 1994, Togo will have the right to obtain loans from the Fund under the enhanced structural adjustment facility, in a total amount equivalent to SDR 65.16 million, subject to the availability of resources in the Enhanced Structural Adjustment Facility Trust.

(b) The amount of the first annual arrangement will be the equivalent of SDR 21.72 million; the amount of the second annual arrangement will be the equivalent of SDR 21.72 million; the amount of the third annual arrangement will be the equivalent of SDR 21.72 million.

(c) Under the first annual arrangement:

(i) the first loan, in an amount equivalent to SDR 10.86 million, will be available on --, 1994 at the request of Togo, and

(ii) the second loan, in an amount equivalent to SDR 10.86 million, will be available on March 31, 1995 at the request of Togo, subject to paragraph 2 below.

2. Togo will not request disbursement of the second loan specified in paragraph 1(c)(ii) above

(a) if the Managing Director finds that the data at the end of December 1994 indicate that

(i) the limit on net bank credit to the Government; or

(ii) the limit on the net domestic assets of the banking system, or

(iii) the target on the reduction of existing external payments arrears, or

(iv) the target on the reduction of verified government domestic payments arrears, or

(v) the limit on the contracting or guaranteeing by the Government of nonconcessional loans of maturities of 1 to 15 years; or

(vi) the limit on short-term external borrowing with less than one year's maturity,

as described in paragraph 49 of the memorandum annexed to the attached letter and specified in Table 1 attached thereto, is not observed; or

(b) if Togo has not carried out its intentions with respect to the structural performance criteria regarding:

(i) the issuance of implementing decrees of the system of withholding tax at customs and at the wholesalers' level; or

(ii) the presentation to the National Assembly of a draft law regarding the introduction of a generalized VAT,

as described in paragraphs 22 and 23, respectively, and paragraph 50 of the memorandum annexed to the attached letter; or

(c) if Togo

(i) has imposed or intensified restrictions on payments and transfers for current international transactions; or

(ii) has introduced or modified multiple currency practices, or

(iii) has concluded bilateral payments agreements that are inconsistent with Article VIII, or

(iv) has imposed or intensified import restrictions for balance of payments reasons; or

(v) has accumulated any new external payments arrears; or

(d) until the Fund has determined that the midterm review of Togo's program referred to in paragraph 5 of the attached letter and paragraph 51 of the memorandum annexed thereto has been completed.

If the Managing Director finds that any of the performance clauses that have been established in or under this paragraph 2 have not been met, the second loan specified in paragraph 1(c)(ii) above may be made available only after consultations have taken place between the Fund and Togo, and understandings have been reached regarding the circumstances in which Togo may request that second loan.

3. Before approving the second annual arrangement, the Fund will appraise the progress of Togo in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, taking into account primarily:

(a) the indicators referred to in paragraph 49 of the memorandum annexed to the attached letter and Table 1 annexed thereto;

(b) imposition or intensification of restrictions on payments and transfers for current international transactions;

(c) introduction or modification of multiple currency practices;

(d) conclusion of bilateral payments agreements that are inconsistent with Article VIII; and

(e) imposition or intensification of import restrictions for balance of payments reasons.

4. In accordance with paragraph 3 of the attached letter, Togo will provide the Fund with such information as the Fund requests in connection with the progress of Togo in implementing the policies and reaching the objectives supported by these arrangements.

5. In accordance with paragraph 4 of the attached letter, during the period of the first annual arrangement, Togo will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests such a consultation. Moreover, after the period of the first annual arrangement and while Togo has outstanding financial obligations to the Fund arising from loans under that arrangement, Togo will consult with the Fund from time to time, at the initiative of the Government or whenever the Managing Director requests consultation on Togo's economic and financial policies. These consultations may include correspondence and visits of officials of the Fund to Togo or of representatives of Togo to the Fund.

Lomé, August 12, 1994

Mr. Michel Camdessus
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Camdessus:

1. On May 20, 1992 the Fund approved the third annual arrangement under the enhanced structural adjustment facility (ESAF) for Togo, in an amount equivalent to SDR 15.36 million. This arrangement expired without Togo completing the midterm review and drawing the second loan under that arrangement, because of slippages in the program execution during the second half of 1992 due to serious socioeconomic disturbances. Since the second semester of 1993, and with the gradual recovery of economic activity, the Government has resumed the execution of the adjustment program.

In the framework of the preparation of the program for 1994, the Government has reinforced the adjustment effort with the change in parity of the CFA franc, in collaboration with the other countries of the franc zone, and with the acceleration of structural reforms; at the same time macroeconomic policies will remain prudent. The program aims at achieving a faster growth rate and restoring the financial viability over the medium term. In collaboration with the staffs of the Fund and the World Bank, the Government of Togo has prepared an updated policy framework paper, covering the period 1994-97, which is being transmitted to you under separate cover.

2. The attached memorandum on economic and financial policies describes the objectives and policies that the Government of Togo intends to pursue during the next three years, as well as the objectives and policies incorporated in the program for 1994-95. In support of these objectives and policies, the Government requests a new three-year arrangement under the ESAF in an amount equivalent to SDR 65.16 million (120 percent of quota), and the first annual arrangement thereunder in an amount equivalent to SDR 21.72 million (40 percent of quota).

3. The Government of Togo will provide the Fund with any information it may request regarding the progress achieved in the implementation of its economic and financial policies and in the attainment of program targets.

4. The Government of Togo believes that the policies and measures described in the attached memorandum on economic and financial policies are adequate to achieve the objectives of the program, but will take any other measures that may become necessary for this purpose. During the period of the arrangement, the Government will consult with the Managing Director concerning the adoption of such measures, at its own initiative or at the request of the Managing Director. In addition, after the period of the first annual arrangement, and so long as Togo continues to have outstanding financial obligations to the Fund resulting from loans made under this arrangement, the Government will consult with the Fund from time to time about its economic and financial policies, at its own initiative or at the request of the Managing Director.

5. The Government of Togo will conduct with the Fund a midterm review under the first annual arrangement, to be completed not later than March 31, 1995. The review will assess economic and financial developments during 1994, the budget for 1995 and the prospects for the rest of the year.

Sincerely yours,

/s/

M. Elom Emile Dadzie
Minister of Economy and Finance

Attachments: Memorandum on Economic and Financial Policies

TOGO

Memorandum on Economic and Financial Policies

August 12, 1994

I. Introduction and Recent Developments

1. After a period of sustained adjustment in 1986-90, Togo's economic and financial situation began to deteriorate markedly in 1991, owing mainly to social and political instability. Overall economic activity was hampered by social disturbances and strikes ahead of the National Conference that was convened during June-August 1991. Real GDP fell by 0.9 percent in 1991, and the Government's financial situation weakened because of a sharp drop in revenue and a significant rise in the wage bill as a result of wage increases. Consequently, the overall fiscal deficit widened, leading to a substantial accumulation of domestic and external arrears.

2. In early 1992, the new Government that emerged from the National Conference adopted a series of measures aimed at raising revenue and containing expenditure. These measures were undertaken in the context of a medium-term program designed to restore domestic and external financial viability while fostering economic recovery. The program called for: (i) the implementation of reform measures designed to broaden the tax base, in particular to the informal sector; (ii) the containment of the wage bill; (iii) an acceleration of the process of public enterprises privatization; and (iv) the restructuring of the phosphate producing company (Office Togolais des Phosphates, OTP) and the cotton sector. In support of this program, the IMF approved on May 20, 1992 the third annual arrangement under the enhanced structural adjustment facility (ESAF), and Paris Club creditors agreed in June 1992 to reschedule eligible debt service falling due during the period July 1992-June 1993 on enhanced concessional terms. The program had been predicated in part on the rapid stabilization of the social and political situation, which was expected to help in bolstering the economic recovery. However, the persistence of social and political uncertainties seriously hindered program execution.

3. In 1992, the overall economic and financial situation deteriorated further because of the deepening of the social and political crisis and of slippages in program implementation. In November 1992 a general strike was declared and lasted until the second quarter of 1993, paralyzing activities especially in the formal sector of the economy. By mid-March 1993 a gradual recovery started. Available estimates indicate that real GDP declined by 8.8 percent in 1992 on account of slackening activity in the secondary and tertiary sectors. In the area of public finance, revenues dropped substantially, leading to an important accumulation of payments arrears. In

1992 budgetary revenue, at CFAF 72.6 billion, was CFAF 6.3 billion below the 1991 level and some 22 billion less than programmed. Current expenditure fell from CFAF 94.6 billion in 1991 to CFAF 83 billion in 1992, compared with a program estimate of CFAF 90 billion. The wage bill was lower than programmed because of the general strike during the last month and a half of 1992, and expenditure on materials and supplies was cut sharply because of the revenue shortfall. Investment expenditure in 1992 was estimated at CFAF 15.7 billion, as against CFAF 20.4 billion in 1991 and a program projection of CFAF 30 billion. In the event, the overall fiscal deficit, excluding grants, was equivalent to 6.2 percent of GDP, significantly below the previous year's level (7.9 percent), but above the program target of 5.2 percent. Because of cash flow difficulties and because of the interruption of foreign aid disbursement, the deficit was partly financed through the accumulation of domestic and external payments arrears (totaling CFAF 7.3 billion and CFAF 6.6 billion, respectively), whereas the program had sought a reduction in the Treasury's domestic arrears from CFAF 14.5 billion in 1991 to CFAF 6.5 billion, and no accumulation of external arrears. There were also delays in the issuance of payment orders to settle public utility bills. The Government's net recourse to the banking system amounted to CFAF 3.4 billion, including the use of CFAF 4 billion of Treasury's deposits held abroad.

4. The overall economic and financial situation remained very difficult in 1993 as economic activity declined sharply in the first quarter and picked up only moderately in the following months. Available estimates indicate that real GDP contracted by about 13.5 percent. Phosphate production fell to 1.8 million metric tons, from 2.1 million tons in 1992. In contrast, agricultural production improved in 1993 as a result of favorable weather conditions and increased cultivation during the strike. Consequently, food production rose by 23 percent, leading to a drop in retail food prices.

5. The decline in economic activity had a major adverse impact on government finance. In the first half of 1993, budgetary revenue amounted to CFAF 8 billion. For the year as a whole, government receipts are estimated to have reached only CFAF 38.2 billion, or about 50 percent of the 1992 level. On the other hand, current expenditure rose slightly to CFAF 84.8 billion, even though the wage bill (on a commitment basis) amounted only to CFAF 38.5 billion (CFAF 38.6 billion in 1992), because of the continued work stoppage early in the year. With total expenditure amounting to CFAF 93.0 billion, the overall fiscal deficit, excluding grants, widened to CFAF 54.8 billion, equivalent to 15.5 percent of GDP.

6. To cover the deficit, exceptional measures were taken. The Treasury had recourse to advances from the Offices des Postes et Télécommunications Togolaises (OPTT), the Social Security Agency (CNSS), the Autonomous Port of Lomé, and other enterprises in the amount of CFAF 17.5 billion, of which a part represented advance payments of taxes, dividends, and debt service. A comprehensive analysis of the allocation of these advances will be completed by end-September 1994. Furthermore, the Government borrowed CFAF 3.2 billion from the Central Bank, thereby exceeding the statutory ceiling, and

also used bank deposits, including the balance of deposits held abroad, for a total of CFAF 7.9 billion.

7. Despite these exceptional financing measures, there was a further accumulation of arrears in 1993. In the first quarter of the year, only the security forces were paid, and for the rest of the year, only six months salaries were paid to civil servants. At end-December 1993, salary arrears amounted to CFAF 15.1 billion, including CFAF 5.1 billion of pension contributions not transferred to the Civil Service Pension Fund (CRT) and the CNSS. Moreover, no payments were made for public utility services. It is estimated that domestic nonwage arrears at the Treasury increased by CFAF 12.9 billion, to about CFAF 49 billion at end-1993. This amount includes CFAF 21.7 billion in balances on transitory accounts (comptes de consignation). In addition, arrears to public utilities (water, electricity and telephone) not yet recorded at the Treasury, increased further because of delays in the process of billing and preparation of payment orders.

8. Despite an improvement in the trade account, which reflected a decline in traditional exports that was more than compensated by the contraction in imports, the overall balance of payments deteriorated further in 1993. Export receipts amounted to CFAF 61 billion, or 29 percent less than in 1992; imports dropped by an estimated 36 percent. Thus, the current account deficit (excluding official grants), at 10.4 percent of GDP, was lower than in 1992. However, as official grants declined markedly and the capital account deteriorated, the overall balance of payments deficit reached CFAF 62 billion (CFAF 45.0 billion in 1992). This led not only to a sizable loss in reserves but also to an accumulation of arrears to bilateral and multilateral creditors. In 1993 official reserves declined by CFAF 35.4 billion, following a fall of CFAF 22 billion in 1992. Togo's external payments arrears grew by CFAF 19.4 billion to an estimated CFAF 32.1 billion. After the exchange rate adjustment of January 12, 1994 and the debt cancellation granted by France, external arrears outstanding amounted to CFAF 62 billion.

9. With the normalization of the social and political situation in early 1994, the prospects were for a significant recovery in economic activity. Nonetheless, it was apparent to the authorities that reliance on a strategy based solely on internal adjustment measures could not credibly address Togo's severe economic and financial imbalances. Given the loss of competitiveness in recent years, it was evident that this strategy could not ensure sustained and lasting growth and foster the required diversification of the economy. In particular, the penetration of the domestic market by importers from competing countries in the subregion that have pursued more flexible exchange rate policies, as well as the financial difficulties faced by the export sectors, were key indicators of the need for an exchange rate adjustment.

