

**Democratic Republic of São Tomé and Príncipe: First Review Under the Three Year Arrangement Under the Extended Credit Facility Arrangement, and Request for Waivers of Performance Criteria—Staff Report; Staff Supplement; and Press Release on the Executive Board Discussion**

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on September 24, 2009, with the officials of the Democratic Republic of São Tomé and Príncipe on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 3, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Staff supplement on the joint IMF/World Bank debt sustainability analysis.
- A Press Release.

The documents listed below have been separately released.

Letter of Intent sent to the IMF by the authorities of the Democratic Republic of São Tomé and Príncipe\*

Memorandum of Economic and Financial Policies by the authorities of the Democratic Republic of São Tomé and Príncipe\*

Technical Memorandum of Understanding\*

[\*Also included in Staff Report]

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

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INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

**First Review Under the Three-Year Arrangement Under the Extended Credit Facility,  
and Request for Waivers of Performance Criteria**

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

Approved by Sharmini Coorey and Dhaneshwar Ghura

February 3, 2010

- **ECF arrangement:** A new three year arrangement under the Extended Credit Facility (ECF) was approved by the Executive Board on March 2, 2009 in the amount of SDR 2.59 million. São Tomé and Príncipe drew the equivalent of SDR 0.37 million following the approval of the arrangement. Another SDR 0.37 million will become available upon completion of the first review.
- **Mission:** Discussions were held in São Tomé during September 11–24, 2009. The staff team comprised Messrs. Tsikata (head), Torrez, Milkov, and Trevino (all AFR). The mission met with Prime Minister Branco, Minister Santiago (Planning and Finance), Governor De Sousa (Central Bank), other senior government and central bank officials, members of the National Assembly, and representatives of the private sector and the donor community.
- **First program review:** Most quantitative targets for the first three quarters of 2009 were met and satisfactory progress was made on implementing structural reforms. However, two quantitative performance criteria were missed because of a shortfall in tax revenues which reflected the impact of the global crisis. Staff supports the authorities' request for waivers for the nonobservance of the above performance criteria.

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**GLOSSARY**

ECF	Extended Credit Facility
FDI	Foreign direct investment
EMAE	<i>Empresa de Agua y Electricidade</i>
ENCO	<i>Empresa Nacional de Combustíveis e Oleos</i>
NOA	National Oil Account
HIPC	Heavily Indebted Poor Countries Initiative
DSA	Debt sustainability analysis
BCSTP	Banco Central de São Tomé e Príncipe
MEFP	Memorandum of Economic and Financial Policies
SAFE	Integrated financial management information system

## EXECUTIVE SUMMARY

**A slowdown in growth in 2009 is expected to be reversed in 2010, while inflation is expected to continue on a downward path.** After averaging 6 percent a year over several years, real GDP growth in 2009 is estimated at 4 percent, reflecting a decline in foreign direct investment (FDI), which in part reflected the impact of the global crisis. Growth is expected to rebound in 2010, based on new FDI and increased official external financing. Inflation fell significantly in 2009 and a shift from a flexible exchange rate regime to a peg to the Euro is expected to help lower inflation further in 2010.

**Performance against program targets has been mixed.** Most of the quantitative targets for the first three quarters of 2009 were met. However, two fiscal performance criteria were missed on account of a revenue shortfall in the first half of 2009. The revenue shortfall arose from lower-than-expected imports, reflecting the impact of the global crisis. Satisfactory progress was made on implementing structural measures although several took longer to implement than programmed.

**Policy discussions focused on preparations for pegging the Dobra to the Euro and measures for making progress toward the authorities' fiscal and external sustainability objectives.** The pegging of the Dobra to the Euro from the beginning of 2010 will be supported by agreements with Portugal on a credit line as well as a policy framework consistent with the Extended Credit Facility (ECF)-supported program. The authorities are committed to exercise the fiscal discipline required to sustain the credibility of the peg.

**Enhanced revenue administration and expenditure restraint are key to fiscal consolidation.** In order to safeguard revenues, the government needs to redouble its efforts to expand the register of tax payers and to enforce compliance with tax laws. On the expenditure side, the budget needs to include realistic provisions for spending on utilities to break the cycle of arrears accumulation between the Treasury, EMAE (*Empresa de Agua y Electricidade*, the utility company) and ENCO (*Empresa Nacional de Combustíveis e Oleos*, the fuel distribution company). At the same time, the government needs to exercise strict control over discretionary spending to achieve its fiscal and external sustainability goals.

**The macroeconomic framework has been updated and program targets set for 2010.** The main revisions to the medium-term macroeconomic framework compared to the original program include: slightly lower growth and inflation paths, a slower pace of fiscal adjustment, and higher levels of gross international reserves.

**Staff recommends completion of the first review.** Staff supports the authorities' request for waivers for the nonobservance of the two fiscal performance criteria, based on the government's actions that boosted tax revenues in the second half of the year.

## I. BACKGROUND

1. **The ECF-supported program is designed to help the Government of São Tomé and Príncipe achieve its growth and poverty reduction objectives.** The strategy for achieving these objectives as set out in the *Progama do XIII Governo* entails ensuring macroeconomic stability, improving basic infrastructure, increasing food security, and promoting tourism as an engine of growth. Specific objectives of the ECF-supported program include lowering inflation, achieving fiscal and external sustainability in the face of uncertain oil prospects, and strengthening the capacity of public institutions to mobilize and manage public resources.
2. **The dobra is now pegged to the Euro.** The authorities signed an agreement with Portugal in July 2009 to support the move from a flexible exchange rate regime to pegging the Dobra to the Euro from the beginning of 2010. Under the agreement, Portugal stands ready to provide support in the form of a credit line of up to 25 million Euros, within the context of a jointly agreed program of sustainable macroeconomic policies linked to São Tomé and Príncipe's ECF-supported program.
3. **Exploration for oil continues.** A new round of exploratory drillings in the Joint Development Zone with Nigeria started in August 2009. If commercially viable reserves are confirmed in the near future, initiation of oil production could start in 2015. So far, oil-related revenues have been mainly from signature bonuses received in 2005 and 2007 from the issuance of prospecting licenses. The bonuses were paid into the National Oil Account (NOA) from which a proportion fixed by law is drawn down each year to finance the government budget.
4. **São Tomé and Príncipe remains at high risk of debt distress.** Although debt relief under the enhanced Heavily Indebted Poor Countries Initiative (HIPC) and Multilateral Debt Relief initiatives reduced the burden of the country's external debt substantially, a narrow export base and high reliance on external financing makes it highly vulnerable to external shocks. The results from an updated debt sustainability analysis (DSA) are broadly similar to those presented to the Board in the last staff report.<sup>1</sup>
5. **Local and Parliamentary elections are scheduled for February and March 2010, respectively, and a Presidential election is due in 2011.**

## II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

6. **Growth slowed in 2009, reflecting the impact of the global financial crisis.** After several years of robust growth averaging 6 percent a year, economic activity slowed in 2009 (Figure 1). Real GDP growth in 2009 is now projected at 4 percent, compared to 5.5 percent

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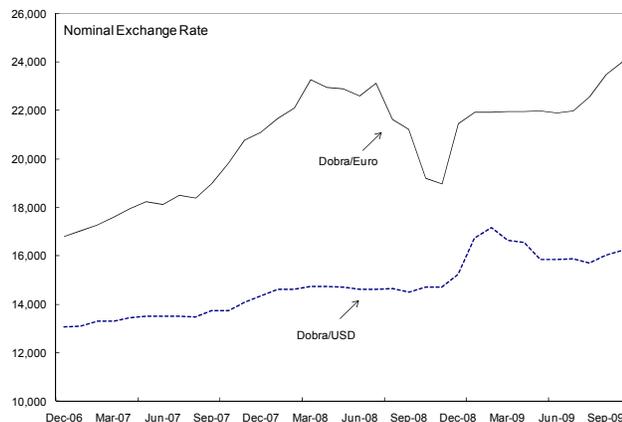
<sup>1</sup> Country Report No. 09/106, February 2009.

envisaged under the original program. A sharp decline in FDI, which in part reflected the impact of the global crisis, took a toll on construction and trade related activities. Also, an envisaged increase in external resources for financing the government's public investment program fell short of expectations. Tourism continued to grow in response to improved tourism infrastructure, but remains small in relation to the overall economy.

7. **Inflation has declined steadily since mid-2008, mainly reflecting lower world food and oil prices (see Figure 1).** On a year-on-year basis, headline inflation fell from a peak of 37 percent in July 2008 to 14.8 percent in October 2009. Food, most of which is imported, accounts for over 70 percent of the consumer price index basket. Nonfood inflation has been below 5 percent since July 2009 (see Figure 1). Tighter fiscal and monetary policies also helped contain inflation.

8. **Fiscal performance has improved over the last three years (Figure 2).** The domestic primary deficit has fallen substantially, mostly due to a decline in expenditure. Tax revenues have been flat, dominated by import taxes. On the expenditure side, the share of personnel costs has remained around one-third of primary expenditures. The bulk of capital expenditures are financed by external grants and loans. The domestic primary deficits have been financed largely by withdrawals from the NOA and use of privatization proceeds.

9. **The banking system is highly dollarized, weakening the central bank's control over the monetary aggregates.** Foreign currency deposits account for about 60 percent of commercial banks' deposit liabilities, while about 70 percent of loans to the private sector are denominated in foreign currency (Figure 3). Furthermore, foreign currency deposits of commercial banks make up about half of reserve money. In the last few years, changes in net foreign assets have been the main source of growth in both broad money and reserve money (Figure 3). The Banco Central de São Tomé e Príncipe (BCSTP's) main instrument for influencing base money (i.e., the dobra component of reserve money) has been foreign exchange purchases and sales. During 2009, following withdrawals from the NOA and the Privatization account to finance government spending, the central bank sold foreign exchange to slow down the growth in base money.

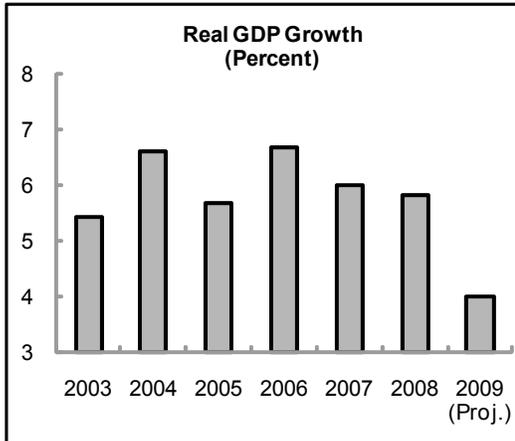


10. **The focus of the authorities' management of the exchange rate shifted from the U.S. dollar to the Euro in 2009.** In recent years, staff characterized São Tomé and Príncipe's exchange rate regime as a managed float. For most of 2008, the authorities maintained the Dobra at a stable rate against the U.S. dollar, which translated into a marked

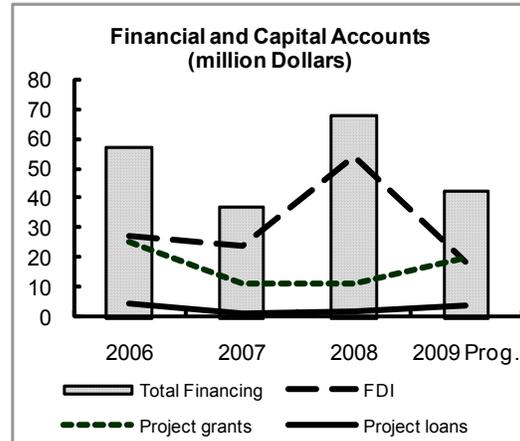
appreciation of the Dobra against the Euro. In the first half of 2009, reflecting the decision to peg the Dobra to the Euro, the authorities maintained a stable Dobra/Euro rate. Subsequently, the Dobra depreciated against both currencies.

Figure 1. Sao Tome and Principe: Recent Macroeconomic Developments

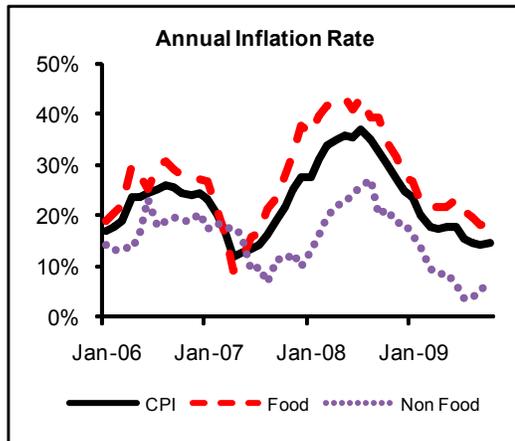
GDP growth has been robust...



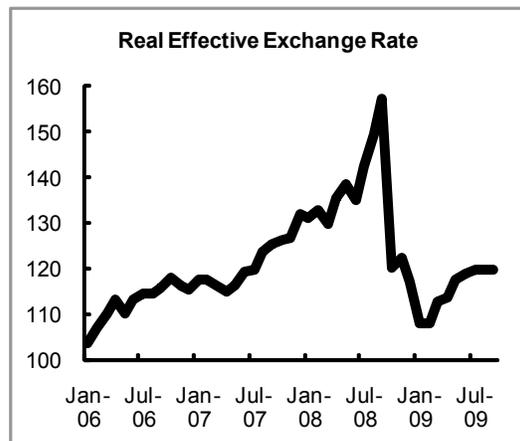
...fueled by FDI and official transfers.



Inflation has declined steadily...



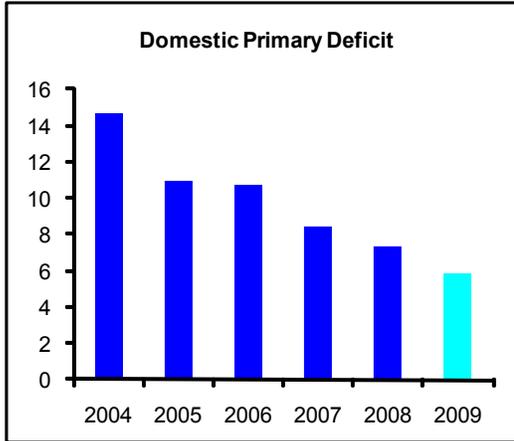
...while the real exchange rate has depreciated.



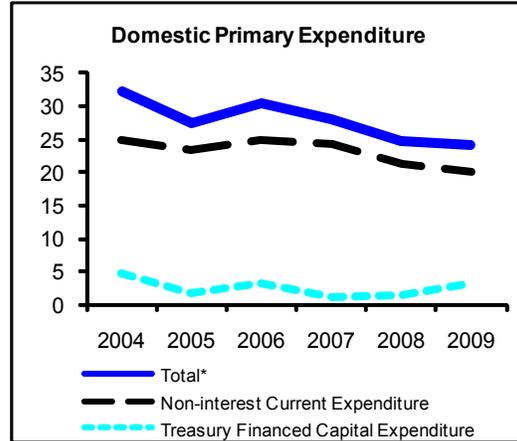
Sources: IMF staff estimates and authorities data.

Figure 2. Sao Tome and Principe: Fiscal Indicators 2004-2009  
(in percent of GDP)

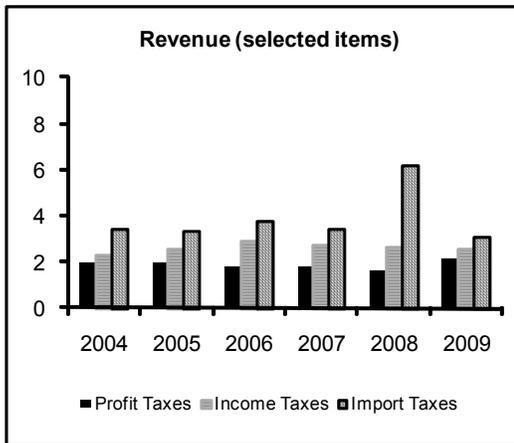
The government deficit continues to fall



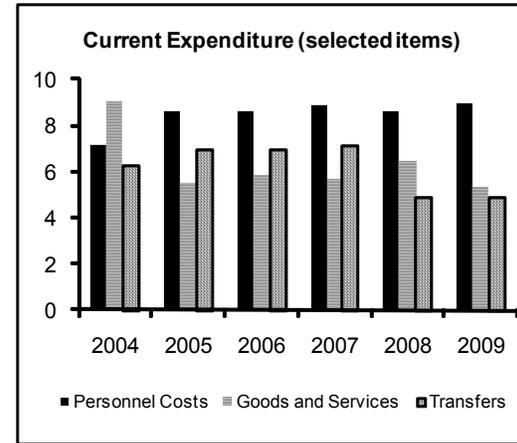
...mostly due to a decline in expenditure.



The share of import tax revenues is high...



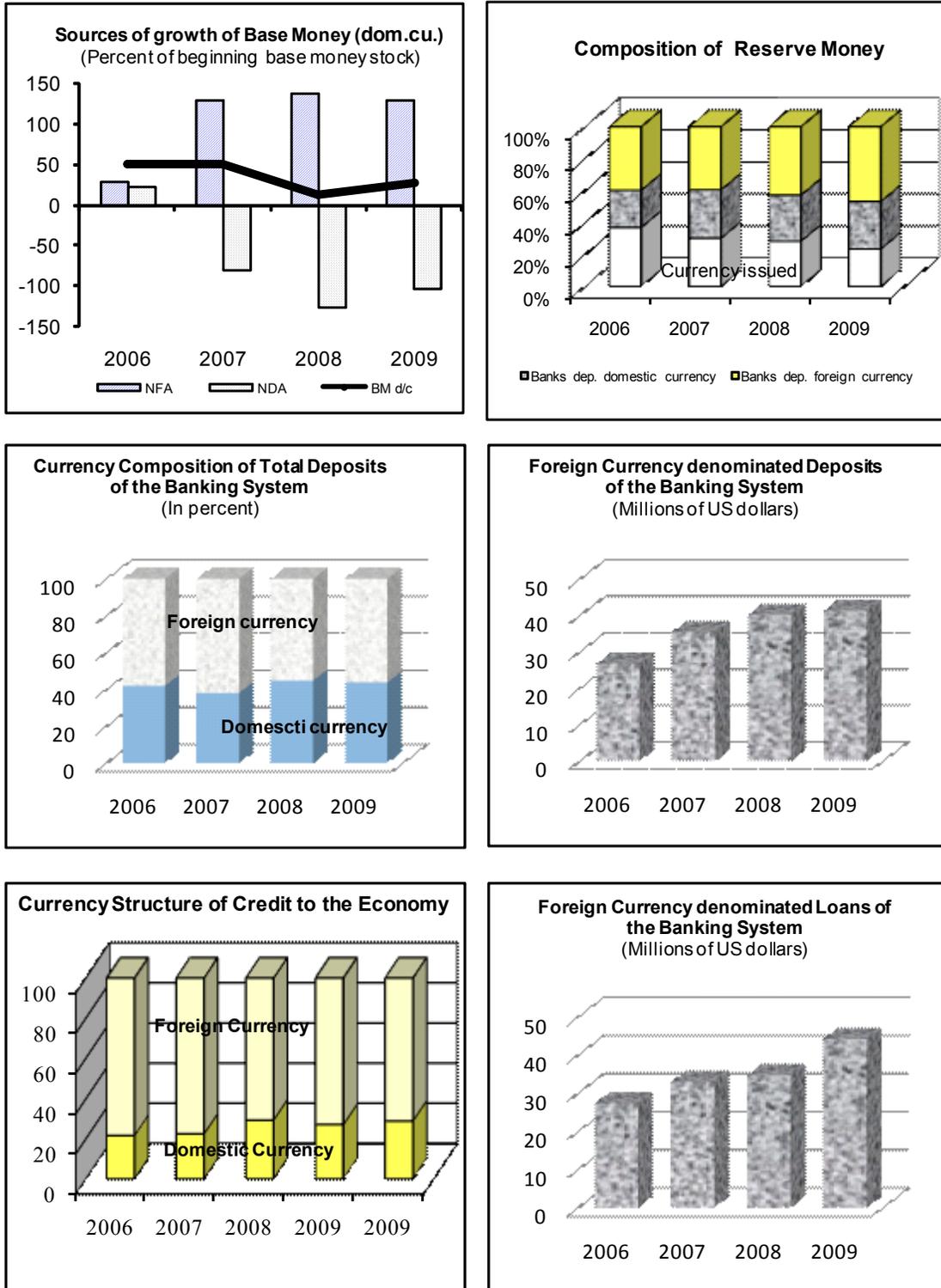
...while personnel costs dominate expenditures.



Sources: IMF staff estimates and authorities data.

\* Includes non-interest current expenditure, treasury financed capital expenditure and HIPC Initiative-related social expenditure.

Figure 3. Sao Tome and Principe: Money and Credit Developments



Sources: Authorities data and IMF staff estimates.

11. **The current account deficit narrowed in 2009 reflecting lower imports of goods and nonfactor services (Table 6).** In particular, FDI-related imports fell while exports of goods and services were boosted slightly by increased tourist arrivals. The current account deficit is now projected to fall from 38 percent of GDP in 2008 to 26 percent in 2009; under the original program, the deficit was projected to widen to 43 percent in 2009.