10. Against this background, in concert with the other member countries of the franc zone, and mindful of the need for regional solidarity, the Government of Togo joined its partners in adjusting the parity of the CFA

franc from CFAF 50 to CFAF 100 per French franc, effective January 12, 1994. At the same time, the Government resolved to reinforce this action with appropriate macroeconomic and structural adjustment measures.

11. In the first half of 1994, economic activity was somewhat subdued in the secondary and tertiary sectors, because of the impact of the devaluation on household's purchasing power, and of the political uncertainties associated with the delayed formation of the new Government following parliamentary elections. Domestic consumption remained depressed, with negative consequences for indirect tax revenue. Receipts from the general sale tax (Taxe Générale sur les Affaires) amounted to CFAF 1.4 billion compared with CFAF 2.8 billion during the same period in 1991. During the first five months of 1994, import activity through the harbor of Lomé resumed only modestly; consequently, customs duties, although rising, amounted only to CFAF 1.8 billion a month on average compared to CFAF 2.4 billion in the same period of 1992. In the first half of 1994, investment activity remained very low in the public sector as well as in the private sector. In the public sector, the low level of investment spending reflects the financial difficulties of the Government and the lack of external financing owing to delays in resuming cooperation with a number of donors. Capital expenditure in the private sector suffered from continued political uncertainties and the depressed level of economic activity. Regarding monetary developments, the first six months of 1994 were marked by a significant increase in bank deposits and in currency in circulation which led to a rise in the gross foreign assets of commercial banks (CFAF 8.2 billion) and of the BCEAO. Compared with end-December 1993, credit to the private sector remained relatively stable.

12. Available data indicate that the 1993/94 crop year will be better than the preceding one. Coffee production increased from 12,000 tons to 15,000 tons, while cotton production is expected to reach at least 100,000 tons, as against 82,000 tons in 1993. Producer prices for the crop year 1994/95 were raised substantially in June 1994, except for cocoa. For coffee, the price increased from CFAF 200 per kilogram to CFAF 350; for cotton, the producer price, already adjusted after the parity change from CFAF 90 per kilogram to CFAF 110, was increased further in June, to CFAF 145 per kilogram.

13. During the first half of 1994, the Government's financial situation remained extremely tight, owing mainly to the low level of revenue, which totaled CFAF 24 billion for the first five months. As a result, government operations were again financed through exceptional advances from public enterprises, for a total of CFAF 6.4 billion. Of this amount, CFAF 4 billion was provided by the Social Security Agency (CNSS), and could be used to purchase the Government's participation in Togolese companies from which divesture is envisaged. Furthermore, the Government's overdraft above the statutory limit increased from CFAF 3 billion at end-December 1993 to CFAF 6 billion at mid-June 1994, reflecting repayments to the Fund and capitalized interest. External assistance (excluding project financing) was modest; disbursements included U.A. 6.0 billion from the African Development

Bank (AfDB), equivalent to CFAF 4.8 billion; CFAF 3 billion from France and CFAF 2.2 billion from the World Bank, representing one tranche of the Bank's loan for the health sector.

14. Following the monetary adjustment, the authorities took a number of measures in February 1994, aimed at dampening the impact of the adjustment on domestic costs. In particular, they decided to keep the increase in the retail price of petroleum products within the range of 4-12 percent. Furthermore, the Government decided to suspend, for a temporary period, the general sales tax (Taxe Générale sur les Affaires, TGA) on milk, to eliminate customs duties (droit fiscal) on salt and pharmaceuticals, and to reduce customs duties for school supplies. A new tariff rate for electricity, which is largely imported, will take effect in the second half of 1994; the increase will be in the range of 15-20 percent, and will have to be supplemented by a temporary subsidy from the budget (estimated at CFAF 3 billion in 1994). The full alignment of electricity tariffs on production costs will take place in 1995-97. Preliminary data indicate that during the first five months of 1994, the consumer price index increased by some 38 percent. Most of this increase took place in February, and price increases subsequently decelerated to 2 percent per month in April-May.

II. Medium-Term Objectives and Policies

15. A main objective of Togo's strengthened adjustment strategy is to ensure an acceleration of economic growth, to an average annual rate of about 6 percent beginning in 1995. In 1994 economic growth is expected to be higher (close to 12 percent), reflecting the return of economic activity to more normal levels after the sharp decline (23 percent) experienced in 1992-93. The rate of inflation is projected to decline to 3 percent from 1995 on. The economic recovery should be particularly evident in small and medium-sized enterprises, where productive capacity is available, in agriculture where the new strategy should encourage diversification, and in mining.

16. In order to ensure sustained growth over the medium term, the program calls for a sharp increase in both public and private investment as well as higher efficiency in the use of capital; the total investment ratio would thus rise from the 17.5 percent of GDP attained in 1991-92 to an average of about 20 percent in 1995-97. 1/ Under the public investment program, special emphasis will be placed on basic economic and social infrastructure, particularly in the areas of transportation, health, and education. Investment growth will be partly financed by external assistance, but also by domestic saving, which is projected to rise from 11.5 percent of GDP in 1991 to about 15 percent in 1996-97. The private sector's ability to

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1/ In view of the severe disruption of economic conditions in Togo in 1992-93, the targets for 1994-97 have been set and should be seen in terms of the levels attained in 1990-91.

finance investments is expected to be enhanced by the enterprises' increased profit margins, the settlement of government domestic payments arrears, the return of flight capital, and the inflow of additional foreign resources. Hopes are that, owing to the adjustment in the exchange rate, the acceleration of growth will be accompanied by a more vigorous expansion in employment.

17. To assist in rebuilding domestic savings, the authorities aim at restoring a viable public finance situation over the medium term, by increasing revenue, containing the civilian and military wage bill, and restructuring expenditure in favor of the priority sectors. Budgetary revenue is estimated to rise from the equivalent of 17.1 percent of GDP in 1992 to an average of about 18.0 percent in 1996-97, after having declined to 10.8 percent in 1993. This performance is expected to partly stem from a larger contribution of the export sector; it will make it possible to allocate additional resources to current operating and maintenance expenditures, which have been reduced sharply during the past few years, as well as to public investment. This will enhance productive capacity and improve social infrastructure, particularly in the areas of education and health. The wage bill should fall, as a share of revenue, from 53 percent in 1991 to less than 46 percent in 1997. The primary current balance, which registered a deficit of 9.0 percent of GDP in 1993, is programmed to move to a surplus of 1.6 percent in 1996 and 3.2 percent by 1997. Domestic arrears at the level of the Treasury will be repaid over a four-year period. The overall fiscal deficit, excluding investment financed from abroad, would decline from 3.5 percent of GDP in 1991 to 2.3 percent in 1996.

18. The macroeconomic policies to be implemented should make it possible to reduce the primary current account deficit of the balance of payments (i.e., excluding interest due on external debt), owing notably to the sustained expansion of exports predicated on the improvement in competitiveness. Exports (excluding re-exports) are projected to increase by 10 percent in real terms during 1995-97, as a result of increased phosphate output, the promising outlook for the cotton sector, and improved profitability in other export activities. Following the exchange rate adjustment, import volume is expected to continue to decline in 1994, for the third consecutive year. In 1995, an increase in import volume of about 12 percent is expected as the economic recovery maintains its momentum. The increase should continue in 1996-97, but at a more moderate pace. Thus, the current account deficit excluding grants, would widen appreciably in 1994, but narrow thereafter to 8.5 percent of GDP in 1996 and to 7.4 percent of GDP by 1998. Including grants, the current account deficit would be below 2 percent in 1996. The capital account is also expected to improve during the program period, with the return of confidence and the resumption of support from foreign donors and lenders. External payments arrears are to be eliminated in 1994-95. The arrears toward commercial banks will be settled in 1995 in the framework of a buy-back operation. As regards external debt, significant debt relief has already been granted by France, which has canceled all its outstanding official development assistance loans (CFAF 26.5 billion). The remaining financing gaps would amount to CFAF 117 billion in 1994,

CFAF 97 billion in 1995, and CFAF 44 billion in 1996. To close these gaps, the Government has already taken steps to secure debt rescheduling on concessional terms from Paris Club and other bilateral creditors and to obtain exceptional program assistance from bilateral and multilateral sources. The Government hopes that additional debt cancellation will be obtained from other countries and that it will be possible to arrange in due course a reduction of the outstanding stock of debt contracted with bilateral lenders, reducing debt service to levels consistent with the country's debt servicing capacity.

III. Macroeconomic and Structural Adjustment Program for 1994 and the First Half of 1995

19. In the context of the medium-term policy framework described above, the Government has adopted, for the year 1994 and the first half of 1995, a package of measures that are directed at strengthening the adjustment program in the budgetary, monetary, and structural areas. These measures aim in particular at ensuring that the inflationary impact of the exchange rate adjustment is limited, and that price stability is restored quickly at a level consistent with the objectives of enhanced competitiveness and sustainable economic growth. To attenuate the short-term social consequences of the devaluation for the most vulnerable segments of the population, the Government has introduced a series of compensatory measures. These are designed to limit the increase in the prices of energy and certain consumer staples, improve the functioning of basic services in the areas of health and education, and assist the most vulnerable groups directly. The Government is also implementing measures aimed at creating jobs.

20. With the formation of a new government in May 1994, following the legislative elections, and the resumption of assistance from a number of external aid partners, the prospects for economic recovery in the second half of 1994 have improved. Some pickup in public investment and import is expected, and output in the small- and medium-scale enterprises operating in the tradable goods sector should increase. The recovery should strengthen in 1995. The favorable outlook for agricultural production and exports is expected to lead to higher tax revenue; this, together with larger external financial assistance, would make it possible to reduce domestic payments arrears. In turn, the improved liquidity position of the economic agents could be expected to facilitate a pickup in investment and employment.

Government finances

21. The change in the parity of the CFA franc, the improved sociopolitical outlook, and the implementation of strong adjustment measures from mid-1994 are expected to strengthen government finances, on the one hand, and to improve the structure of budgetary revenue and expenditure, on the other. The important tax reform already under way will be accelerated, with a view to broadening the tax base, in particular by broadening the tax net to the informal sector, and strengthening collection and audit procedures. These

reforms include: (a) the full implementation and strengthening of the action program adopted in 1992; (b) additional reforms of domestic taxation; and (c) the strengthening of customs administration. Enhanced budgetary revenue, in turn, should help the authorities devote more resources to investment and social programs, to the elimination of domestic payments arrears, and to reducing government indebtedness to the Central Bank (BCEAO), thus lowering future domestic debt service obligations and making room for private sector growth.

22. In 1992, in the context of the program supported by the third annual ESAF arrangement, an action plan was prepared to improve tax collection. This plan, which had been formulated and updated with Fund technical assistance, was implemented only in part in 1992-93, because of the political instability. The program consists mainly of generalizing the use of procedures for the voluntary payment of taxes, improving taxpayer identification through registration, taxing the informal sector through withholding at source by the customs administration, and simplifying the business tax on small enterprises. A lump-sum payment withheld at customs and on wholesale purchases was introduced in the 1993 Budget Law, at a rate ranging between 0.5 percent and 1.5 percent, depending on the product; implementation was delayed and the mechanism will now enter into effect in July 1994; upon the issuance of implementing decrees, the rate will be raised to 3 percent effective January 1, 1995. The payment withheld is applied against the taxpayer's individual and/or corporate final income tax liability (the BIC-IRPP and BIC-IS). For small taxpayers subject to presumptive taxation, the payment withheld will be a definitive tax payment.

23. In addition, a new set of fiscal measures is to be implemented in the course of the next 12 months. A draft law on the reform of the general sales tax (TGA) aimed at reducing exemptions and introducing a single rate value-added tax (VAT) will be submitted to Parliament at the beginning of 1995. The system of taxation of small businesses will be overhauled from 1995-96, with a single tax on business income (TPU), replacing all current business taxes. Meanwhile, more effective collection procedures are being instituted, including: (a) the creation of a single unit responsible for tax assessment and collection for the major taxpayers, which has been operational since June 1994; (b) the assignment of a common identifier to taxpayers, which will enter into effect in September 1994; (c) the replacement of tax roll-based collection procedures with a system of voluntary payments and settlement by taxpayers (January 1995); and (d) the computerization of tax returns, payments, and reminders for delinquent taxpayers (end-1994).

24. The efficiency of the customs administration is also being improved through a series of actions, including anti-fraud measures and steps to bring transit traffic under a better control. This includes: the purchase of equipment, the reorganization of the customs services, and the generalization of computerized clearance procedures (for better control of the system of customs exemptions and temporary suspension of duties). The reform of the taxation of foreign-financed projects, which eliminates tax

exemptions, was introduced by the Budget Law of 1993, and will become operational at the beginning of 1995. Accordingly, ordinary tax law is now to apply to all foreign financed public procurement contracts for public works, supplies, or services; and the tax cost must be borne by the Government. To that end, a system of tax credit will be introduced to avoid aggravating economic agents' cash-flow problems. As regards nominal protection, the current four-tier (5, 10, 20, and 35 percent) customs tariff introduced in 1989 is broadly consistent with the tariff harmonization being prepared in the framework of the West African Economic and Monetary Union, although certain specific duties will need to be converted to ad valorem duties. However, in a temporary departure from the structure, the customs duty levied on imports of some of these products (milk, salt, medicines, and school supplies) was reduced effective from end-February 1994 in order to attenuate the effect of the devaluation on the prices of essential goods. The customs duty on petroleum products was also reduced at that time, in order to help contain prices at the retail level.