12. **Performance against the program's quantitative financial targets has been mixed.** Most of the quantitative targets for the first three quarters of the year were met (Memorandum of Economic and Financial Policies (MEFP), Table A1). However, the performance criteria and indicative targets on the domestic primary fiscal balance and net bank financing of the government were missed because of shortfalls in tax revenues, partly due to the adverse impact of the global crisis on imports and growth. Lower import taxes were responsible for a 30 percent shortfall in total government revenue in the first half of the year. On the expenditure side, current spending was 15 percent below program in the first half of the year on a cash basis, but was accompanied by an accumulation of new domestic arrears on utility bills. These arrears were cleared in August (MEFP ¶5). Capital expenditures fell well short of the programmed level due to significant shortfalls in project grants and loans. However, the Treasury-financed component, which relies mainly on draw downs from privatization proceeds, exceeded the baseline level but remained well below the upper limit under the program.<sup>2</sup>

13. **After a slow start, satisfactory progress was made in implementing structural reforms.** The authorities are undertaking a wide range of structural reforms aimed at strengthening revenue mobilization and public financial management, deepening the financial system, and improving the investment climate. Most of the measures slated for the first three quarters of 2009 have been implemented, albeit with some delay in a number of cases (MEFP, Table B1).

### III. MEDIUM-TERM MACROECONOMIC FRAMEWORK

14. **The main revisions to the medium-term macroeconomic framework include slightly lower growth and inflation paths, a slower pace of fiscal adjustment, and higher levels of gross international reserves.**

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<sup>2</sup> The program allows for Treasury-funded capital expenditures to increase by up to Db62 billion (1.9 percent of GDP) over the baseline if the execution of projects turns out to be stronger than assumed in the baseline.

## Sao Tome and Principe—Selected Economic Indicators, 2008–12

	Actual		Program			Projected			
	2008	2009	2010	2011	2012	2009	2010	2011	2012
Real GDP growth (percent)	5.8	5.5	6.5	7.0	7.5	4.0	6.0	6.5	6.5
Inflation (end period, percent)	24.8	16.0	10.0	7.0	5.0	14.0	9.0	6.0	5.0
Domestic primary balance (percent of GDP)	-7.4	-4.5	-3.9	-3.1	-2.4	-5.9	-4.7	-3.8	-3.2
Current account deficit, including grants (percent of GDP)	-37.8	-43.0	-38.1	-35.1	-33.4	-25.8	-31.5	-33.0	-32.6
Gross international reserves (US\$ million)	46.6	38.6	32.6	34.8	37.7	46.2	42.1	54.4	54.3

Sources: Authorities and Staff estimates.

15. **The authorities expect a rebound in growth from 2010, though not to the levels in the original program.** The outlook is based on a projected recovery of the decline in FDI (MEFP ¶14). Specific FDI-financed projects include a deep-water port for which ground was broken in September 2009. This is a US\$500 million project, of which about US\$100 million (about 50 percent of GDP) is expected to be spent in 2010. The Treasury-financed component of the public investment program is also expected to pick up pace as agents become familiar with the new procurement rules introduced in 2009. Growth prospects will also be helped by reforms aimed at improving the investment climate and lowering credit risk (MEFP ¶37).

16. **The pegging of the Dobra to the Euro from the beginning of 2010 should lower inflation expectations.** Inflation in recent months has been slightly lower than programmed and the disinflation process should be helped by stabilization of the exchange rate against the most important currency for imports. The authorities understand the importance of fiscal consolidation for the success of the peg (MEFP ¶21) and re-affirmed the government's commitment not to borrow from the central bank (MEFP ¶29).

17. **Although the revised program allows larger domestic primary deficits, fiscal consolidation efforts will continue, underpinned by strengthened domestic revenue collection and improved public expenditure management.** The government aims to reduce the primary domestic deficit from 5.9 percent of GDP in 2009 to 3.2 percent in 2012. Revenue mobilization efforts will be geared to widening the tax base and increasing compliance with tax laws. The full implementation of the SAFE will help improve public financial management and address the problem of accumulation of domestic payments arrears. It will also help the government better protect pro-poor expenditures.<sup>3</sup>

18. **Progress towards external sustainability remains a key objective.** Current account deficits are projected to remain sizeable, driven by availability of external financing (both private and official). Staff agreed with the authorities that ongoing structural reforms to improve the investment climate and recent and prospective improvements in physical

<sup>3</sup> See ¶6 of the Technical Memorandum of Understanding for the definition of pro-poor expenditures under the program.

infrastructure are critical for enhancing productivity and boosting São Tomé and Príncipe's international competitiveness.

19. **São Tomé and Príncipe remains at high risk of debt distress.** An updated DSA, reflecting the revised macroeconomic framework and new allocation of SDRs, confirms staff's previous assessment. The ratio of the PV of external public and publicly guaranteed debt to exports and goods and services breaches the sustainability threshold by a wide margin due to the country's small export base. The Government remains committed to pursuing prudent debt policies (MEFP ¶18). In particular, it will continue to refrain from nonconcessional borrowing and redouble its efforts to seek full delivery of HIPC debt relief from the remaining official creditors—Angola, Russia, and the Arab Bank for Economic Development in Africa (BADEA).

#### IV. POLICY DISCUSSIONS

##### A. Fiscal Policy

20. **The authorities took actions in the second half of 2009 to boost tax revenues and clear domestic payments arrears.** While shortfalls in import taxes were expected to persist throughout the year, performance of other taxes and non-tax revenues were expected to improve as the government recovered tax arrears and received unbudgeted revenue from the installation of a fiber optics cable in Saotomean waters. The tax arrears partly arose from under provision for utility payments in the budget which led to a cycle of government arrears to EMAE, that company's arrears to ENCO, and the latter's accumulation of tax arrears (from nontransfer of fuel taxes to the government). The revised program includes more realistic estimates for the government's utility bills in order to avoid the accumulation of new arrears.

21. **In the 2010 budget, the authorities plan to reduce the domestic primary deficit to 4.7 percent of GDP from 5.9 percent in 2009.** Fiscal consolidation will come mainly from control over discretionary expenditures outside the priority areas (mainly purchases of goods and services). The government has committed to work with Fund staff to establish indicative targets on pro-poor expenditures under the program in order to better monitor these expenditures and ensure they are protected (MEFP ¶28). Revenues for 2010 have been estimated conservatively in view of a high degree of uncertainty regarding the responsiveness of import revenues to increased FDI-financed imports and also about the overall impact of recent changes in tax laws (Box 1). Import taxes are likely to be inelastic because of investment incentives associated with FDI-related imports. In order to safeguard revenues, staff urged the authorities to bring a greater sense of urgency to expanding the register of tax payers and to the enforcement of tax laws through audits.

22. **The authorities acknowledge that fiscal policy will bear the burden of adjustment with the move to a pegged exchange rate.** While they believe that the level of

international reserves at the launch of the peg was more than adequate, they undertook to tighten fiscal policy if the reserves come under pressure (MEFP ¶21).

### Box 1. Recent Changes in Tax Laws

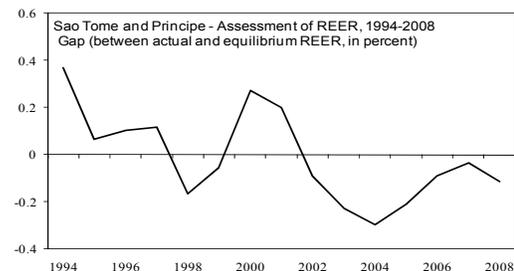
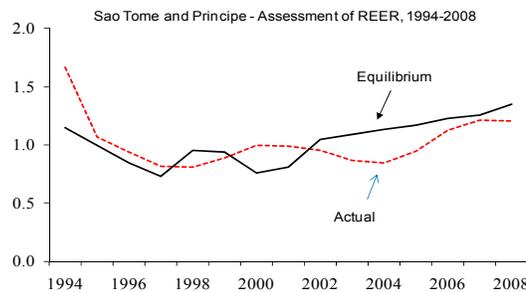
New corporate and personal income tax laws were introduced in January 2009 but it took several months before they became effective. The main elements of these new laws are:

- A unified rate of 25 percent for corporate taxes, instead of the previous progressive scheme with a maximum rate of 45 percent.
- The unified rate for personal income tax was eliminated and, instead, rates ranging from zero (for the exemption threshold) to 20 percent were put in place.

In June, a law was enacted to grant partial relief on tax obligations. It provided for rescheduling of taxes owed, waiving of interest, and reduction in fines.

## B. Exchange Rate Assessment and Policy

23. **Staff assessed the real exchange rate to be broadly in line with fundamentals. In June 2008, staff estimated that the real exchange rate of the dobra had been undervalued slightly since 2001 but that the gap between the actual and equilibrium levels had almost disappeared in 2007.<sup>4</sup> An update of staff's empirical assessment indicates that the gap widened slightly in 2008 (see Figures below), and it is likely to have been maintained in 2009.**



24. **Staff agreed with the authorities that the prevailing market rate should determine the level at which the Dobra is pegged to the Euro.** In the event, the rate was set at Dobra 24,500 per Euro; a rounding up (by 1.6 percent) of the rate prevailing at the end

<sup>4</sup> The assessment was based on a simple model that used real per capita GDP and government consumption to assess developments in the real exchange rate. See Country Report No. 08/307 (September 19, 2008).

of 2009. The BCSTP accumulated adequate reserves for launching the peg. The IMF's new allocation of SDR 6.5 millions to Sao Tome and Principe helped boost the international reserves to an estimated US\$46.2 million at end-2009 (equivalent to more than six months of expected imports).

#### Sao Tome and Principe: Foreign Exchange Reserve Adequacy <sup>1</sup>

	2008	2009 <sup>2</sup>	2010 <sup>2</sup>
In U.S. dollars (millions)	46.6	46.2	42.1
In months of imports	7.9	6.3	5.4
In percent of Current Account Deficit	91.8	94.7	64.3
In percent of local currency M3	142.5	154.3	120.3

<sup>1</sup> Usable gross official reserves, which exclude the NOA and banks' foreign currency deposits at the BCSTP.

<sup>2</sup> Projection.

### C. Monetary and Financial Sector Policies

25. **As with any hard peg, the authorities will lose monetary policy autonomy with the pegging of the Dobra to the Euro.** Effective liquidity management by the BCSTP requires careful coordination with government operations, a significant part of which entails withdrawals from the government's foreign exchange accounts.

26. **The BCSTP is strengthening its supervision of banks.** Asset quality and liquidity indicators of banks have declined since end-2008 (Table 9). In particular, the ratio of non-performing loans to total outstanding loans increased to 19 percent in July 2009 from 7.9 percent at end-2008 (MEFP ¶7). As nonperforming loans increased, banks have augmented provisions against doubtful loans. A program of on-site inspections which started in early 2009 is scheduled to cover all the commercial banks by June 2010. Particular attention is being paid to non-performing loans and banks' credit policies. The BCSTP has also raised the minimum capital requirement of banks and given the existing banks up to end-March 2010 to comply. A key structural reform is the establishment of a Credit Reference Bureau which is now expected by end-March 2010.