25. With these measures, government revenue is projected to reach CFAF 60.2 billion in 1994, and CFAF 93.4 billion in 1995 (respectively, 11.8 percent and 15.9 percent of GDP). During the first five months of 1994, tax revenue amounted only to about CFAF 21 billion because of the weakness in domestic demand and overall economic activity; revenue in 1994 is still expected to remain below the level attained in 1991. Customs revenues are projected to reach CFAF 26 billion in 1994, and CFAF 36.5 billion in 1995. Concerning domestic taxes, tax revenue collected by the Tax Directorate in 1994 is projected at CFAF 18 billion, compared with CFAF 12.8 billion in 1993 and CFAF 21.2 billion in 1992. This takes into account the collection of tax arrears, the increase in the stamp duty rate, and the introduction of a new tax on airline tickets. In 1995, tax collection by the Tax Directorate is projected at CFAF 25 billion, the 39 percent increase over 1994 receipts reflecting the recovery of economic activity and the impact of the reform of the general sales tax (TGA) as well as its extension to public utility services. In 1994 petroleum tax revenues collected by the Petroleum Products Stabilization Funds (CSPP) are projected at CFAF 4.2 billion. This reflects the decline in the tax rate, introduced in February 1994, to contain price increases. Revenue from the CSPP is projected at CFAF 4.5 billion in 1995. In 1994 profits in the agricultural export sector, estimated at some CFAF 12 billion, are expected to generate tax revenues of CFAF 3.9 billion, and in 1995 of CFAF 7.6 billion. With regard to the phosphate producing company (OTP), operating income is increasing substantially following the exchange rate correction, but a large provision to compensate for the squeeze on investment and amortization in recent years will limit 1994 profit tax payments. In 1995, the profit tax payments should increase significantly. This forecast will be updated at the end of 1994, within the framework of the financial and managerial audit of the company.

26. Government expenditure policy in 1994 and 1995 will be prudent, giving priority to outlays for needed maintenance, material, and investment. As regards current expenditure, the Government will pay special attention to

the rehabilitation and improved management of social services, particularly in education and health. Military expenditure, which increased by 27 percent in 1993, will be contained in 1994. As for personnel expenditure, the wage bill will be limited to CFAF 48.4 billion in 1994. The program assures that, provided revenue performance is on target, the wage bill in 1995 would be contained to CFAF 50.6 billion, but the specific wage policy will be discussed on the occasion of the 1995 budget. The Government will give priority to the regular payment of salaries, pensions, and scholarships. With the aim of increasing the efficiency of the civil service, an interministerial committee was established in June 1994, to examine the possible excess of personnel in certain areas, the priority recruitment needs, and the possibility of establishing a voluntary departure program. The results of this analysis will be examined with Fund staff during the midterm review of the program. Other primary current expenditure will rise by some 47 percent to CFAF 44.1 billion in 1994, and further to CFAF 45.4 billion in 1995. This recovery is designed to facilitate the functioning of the administration and of priority social services, and to take account of the higher cost of imported goods. With regards to water, electricity, and telephone services, on which sizable arrears were accumulated in previous years, the Government will adopt measures to curb consumption. The budgetary allocation will also be adjusted; a rigorous system of control of consumption and of procedures for payment orders and settlement will be introduced in order to eliminate payment delays. In 1994, there will be an increase in budgetary allocations for other public agencies and building and road maintenance, so as to improve the efficiency of essential services and infrastructure. Interest charges on domestic debt are expected nearly to double in 1994, owing to the excess over the statutory advance from the Central Bank and to interest on the loans obtained in 1993 from CNSS and other public enterprises.

27. Investment expenditure, which has plummeted in recent years, is programmed to rebound gradually in 1994 and much more significantly in 1995, reaching CFAF 15 billion this year on an execution basis (the same nominal level as in 1992), corresponding to CFAF 23.2 billion on a commitment basis, and CFAF 39.8 billion in 1995 (corresponding to about CFAF 61 billion on a commitment basis). As reviewed in the public investment program with the World Bank, priority will be given to investments in agriculture and infrastructure as well as health, education, and training. An emergency social program originally planned for 1992, developed with the assistance of the World Bank and the EU and financed from external grants, will also be implemented in 1994-95. This program will focus on the rehabilitation of basic health and educational infrastructure, and the purchase of textbooks and school equipment. Furthermore, the investment program will include labor-intensive projects financed with external resources and intended to promote job creation. In order to increase efficiency, to secure a better resource allocation in the framework of investment planning, and to better monitor the budgetary execution, the annual investment program will be prepared from 1994 within a unified budgetary framework and the investment and operating budgets will be merged into a single budget under the authority of the Minister of Economy and Finance. The needed revisions in

the public expenditure commitment process will be prepared with the Fund's technical assistance that will be in place in September 1994.

28. On the basis of these fiscal policies and measures, the primary current deficit, i.e., excluding interest obligations and investment expenditure, is programmed to decline from CFAF 31.9 billion (9.0 percent of GDP) in 1993 to CFAF 2.7 billion (0.5 percent of GDP) in 1995, before shifting into surplus in 1996. Because of the increased cost of interest on the foreign debt and of capital goods imports, the overall fiscal deficit on a commitment basis is expected to widen in 1994, and then narrow in the subsequent two years. The 1994 budget law to be submitted to the National Assembly will be consistent with these targets. The Government expects its approval before mid-September 1994. In the event that exogenous factors, such as lower than programmed export prices, negatively affect revenue, the Government will take additional measures on revenue and expenditures to ensure attainment of the primary balance target.

29. Under the program, all external payments arrears, estimated at CFAF 32 billion at end-1993 at the old exchange rate, or CFAF 64 billion at the current exchange rate, will be eliminated before end-June 1995 through cash settlements or rescheduling--as well as the cancellation granted by France in early 1994--with the exception of arrears to commercial banks which are to be eliminated through a buy-back operation planned for 1995. Domestic payments arrears of the Treasury are estimated to have amounted to CFAF 42 billion at end-1993, on the basis of provisional data. In addition, there was an amount of CFAF 21.7 billion in comptes de consignation (transitory accounts) at the end of 1993, which rose abnormally in recent years and could in part represent payments arrears. For this reason, the authorities will in the coming months examine systematically the nature of the balances in these accounts in order to identify those that represent payments arrears, and regularize the remaining balance. The authorities henceforth will ensure that budgetary commitment procedures are observed and that the use of these accounts is strictly in line with existing regulations. Domestic arrears include CFAF 15.1 billion of wage arrears (including arrears to the Civil Service Retirement Fund, CRT) and the Social Security System, CNSS), and an estimated CFAF 27 billion of nonwage arrears. The program envisages the elimination of these arrears over four years, with a settlement of CFAF 8.2 billion in 1995. At the end of 1994, Treasury arrears, including those in the comptes de consignation, will not exceed the level reached at end-1993. The quarterly change in Treasury arrears constitutes a quantitative benchmark under the program. If exceptional external assistance (including debt relief but excluding assistance for the Social Fund) falls short of the projected level, the quarterly targets for the reduction of domestic and external arrears will be adjusted downward, and/or bank credit to the Government will be corrected upward, by an amount equal to the shortfall. If exceptional external assistance (including debt relief but excluding assistance for the Social Fund) exceeds the projected level, half of the surplus resources will be used to accelerate the repayment of domestic arrears and the other half to reduce the Government's net bank debt.

30. As regards non-Treasury government arrears, the authorities intend to verify the relevant data with the major creditors, particularly the public utilities, by end-September 1994. Before end-1994, arrangements will be concluded to offset cross arrears against government claims; and a repayment schedule will be drawn up. Net repayments by the Government of CFAF 2 billion are called for in 1995. To avoid any further accumulation of arrears, coordination between the spending ministries and the Ministry of Economy and Finance will be strengthened. In particular, commitments of investment expenditure will be strictly coordinated with disbursements of external assistance and the operating budget. In addition, a rigorous analysis will be conducted on the appropriateness of the Treasury procedures, and the necessary reforms will be introduced to ensure that government liquidity and all receipts are managed in a centralized manner, under the control of the Ministry of Economy and Finance. Advances to the Government, granted in 1993 and 1994 by public enterprises and agencies, will be repaid according to schedule.

31. After accounting for net domestic financing of the program, including net use of Fund resources of CFAF 5.3 billion in 1994 and CFAF 11.6 billion in 1995, there would remain financing gaps of CFAF 117 billion in 1994 and CFAF 97 billion in 1995. These gaps are expected to be covered in part by external assistance from multilateral and bilateral creditors and donors amounting to CFAF 43.7 billion in 1994 and CFAF 45.5 billion in 1995. This assistance will include CFAF 19 billion from the World Bank in 1994 (CFAF 22 billion in 1995), CFAF 4.8 billion from the African Development Bank (CFAF 4.5 billion in 1995), about CFAF 11.6 billion from the European Union (CFAF 7.9 billion in 1995), and CFAF 8.5 billion from bilateral donors (CFAF 11 billion in 1995, including the amounts in support of the Social Fund). In addition, the Government intends to request from its Paris Club creditors a rescheduling on concessional terms of debt service payments falling due during the period January 1, 1994 through December 31, 1995, as well as a rescheduling of the outstanding eligible arrears at end-1993. Comparable rescheduling will be sought from Togo's non-Paris Club bilateral creditors. In this way, it is expected that the financing gaps for 1994 and 1995 will be fully closed. In 1995, the commercial bank buy-back operation will be concluded; this debt includes payments arrears.

Monetary and credit policies

32. In the wake of the January devaluation, monetary and credit policies will continue to be prudent and focus on containing inflation. In addition, they will be aimed at promoting the return of capital invested abroad and increasing foreign exchange reserves. Net foreign assets of the banking system, excluding the effect of the revaluation, are targeted to increase by CFAF 10.1 billion in 1994, and by CFAF 36.0 billion in 1995. In view of these objectives, and in accordance with the policy directions established within the monetary union as a whole, credit policy will remain prudent. Bank credit to the Government will be contained so as to provide room to support private sector activity, without endangering the foreign reserve target. In implementing this policy, the Central Bank will rely mainly on

the new monetary management instruments introduced in October 1989 and October 1993. Since that time, monetary and credit policy within the WAEMU has been based on a more liberal banking environment, with a more flexible interest rate policy, the introduction of a system of reserve requirements, and a reform in the money market, which is based on an auction system in which the Central Bank intervenes as an intermediary between suppliers of and bidders for liquid resources.

33. Given a projected growth of money and quasi-money of (almost 31) percent (which would be consistent with a rise in velocity during the early stage of the adjustment process), the program will limit the increase in the net domestic assets (excluding revaluation accounts and project-related government deposits) of the banking system to CFAF 33 billion in 1994. Net bank credit to the Government will rise by no more than CFAF 14.7 billion, reflecting a net use of Fund resources and temporary borrowing from the commercial banks to reduce arrears. The level of the advances of the Central Bank to the Government at end-1994 will decline by CFAF 3 billion, so as to eliminate the advance in excess of the statutory ceiling. Credit to the rest of the economy is programmed to expand in 1994 by CFAF 18.7 billion, or 18 percent which would accommodate a moderate rebound in other credit demand related to the anticipated economic recovery. Credit to the major public enterprises (OTP and OPAT) will be subject to ceilings, which have been established as benchmarks under the program; such credit is programmed to increase by CFAF 6.3 billion by end-1994, reflecting the substitution by OTP of some external bank credits with domestic bank credit. In 1995, the increase in bank credit to the Government will not exceed CFAF 1.6 billion, reflecting a net use of Fund resources and the reimbursement of earlier borrowing from the commercial banks. Credit to the economy is projected to rise by CFAF 8.9 billion, or 7 percent, with bank credit to OTP declining by CFAF 2 billion.

34. The quarterly ceilings for the net domestic assets of the banking system and net bank credit to the Government are set out in the attached table. The ceilings for end-December 1994 will constitute performance criteria under the program, while those for end-September 1994, end-March 1995, and end-June 1995 are quantitative benchmarks; the latter two could be adjusted at the time of the program review scheduled before end-February 1995. As indicated earlier, the quarterly credit ceilings will be adjusted upward or downward if exceptional external assistance, including debt rescheduling but excluding assistance for the Social Fund, should fall short on the projected amounts.

35. The exchange rate adjustment, to the extent that it puts an end to a period of monetary uncertainty, should allow for a decline in real interest rates over the medium term. This decline should be supported by the projected improvement in the public finances, the return of flight capital, and an increase in domestic saving. Following the exchange rate adjustment, effective January 19, 1994, the monetary authorities raised the discount rate from 10.5 percent to 14.5 percent and the repurchase rate from 8.75 percent to 12.75 percent; these rates have been lowered by 2.5 percent

on June 27, 1994. The fixed rate of return on time deposits and savings passbooks, as well as the minimum rate of return on contractual savings, were raised from 4.5 percent to 8 percent on January 19, 1994. Given the ample bank liquidity in the WAEMU area, and the large amount of the non-interest-bearing commercial bank deposits at the Central Bank, banks have gradually lowered time deposit rates in recent months. In order to contribute to the absorption of banks' excess liquidity, in July 1994 the Central Bank proceeded to convert into securities its consolidated claims on the Governments of the Union. The securities issued will bear a 5 percent tax free interest rate, and will be offered to banks and financial institutions. For Togo, the amount to be issued will be equivalent to CFAF 7.5 billion. Banks and financial institutions will be able also to purchase bonds issued in the other countries of the Union. Moreover, as already noted, the Government, in order to reduce payments arrears, will have recourse in 1994 to short-term financing from the commercial banks (CFAF 12 billion) with a maturity of less than 18 months, which will be reimbursed in 1995 with proceeds from foreign aid already identified.

36. The rehabilitation of the banking system remains a key concern. A bank restructuring program will be put in place with World Bank assistance in 1995-96. An audit of nonperforming credit is under way by the Banking Commission and will be completed by end-October 1994. On the basis of this audit, an action plan will be formulated in order to accelerate the recovery of overdue loans and to improve the banks' position with respect to prudential ratios. This action plan will be reviewed with the Fund staff during the midterm review of the program. Measures will also be taken to strengthen the management of the Togolese Savings Bank (CET) and to reinforce the network of mutual rural credit. With regard to the Social Security Agency (CNSS), the change in its legal status to that of a company under private law will be accelerated.