### D. Capacity Building

27. **São Tomé and Príncipe continues to need external support to build capacity for policy formulation and implementation.** Bilateral and multilateral partners, including the Fund, are providing support in the areas of public financial management, tax and customs administration, macroeconomic analysis at the Ministry of Planning and Finance, and banking supervision. Strengthening the capacity of the National Statistics Office to produce accurate and timely economic data is also a high priority for the authorities. The authorities

requested further Fund technical assistance in the areas of banking supervision, public financial management (including Treasury Single Account), and national accounts. They also requested assistance to strengthen their Anti-Money Laundering and Combating of the Financing of Terrorism framework.

## V. RISKS TO THE PROGRAM

28. **A major risk to the achievement of program objectives is a substantial shortfall in external financing.** São Tomé and Príncipe's growth prospects depend on sustained external financing in the form of aid inflows and foreign direct investment. External shocks that disrupt these flows will slow down growth and reduce government revenues. Such shortfalls may also pose a risk to the viability of the exchange rate peg by putting downward pressure on international reserves. The focused implementation of the government's economic program will enhance the country's attractiveness and help reduce its vulnerability to such disruptions.

29. **Domestic revenue shortfalls represent an important risk to achievement of the government's fiscal and external sustainability goals.** A strengthening of revenue administration and enforcement of tax laws are needed to safeguard revenues, and over time, reduce dependence on external aid. Furthermore, with the balances in the NOA and the privatization account dwindling, the sources of financing fiscal imbalances are also becoming more limited. The authorities have made important strides in terms of legislation for strengthening domestic revenue mobilization. However, they need to bring a greater sense of urgency to implementation of measures such as expanding the register of tax payers and enforcement of tax laws.

## VI. PROGRAM MONITORING

30. **The authorities are requesting waivers for the nonobservance of two performance criteria** (Letter of Intent ¶6). The performance criteria on the domestic primary fiscal balance and on the net bank financing of the government were missed on account of the adverse impact of the global economic crisis on government tax revenues. Revenues began to recover in the second half of the year, as the authorities stepped up their collection efforts on domestic taxes and the recovery of tax arrears.

31. **Program targets for 2010 have been updated.** There is no change in the fiscal, monetary and external debt variables for which quantitative performance criteria and indicative targets are set (MEFP Tables A1 and A2). Structural conditionality has been streamlined (MEFP Table B2). The structural measures are designed to improve the investment climate (commercial code), underpin fiscal consolidation (broaden the tax base and strengthen public financial management), and preserve the stability of the financial system (minimum capital requirements, introduction of IFRS). The attached Technical Memorandum of Understanding sets out the modalities of program monitoring, including

definitions, adjusters for deviations from program assumptions, data sources and frequency of reporting to IMF staff.

32. **The authorities have met the prior action for completion of the first review.** This entailed the submission to parliament of a budget for 2010 in line with understandings reached with IMF staff on limiting the domestic primary deficit to 4.7 percent of GDP (MEFP ¶39).

33. **The adjustment envisaged under the program should help São Tomé and Príncipe meet its future obligations to the Fund.** By the end of the current arrangement, São Tomé and Príncipe's outstanding aggregate use of Fund resources would be equivalent to 68 percent of quota, totaling SDR 5.5 million. The program includes measures to implement key recommendations of the recent Safeguards Assessment mission. The measures are designed to strengthen oversight of the BCSTP's internal control and audit functions. Also, the BCSTP is preparing an Action Plan to introduce International Financial Reporting Standards over the next three years (MEFP ¶34).

## VII. STAFF APPRAISAL

34. **The authorities' commitment to prudent macroeconomic policies remains strong.** Given the loss of monetary autonomy that comes with pegging the exchange rate, fiscal policy needs to support the peg to avoid a depletion of international reserves. Staff welcomes the government's re-affirmation of its intention to refrain from borrowing from the central bank. Also, given that the country remains at high risk of debt distress, staff commends the authorities on their prudent external borrowing policy.

35. **Enhanced revenue administration and expenditure restraint are key to fiscal consolidation.** In order to safeguard revenues, the government needs to redouble its efforts to expand the register of tax payers and to enforce compliance with tax laws through increased audits. On the expenditure side, the budget needs to include realistic provisions for spending on utilities to break the cycle of arrears accumulation between the Treasury, EMAE and ENCO. At the same time, the government needs to exercise strict control over discretionary spending on non-priority items to achieve its fiscal and external sustainability goals.

36. **Structural reforms are needed to achieve sustained, private sector-led growth.** Improving the investment climate through regulatory reform and upgrading infrastructure are vital for sustaining private investment. The authorities have already taken many important steps to reduce the cost of investing and doing business in São Tomé and Príncipe. Upgrading the country's infrastructure will help improve the country's growth prospects, and reduce poverty.

37. **Staff recommends completion of the first review based on the country's performance and policy commitments.** The shortfall in tax revenue that led to the nonobservance of two fiscal performance criteria was due to the global crisis. With little

scope to cut expenditures, the authorities' draw down on privatization receipts to finance the larger than expected deficit was appropriate. Revenues began to recover in the second half of 2009 in response to the authorities' revenue collection efforts. On the expenditure side, they took measures to contain the accumulation of domestic arrears.

Table 1. São Tomé and Príncipe: Selected Economic Indicators, 2006–13

	2006	2007	2008	2009		2010	2011	2012	2013
				Prog.	Proj.				
(Annual change in percent, unless indicated)									
<b>National income and prices</b>									
GDP at constant prices	6.7	6.0	5.8	5.5	4.0	6.0	6.5	6.5	6.5
Consumer prices									
End of period	24.6	27.6	24.8	16.0	14.0	9.0	6.0	5.0	5.0
Period average	23.1	18.5	26.0	20.1	16.7	11.3	7.4	5.5	5.0
<b>External trade</b>									
Exports of goods and non-factor services	7.8	-22.0	47.2	-8.5	6.9	17.2	6.8	8.5	10.0
Imports of goods and non-factor services	45.2	4.0	25.7	27.4	-9.6	32.6	1.3	5.1	6.9
Exchange rate (dobras per US\$; end of period) <sup>1</sup>	12,945	14,220	15,228	...	...	...	...	...	...
Real effective exchange rate (depreciation = -)	4.3	1.3	20.0	...	...	...	...	...	...
<b>Money and credit (end of period)</b>									
Base money <sup>2</sup>	32.0	50.0	18.9	10.7	5.8	10.2	13.2	12.2	12.5
Broad money (M3)	39.3	36.4	35.2	13.5	8.3	10.2	13.2	12.2	12.5
Velocity (GDP to average broad money)	2.7	2.8	2.9	3.1	2.9	2.6	2.6	2.6	2.6
Central bank reference interest rate (percent)	28.0	28.0	28.0	...	...	...	...	...	...
Bank lending rate (percent)	29.3	32.4	32.4	...	...	...	...	...	...
Bank deposit rate (percent)	10.8	12.8	12.8	...	...	...	...	...	...
(Percent of GDP, unless otherwise specified)									
<b>Government finance</b>									
Total revenue, grants, and oil signature bonuses <sup>3</sup>	36.8	160.2	47.6	70.7	58.9	36.6	44.9	30.9	29.2
Of which: tax revenue <sup>4</sup>	17.2	16.3	16.1	16.7	16.7	16.6	15.9	16.0	16.3
Non-tax revenue	3.7	2.8	1.6	1.8	2.2	2.6	2.5	2.3	2.2
grants	15.9	120.1	30.0	52.2	40.0	17.4	14.7	12.6	10.8
oil signature bonuses	0.0	21.0	0.0	0.0	0.0	0.0	11.8	0.0	0.0
Total expenditure and net lending	50.5	39.9	32.9	62.9	41.3	47.7	42.2	38.8	35.9
Of which: personnel costs	8.6	8.9	8.6	8.6	8.9	8.8	8.3	8.0	7.9
non-wage noninterest current expenditure	16.3	15.6	12.8	10.1	11.2	10.5	9.8	9.6	9.5
treasury funded capital expenditures	3.3	1.1	1.3	2.8	3.3	2.8	2.3	2.3	2.3
donor funded capital expenditures	16.5	10.4	7.2	39.6	16.5	24.2	20.3	17.3	14.8
Domestic primary balance <sup>5</sup>	-10.7	-8.4	-7.4	-4.5	-5.9	-4.7	-3.8	-3.2	-2.7
Overall balance (commitment basis)	-13.7	120.3	14.7	7.9	17.6	-11.1	2.7	-7.8	-6.7
<b>External sector</b>									
Current account balance									
Including official transfers	-28.8	-38.1	-37.8	-43.0	-25.8	-31.5	-33.0	-32.6	-33.3
Excluding official transfers	-53.5	-48.3	-50.6	-69.7	-40.5	-51.2	-48.0	-45.5	-44.3
PV of external debt	159.7	11.7	11.0	19.0	17.2	21.5	25.4	27.9	29.2
External debt service (percent of exports) <sup>6</sup>	33.8	24.5	5.6	5.5	5.2	5.7	6.5	6.4	8.5
Export of goods and non-factor services (US\$ millions)	17.2	13.4	19.7	19.8	21.1	24.7	26.4	28.6	31.5
Gross foreign reserves <sup>7, 8, 9</sup>									
Months of imports of goods and nonfactor services <sup>10</sup>	4.8	4.2	7.9	5.0	6.3	5.4	6.5	6.0	6.0
Millions of U.S. dollar	24.7	26.3	46.6	38.6	46.2	42.1	54.4	54.3	58.9
National Oil Account (US\$ millions) <sup>11</sup>	8.6	14.9	12.2	9.9	9.9	8.1	30.4	27.5	24.5
<b>Memorandum Item</b>									
<b>GDP</b>									
Billions of dobras	1,551	1,963	2,554	3,196	3,070	3,489	3,952	4,388	4,888
Millions of U.S. dollars	125	145	175	201	189	208	220	238	257
Privatisation account (million US dollars)	0	0	21	17	15	11	7	6	5

Sources: São Tomé and Príncipe authorities and IMF staff estimates and projections.

<sup>1</sup> Central bank (BCSTP) buying rate.<sup>2</sup> Projected base money growth for 2008 reflects the high level of base money at the end of 2007, which was significantly reduced in subsequent months through the BCSTP's foreign exchange sales.<sup>3</sup> Includes HIPC and MDRI debt relief.<sup>4</sup> For 2009, the authorities are expecting one-off revenues in the order of 1.1 percent of GDP.<sup>5</sup> A new definition is adopted from 2008, retroactively, to exclude oil revenue, grants, interest earned, scheduled interest payments, and foreign-financed capital outlay.<sup>6</sup> In percent of exports of goods and nonfactor services. Includes HIPC and MDRI debt relief.<sup>7</sup> Gross reserves exclude the National Oil Account and commercial banks' foreign currency deposit at the BCSTP in order to meet the reserve requirement for their foreign currency deposits or as application deposits for new licensing.<sup>8</sup> For 2008, includes the proceeds from the privatization of the government's share in the fuel distribution company (ENCO) of \$32 million. Of this, \$10 million were used to pay back some of ENCO's debt to Sonangol, \$0.96 million were used to audit the transaction and \$21.4 million were put in the central bank to boost reserves.<sup>9</sup> For 2009, includes an additional allocation of 5.5 million SDR.<sup>10</sup> Imports of goods and nonfactor services excluding imports of investment goods and technical assistance.<sup>11</sup> For 2010, based on the assumption that dispute will be settled to allow disbursement of bonuses for Blocks 5 and 6 (\$26 million).