Structural reforms and price policy

37. The pursuit of the structural reforms described in the policy framework paper for 1994-97 remains essential to increasing the efficiency of the economy and ensuring that it responds favorably to the adjustment in the exchange rate.

38. The Togolese Government will proceed decisively with its public enterprise privatization program. This program is analyzed in detail in the policy framework paper. As for enterprises in which its equity participation ranges from 5 percent to 90 percent, the Government intends to divest its holdings, giving preference to national investors. The legal framework for the sale of the government holdings has been defined by Ordinance 94-002 of June 10, 1994, and one implementing decree has already been adopted (Decree 94-038). The other necessary decrees will be adopted by end-1994. They envisage in particular the establishment of a Privatization Commission, which will be responsible for valuing companies and their sale. The first public offers will be made during the first half of 1995.

39. The restoration of competitiveness, and the attendant increase in profit margins, are expected to stimulate local production and exports, both by small- and medium-sized enterprises and by the craft and agricultural sectors. The program will also give particular attention to initiatives to foster the development of the private sector and the start-up of new projects, so as to increase employment and ensure the integration of young people into productive activities. To this end, and as indicated in paragraph 50 of the policy framework paper, the authorities are strengthening the institutional structures supporting the private sector. In addition, the authorities intend to encourage the expansion of the free export processing zone. A single window for the free zone, where investors can complete all registration formalities in one stop, was established in 1993. The increased flexibility of the labor market following the reform of the Labor Code, which is to enter into effect during 1994, should ensure that wages in the private sector are determined by developments in productivity, while the exchange rate adjustment together with wage restraints should lead to a decline in nontradable goods prices relative to the prices of tradable goods and enhance the competitiveness of the economy.

40. The agricultural sector will greatly benefit from the exchange rate adjustment, which will restore profit margins for the major cash crops. As indicated above, cotton and coffee producer prices have been raised significantly for the 1994/95 crop year. After-tax profits of the cotton sector will be allocated by the cotton sector Surveillance Committee according to the existing rules. At the same time, the authorities will continue implementing the action program (launched in 1992) aimed at reducing marketing, transportation, and processing costs in the cotton sector, which are higher than in other countries in the region. The recommendations stemming from the financial and operational audit of the Office des Produits Agricoles du Togo (OPAT), completed in 1992, will be implemented as envisaged. A decision in principle has been made to transfer cotton marketing from the OPAT to the Société Togolaise de Coton (SOTOCO) by the 1994/95 crop year; the technical work needed to formalize the details of the transfer began in early February 1994. The Government is committed to submitting a draft legislation to complete the transfer to the National Assembly during its first session in July. Supplementary measures regarding the possible relocation of OPAT employees will be developed with the assistance of creditors and donors. The exchange rate adjustment is also expected to promote agricultural diversification and, in particular, the development of nontraditional exports. Given the gain in competitiveness vis-à-vis imported foodstuffs, the production of consumer staples such as millet, maize, cassava, and yams should register growth. Higher production will increase rural income as well as job opportunities; it will also help improve the balance of payments, making it less vulnerable to international price fluctuations.

41. In the mining sector, the financial situation of the Togolese Phosphates Office (OTP) should improve significantly. The OTP adopted a series of cost-cutting measures in 1993. In particular, wage costs have been reduced significantly, from CFAF 9 billion in 1991 to an estimated

CFAF 6.5 billion in 1994. The combined effect of these cost-cutting measures, the expected production increases (to 2.1 million metric tons in 1994 and 2.2 million metric tons in 1995), and the exchange rate change should enable the OTP to improve its operating profits, although the company will still be burdened by very high financing charges. Consequently, it is not anticipated that the OTP will be able to reduce its outstanding domestic bank debt in 1994. The allocation of its net after-tax profits will be decided by the Supervisory Council and will be reviewed with the Fund and Bank staff at the time of the midterm review of the program. A financial restructuring operation will be implemented in 1994-95, on the basis of a financial and management audit that is to be conducted before end-1994. A review of the financial situation of the OTP will be completed in the context of the midterm program review.

42. The system of price surveillance (homologation), which covers 11 products, will be liberalized in 1994 and 1995. The number of products involved will be cut to 8 before end-1994. As indicated above, the Government will undertake adjustments in the tariffs of water and electricity in the period 1994-97. The tariff revision policy, which will aim at a phasing out of the electricity subsidy by the 1997 budget at the latest, will be reviewed with Fund staff on the occasion of the midterm review of the program. At the same time, the public utilities concerned will take measures to cut their operating costs.

Accompanying social measures

43. The adjustment measures described above are expected to have a positive effect on the incomes of the majority of the labor force, both in the agricultural sector and in the other sectors producing tradable goods. They will give additional impetus to craft activities and small enterprises, with a favorable impact on job opportunities for young people. To promote jobs, the Government, with the assistance of its foreign partners, has formulated a multifaceted action plan consisting of: (a) a labor-intensive public works program, to be implemented in the urban centers and throughout the country; (b) expansion of "food-for-work" programs funded by creditors and donors; (c) development of a credit union network in urban and rural areas; and (d) in 1994-95 a program of employment and training for graduates without a job with foreign financial assistance; this program provides jobs for a two-year period for half of the reference salary, giving job experience opportunities to a significant number of unemployed persons.

44. Moreover, a program to strengthen the priority social sectors of education and health has been established with the support of the World Bank and other donors and with the creation of a Social Fund, which will be supported by France and other partners. This program includes the rehabilitation of schools and dispensaries, textbook distribution, and the payment of wages, on a temporary basis, of contractual teachers. The prices of generic medicines at public health centers have been stabilized with the assistance of creditors and donors, while projects in the health sector will be stepped up. The pharmaceutical distribution network is being improved,

with the opening up of the sector to private enterprises in 1992 and the redefinition of the functions of the public enterprise TOGOPHARMA.

IV. Balance of Payments and External Financing

45. Togo's balance of payments prospects for 1994 have been significantly altered by the exchange rate adjustment. Imports are likely to be sluggish during the first few months of the year, but should pick up soon as a result of the expected recovery of economic activity after the sharp decline of 1993. Overall, import volume is projected to decline by 9 percent in 1994 but to increase by as much as 12 percent in 1995. As for exports, the 1993/94 cotton crop will yield 80,000 metric tons of seed cotton, which translates into exports of 37,200 metric tons of cotton fiber. In 1994 the value of cotton exports is projected to amount to CFAF 24.7 billion, compared with an estimated CFAF 14.1 billion in 1993 and CFAF 14.8 billion in 1992. In 1995, cotton exports are projected to exceed 45,000 tons and yield CFAF 38 billion, reflecting also the increase in world prices. Phosphate exports are projected to rise to 2.1 million metric tons (as against 1.6 million in 1993), valued at CFAF 37.2 billion (CFAF 40.6 billion in 1995). Re-export trade should also pick up somewhat, as should revenue from services. Overall, however, the current account deficit, excluding grants, is expected to reach CFAF 70 billion or almost 14 percent of GDP, in 1994 (CFAF 56 billion, or 9.5 percent of GDP in 1995), largely because of the strong initial price effects of the devaluation on the service balance. The deficit would continue declining gradually thereafter, to the equivalent of 8.5 percent of GDP in 1996, owing to favorable prospects for exports of cotton, phosphates, and other agricultural products.

46. The Government of Togo hopes to be able to benefit from a significant amount of external assistance in support of its investment projects and sectoral restructuring plans. The need for exceptional assistance, excluding Fund support under the proposed ESAF arrangement, is estimated at CFAF 117 billion in 1994. Of this amount, CFAF 74 billion is expected to be covered by debt rescheduling and cancellation. The Government will request from the Paris Club a restructuring on concessional terms of the obligations on pre-cutoff date debt (January 1, 1983) falling due between January 1, 1994 and December 31, 1995, as well as of all pre-cutoff date payments arrears. Comparable terms will be sought from other official bilateral creditors. With the financial support of IDA and bilateral creditors and donors, the Government also intends to effect in early 1995 a buy-back, on appropriate terms, of its debt to commercial banks, which totals approximately US$60 million. The need for additional financial assistance in 1994 would then amount to some CFAF 44 billion, of which on current indications multilateral institutions (World Bank, AfDB, and EU) are expected to provide up to CFAF 35.5 billion. On the basis of the discussion with donors, there are reasonable assurances that the residual need will be covered. In 1995, the exceptional financial need is projected at CFAF 97 billion, of which CFAF 51 billion could be covered by debt rescheduling, the commercial bank debt buy-back and the expected debt cancellation. Some

CFAF 46 billion would need to be secured from multilateral organizations and bilateral donors, and current prospects are favorable.

47. In order to reduce its debt burden, Togo will continue to resort only to long-term loans on concessional terms. In particular, the Government will neither contract nor guarantee any loans with initial maturities of less than 1 year, with the exception of normal import-related credits, or external nonconcessional loans with maturities of 1 to 15 years. With the possible exception of a temporary increase in arrears to foreign commercial banks, the Government will accumulate no external payments arrears during the program period. Existing arrears, other than those referred to above, will be settled by end-June 1995. Quarterly ceilings on the outstanding external payments arrears are set forth in attached Table 1, and will constitute benchmarks and performance criteria under the first-year program.

48. During the program period, the Government does not intend to introduce or intensify exchange restrictions, introduce multiple currency practices, or conclude bilateral arrangements contrary to Article VIII of the Fund's Articles of Agreement. In addition, it does not intend to introduce or tighten import restrictions for balance of payments reasons. The Government plans to adopt all the necessary measures and eliminate any existing exchange restrictions so as to be in a position to accept the obligations of Article VIII as soon as possible. The limits on travel allowances are being administered liberally and all bona fide requests in excess of these limits are being granted. In light of the risk of capital flight and the use of CFA franc bank notes for illegal external transactions, the authorities do not plan to resume in the near future the repurchase of CFA franc bank notes exported outside the WAEMU, which were suspended on August 2, 1993.

V. Program Monitoring

49. The program includes as prior action the passage of the 1994 budget and submission to the National Assembly of the draft legislation on the transfer of cotton marketing to SOTOCO. The program will be monitored through quarterly quantitative indicators and structural benchmarks. The quantitative indicators for end-September 1994, end-March, and end-June 1995 will constitute benchmarks for program monitoring purposes; the end-December 1994 indicators will constitute performance criteria (Table 1), the observance of which will be a condition for the second disbursement under the first annual ESAF arrangement. The quantitative benchmarks and performance criteria include: (a) a ceiling on net bank credit to the Government; (b) a ceiling on the net domestic assets of the banking system; (c) a minimum reduction of the verified government domestic payments arrears; (d) the reduction of existing external payments arrears, with no new accumulation of such arrears; (e) a zero limit on new nonconcessional external borrowing with maturities of between 1 and 15 years contracted or guaranteed by the Government; and (f) a zero limit on new short-term external borrowing, except for normal import financing. Should the Government receive exceptional external financing, including debt relief but

excluding assistance for the Social Fund, which exceeds (or falls short of) the programmed amount, the targets for the reduction of domestic payments arrears and net bank credit to the Government will be adjusted in accordance with paragraphs 29 and 34.

50. The following measures will serve as structural benchmarks: (a) issuance of implementing decrees of the system of withholding tax at Customs and at the wholesalers' level by end-September 1994; (b) adoption of a domestic arrears reduction plan by end-1994; (c) the presentation to the National Assembly of the draft law regarding the introduction of a generalized VAT by March 15, 1995; (d) the adoption before end-1994 of all the decrees implementing the ordinance regulating the sale of government holdings in Togolese companies. The benchmarks under (a), (c), represent structural performance criteria.

51. The Togolese Government will conduct a midterm review of the first year program with the Fund by end-March 1995. This midterm review will focus on the evolution of the economic and financial situation in 1994 and on the economic and financial outlook for 1995, with particular attention to the 1995 budget, the revision of electricity tariffs, wage policy, and progress in civil service reform.

Table 1. Togo: Financial and Structural Benchmarks, and Performance Criteria Under the Program for 1994-95

(In billions of CFA francs)

	1993	1994			1995	
	Dec. Est. 1/	June Prov.	Sept. 2/	Dec. 3/	March 2/	June 2/
I. Quantitative financial benchmarks						
Net bank credit to the Government 4/ 5/	57.5	59.6	71.4	71.7	73.7	73.3
Net domestic assets of the banking system 4/ 5/	162.0	175.8	189.3	195.0	199.4	206.6
Reduction in verified government domestic payments arrears (cumulative from end-1993) 6/ 7/	42.0	0.4	-7.0	-7.0	-7.0	-7.0
Reduction in external payments arrears 8/ (cumulative from end-1993)	6.8	1.4	--	-4.2	-5.9	-6.8
New external nonconcessional loans of 1 to 15 years' maturity contracted or guaranteed by the Government 9/	--	--	--	--	--	--
Short-term external borrowing with less than one year's maturity 10/	--	--	--	--	--	--
II. Structural benchmarks						
a. Implementation of withholding tax at Customs and wholesaler's level 11/		End-September 1994				
b. Finalization of domestic arrears reduction plan		End 1994				
c. Presentation to the National Assembly of a draft law on generalized single rate VAT 11/		March 15, 1995				
d. Adoption of decrees on the sale of government holdings in Togolese companies		End 1994				
III. Indicators						
Total budgetary revenue (cumulative from the beginning of the year)	38.2	26.8	42.0	60.2	21.5	43.7
Wage bill (cumulative from the beginning of the year)	38.5	24.2	36.3	48.4	12.6	25.3
Bank credit to OTP	28.1	32.6	32.6	32.6	31.9	31.1
Bank credit to OPAT	0.2	8.1	5.1	2.0	2.5	8.1
Memorandum item:						
Nonproject-related external assistance, including debt relief but excluding the Social Fund (cumulative from end-1993)	--	10.0	20.4	117.5	127.0	145.3

1/ Valued at the new exchange rate.
2/ Benchmarks; the figures for end-March and end-June 1995 are indicative.
3/ Performance criteria.
4/ These targets will be revised upward or downward if disbursements on nonproject-related external assistance, including debt relief but excluding the Social Fund, fall short or exceed the amount programmed, as indicated in paragraph 29 and 34 of the MEFP.
5/ Net credit to the Government is defined as net credit from the banking system (the Central Bank, the commercial banks, and the postal checking system) excluding project-related deposits.
6/ Arrears recorded at the level of the Treasury; the end-December 1993 figure is the estimated amount outstanding.
7/ Quarterly targets will be revised, upward or downward, as indicated in paragraph 29 of the MEFP, if exceptional assistance, excluding the Social Fund exceeds or falls short of program projections.
8/ Quarterly targets will be revised downward in case nonproject-related assistance, including debt relief, falls short of program projections. Excludes arrears with Paris Club creditors and commercial banks on debt eligible for rescheduling. No new arrears will be accumulated during the program period, with the exception of temporary arrears to commercial banks pending the conclusion of the buy-back operation.
9/ Includes all public and publicly guaranteed debt, but excludes normal short-term import financing and loans contracted for debt rescheduling.
10/ Excludes normal import financing.
11/ Structural performance criteria.