Table 2. São Tomé and Príncipe: Financial Operations of the Central Government, 2006–13

	2006	2007	2008	2009		2010	2011	2012	2013
				Prog.	Proj.				
	(billion dobra)								
<b>Total revenue and grants</b>	<b>570</b>	<b>3144</b>	<b>1216</b>	<b>2260</b>	<b>1808</b>	<b>1277</b>	<b>1773</b>	<b>1358</b>	<b>1429</b>
Total revenue <sup>1</sup>	324	374	451	593	582	669	725	805	902
Tax revenue	267	320	411	534	513	578	628	703	795
Nontax revenue, of which:	57	55	40	59	69	91	97	102	107
oil-related revenue <sup>2</sup>	18	7	6	9	17	36	39	40	41
Grants	247	2357	765	1667	1226	609	580	553	527
Project grants	197	168	165	810	321	592	562	534	507
Nonproject grants	2	21	93	18	56	17	18	18	19
HIPC Initiative-related grants <sup>3</sup>	47	2168	507	839	849	0	0	0	0
Oil signature bonuses	0	413	0	0	0	0	467	0	0
<b>Total expenditure</b>	<b>783</b>	<b>783</b>	<b>841</b>	<b>2009</b>	<b>1268</b>	<b>1665</b>	<b>1667</b>	<b>1702</b>	<b>1757</b>
Domestic primary expenditure	472	532	633	727	744	798	835	905	994
Current expenditure	441	506	569	616	635	698	744	808	891
Of which: personnel costs	133	174	219	274	274	308	327	352	384
interest on external debt due	52	26	23	17	18	24	30	35	40
goods and services	91	112	164	123	163	168	182	201	220
transfers, of which:	108	140	124	182	149	164	170	181	203
JDA	38	42	1	16	16	17	18	19	19
other	54	54	39	19	31	34	34	38	42
Capital expenditure	307	226	219	1355	607	940	894	863	836
Financed by the Treasury	51	22	34	91	101	97	92	102	113
Financed by external sources	256	203	185	1264	506	843	801	761	723
HIPC Initiative-related social expenditure	35	51	53	38	26	27	29	30	31
<b>Domestic primary balance <sup>4</sup></b>	<b>-166</b>	<b>-166</b>	<b>-188</b>	<b>-143</b>	<b>-180</b>	<b>-166</b>	<b>-148</b>	<b>-140</b>	<b>-132</b>
<b>Overall fiscal balance (commitment basis)</b>	<b>-213</b>	<b>2361</b>	<b>374</b>	<b>251</b>	<b>541</b>	<b>-388</b>	<b>106</b>	<b>-344</b>	<b>-328</b>
Net change in arrears (reduction = -)	21	5	21	0	0	0	0	0	0
External arrears <sup>5</sup>	21	0	0	0	0	0	0	0	0
Domestic arrears	0	5	21	0	0	0	0	0	0
<b>Overall fiscal balance (cash basis)</b>	<b>-192</b>	<b>2367</b>	<b>390</b>	<b>230</b>	<b>520</b>	<b>-388</b>	<b>106</b>	<b>-344</b>	<b>-328</b>
<b>Financing</b>	<b>192</b>	<b>-2367</b>	<b>-386</b>	<b>-230</b>	<b>-520</b>	<b>388</b>	<b>-106</b>	<b>344</b>	<b>328</b>
Net external	31	-2336	-465	-376	-690	265	252	237	225
Disbursements (projects)	99	39	20	454	153	252	239	227	216
Program financing (loans)	24	28	29	35	32	41	43	38	38
Net short-term loans <sup>6</sup>	0	-202	0	0	0	0	0	0	0
Scheduled amortization	-92	-2203	-520	-853	-863	-15	-16	-15	-16
Change in arrears (principal) <sup>7</sup>	0	-137	0	0	0	0	0	0	0
Bilateral rescheduling <sup>8, 9</sup>	0	140	7	2	2	3	3	4	4
HIPC flow savings			0	-14	-14	-15	-16	-16	-17
Net domestic	162	-31	79	146	171	123	-358	107	103
Net bank credit to the government	162	-31	-233	125	150	123	-358	107	103
Banking system credit (excluding National Oil Account)	-23	41	-277	86	114	90	38	26	22
of which Privatisation account <sup>10</sup>	0	0	-307	62	90	77	38	26	22
National Oil Account	184	-72	44	39	36	33	-396	81	82
Nonbank financing <sup>10</sup>	0	0	312	21	21	0	0	0	0
Financing gap	0	0	5	0	0	0	0	0	0
<b>Memorandum items:</b>									
Overall balance (commitment basis, incl. grants, excl. oil bonuses)	-213	1948	374	251	541	-388	-361	-344	-328
Domestic primary spending	472	553	633	727	744	798	835	905	994
MDRI debt relief (flow in US\$ million)	0	2	1.8	0.0	0	0.0	0.0	0.0	0.0
Privatisation account balance (US\$ million)	0	0	21	17	15	11	7	6	5
National Oil Account balance (US\$ million, excl. transfers to budget)	9	15	12	10	10	8	30	27	25

Sources: São Tomé and Príncipe authorities and IMF staff estimates and projections.

<sup>1</sup> For 2009 includes one-off revenues in the order of 1.1 percent of GDP.

<sup>2</sup> Includes revenue from Nigeria's oil program - Arcadia.

<sup>3</sup> For 2007, includes IDA and AfDB MDRI debt relief as a stock of debt reduction.

<sup>4</sup> A new definition is adopted from 2008, retroactively, to exclude oil revenue, grants, interest earned, scheduled interest payments, and foreign-financed capital outlay.

<sup>5</sup> For 2006, refers to a temporary accumulation of technical arrears with bilateral creditors, which was pending reconciliation of debt records.

<sup>6</sup> For 2007, includes the repayment of three \$5 million loans disbursed by Nigeria in 2002–04 upon receipt of oil signature bonuses for Blocks 2–4 in the Joint Development Zone.

<sup>7</sup> For 2005, reflects impact of Paris Club rescheduling in the last quarter of 2005.

<sup>8</sup> For 2007, assumes rescheduling agreement with non-Paris Club bilateral creditors for current maturities and stock of arrears.

<sup>9</sup> For 2007, includes IMF MDRI debt relief as a stock of debt reduction.

<sup>10</sup> For 2008, includes the proceeds from the privatization of the government's share in the fuel distribution company (ENCO) of \$32 million. Of this, \$10 million were used to pay back some of ENCO's debt to Sonangol, \$0.96 million were used to audit the transaction and \$21.4 million were put in the central bank to boost reserves.

Table 3. São Tomé and Príncipe: Financial Operations of the Central Government, 2006–13

	2006	2007	2008	2009		2010	2011	2012	2013
				Prog.	Proj.			Proj.	
	(Percent of GDP)								
<b>Total revenue and grants</b>	<b>36.8</b>	<b>160.2</b>	<b>47.6</b>	<b>70.7</b>	<b>58.9</b>	<b>36.6</b>	<b>44.9</b>	<b>30.9</b>	<b>29.2</b>
Total revenue <sup>1</sup>	20.9	19.1	17.6	18.6	19.0	19.2	18.4	18.3	18.5
Tax revenue	17.2	16.3	16.1	16.7	16.7	16.6	15.9	16.0	16.3
Nontax revenue, of which:									
oil-related revenue <sup>2</sup>	3.7	2.8	1.6	1.8	2.2	2.6	2.5	2.3	2.2
1.1	0.4	0.2	0.3	0.6	1.0	1.0	0.9	0.8	
Grants	15.9	120.1	30.0	52.2	40.0	17.4	14.7	12.6	10.8
Project grants	12.7	8.6	6.5	25.3	10.5	17.0	14.2	12.2	10.4
Nonproject grants	0.2	1.1	3.6	0.6	1.8	0.5	0.5	0.4	0.4
HIPC Initiative-related grants <sup>3</sup>	3.0	110.4	19.9	26.3	27.7	0.0	0.0	0.0	0.0
Oil signature bonuses	0.0	21.0	0.0	0.0	0.0	0.0	11.8	0.0	0.0
<b>Total expenditure</b>	<b>50.5</b>	<b>39.9</b>	<b>32.9</b>	<b>62.9</b>	<b>41.3</b>	<b>47.7</b>	<b>42.2</b>	<b>38.8</b>	<b>35.9</b>
Domestic primary expenditure	30.4	27.1	24.8	22.8	24.2	22.9	21.1	20.6	20.3
Current expenditure	28.4	25.8	22.3	19.3	20.7	20.0	18.8	18.4	18.2
Of which: personnel costs	8.6	8.9	8.6	8.6	8.9	8.8	8.3	8.0	7.9
interest on external debt due	3.4	1.3	0.9	0.5	0.6	0.7	0.8	0.8	0.8
goods and services	5.8	5.7	6.4	3.8	5.3	4.8	4.6	4.6	4.5
transfers, of which:	7.0	7.1	4.9	5.7	4.9	4.7	4.3	4.1	4.2
JDA	2.5	2.2	0.1	0.5	0.5	0.5	0.5	0.4	0.4
other	3.5	2.7	1.5	0.6	1.0	1.0	0.9	0.9	0.9
Capital expenditure	19.8	11.5	8.6	42.4	19.8	27.0	22.6	19.7	17.1
Financed by the Treasury	3.3	1.1	1.3	2.8	3.3	2.8	2.3	2.3	2.3
Financed by external sources	16.5	10.4	7.2	39.6	16.5	24.2	20.3	17.3	14.8
HIPC Initiative-related social expenditure	2.3	2.6	2.1	1.2	0.9	0.8	0.7	0.7	0.6
<b>Domestic primary balance<sup>4</sup></b>	<b>-10.7</b>	<b>-8.4</b>	<b>-7.4</b>	<b>-4.5</b>	<b>-5.9</b>	<b>-4.7</b>	<b>-3.8</b>	<b>-3.2</b>	<b>-2.7</b>
<b>Overall fiscal balance (commitment basis)</b>	<b>-13.7</b>	<b>120.3</b>	<b>14.7</b>	<b>7.9</b>	<b>17.6</b>	<b>-11.1</b>	<b>2.7</b>	<b>-7.8</b>	<b>-6.7</b>
Net change in arrears (reduction = -)	1.3	0.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0
External arrears <sup>5</sup>	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears	0.0	0.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall fiscal balance (cash basis)</b>	<b>-12.4</b>	<b>120.6</b>	<b>15.3</b>	<b>7.2</b>	<b>16.9</b>	<b>-11.1</b>	<b>2.7</b>	<b>-7.8</b>	<b>-6.7</b>
<b>Financing</b>	<b>12.4</b>	<b>-120.6</b>	<b>-15.1</b>	<b>-7.2</b>	<b>-16.9</b>	<b>11.1</b>	<b>-2.7</b>	<b>7.8</b>	<b>6.7</b>
Net external	2.0	-119.0	-18.2	-11.8	-22.5	7.6	6.4	5.4	4.6
Disbursements (projects)	6.4	2.0	0.8	14.2	5.0	7.2	6.0	5.2	4.4
Program financing (loans)	1.5	1.4	1.1	1.1	1.0	1.2	1.1	0.9	0.8
Net short-term loans <sup>6</sup>	0.0	-10.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-5.9	-112.2	-20.4	-26.7	-28.1	-0.4	-0.4	-0.3	-0.3
Change in arrears (principal) <sup>7</sup>	0.0	-7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral rescheduling <sup>8,9</sup>	0.0	7.1	0.3	0.1	0.1	0.1	0.1	0.1	0.1
HIPC flow savings									
Net domestic	10.4	-1.6	3.1	4.6	5.6	3.5	-9.1	2.4	2.1
Net bank credit to the government	10.4	-1.6	-9.1	3.9	4.9	3.5	-9.1	2.4	2.1
Banking system credit (excluding National Oil Account)	-1.5	2.1	-10.8	2.7	3.7	2.6	1.0	0.6	0.4
of which Privatisation account <sup>10</sup>		0.0	-12.0	1.9	2.9	2.2	1.0	0.6	0.4
National Oil Account	11.9	-3.7	1.7	1.2	1.2	1.0	-10.0	1.8	1.7
Nonbank financing <sup>11</sup>	0.0	0.0	12.2	0.7	0.7	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>									
Overall balance (commitment basis, incl. grants, excl. oil bonuses)	-13.7	99.2	14.7	7.9	17.6	-11.1	-9.1	-7.8	-6.7
MDRI debt relief (flow in US\$ million)	0	1.7	1.8	0.0	0.0	0.0	0.0	0	0
Privatisation account balance (US\$ million)	0	0.0	21.0	17.0	15.0	10.5	7.1	5.7	4.6
National Oil Account balance (US\$ million, excl. transfers to budget)	8.6	14.9	12.2	9.9	9.9	8.1	30.4	27.5	24.5

Sources: São Tomé and Príncipe authorities and IMF staff estimates and projections.

<sup>1</sup> For 2009 includes one-off revenues in the order of 1.1 percent of GDP.

<sup>2</sup> Includes revenue from Nigeria's oil program - Arcadia.

<sup>3</sup> For 2007, includes IDA and AfDB MDRI debt relief as a stock of debt reduction.

<sup>4</sup> A new definition is adopted from 2008, retroactively, to exclude oil revenue, grants, interest earned, scheduled interest payments, and foreign-financed capital outlay.

<sup>5</sup> For 2006, refers to a temporary accumulation of technical arrears with bilateral creditors, which was pending reconciliation of debt records.

<sup>6</sup> For 2007, includes the repayment of three \$5 million loans disbursed by Nigeria in 2002–04 upon receipt of oil signature bonuses for Blocks 2–4 in the Joint Development Zone.

<sup>7</sup> For 2005, reflects impact of Paris Club rescheduling in the last quarter of 2005.

<sup>8</sup> For 2007, assumes rescheduling agreement with non-Paris Club bilateral creditors for current maturities and stock of arrears.

<sup>9</sup> For 2007, includes IMF MDRI debt relief as a stock of debt reduction.

<sup>10</sup> For 2008, includes the proceeds from the privatization of the government's share in the fuel distribution company (ENCO) of \$32 million. Of this, \$10 million were used to pay back some of ENCO's debt to Sonangol, \$0.96 million were used to audit the transaction and \$21.4 million were put in the central bank to boost reserves.

**Table 4. São Tomé and Príncipe: Summary Accounts of the Central Bank, 2006–10**  
(billion dobra)

	2006	2007	2008	2009					2010			
	Dec.	Dec.	Dec.	June		Sep.		Dec.	Mar	Jun	Sep	Dec
	Actual	Actual	Actual	Actual	Prog.	Actual	Prog.	Prog.	Proj.			
<b>Net foreign assets</b>	<b>620.0</b>	<b>839.0</b>	<b>1,189.3</b>	<b>1,217.6</b>	<b>1,110.7</b>	<b>1,141.1</b>	<b>1,122.2</b>	<b>1,220.1</b>	<b>1,126.1</b>	<b>1,109.5</b>	<b>1,152.7</b>	<b>1,186.7</b>
Net international reserves <sup>1</sup>	476.3	682.3	1,013.7	1,116.6	909.9	1,092.6	929.6	1,023.8	930.8	915.3	954.9	987.0
Gross reserves <sup>1</sup>	557.2	776.9	1,116.4	1,132.0	1,030.4	1,201.4	1,054.3	1,151.7	1,070.7	1,058.0	1,109.9	1,144.5
<i>Of which</i> : National Oil Account (NOA)	111.1	212.1	183.4	150.7	160.8	155.0	155.3	162.4	163.9	134.5	137.6	142.9
<i>Of which</i> : guarantee deposits	15.5	25.3	20.2	0.8	21.9	0.8	21.0	21.6	22.0	22.4	22.9	23.3
Short-term liabilities	-80.9	-94.6	-102.7	-94.0	-120.6	-108.8	-124.8	-127.9	-139.9	-142.6	-155.0	-157.6
Other foreign assets	143.3	170.6	190.1	194.4	200.8	201.6	192.7	196.4	195.3	194.1	197.8	199.7
Other liabilities	0.0	0.0	-14.5	-14.8	0.0	-153.1	0.0	0.0	0.0	0.0	0.0	0.0
								-920.3				
<b>Net domestic assets</b>	<b>-341.5</b>	<b>-421.9</b>	<b>-693.5</b>	<b>-673.8</b>	<b>-659.4</b>	<b>-574.3</b>	<b>-611.1</b>	<b>-695.7</b>	<b>-697.8</b>	<b>-655.5</b>	<b>-659.8</b>	<b>-608.8</b>
Net domestic credit	-121.3	-152.3	-393.5	-367.2	-343.7	-219.2	-306.7	-248.0	-244.6	-196.8	-195.7	-139.2
Net credit to government	-108.3	-162.5	-406.4	-381.3	-357.3	-235.9	-306.7	-275.3	-260.8	-214.6	-201.2	-173.3
Claims	105.6	111.7	125.7	137.0	141.9	152.5	147.0	149.9	161.5	163.8	175.7	178.2
<i>Of which</i> : use of SDRs/PRGF Facility	64.5	69.3	82.5	93.4	98.7	108.5	103.8	106.6	118.2	120.5	132.5	134.9
Deposits	-213.9	-274.2	-532.1	-518.3	-499.2	-388.4	-453.7	-425.2	-422.3	-378.4	-377.0	-351.5
Ordinary	-33.9	-12.8	-89.5	-35.5	-82.3	-37.2	-47.8	-54.5	-63.1	-62.0	-62.2	-54.7
<i>Of which</i> : HIPC Initiative resources	-12.2	-7.9	-4.6	-2.7	-4.6	-0.4	-4.6	-4.6	-4.6	-4.6	-4.6	-4.6
Counterpart funds	-22.6	-8.2	-22.3	-32.3	-22.3	-30.1	-32.7	-32.7	-32.7	-32.7	-32.7	-32.7
Foreign currency	-157.4	-253.2	-420.4	-450.6	-394.6	-321.1	-373.1	-337.9	-326.5	-283.6	-282.1	-264.0
<i>Of which</i> : NOA	-111.1	-212.1	-183.4	-150.7	-160.8	-155.0	-155.3	-162.4	-163.9	-134.5	-137.6	-142.9
Rediscount to commercial banks	2.5	0.9	0.6	0.6	0.7	0.6	-13.3	13.6	0.7	0.7	-13.3	13.6
Other claims	9.5	9.3	12.3	13.5	12.9	16.0	13.2	13.6	15.4	17.0	18.8	20.4
Central Bank certificates of deposit	-25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net) <sup>1</sup>	-220.2	-269.6	-300.0	-306.7	-315.8	-355.1	-304.4	-447.6	-453.2	-458.6	-464.1	-469.5
<b>Base money</b>	<b>278.0</b>	<b>417.1</b>	<b>495.8</b>	<b>543.8</b>	<b>451.3</b>	<b>566.8</b>	<b>511.1</b>	<b>524.5</b>	<b>428.3</b>	<b>454.0</b>	<b>492.9</b>	<b>577.9</b>
Currency issued	102.7	126.2	140.5	122.1	127.9	133.9	144.8	148.6	121.4	128.7	139.7	163.8
Bank reserves	175.3	290.9	355.3	421.7	323.4	433.0	366.3	375.8	306.9	325.3	353.2	414.1
<i>Of which</i> : domestic currency	64.9	126.1	142.9	0.0	130.1	145.2	147.4	151.2	123.5	130.9	142.1	166.6
<i>Of which</i> : foreign currency	110.4	164.8	212.3	421.7	193.3	287.8	218.9	224.6	183.4	194.4	211.1	247.5
<b>Memorandum items:</b>												
Gross international reserves (US\$ millions)	43.0	54.6	74.0	74.0	63.2	75.7	67.4	71.6	65.3	63.3	65.1	66.0
excluding NOA and guaranteed deposits	33.3	37.9	60.5	64.1	52.0	65.9	56.1	60.2	53.9	53.9	55.7	56.4
Net international reserves (US\$ millions)	40.8	48.0	67.2	65.5	55.8	68.2	59.4	63.7	56.7	54.7	56.0	56.9
<i>Of which</i> : National Oil Account (US\$ millions)	8.6	14.9	12.2	9.9	9.9	9.8	9.9	10.1	10.0	8.0	8.1	8.2
Net international reserves (US\$ millions; excl. NOA)	32.3	33.1	55.1	58.0	45.9	59.1	49.5	53.6	46.8	46.7	48.0	48.6
<i>Of which</i> : Commercial banks reserves in foreign currency	8.5	11.6	14.1	19.1	11.8	18.1	14.0	14.0	11.2	11.6	12.4	14.3
Usable net international reserves												
in US\$ millions	23.7	21.5	41.0	38.9	34.1	41.0	35.5	39.6	35.6	35.1	35.6	34.4
in months of imports	4.0	4.2	6.5	6.1	4.8	6.5	5.0	5.6	4.9	4.8	4.9	4.7
Base money (annual percent change)	32.0	50.0	18.9	44.0	19.5	20.9	9.0	5.8	-8.9	0.6	-3.6	10.2

Sources: São Tomé and Príncipe authorities and IMF staff estimates and projections.