Togo - Relations with the Fund
(As of July 31, 1994)

I. Membership Status: Joined 8/01/62; Article XIV

II. General Resources Account:	SDR Million	% Quota
Quota	54.30	100.0
Fund holdings of currency	57.53	105.9
Reserve position in Fund	.25	.5

III. SDR Department	SDR Million	% Allocation
Net cumulative allocation	10.98	100.0
Holdings	.06	.6

IV. Outstanding Purchase and Loans:	SDR Million	% Quota
Stand-by arrangements	3.04	5.6
SAF arrangements	6.14	11.3
ESAF arrangements	38.40	70.7

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-by	3/16/88	4/19/89	13.00	13.00
ESAF	5/31/89	5/19/93	46.08	38.40
SAF	3/16/88	5/30/89	26.88	7.68

VI. Projected Obligations to Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	12/31/93	1994	1995	1996	1997	1998
Principal	--	2.6	7.3	7.9	8.4	8.4
Charges/Interest	--	0.4	0.7	0.6	0.6	0.6
Total		3.0	8.0	8.5	9.0	9.0

VII. Exchange Rate Arrangement:

Togo is a member of the West African Monetary Union (WAEMU). The exchange system, common to all member countries of the WAEMU, is free of restrictions on payments and transfers for current international transactions. The Union's common currency, the CFA franc, was pegged to the French franc at the rate of CFAF 1 = F 0.02. Effective January 12, 1994 the CFA franc was devalued and the new parity set at CFAF 1 = F 0.01. On December 31, 1993, the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 404.9.

VIII. Article IV Consultations:

Togo is on the standard 12-month consultation cycle. The last Article IV consultation discussions were held in Lomé during the period March 9-23, 1992. The staff report (EBS/92/80) was discussed by the Executive Board on May 20, 1992.

IX. Technical Assistance:

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Staff	February 1992	Tax reform
FAD	Staff	November 1991	Budgetary reform

TOGO - Relations with the World Bank Group

Commentary on World Bank lending operations

1. As of June 30, 1994, IDA lending to Togo totaled 40 credits amounting to US$594.82 million, of which US$471.05 was disbursed, IBRD lending amounted to US$60 million. IDA credits have financed projects in agriculture (cocoa, coffee, cotton, and foodcrops), transport, water supply, power, education, private enterprise development, and grassroots development. In addition, IDA has supported technical assistance in the Ministries of Planning, Rural Development and Industry, and State Enterprises. Togo has also benefitted from Bank Group support for regional operations, including two credits to the West African Development Bank (BOAD), two credits for the feasibility study and construction, respectively, of the Nangbéto regional hydroelectric project, and finally, a Bank loan and an IDA credit, amounting in total to US$55.20 million, to CIMAO (a regional clinker plant now closed) which are jointly and severally guaranteed by Côte d'Ivoire, Ghana, and Togo, plus a further IDA credit of US$5.70 million for CIMAO. Togo has also received four structural adjustment credits, the most recent a fourth structural adjustment credit (SAC IV) approved in December 1990, and a health sector adjustment credit approved in February 1991. Second tranches of both adjustment credits were released in 1994.

2. The on-going portfolio is being restructured to make the remaining US$123.77 undisbursed amount immediately available to the economic recovery, and to needs emerging from the January 1994 CFA franc devaluation. IDA's medium-term strategy is designed to help resume economic activities and to alleviate poverty. To that effect, the lending program will include projects aimed at developing skills and financial intermediation as well as rehabilitating economic and social infrastructures. Projects would improve agricultural services delivery, access to financial resources by rural communities and informal sectors, and the functioning of the health and education systems. They would accelerate the rehabilitation of roads and water supply. An economic recovery operation is also envisioned.

TOGO - Relations with the World Bank Group

(In millions of U.S. dollars, as of July 22, 1994) 1/

	Original principal 2/			Disbursed and outstanding		
	IDA	IBRD	TOTAL	IDA	IBRD	TOTAL
Fully disbursed loans and credits	312.92	60.00	372.92	312.92	--	312.92
All disbursing credits	221.90	--	221.90	123.77	--	123.77
Agricultural extension	9.70	--	9.70	3.56	--	3.56
Private enterprises development	11.50	--	11.50	1.08	--	1.08
Transport rehabilitation	40.00	--	40.00	16.53	--	16.53
Cotton sector development III	15.10	--	15.10	10.98	--	10.98
Grassroots development initiatives	5.00	--	5.00	2.15	--	2.15
Preinvestment	5.00	--	5.00	5.00	--	5.00
Telecommunications	16.00	--	16.00	12.99	--	12.99
Power rehabilitation and extension	15.00	--	15.00	4.08	--	4.08
Technical and vocational education	9.20	--	9.20	1.12	--	1.12
Fourth structural adjustment	55.00	--	55.00	38.76	--	38.72
Health and population sector	14.20	--	14.20	7.69	--	7.69
Lomé urban development	26.20	--	26.20	--	--	--
Grand total for all loans	--	60.00	60.00	--	--	--
Grand total for all credits	534.82	--	594.82	436.69	--	436.69
Grand total for all loans and credits	534.82	60.00	594.82	436.69	--	436.69

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

1/ Discrepancies between original and disbursed amounts are due to fluctuations in the US$/SDR exchange rate in period of disbursement. Credits denominated in SDRs are shown in U.S. dollar equivalent based on the exchange rates in effect at time of negotiations.

2/ Original amounts net of any cancellations.

Togo - Statistical Issues

Togo has a relatively good statistical apparatus as far as national accounts on the production side are concerned, but improvements should be done on national accounts at constant prices, the sectoral GDP deflators, and on the use of resources on the demand side, and the distribution of value added. The consumer price index has not been compiled for the first nine months of 1993, due to the general strike. The consumer survey on which the CPI is based would, however, benefit from an update, as it dates from the early 1980s; improvements should be made on the rapidity of updating the consumer price.

Public finance statistics are compiled by the Ministry of Finance on the basis of inputs from the Customs, Tax and Treasury Directorate; these data are available with a one to three months' lag. Domestic payments arrears which accumulated in recent years are not yet fully identified. A survey of domestic arrears is scheduled to be finalized before end-1994. Problems exist with the integration of current and investment expenditure into one budget.

In the monetary area, the delays in commercial bank reporting to the BCEAO should be shortened. Balance of payments data, prepared by the Central Bank, are based in part on estimated data as far as imports and private transfers are concerned; in particular the data on reexports and informal imports from neighboring countries are not adequately captured. A major effort of data analysis by the Central Bank would be needed to improve the estimation of private transfers and informal trade.

TOGO - Basic Data

Area, population, and GDP per capita	
Area	56,600 square kilometers
Population: Total (1993)	3.9 million
Growth rate	3.3 percent
GDP per capita (1993)	SDR 236.4

	1989	1990	1991	1992	1993 Est.
Gross domestic product (in current prices)	(In billions of CFA francs)				
Total	431.6	445.4	455.6	423.6	353.8
	(In percent of GDP)				
Primary sector	32.2	33.7	32.6	36.3	49.2
Secondary sector	24.3	22.5	23.8	22.8	17.7
Of which: mining	(8.0)	(4.9)	(5.9)	(4.2)	(3.8)
Tertiary sector	43.5	43.8	43.6	40.9	33.1
Consumption	83.9	86.7	88.5	94.5	102.4
Investment	25.1	23.1	19.6	16.0	6.0
Gross domestic savings	16.1	13.3	11.5	5.5	-2.4
	(Annual change in percent)				
Real GDP	3.9	0.1	-0.9	-8.8	-13.5
Nominal GDP	5.1	3.2	2.3	-7.0	-16.5
Prices					
Implicit GDP deflator	1.1	3.1	3.2	2.0	-3.5
Consumer price index (low-income index for Lomé)	-1.2	1.0	0.5	3.8	-3.0
Export prices (CFA francs) 1/	8.4	-19.1	-1.0	-9.3	-7.8
Import prices (CFA francs)	10.9	-23.3	2.8	-2.1	2.1
Terms of trade	-2.2	5.5	-3.7	-7.3	-9.7
Government finance	(In billions of CFA francs)				
Revenue	97.6	100.4	78.9	72.6	38.2
Grants	10.3	14.3	6.7	6.8	1.0
Expenditure and net lending	124.1	127.7	113.0	96.3	92.0
Of which: current expenditure	(91.9)	(94.9)	(92.6)	(80.5)	(83.8)
Overall surplus/deficit (-) 2/	-26.5	-26.7	-36.1	-26.1	-54.8
Payments arrears (decrease -) 3/	2.5	-2.2	9.6	8.6	38.4
Of which: external interest	(--)	(--)	(4.2)	(2.9)	(9.4)

1/ Excluding re-exports.
2/ Excluding grants; on a payment order basis.
3/ Reduction through net cash payments.

TOGO - Basic Data (continued)

	1989	1990	1991	1992	1993 Est.
Government finance (continued)		(In billions of CFA francs)			
Foreign financing (net)	32.5	22.3	20.3	10.6	0.6
Of which: amortizat. arrears	(-1.3)	(--)	(0.9)	(4.7)	(10.5)
Domestic financing (net)	-8.4	7.3	4.3	4.5	19.6
Of which: banking system	(-14.7)	(4.5)	(3.9)	(3.4)	(8.8)
		(In percent of GDP)			
Revenue	22.6	22.5	17.3	17.1	10.8
Current expenditure	21.3	21.3	20.3	19.6	23.7
Capital expenditure	7.4	7.2	4.5	3.7	2.3
Overall surplus/deficit (-), including grants	-3.8	-2.8	-6.5	-4.3	-15.2
Money and credit	(In billions of CFA francs; end of period)				
Net foreign assets	78.4	81.7	81.3	58.6	23.2
Net domestic assets	107.3	112.8	123.6	118.2	128.2
Of which: credit to the private sector	(100.1)	(103.6)	(115.7)	(114.4)	(103.9)
Broad money	181.2	190.5	198.3	170.7	145.3
		(Annual change in percent)			
Net domestic assets	-12.2	5.1	9.6	-4.4	8.5
Of which: credit to the private sector	(-3.1)	(3.5)	(11.7)	(-1.2)	(-9.2)
Broad money	3.9	5.1	9.3	-13.9	-14.9
Balance of payments		(In millions of SDRs)			
Exports, f.o.b.	319.2	291.3	287.3	228.8	156.8
Of which: phosphates	(109.9)	(76.1)	(92.3)	(56.3)	(38.2)
Imports, f.o.b.	-362.9	-376.5	-330.7	-296.7	-181.7
Trade balance	-43.8	-85.2	-43.5	-67.9	-24.9
Services (net)	-83.9	-79.6	-73.7	-71.8	-76.8
Private transfers	7.1	7.3	10.5	6.2	7.0
Current account 1/	-120.5	-157.5	-106.7	-133.5	-94.7
Official transfers (net)	82.7	83.9	66.8	57.6	22.7

1/ Excludes official transfers (net).

TOGO - Basic Data (concluded)

	1989	1990	1991	1992	1993 Est.
Balance of payments (continued)		(In millions of SDRs)			
Capital (net) 1/	91.0	75.9	37.8	-1.2	-69.2
Overall surplus/deficit (-)	55.1	2.3	-2.0	-77.1	-141.2
Payments arrears (decrease -)	--	--	13.1	16.3	50.0
Net foreign assets (increase -) 2/	-55.1	-2.3	-11.2	60.9	91.4
		(In percent of GDP)			
Exports, f.o.b.	30.4	24.2	24.3	20.1	17.2
Imports, f.o.b.	34.4	31.2	28.0	26.1	19.9
Current account balance (excluding official transfers)	-11.4	-13.1	-9.0	-11.8	-10.4
Overall surplus/deficit (-)	5.2	0.2	-0.2	-6.8	-15.5
		(In millions of SDRs; end of period)			
Gross international reserves (IFS; end of period)	217.1	248.3	255.1	198.2	124.4
External public debt 3/		(In millions of SDRs)			
Disbursed and outstanding (end of period)	718.2	768.5	802.7	806.0	921.5
Interest due before rescheduling	41.4	35.5	33.6	30.6	34.2
Debt rescheduling	36.5	38.73	33.5	43.5	18.1
Arrears (end of period)	--	--	13.1	29.4	78.3
Debt service ratio 4/	12.8	11.4	7.4	4.2	5.0
Exchange rates		(CFA francs per SDR)			
End of period	380.3	364.8	370.5	378.6	404.9
Period average	408.9	369.4	385.9	372.8	387.5

1/ Includes errors and omissions and rescheduling and cancellation of external debt.
2/ Includes net use of Fund resources, net of counterpart of revaluation.
3/ Including IMF.
4/ Debt service paid after rescheduling and arrears accumulation and repayment, as percent of exports of goods and nonfactor services including re-exports.

APPENDIX VI

TOGO - Social and Demographic Indicators

	1965	1973	1983	1987	1992 Est.
Population					
Total population (millions)	1.6	2.2		3.2	3.8
Growth rate		3.8		3.4	3.1
Urban population (in percent)	11	15		24	29.4
Life expectancy (years)	42	46		53	55
Infant mortality rate (per 1,000 births)	156	119		97	85
Education					
Adult literacy - Male				41	55
Female				28	31
Primary school enrollment ratio	55	99		102	111
Male	78	130		125	134
Female	32	68		78	87
Secondary school enrollment ratio	5	19		21	23
Male	8	29		32	34
Female	2	9		10	12
Education expenditure					
As percent of government expenditure			19.6		19.9
As percent of GDP			6.2		6.5
Real expenditure index (1980=100)			116		149
Number of persons per physician		28,500		8,720	13,700
Number of persons per nurse	4,700	1,600		1,240	1,632
Health expenditure					
In percent of government expenditure			5.6		5.2
In percent of GDP			1.8		1.7
Real expenditure index (1980=100)			109		126
Per capita calorie intake	2,345	2,130		2,207	2,133
Food production per capita index (1980=100)		99		89	89
Economically active population					
Active population (millions)	0.74	0.96		1.27	1.469
Male participation rate (in percent)	57	55		53	--
Female participation rate (in percent)	35	34		31	36
Active population in agriculture (in percent)	78	76		73	--

Sources: World Bank staff; and Togolese authorities.

Table 1. Togo: Proposed Schedule of Disbursements Under ESAF Arrangement, 1994-97

Amount	Availability 1/	Conditions for Disbursement 2/
SDR 10.86 million	September 30, 1994	Executive Board approval of the three-year ESAF arrangement and first annual arrangement thereunder
SDR 10.86 million	March 31, 1995	Observance of the end-December 1994 performance criteria and completion of midterm review
SDR 10.86 million	September 30, 1995	Executive Board approval of the second annual arrangement
SDR 10.86 million	March 31, 1996	Observance of performance criteria for end-December 1995 and completion of midterm review
SDR 10.86 million	September 30, 1996	Executive Board approval of the third annual arrangement
SDR 10.86 million	March 31, 1997	Observance of performance criteria for end-December 1996 and completion of midterm review

Source: IMF.

1/ Expected date of disbursement.
2/ Other than the generally applicable conditions under ESAF arrangements, including the performance clause applicable to the exchange and trade system.

Table 2. Togo: Fund Position During Period of Arrangement, 1994-97

	1993	1994		1995		1996		1997
		Jan.-June	July-Dec.	Jan.-June	July-Dec.	Jan.-June	July-Dec.	Jan.-June
				(In millions of SDRs)				
Transactions under tranche policies (net)	...	-0.98	-1.08	-1.30	-0.65	-0.22	--	--
Purchases	...	--	--	--	--	--	--	--
Repurchases	...	0.98	1.08	1.30	0.65	0.22	--	--
Structural adjustment facility (SAF)	...	-0.77	-0.77	-0.77	-0.77	-0.77	-0.77	-0.77
Loans	...	--	--	--	--	--	--	--
Repayments	...	0.77	0.77	0.77	0.77	0.77	0.77	0.77
Enhanced structural adjustment facility (ESAF)	...	--	10.09	9.32	8.56	7.79	7.79	7.79
Loans	...	--	10.86	10.86	10.86	10.86	10.86	10.86
Repayments	...	--	0.77	1.54	2.30	3.07	3.07	3.07
Total Fund credit outstanding, end of period	49.54	47.80	56.04	63.30	70.43	77.23	84.25	91.27
Tranche policies	4.23	3.25	2.17	0.87	0.22	-	-	-
SAF	6.91	6.14	5.38	4.61	3.84	3.07	2.30	1.54
ESAF 1/	38.40	38.40	48.49	57.82	66.37	74.16	81.95	89.74
				(In percent of quota)				
Total Fund credit outstanding, end of period	91.24	88.03	103.20	116.57	129.71	142.23	155.16	168.09
Tranche policies	7.79	5.99	4.00	1.61	0.41	--	--	--
SAF	12.73	11.31	9.90	8.49	7.07	5.66	4.24	2.83
ESAF 1/	70.72	70.72	89.30	106.48	122.23	136.57	150.92	165.26

Source: IMF, Treasurer's Department

1/ Including ESAF Trust Account

Table 3. Togo: Selected Economic and Financial Indicators, 1991-97

	1991	1992		1993	1994	1995	1996	1997
	Est.	Prog.	Est.	Est.	Prog.	Projections		
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
GDP at constant prices	-0.9	2.9	-8.8	-13.5	11.7	8.3	5.4	5.3
GDP deflator	3.3	3.0	1.9	-3.5	29.2	6.2	3.9	3.3
Consumer price index (annual average)	0.4	2.4	3.7	-3.6	35.9	4.5	3.9	3.3
External sector (in SDRs)								
Exports, f.o.b.	-1.4	2.6	-20.4	-31.5	-4.8	24.3	11.3	9.6
Excluding re-exports	0.3	1.1	-22.1	-27.2	6.0	31.6	13.6	11.5
Imports, f.o.b.	-12.2	5.7	-10.3	-38.8	-6.9	14.0	8.6	7.9
Export volume								
Including re-exports	4.1	2.7	-15.2	-22.7	0.2	4.7	8.7	7.7
Excluding re-exports	5.9	2.2	-17.1	-17.9	11.6	10.9	11.0	9.5
Import volume	-10.4	4.5	-11.5	-38.0	-8.6	12.9	7.8	7.0
Terms of trade (deterioration -)	-3.7	-12.0	-7.3	-10.3	-6.7	17.6	1.7	1.0
Nominal effective exchange rate 1/	4.9	--	12.9	9.6	...	...	...	...
Real effective exchange rate 1/	-4.0	--	4.8	-6.3	...	...	...	...
Consolidated government operations								
Revenue and grants	-25.4	34.4	-6.0	-51.3	68.9	74.4	25.0	12.5
Total expenditure	-11.5	6.2	-14.5	-4.5	46.6	16.3	12.4	4.2
Money and credit								
Net domestic assets 2/ 3/	5.0	3.8	-2.7	5.9	23.0	3.7	4.7	3.1
Of which: Government 3/	(-5.9)	(--)	(1.7)	(5.1)	(10.1)	(0.1)	(4.3)	(1.9)
Credit to the private sector	14.6	6.6	-3.6	-9.1	18.0	7.3	2.3	4.0
Money and quasi-money (M2)	4.7	6.0	-13.9	-14.9	31.0	22.5	20.0	15.0
Velocity (GDP relative to M2)	2.4	2.3	2.3	2.2	3.0	2.8	2.5	2.3
Interest rate on savings deposits (end-of-period)	7.0	7.0	8.5	4.5	...	...	...	...
Normal discount rate(end-of-period)	11.0	11.0	11.0	10.5	...	...	...	...
	(In percent of GDP, unless otherwise indicated)							
Consolidated government deficit (-) 4/								
Including grants	-6.5	-1.0	-4.3	-15.2	-13.5	-7.1	-5.0	-3.0
Excluding grants	-7.9	-5.2	-6.2	-15.5	-14.6	-10.8	-10.0	-7.9
Primary fiscal balance	-0.3	3.7	0.5	-9.0	-6.3	-0.5	1.6	3.2
Gross domestic investment	19.6	22.1	16.0	6.0	12.5	17.4	20.1	22.7
Gross domestic savings	11.5	11.2	5.5	-2.4	2.7	10.4	13.7	16.7
Gross national savings 5/	14.7	...	7.8	-2.2	0.3	9.6	13.3	16.6
Public saving	-3.4	...	-2.5	-13.2	-11.7	-4.0	-1.6	0.4
Current account balance								
Including grants	-3.4	-3.4	-6.7	-7.9	-11.0	-4.0	-1.8	-1.2
Excluding grants	-9.0	-10.8	-11.8	-10.4	-13.7	-9.5	-8.5	-7.8
External debt	70.5	72.4	78.8	102.8	144.6	126.3	120.9	114.8
Debt service ratio 6/								
Accrual basis	20.8	15.3	25.1	40.7	36.0	26.4	20.0	17.3
Cash basis 7/	8.9	11.5	4.2	5.0	12.2	12.4	8.2	7.8
Interest due (in percent of exports of goods and nonfactor services)	8.6	6.1	9.5	16.6	14.2	9.1	8.2	7.2
	(In millions of SDRs, unless otherwise indicated)							
Overall balance of payments (deficit -)	-35.4	-28.4	-120.7	-159.5	-92.3	-41.9	-11.0	-0.5
Gross reserves (in months of imports, c.i.f., e.o.p.)	7.5	6.4	6.9	6.7	4.3	6.2	7.8	9.0
External payments arrears (end of period)	13.1	--	29.4	78.3	33.8	--	--	--
Nominal GDP (in billions of CFA francs)	456	428	424	354	510	587	643	699

Sources: Data provided by the Togolese authorities; and staff estimates and projections.

1/ Information Notice System, adjusted for informal trade with Ghana and Nigeria. Real exchange rate based on consumer price data.

2/ Domestic credit and other items (net), excluding net long-term external liabilities.

3/ Changes in percent of broad money at the beginning of period; for 1994, excludes revaluation effects arrising from the CFA franc devaluation.

4/ On a payment order basis.

5/ Excluding project grants.

6/ Government external debt service (including IMF), in percent of exports of goods and nonfactor services.

7/ Assumes Paris Club rescheduling in 1994, 1995, and 1996, and commercial bank debt buy-back operation in 1995, and takes into account the French debt cancellation in 1994.

Table 4. Togo: Consolidated Government Operations, 1991–97
(In billions of CFA francs)

	1991	1992	1993	1994		1994	1995	1996	1997
	Estimates			Sem. 1 Est.	Sem.2 Prog.	Program		Projections	
Revenue	78.9	72.6	38.2	26.8	33.5	60.2	93.4	112.4	128.5
Tax revenue	68.9	54.8	30.8	25.7	29.3	55.1	79.2	95.8	109.9
Public enterprises	8.0	7.5	2.3	3.7	5.5	9.3	16.1	18.3	21.6
Other direct taxes	16.0	14.7	9.5	9.0	5.1	14.1	18.5	22.9	25.5
Import duties	32.3	25.3	13.5	11.0	15.3	26.3	36.5	44.0	50.6
Other indirect taxes	12.5	7.4	5.5	2.0	3.4	5.4	8.1	10.6	12.2
Nontax revenue	10.0	17.8	7.4	1.0	4.1	5.1	14.3	16.6	18.6
Expenditure and net lending	115.0	98.8	93.0	54.7	80.3	134.9	157.0	176.4	183.8
Current expenditure	94.6	83.0	84.8	54.0	65.8	119.8	117.2	122.9	125.7
Primary current expenditure	80.1	70.3	70.1	38.3	54.2	92.6	96.1	102.2	106.4
Personnel	42.0	38.6	38.5	24.2	24.2	48.4	50.6	56.3	58.8
Other primary expenditure	38.1	31.7	31.6	14.1	30.0	44.1	45.4	45.9	47.5
Materials and supplies	18.5	14.8	13.5	...	...	13.6	15.0	15.4	16.2
Subsidies and transfers	5.9	5.8	4.3	...	...	12.4	13.4	11.9	10.6
Other	13.7	11.1	13.7	...	...	18.2	17.0	18.6	20.8
Interest on external debt	13.0	11.4	13.3	14.4	10.3	24.7	19.1	18.9	18.1
Interest on domestic debt	1.5	1.3	1.5	1.3	1.3	2.5	1.9	1.9	1.2
Investment expenditure	20.4	15.7	8.2	0.7	14.4	15.1	39.8	53.5	58.1
Of which: financed by domestic resources	(2.3)	(6.9)	(6.0)	(0.7)	(1.4)	(2.1)	(3.1)	(3.7)	(4.5)
Net lending	--	0.1	--	--	--	--	--	--	--
Primary current balance	−1.2	2.3	−31.9	−11.6	−20.8	−32.3	−2.7	10.2	22.2
Current balance	−15.7	−10.4	−46.6	−27.2	−32.4	−59.6	−23.7	−10.5	2.8
Overall deficit (−), payment order basis	−36.1	−26.1	−54.8	−27.9	−46.8	−74.7	−63.5	−64.1	−55.3
Payment arrears, net (decrease −)	9.6	8.6	38.4	11.6	−44.3	−32.7	−18.3	−16.7	−14.6
Domestic − Treasury	5.4	7.3	28.0	0.4	−7.4	−7.0	−8.2	−14.7	−12.6
Other domestic arrears	2.0	0.9	1.0	--	--	--	−2.0	−2.0	−2.0
Interest on external debt(net)	4.2	2.9	9.4	11.2	−36.9	−25.7	−8.1	--	--
Of which: London Club	...	...	...	...	...	(1.2)	(−8.1)	--	--
Overall deficit (−), cash basis	−24.5	−15.1	−16.4	−16.3	−91.1	−107.4	−81.9	−80.8	−69.9
Financing	24.5	15.1	20.3	6.3	−16.3	−10.0	−15.0	37.2	36.6
Domestic financing	4.3	4.5	19.6	7.2	11.0	18.2	−2.5	7.0	1.0
Banking system	3.9	3.4	8.7	2.1	12.2	14.3	1.6	10.0	2.0
Net use of Fund resources	−2.4	--	−2.4	−1.4	6.7	5.3	11.6	11.8	2.0
Advances from the Central Bank	--	1.1	3.2	3.2	−6.2	−3.0	--	--	--
Other domestic bank financing	6.3	2.2	7.9	0.3	11.7	12.0	−10.0	−1.8	--
Nonbank financing	0.3	1.2	11.0	5.1	−1.3	3.9	−4.2	−3.0	−1.0
Of which: except. advances from PEs	...	--	(11.0)	(5.1)	(−1.3)	(3.9)	(−4.2)	(−3.0)	(−1.0)
External financing	20.3	10.6	0.6	−0.9	−27.2	−28.2	−12.5	30.2	35.6
Grants (project & program)	6.7	7.9	1.0	--	6.0	6.0	22.1	32.0	34.0
Of which: project	(6.7)	(6.8)	(1.0)	--	(6.0)	(6.0)	(22.1)	(32.0)	(34.0)
Borrowing	16.0	1.8	1.2	--	7.0	7.0	14.6	17.9	19.6
Amortization due	−16.2	−18.6	−19.3	−16.9	−17.4	−34.3	−29.9	−20.7	−18.5
Rescheduling already obtained	12.9	16.2	7.2	--	--	--	--	--	--
Debt cancellation from France	--	--	--	1.6	1.8	3.4	1.0	1.0	0.5
Arrears on amortiz., net (decr. −)	0.9	3.7	10.5	14.4	−24.7	−10.3	−20.3	--	--
Of which: (London Club)	...	...	...	...	...	(6.8)	(−20.3)	--	--
Financing gap	--	--	−3.9	10.0	107.4	117.4	96.9	43.6	33.4
Total revenue	17.3	17.1	10.8	...	...	11.8	15.9	17.5	18.4
Total expenditure and net lending	25.2	23.3	26.3	...	...	26.4	26.7	27.5	26.3
Current primary expenditure	17.6	16.6	19.8			18.1	16.4	15.9	15.2
Investment expenditure	4.5	3.7	2.3			3.0	6.8	8.3	8.3
Primary current balance (deficit −)	−0.3	0.5	−9.0	...	...	−6.3	−0.5	1.6	3.2
Current balance (deficit −)	−3.4	−2.5	−13.2	...	...	−11.7	−4.0	−1.6	0.4
Overall bal. excl. foreign finan. invest. (def. −)	−3.9	−4.1	−14.9	...	...	−12.1	−4.6	−2.2	−0.2
Overall balance, payments order basis (deficit −)									
Including grants	−6.5	−4.3	−15.2	...	...	−13.5	−7.1	−5.0	−3.0
Excluding grants	−7.9	−6.2	−15.5	...	...	−14.6	−10.8	−10.0	−7.9
Nominal GDP (in billions of CFA francs)	455.5	423.6	353.8	...	...	510.4	587.2	642.7	699.4