<sup>1</sup> For 2010, includes an additional allocation of 6.5 million SDR.

**Table 5. São Tomé and Príncipe: Monetary Survey, 2006–10**  
(billion dobra)

	2006	2007	2008		2009				2010				
			Dec.		Jun.		Sep.		Dec.	Mar.	Jun.	Sep.	Dec.
			Proj.	Actual	Actual	Prog.	Actual	Prog.	Prog.	Proj.	Proj.	Proj.	Proj.
<b>Net foreign assets</b>	<b>860</b>	<b>1,135</b>	<b>1,643</b>	<b>1,656</b>	<b>1,604</b>	<b>1,515</b>	<b>1,529</b>	<b>1,476</b>	<b>1,549</b>	<b>1,426</b>	<b>1,379</b>	<b>1,390</b>	<b>1,390</b>
Central bank	620	839	1,204	1,189	1,218	1,111	1,141	1,122	1,220	1,126	1,109	1,153	1,187
Commercial banks	240	296	439	467	387	404	388	354	329	300	269	237	204
<b>Net domestic assets</b>	<b>-257</b>	<b>-314</b>	<b>-743</b>	<b>-546</b>	<b>-564</b>	<b>-508</b>	<b>-392</b>	<b>-505</b>	<b>-346</b>	<b>-470</b>	<b>-424</b>	<b>-399</b>	<b>-65</b>
Net domestic credit	238	426	158	305	479	378	729	412	456	482	537	557	605
Net credit to government	-115	-179	-440	-436	-412	-391	-266	-346	-314	-300	-254	-240	-212
Claims	106	112	126	126	137	142	153	147	150	161	164	176	178
Deposits	-221	-291	-566	-562	-549	-533	-418	-493	-464	-461	-417	-416	-391
Budgetary deposits	-41	-30	-123	-119	-66	-116	-67	-87	-94	-102	-101	-101	-94
Counterpart funds	-23	-8	-22	-22	-32	-22	-30	-33	-33	-33	-33	-33	-33
Foreign currency deposits	-157	-253	-420	-420	-451	-395	-321	-373	-338	-326	-284	-282	-264
<i>Of which: National Oil Account</i>	-111	-212	-183	-183	-151	-161	-155	-155	-162	-164	-135	-138	-143
Credit to the economy	354	606	598	741	891	769	995	758	771	782	791	797	817
<i>Of which: credit in foreign currency</i>	260	472	446	528	650	602	722	560	590	615	622	627	660
Other items (net)	-496	-740	-901	-851	-1,043	-886	-1,121	-918	-803	-952	-962	-956	-670
<b>Broad money (M3)</b>	<b>603</b>	<b>822</b>	<b>900</b>	<b>1,110</b>	<b>1,041</b>	<b>1,007</b>	<b>1,137</b>	<b>971</b>	<b>1,203</b>	<b>956</b>	<b>954</b>	<b>991</b>	<b>1,325</b>
Local currency	253	313	341	498	438	369	475	460	551	440	444	464	607
Money	226	286	308	454	365	332	400	423	504	403	407	427	555
Currency outside banks	92	110	141	120	104	128	116	145	149	121	129	140	164
Demand deposits	133	176	168	334	261	205	284	279	355	281	278	287	392
Time deposits	28	27	33	44	73	37	75	37	47	37	37	38	51
Foreign currency deposits	349	509	559	612	603	638	662	511	652	516	511	527	718
<b>Memorandum items:</b>													
Velocity													
(ratio of GDP to average broad money)	2.7	2.8	3.0	2.9	2.7	3.1	2.6	2.9	2.9	0.8	1.0	1.1	2.6
Money multiplier (M3/M0)	2.2	2.0	1.9	1.9	1.9	2.2	2.0	1.9	2.3	2.2	2.1	2.0	2.3
Base money (12-month growth rate)	32.0	50.0	18.9	18.9	44.0	19.5	20.9	9.0	5.8	-8.9	0.6	-3.6	10.2
M3 (12-month growth rate)	39.3	36.4	9.5	35.2	28.2	24.1	37.1	17.1	8.3	-6.1	-5.2	2.1	10.2

Sources: São Tomé and Príncipe authorities and IMF staff estimates and projections.

**Table 6. São Tomé and Príncipe: Balance of Payments, 2006–13**  
(Millions of U.S. dollars)

	2006	2007	2008	2009		2010	2011	2012	2013
				Prog.	Proj.				
<b>Trade balance</b>	<b>-51.5</b>	<b>-60.1</b>	<b>-82.0</b>	<b>-103.2</b>	<b>-69.9</b>	<b>-88.7</b>	<b>-90.5</b>	<b>-95.8</b>	<b>-103.1</b>
Exports, f.o.b.	7.7	6.8	10.2	8.7	9.7	12.2	12.6	13.4	14.6
<i>Of which:</i> cocoa	2.5	3.5	4.9	3.7	4.9	5.4	5.0	4.9	5.3
re-export	3.9	2.9	4.6	4.5	4.3	6.1	6.8	7.5	8.2
Imports, f.o.b.	-59.2	-66.9	-92.2	-111.9	-79.6	-100.8	-103.1	-109.2	-117.7
<i>Of which:</i> food	-17.0	-17.6	-24.2	-18.2	-26.2	-27.9	-29.7	-31.8	-34.2
petroleum products	-15.0	-14.6	-22.1	-15.1	-15.8	-20.2	-22.7	-25.1	-27.5
Services and income (net)	-17.2	-12.1	-9.6	-40.8	-9.9	-21.6	-20.0	-18.4	-18.7
Exports of nonfactor services	9.5	6.6	9.6	11.1	11.3	12.5	13.8	15.2	16.9
<i>Of which:</i> travel and tourism <sup>1</sup>	6.7	4.9	7.5	8.8	9.1	10.0	11.2	12.6	14.2
Imports of nonfactor services	-29.0	-24.9	-23.1	-56.7	-24.5	-37.2	-36.7	-37.6	-39.2
Factor services (net)	2.4	6.1	3.9	4.8	3.3	3.0	2.9	4.0	3.7
Interest due	-3.8	-0.7	-0.2	-0.2	-0.2	-0.5	-0.8	-1.0	-1.2
National Oil Account (NOA) interest earnings	0.6	3.0	0.3	0.1	0.1	0.1	0.3	1.5	1.3
Private transfers (net)	1.6	2.0	3.0	3.9	3.0	3.8	4.9	6.2	7.9
Official transfers (net)	31.0	14.8	22.4	53.7	27.9	40.9	33.0	30.7	28.4
<i>Of which:</i> project grants	25.5	11.4	11.3	50.9	19.8	35.3	31.3	28.9	26.7
HIPC Initiative-related grants	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Current account balance</b>	<b>-36.1</b>	<b>-55.4</b>	<b>-66.2</b>	<b>-86.4</b>	<b>-48.8</b>	<b>-65.5</b>	<b>-72.6</b>	<b>-77.4</b>	<b>-85.5</b>
Including official transfers	-36.1	-55.4	-66.2	-86.4	-48.8	-65.5	-72.6	-77.4	-85.5
Excluding official transfers	-67.1	-70.2	-88.6	-140.1	-76.7	-106.5	-105.6	-108.1	-113.9
<b>Capital and financial account balance</b>	<b>36.1</b>	<b>59.3</b>	<b>85.4</b>	<b>74.3</b>	<b>53.4</b>	<b>58.8</b>	<b>107.2</b>	<b>75.2</b>	<b>89.4</b>
Capital transfer <sup>2</sup>	0.0	162.7	34.8	52.8	52.8	0.0	0.0	0.0	0.0
Financial account	36.1	-74.8	50.6	21.5	0.6	58.8	107.2	75.2	89.4
Public sector (net)	-7.3	-148.4	-32.4	-38.9	-41.4	2.3	0.3	-0.5	-0.5
Project loans	4.4	1.4	1.9	14.9	3.9	3.0	0.9	-0.2	-1.2
Program loans	0.0	2.1	2.0	2.0	2.0	2.4	2.4	2.0	2.0
Amortization	-7.4	-178.2	-35.7	-53.7	-53.7	-0.9	-0.9	-0.8	-0.8
Other Investment <sup>3</sup>	-4.3	-2.3	-0.6	-2.1	6.3	-2.1	-2.1	-1.6	-0.4
<i>Of which:</i> transfers to JDA	-3.1	-3.1	0.1	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Private sector (net)	43.4	73.6	82.9	60.5	42.0	56.4	106.9	75.7	89.8
Direct foreign investment <sup>4</sup>	27.0	52.6	54.2	27.9	18.6	15.0	43.8	21.5	27.9
<i>Of which:</i> Oil signature bonuses	0.0	28.6	0.0	0.0	0.0	0.0	26.0	0.0	0.0
Commercial banks	0.8	-2.3	-10.2	8.7	10.5	13.9	13.9	13.8	13.8
Short-term private capital	15.7	23.2	38.9	23.9	12.9	27.6	49.2	40.4	48.2
<b>Errors and omissions</b>	<b>-6.1</b>	<b>8.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Overall balance</b>	<b>-6.1</b>	<b>11.9</b>	<b>19.2</b>	<b>-12.0</b>	<b>4.6</b>	<b>-6.8</b>	<b>34.6</b>	<b>-2.2</b>	<b>3.9</b>
Financing	6.1	-11.9	-19.2	12.0	-4.6	6.8	-34.6	2.2	-3.9
Change in official reserves, excl. NOA (increase = -) <sup>3</sup>	-11.7	-4.7	-22.6	8.3	-8.1	3.8	-13.4	-1.2	-6.2
Use of Fund resources (net)	1.2	-0.8	0.7	1.1	1.1	1.1	1.1	0.6	-0.6
Purchases	1.2	1.2	0.7	1.1	1.1	1.1	1.1	0.6	0.0
Repurchases (incl. MDRI repayment)	0.0	-2.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.6
National Oil Account (increase = -)	14.9	-6.3	2.7	2.3	2.3	1.8	-22.3	2.9	3.0
Change in arrears (net; decrease = -)	1.7	-10.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reschedulable arrears (bilateral creditors)	0.0	10.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>									
Current account balance (percent of GDP)									
Before official transfers	-53.5	-48.3	-50.6	-69.7	-40.5	-51.2	-48.0	-45.5	-44.3
After official transfers	-28.8	-38.1	-37.8	-43.0	-25.8	-31.5	-33.0	-32.6	-33.3
Debt service ratio (percent of exports) <sup>5</sup>	33.8	24.5	5.6	5.5	5.2	5.7	6.5	6.4	8.5
Usable Gross reserves <sup>6,7</sup>									
Millions of U.S. dollars	24.7	26.3	46.6	38.6	46.2	42.1	69.8	71.1	77.3
Months of imports of goods and nonfactor services <sup>7</sup>	4.8	4.2	7.9	5.0	6.3	5.4	6.5	6.0	6.0

Sources: São Tomé and Príncipe authorities and IMF staff estimates and projections.