Sources: Data provided by the Togolese authorities; and staff estimates and projections.

Table 5. Togo: Monetary Survey, 1991-95

(In billions of CFA francs; end of period)

	1991	1992	1993	1994		1994			1995			
			Dec.	Jan. 12 1/	Mar.2/ Est.	June	Sept. Program	Dec.	Mar.	June Projections	Sept.	Dec.
Net foreign assets	81.3	58.6	23.2	5.1	30.2	11.7	12.6	15.2	24.2	33.1	42.0	51.0
Central Bank	69.6	53.8	24.1	3.6	20.7	...	...	...	...	...	...	...
Commercial banks	2.7	-0.1	-0.9	1.4	9.6	...	...	...	...	...	...	...
Treasury	9.0	4.9	--	--	--	--	--	--	--	--	--	--
Net domestic assets	123.6	118.2	128.2	147.4	141.8	161.3	175.3	180.8	187.6	193.8	196.5	187.9
Net claims on government	12.5	12.6	23.6	42.9	39.9	45.1	57.4	57.6	61.8	60.4	62.9	57.7
Net claims on Central Government	26.1	29.4	38.2	57.5	55.0	59.6	71.4	71.7	73.7	73.3	71.6	73.4
Other 3/	-13.5	-16.8	-14.6	-14.6	-15.1	-14.5	-14.0	-14.1	-11.9	-12.9	-8.7	-15.7
Credit to the private sector	118.7	114.4	103.9	103.9	104.3	117.6	118.3	122.6	125.1	132.7	132.9	131.5
Claims on OPAT and OTP	24.0	26.0	28.3	28.3	31.1	40.7	37.7	34.6	34.4	39.2	36.7	32.6
OPAT	2.0	1.3	0.2	0.2	2.5	8.1	5.1	2.0	2.5	8.1	5.1	2.0
OTP	22.0	24.7	28.1	28.1	28.6	32.6	32.6	32.6	31.9	31.1	31.6	30.6
Other	94.7	88.4	75.6	75.6	73.1	76.8	80.5	87.9	90.7	93.4	96.2	98.9
Other items (net)	-7.6	-8.9	0.6	0.6	-2.4	-1.4	-0.4	0.6	0.6	0.6	0.6	-1.4
Broad money	198.3	170.7	145.3	145.3	166.3	167.4	182.2	190.3	206.0	221.1	232.8	233.1
Currency in circulation	36.3	22.1	10.5	...	26.8	...	...	...	...	...	...	...
Demand deposits	...	...	...	...	...	...	...	...	...	...	...	...
Time deposits	...	...	...	...	...	...	...	...				...
SDR allocation	4.3	4.2	4.2	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3
Medium- and long-term foreign borrowing	2.3	1.9	1.9	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Revaluation account	...	...	...	-5.2	-5.2	-5.2	-5.2	-5.2	-5.2	-5.2	-5.2	-5.2
				(Change in percent of beginning-of-period money stock 4/)								
Net foreign assets	-0.2	-11.4	-20.7	...	...	...	...	7.0	...	...	...	18.8
Net domestic assets	4.4	-2.7	5.9	...	...	...	...	23.0	...	...	...	3.7
Credit to the government	13.7	1.7	5.1	...	...	...	...	10.1	...	...	...	0.1
Credit to the economy	14.6	-3.6	-9.1	...	...	...	...	18.0	...	...	...	7.3
Broad money	4.1	-13.9	-14.9	...	...	...	...	31.0	...	...	...	22.5
					(Annual increase in percent)							
Nominal GDP	2.2	-9.4	-16.5	...	...	...	...	44.2	...	...	...	15.1
GDP deflator	3.3	2.0	-3.5	...	...	...	...	29.3	...	...	...	6.2
Memorandum items:												
Net domestic assets (in billions of CFA francs) 5/	144.8	143.8	142.1	162.0	156.9	175.8	189.3	195.0	199.4	206.6	205.1	203.6
Nominal GDP (in billions of CFA francs)	455.6	423.6	353.8	...	...	...	...	510.2	...	...	...	587.2
Velocity 6/	2.3	2.3	2.2	...	...	...	...	3.0	...	...	...	2.8

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

1/ Gross reserves of the Central Bank were not revalued while the liabilities were.
2/ In March 1994, the increase in foreign assets is partially explained by transfers of CFAF 18.5 billion in deposits from the BOAD. These deposits were drawn down in May 1994.
3/ Deposits related to foreign-financed projects.
4/ In 1994, changes are net of the impact of the revaluation.
5/ Excluding project deposits.
6/ Computed as the ratio of GDP (in the year n) to the average of broad money at the end of the years n-1 and n.

Table 6. Togo: Balance of Payments, 1991–98
(In billions of CFA francs)

	1991	1992	1993 Est.	1994 Prog.	1995	1996	1997	1998
					Projections			
Trade balance	−16.8	−25.3	−9.6	−16.0	−5.8	−2.4	0.4	1.3
Total exports	110.9	85.3	60.8	120.9	149.8	168.1	186.9	205.6
Domestic exports	70.0	52.7	39.9	88.3	115.9	132.8	150.3	167.4
Cotton	18.4	14.8	14.1	24.7	38.3	38.8	42.5	45.1
Coffee	2.5	4.8	2.9	6.0	12.3	14.0	15.4	16.3
Cocoa	3.1	2.7	1.2	2.3	4.3	4.5	4.7	4.9
Phosphates	35.6	21.0	14.8	37.2	40.6	45.7	53.7	61.2
Other	10.4	9.4	6.9	18.2	20.3	29.8	34.0	39.9
Re-exports	40.8	32.6	20.9	32.6	33.9	35.3	36.7	38.1
Imports, f.o.b.	−127.6	−110.6	−70.4	−136.9	−155.6	−170.4	−186.6	−204.2
Services (net)	−28.4	−26.8	−29.8	−58.4	−53.1	−56.7	−59.1	−63.4
Credit	48.6	42.5	24.9	57.5	65.1	68.9	72.1	75.5
Debit	−77.1	−69.3	−54.7	−116.0	−118.2	−125.7	−131.3	−138.9
Of which: interest on external debt	(−13.0)	(−11.4)	(−13.3)	(−24.7)	(−19.1)	(−18.9)	(−18.1)	(−17.9)
Unrequited transfers (net)	29.8	23.8	11.5	18.1	35.4	47.2	50.3	51.5
Private	4.0	2.3	2.7	4.4	3.3	4.2	4.2	4.2
Public	25.8	21.5	8.8	13.7	32.1	43.0	46.1	47.3
Of which: project grants	(6.7)	(6.8)	(1.0)	(6.0)	(22.1)	(32.0)	(34.0)	(34.0)
Current account balance	−15.4	−28.3	−27.9	−56.4	−23.5	−11.9	−8.5	−10.5
(excluding grants)	(−41.2)	(−49.8)	(−36.7)	(−70.1)	(−55.6)	(−54.9)	(−54.6)	(−57.8)
Capital movements (net)	1.7	−16.7	−33.9	−18.4	−10.3	2.9	8.1	8.4
Public, medium- and long-term	5.8	−5.0	−13.7	−27.3	−15.3	−2.9	1.1	0.2
Disbursements	22.1	10.9	3.5	7.0	14.6	17.9	19.6	21.6
Project loans	9.5	9.6	3.5	7.0	14.6	17.9	19.6	21.6
Nonproject loans	12.6	1.3	--	--	--	--	--	--
Amortization	−16.2	−15.9	−17.2	−34.3	−29.9	−20.7	−18.5	−21.4
Public enterprise borrowing	4.1	--	--	2.5	3.0	3.8	4.0	4.2
Long-term private capital	3.3	5.0	0.5	1.0	2.0	2.0	3.0	4.0
Short-term private capital and errors and omissions	−11.5	−16.7	−20.7	5.4	--	--	--	--
Overall balance	−13.7	−45.0	−61.8	−74.7	−33.8	−9.0	−0.4	−2.1
Financing	13.7	45.0	61.8	74.7	33.8	9.0	0.4	2.1
Change in net foreign assets (− increase)	−4.3	22.7	35.4	−10.2	−35.7	−35.7	−33.4	−20.3
Of which: net use of Fund resources	(−2.2)	(−0.0)	(−2.2)	(5.3)	(11.6)	(11.8)	(1.6)	(−7.3)
Change in arrears (reduction −)	5.1	6.1	19.4	−36.0	−28.4	--	--	--
Principal	0.9	3.2	9.9	−10.3	−20.3	--	--	--
Interest	4.2	2.9	9.4	−25.7	−8.1	--	--	--
Rescheduling obtained	12.9	16.2	7.1	--	--	--	--	--
Debt cancellation from France				3.4	1.0	1.0	0.5	0.6
Financing gap	--	--	--	117.4	96.9	43.6	33.4	21.8
Memorandum items:								
Current account deficit excl. grants in percent of GDP	−9.0	−11.8	−10.4	−13.7	−9.5	−8.5	−7.8	−7.6
Exchange rate CFA/$	282	265	283	581	579	583	590	595
Cotton prices in CFA francs per ton	436	384	336	661	843	828	845	861
Phosphate exports in millions of tons	3.1	2.1	1.5	2.1	2.2	2.3	2.6	2.8

Sources: Data provided by Togolese authorities; and staff estimates and projections.

Table 7. Togo. Balance of Payments, 1991–98
(In millions of SDRs)

	1991	1992	1993 Est.	1994 Prog.	1995	1996	1997	1998
					Projections			
Trade balance	−43.5	−67.9	−24.9	−19.8	−7.2	−2.9	0.4	1.6
Total exports	287.3	228.8	156.8	149.3	185.5	206.4	226.3	245.8
Domestic exports	181.5	141.4	102.9	109.1	143.6	163.1	181.9	200.2
Cotton	47.7	39.7	36.4	30.5	47.4	47.6	51.4	53.9
Coffee	6.6	12.9	7.4	7.4	15.3	17.2	18.6	19.5
Cocoa	8.0	7.2	3.0	2.8	5.3	5.5	5.7	5.9
Phosphates	92.3	56.3	38.3	45.9	50.3	56.2	65.0	73.2
Other	26.9	25.2	17.8	22.4	25.2	36.6	41.2	47.7
Re-exports	105.8	87.4	53.9	40.3	42.0	43.3	44.4	45.6
Imports, f.o.b.	−330.7	−296.7	−181.7	−169.1	−192.8	−209.3	−225.9	−244.2
Services (net)	−73.7	−71.8	−76.8	−72.2	−65.8	−69.7	−71.6	−75.8
Credit	126.0	114.0	64.3	71.0	80.7	84.7	87.3	90.3
Debit	−199.7	−185.8	−141.0	−143.2	−146.5	−154.3	−158.9	−166.1
Of which: interest on external debt	(−33.6)	(−30.5)	(−34.2)	(−30.5)	(−23.7)	(−23.2)	(−22.0)	(−21.5)
Unrequited transfers (net)	77.3	63.8	29.7	22.4	43.9	58.0	60.8	61.6
Private	10.5	6.2	7.0	5.4	4.1	5.2	5.1	5.0
Public	66.8	57.6	22.7	16.9	39.8	52.8	55.8	56.6
Of which: project grants	(17.3)	(18.2)	(2.6)	(7.4)	(27.4)	(39.3)	(41.2)	(40.7)
Current account balance (including grants)	−39.9	−75.9	−72.0	−69.6	−29.2	−14.6	−10.3	−12.5
Current account balance (excluding grants)	−106.7	−133.5	−94.7	−86.5	−68.9	−67.4	−66.1	−69.1
Capital movements (net)	4.5	−44.8	−87.5	−22.7	−12.7	3.6	9.8	10.0
Public, medium- and long-term	15.1	−13.4	−35.3	−33.7	−18.9	−3.5	1.3	0.3
Disbursements	57.2	29.3	8.9	8.6	18.1	21.9	23.8	25.8
Project loans	24.5	25.8	8.9	8.6	18.1	21.9	23.8	25.8
Nonproject loans	32.6	3.6	--	--	--	--	--	--
Amortization	−42.1	−42.7	−44.3	−42.3	−37.0	−25.5	−22.4	−25.5
Public enterprise borrowing	10.7	--	--	3.1	3.7	4.7	4.8	5.0
Long-term private capital	8.4	13.4	1.3	1.2	2.5	2.5	3.6	4.8
Short-term private capital, errors and omissions	−29.8	−44.9	−53.5	6.7	--	--	--	--
Overall balance	−35.4	−120.7	−159.5	−92.3	−41.9	−11.0	−0.5	−2.5
Financing	35.4	120.7	159.5	92.3	41.9	11.0	0.5	2.5
Change in net foreign assets (− increase)	−11.2	60.9	91.4	−12.5	−44.3	−43.8	−40.5	−24.3
Of which: net use of Fund resources	(−5.8)	(−0.1)	(−5.7)	(6.5)	(14.4)	(14.5)	(1.9)	(−8.8)
Change in arrears (reduction −)	13.1	16.3	50.0	−44.4	−35.2	--	--	--
Principal	2.3	8.4	25.6	−12.7	−25.2	--	--	--
Interest	10.9	7.8	24.4	−31.7	−10.0	--	--	--
Rescheduling obtained	33.5	43.5	18.2	--	--	--	--	--
Debt cancellation	--	--	--	4.2	1.2	1.2	1.2	1.2
Financing gap	--	--	--	145.0	120.0	53.6	40.4	26.1

Sources: Data provided by Togolese authorities; and staff estimates and projections.

Table 8. Togo: External Debt Service and Debt Outstanding, 1993–2000

	Stock of debt at end 1993		Projected debt service payments						
	Debt Outstanding 1/	Of which: Arrears	1994	1995	1996	1997	1998	1999	2000
			(In billions of CFA francs)						
Interest			24.70	19.13	18.86	18.14	17.94	18.21	18.01
a. Multilateral creditors			4.67	4.74	4.61	4.41	4.20	4.08	3.68
Of which: Fund			0.76	0.76	0.77	0.77	0.69	0.70	0.62
b. Paris Club post–cutoff date debt			0.56	0.49	0.52	0.25	0.24	0.23	0.21
c. Paris Club pre–cutoff date debt			11.96	11.14	10.29	9.32	8.61	7.98	7.13
i. Pre–cutoff date not previously rescheduled debt			--	--	--	--	--	--	--
ii. Previously rescheduled debt on nonconcessional terms			5.66	4.84	3.39	3.02	2.40	2.08	1.63
iii. Previously rescheduled debt on concessional terms			6.30	6.30	6.90	6.30	6.20	5.90	5.50
d. Other bilateral			0.34	0.30	0.27	0.23	0.12	0.17	0.14
e. Private creditors			1.16	--	--	--	--	--	--
f. Interest on new borrowing			0.20	0.60	0.90	1.30	1.80	2.40	3.10
g. Debt service on gap financing 2/			0.36	1.87	2.28	2.63	2.97	3.35	3.76
h. Late interest			5.4	--	--	--	--	--	--
Principal	727.78	64.01	37.96	36.13	27.47	25.82	28.65	31.18	35.43
a. Multilateral creditors	436.26	5.16	8.42	11.86	12.93	13.82	15.92	15.57	17.04
Of which: Fund	40.50	--	3.70	6.25	6.73	7.29	7.29	7.01	8.22
b. Paris Club post–cutoff date debt	25.44 3/	1.80	0.48	0.48	0.49	0.24	0.33	0.51	0.56
c. Paris Club pre–cutoff date debt	220.53	37.50	20.77	11.32	11.35	8.87	9.35	11.88	14.40
i. Pre–cutoff date not previously rescheduled debt			--	--	--	--	--	--	--
ii. Previously rescheduled debt on nonconcessional terms			20.47	11.02	11.05	8.47	4.45	4.58	4.40
iii. Previously rescheduled debt on concessional terms			0.30	0.30	0.30	0.40	4.90	7.30	10.00
d. Other bilateral	10.72	1.63	1.32	1.10	1.10	1.10	1.10	1.10	1.10
e. Private creditors 4/	34.82	17.93	6.75	10.13	--	--	--	--	--
f. Debt service on gap financing 2/			0.22	1.24	1.60	1.77	1.94	2.13	2.33
Total debt service due			62.66	55.26	46.34	43.96	46.59	49.39	53.44
Interest			24.70	19.13	18.86	18.14	17.94	18.21	18.01
Principal 4/			37.96	36.13	27.47	25.82	28.65	31.18	35.43
Debt outstanding			737.85	741.35	777.16	803.19	814.45	824.08	833.29
			(In percent of exports of goods and non factor services)						
Total debt service due			35.96	26.37	20.04	17.34	16.91	16.60	16.78
Interest			14.17	9.13	8.16	7.16	6.51	6.12	5.66
Principal 4/			21.78	17.24	11.88	10.18	10.40	10.48	11.13
			(In percent of GDP)						
Debt outstanding			144.57	126.29	120.86	114.91	106.83	99.62	92.84

Sources: Data provided by the Togolese authorities; and staff estimates and projections.

1/ Stocks of debt, disbursed and outstanding, including principal in arrears, plus interest in arrears. Stocks are measured at the after–devaluation exchange rates.

2/ Debt service payments on the amount assumed to be consolidated by the Paris Club in 1994.

3/ Of which CFAF 24.3 billion for loans by the Caisse Francaise de Developpement (CFD) after the cutoff date.

4/ The principal due in 1995 assumes that a World Bank financed debt buy–back operation will take place that year and that the principal originally due in 1995 and 1996 will be liquidated by the buy–back operation.

Table 9. Togo: Sensitivity Analysis of the Balance of Payments, 1993–98

	1993	1994	1995	1996	1997	1998
				Projections		
Baseline scenario (based on table 6)						
Cotton prices (in CFAF per ton)	336	661	843	828	845	861
Real growth of exports (in percent)	−17.9	11.6	10.9	11.0	9.5	7.8
Real growth of imports (in percent)	−38.0	−8.6	12.9	7.8	7.0	7.1
Current account balance (in billions of CFAF)	−27.9	−56.4	−23.5	−11.9	−11.1	−11.3
Current account balance excluding grants (in percent of GDP)	−10.4	−13.7	−9.5	−8.5	−7.9	−7.4
		(change relative to baseline scenario)				
a. Effect of cotton prices 10 percent lower						
Current account balance (in billions of CFAF)		−2.47	−3.83	−3.88	−4.25	−4.51
Current account balance excluding grants (in percent of GDP)		−0.48	−0.65	−0.60	−0.61	−0.59
b. Effect of a real growth rate of exports 2.5 percent lower each year						
Current account balance (in billions of CFAF)		−2.21	−5.87	−10.21	−15.60	−22.00
Current account balance excluding grants (in percent of GDP)		−0.43	−1.00	−1.59	−2.23	−2.89
c. Effect of a real growth rate of imports 2.5 percent higher each year.						
Current account balance (in billions of CFAF)		−3.42	−7.88	−13.10	−19.37	−26.84
Current account balance excluding grants (in percent of GDP)		−0.67	−1.34	−2.04	−2.77	−3.52

Sources: Data provided by Togolese authorities; and staff estimates and projections.

Table 10. Togo: Indicators of Fund Credit, 1993 – 2007

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
								Projections							
Outstanding Fund Credit															
In millions of SDRs	49.5	56.0	70.4	84.3	86.7	78.2	71.3	64.2	54.3	42.4	29.3	16.3	6.5	1.1	--
In billions of CFA francs	19.2	47.1	59.5	71.8	74.6	67.9	62.5	56.7	48.0	37.4	25.9	14.4	5.8	1.0	--
In percent of quota	91.2	103.1	129.7	155.2	159.7	144.0	131.3	118.2	100.0	78.1	54.0	30.0	12.0	2.0	--
In percent of GDP	5.4	9.2	10.1	11.2	10.7	8.9	7.6	6.3	...	...	...	...	...	...	...
In percent of exports of goods and nonfactor services	24.0	27.0	28.4	31.1	29.4	24.6	21.0	17.7	13.8	10.0	6.4	3.3	1.2	0.2	--
Debt service to the Fund															
In millions of SDRs	6.4	5.3	8.3	8.8	9.4	9.2	8.8	10.0	9.9	13.4	13.7	13.6	9.9	5.4	1.1
In billions of CFA francs	2.5	4.5	7.0	7.5	8.1	8.0	7.7	8.8	8.7	11.9	12.1	12.0	8.8	4.8	1.0
In percent of quota	11.7	9.8	15.3	16.2	17.3	16.9	16.2	18.4	18.2	24.7	25.2	25.0	18.2	9.9	2.0
In percent of GDP	0.7	0.9	1.2	1.2	1.2	1.0	0.9	1.0	...	...	...	...	...	...	...
In percent of exports of goods and nonfactor services	3.1	2.6	3.3	3.2	3.2	2.9	2.6	2.8	2.5	3.2	3.0	2.8	1.9	0.9	0.2
In percent of debt service due	7.1	6.7	11.4	14.1	15.7	14.8	15.6	16.5	...	...	...	...	...	...	...
In percent of gross official reserves	5.4	7.9	7.6	5.9	5.0	4.4	3.9	4.5	...	...	...	...	...	...	...

Sources: IMF, Treasurer's Department; and staff projections.

Table 11. Togo: Financial and Structural Benchmarks, and Performance Criteria Under the Program for 1994-95

(In billions of CFA francs)

	1993	1994			1995	
	Dec. Est. 1/	June Prov.	Sept. 2/	Dec. 3/	March 2/	June 2/
I. Quantitative financial benchmarks						
Net bank credit to the Government 4/ 5/	57.5	59.6	71.4	71.7	73.7	73.3
Net domestic assets of the banking system 4/ 5/	162.0	175.8	189.3	195.0	199.4	206.6
Reduction in verified government domestic payments arrears (cumulative from end-1993) 6/ 7/	42.0	0.4	-7.0	-7.0	-7.0	-7.0
Reduction in external payments arrears 8/ (cumulative from end-1993)	6.8	1.4	--	-4.2	-5.9	-6.8
New external nonconcessional loans of 1 to 15 years' maturity contracted or guaranteed by the Government 9/	--	--	--	--	--	--
Short-term external borrowing with less than one year's maturity 10/	--	--	--	--	--	--
II. Structural benchmarks						
a. Implementation of withholding tax at Customs and wholesaler's level 11/		End-September 1994				
b. Finalization of domestic arrears reduction plan		End 1994				
c. Presentation to the National Assembly of a draft law on generalized single rate VAT 11/		March 15, 1995				
d. Adoption of decrees on the sale of government holdings in Togolese companies		End 1994				
III. Indicators						
Total budgetary revenue (cumulative from the beginning of the year)	38.2	26.8	42.0	60.2	21.5	43.7
Wage bill (cumulative from the beginning of the year)	38.5	24.2	36.3	48.4	12.6	25.3
Bank credit to OTP	28.1	32.6	32.6	32.6	31.9	31.1
Bank credit to OPAT	0.2	8.1	5.1	2.0	2.5	8.1
Memorandum item:						
Nonproject-related external assistance, including debt relief but excluding the Social Fund (cumulative from end-1993)	--	10.0	20.4	117.5	127.0	145.3

1/ Valued at the new exchange rate.
2/ Benchmarks; the figures for end-March and end-June 1995 are indicative.
3/ Performance criteria.
4/ These targets will be revised upward or downward if disbursements on nonproject-related external assistance, including debt relief but excluding the Social Fund, fall short or exceed the amount programmed, as indicated in paragraph 29 and 34 of the MEFP.
5/ Net credit to the Government is defined as net credit from the banking system (the Central Bank, the commercial banks, and the postal checking system) excluding project-related deposits.
6/ Arrears recorded at the level of the Treasury; the end-December 1993 figure is the estimated amount outstanding.
7/ Quarterly targets will be revised, upward or downward, as indicated in paragraph 29 of the MEFP, if exceptional assistance, excluding the Social Fund exceeds or falls short of program projections.
8/ Quarterly targets will be revised downward in case nonproject-related assistance, including debt relief, falls short of program projections. Excludes arrears with Paris Club creditors and commercial banks on debt eligible for rescheduling. No new arrears will be accumulated during the program period, with the exception of temporary arrears to commercial banks pending the conclusion of the buy-back operation.
9/ Includes all public and publicly guaranteed debt, but excludes normal short-term import financing and loans contracted for debt rescheduling.
10/ Excludes normal import financing.
11/ Structural performance criteria.