<sup>1</sup> Following the closure of the national airline, tourism receipts fell in 2006 and 2007. The airline was privatized in 2007.

<sup>2</sup> Include HIPC and MDRI debt relief delivered at the completion point in 2007.

<sup>3</sup> For 2009, includes an additional allocation of 5.5 million SDR.

<sup>4</sup> From 2006, FDI in the hotel sector increases.

<sup>5</sup> In percent of exports of goods and nonfactor services.

<sup>6</sup> For 2008, includes the proceeds from the privatization of the government's share in the fuel distribution company (ENCO) of \$32 million. Of this, \$10 million were used to pay back some of ENCO's debt to Sonangol, \$0.96 million were used to audit the transaction and \$21.4 million were put in the central bank to boost reserves.

<sup>7</sup> Imports of goods and nonfactor services excluding imports of investment goods and technical assistance.

**Table 7. São Tomé and Príncipe: Balance of Payments, 2006–13**  
(Percent of GDP)

	2006	2007	2008	2009		2010	2011	2012	2013
				Prog.	Proj.				
<b>Trade balance</b>	<b>-41.1</b>	<b>-41.3</b>	<b>-46.8</b>	<b>-51.4</b>	<b>-36.9</b>	<b>-42.6</b>	<b>-41.2</b>	<b>-40.3</b>	<b>-40.1</b>
Exports, f.o.b.	6.1	4.7	5.8	4.3	5.1	5.9	5.7	5.6	5.7
<i>Of which</i> : cocoa	2.0	2.4	2.8	1.8	2.6	2.6	2.3	2.1	2.0
re-export	3.1	2.0	2.6	2.2	2.2	2.9	3.1	3.2	3.2
Imports, f.o.b.	-47.2	-46.0	-52.6	-55.7	-42.1	-48.5	-46.9	-46.0	-45.8
<i>Of which</i> : food	-13.6	-12.1	-13.8	-9.1	-13.8	-13.4	-13.5	-13.4	-13.3
petroleum products	-12.0	-10.0	-12.6	-7.5	-8.3	-9.7	-10.3	-10.6	-10.7
Services and income (net)	-13.7	-8.3	-5.5	-20.3	-5.2	-10.4	-9.1	-7.8	-7.3
Exports of nonfactor services	7.5	4.5	5.5	5.5	6.0	6.0	6.3	6.4	6.6
<i>Of which</i> : travel and tourism <sup>1</sup>	5.4	3.4	4.3	4.4	4.8	4.8	5.1	5.3	5.5
Imports of nonfactor services	-23.1	-17.1	-13.2	-28.2	-12.9	-17.9	-16.7	-15.8	-15.3
Factor services (net)	1.9	4.2	2.3	2.4	1.8	1.5	1.3	1.7	1.4
Interest due	-3.1	-0.5	-0.1	-0.1	-0.1	-0.3	-0.4	-0.4	-0.5
National Oil Account (NOA) interest earnings	0.4	2.1	0.2	0.0	0.1	0.1	0.1	0.6	0.5
Private transfers (net)	1.3	1.4	1.7	1.9	1.6	1.8	2.2	2.6	3.1
Official transfers (net)	24.8	10.2	12.8	26.7	14.8	19.7	15.0	12.9	11.1
<i>Of which</i> : project grants	20.3	7.8	6.5	25.3	10.5	17.0	14.2	12.2	10.4
HIPC Initiative-related grants	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Current account balance</b>	<b>-28.8</b>	<b>-38.1</b>	<b>-37.8</b>	<b>-43.0</b>	<b>-25.8</b>	<b>-31.5</b>	<b>-33.0</b>	<b>-32.6</b>	<b>-33.3</b>
Including official transfers	-28.8	-38.1	-37.8	-43.0	-25.8	-31.5	-33.0	-32.6	-33.3
Excluding official transfers	-53.5	-48.3	-50.6	-69.7	-40.5	-51.2	-48.0	-45.5	-44.3
<b>Capital and financial account balance</b>	<b>28.8</b>	<b>40.8</b>	<b>48.7</b>	<b>37.0</b>	<b>28.2</b>	<b>28.3</b>	<b>48.7</b>	<b>31.6</b>	<b>34.8</b>
Capital transfer <sup>2</sup>	0.0	111.9	19.9	26.3	27.9	0.0	0.0	0.0	0.0
Financial account	28.8	-51.4	28.9	10.7	0.3	28.3	60.6	31.6	34.8
Public sector (net)	-5.9	-102.0	-18.5	-19.4	-21.9	1.1	11.9	-0.2	-0.2
Project loans	3.5	1.0	1.1	7.4	2.1	1.4	0.4	-0.1	-0.5
Program loans	0.0	1.4	1.1	1.0	1.1	1.2	1.1	0.9	0.8
Amortization	-5.9	-122.5	-20.4	-26.7	-28.4	-0.4	-0.4	-0.3	-0.3
Other investment <sup>3</sup>	-3.4	-1.6	-0.3	-1.0	3.3	-1.0	-1.0	-0.7	-0.2
<i>Of which</i> : transfers to JDA	-2.5	-2.2	0.1	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4
Private sector (net)	34.6	50.6	47.3	30.1	22.2	27.1	48.6	31.9	35.0
Direct foreign investment <sup>4</sup>	21.5	36.2	31.0	13.9	9.8	7.2	19.9	9.0	10.8
<i>Of which</i> : Oil signature bonuses	0.0	19.7	0.0	0.0	0.0	0.0	11.8	0.0	0.0
Commercial banks	0.6	-1.6	-5.8	4.3	5.6	6.7	6.3	5.8	5.4
Short-term private capital	12.5	16.0	22.2	11.9	6.8	13.3	22.4	17.0	18.8
<b>Errors and omissions</b>	<b>-4.9</b>	<b>5.5</b>	<b>0.0</b>						
<b>Overall balance</b>	<b>-4.9</b>	<b>8.2</b>	<b>11.0</b>	<b>-6.0</b>	<b>2.4</b>	<b>-3.3</b>	<b>15.7</b>	<b>-0.9</b>	<b>1.5</b>
Financing	4.9	-8.2	-11.0	6.0	-2.4	3.3	-15.7	0.9	-1.5
Change in official reserves, excl. NOA (increase= -) <sup>3</sup>	-9.3	-3.2	-12.9	4.1	-4.3	1.8	-6.1	-0.5	-2.4
Use of Fund resources (net)	1.0	-0.6	0.4	0.5	0.6	0.5	0.5	0.2	-0.2
Purchases	1.0	0.9	0.4	0.5	0.6	0.5	0.5	0.2	0.0
Repurchases (incl. MDRI repayment)	0.0	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	-0.2
National Oil Account (increase = -)	11.9	-4.4	1.5	1.1	1.2	0.9	-10.2	1.2	1.2
Change in arrears (net; decrease = -)	1.3	-7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reschedulable arrears (bilateral creditors)	0.0	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>									
Current account balance (percent of GDP)									
Before official transfers	-53.5	-48.3	-50.6	-69.7	-40.5	-51.2	-48.0	-45.5	-44.3
After official transfers	-28.8	-38.1	-37.8	-43.0	-25.8	-31.5	-33.0	-32.6	-33.3
Debt service ratio (percent of exports) <sup>5</sup>	33.8	24.5	5.6	5.5	5.2	5.7	6.5	6.4	8.5
Usable Gross reserves <sup>6,7</sup>									
Millions of U.S. dollars	24.7	26.3	46.6	38.6	46.2	42.1	69.8	71.1	77.3
Months of imports of goods and nonfactor services <sup>7</sup>	4.8	4.2	7.9	5.0	6.3	5.4	6.5	6.0	6.0

Sources: São Tomé and Príncipe authorities and IMF staff estimates and projections.

<sup>1</sup> Following the closure of the national airline, tourism receipts fell in 2006 and 2007. The airline was privatized in 2007.

<sup>2</sup> Include HIPC and MDRI debt relief delivered at the completion point in 2007.

<sup>3</sup> For 2009, includes an additional allocation of 5.5 million SDR.

<sup>4</sup> From 2006, FDI in the hotel sector increases.

<sup>5</sup> Gross reserves exclude the National Oil Account and commercial banks' foreign currency deposit at the BCSTP in order to meet the reserve requirement for their foreign currency deposits or as application deposits for new licensing.

<sup>6</sup> For 2008, includes the proceeds from the privatization of the government's share in the fuel distribution company (ENCO) of \$32 million. Of this, \$10 million were used to pay back some of ENCO's debt to Sonangol, \$0.96 million were used to audit the transaction and \$21.4 million were put in the central bank to boost reserves.

<sup>7</sup> Imports of goods and nonfactor services excluding imports of investment goods and technical assistance.

**Table 8. São Tomé and Príncipe: External Financing Requirements and Sources, 2006–13**  
(Millions of U.S. dollars)

	2006	2007	2008	2009	2010	2011	2012	2013
				Prog.	Proj.	Proj.		
<b>Gross financing requirements</b>	<b>-88.9</b>	<b>-267.6</b>	<b>-147.5</b>	<b>-132.2</b>	<b>-105.7</b>	<b>-122.1</b>	<b>-111.7</b>	<b>-121.9</b>
Current account, excluding official transfers	-67.1	-70.2	-88.6	-76.7	-106.5	-105.6	-108.1	-113.9
Exports, f.o.b.	7.7	6.8	10.2	9.7	12.2	12.6	13.4	14.6
Imports, f.o.b.	-59.2	-66.9	-92.2	-79.6	-100.8	-103.1	-109.2	-117.7
Services and income (net)	-17.2	-12.1	-9.6	-9.9	-21.6	-20.0	-18.4	-18.7
Private transfers	1.6	2.0	3.0	3.0	3.8	4.9	6.2	7.9
Financial account	-11.8	-182.6	-36.3	-47.4	-3.0	-3.0	-2.4	-1.8
Scheduled amortization <sup>1</sup>	-7.4	-178.2	-35.7	-53.7	-0.9	-0.9	-0.8	-0.8
IMF repayments <sup>2</sup>	0.0	-2.1	0.0	0.0	0.0	0.0	0.0	-0.6
Other public sector flows (net) <sup>3</sup>	-4.3	-2.3	-0.6	6.3	-2.1	-2.1	-1.6	-0.4
Change in external reserves (-ve = increase) <sup>3</sup>	-11.7	-4.7	-22.6	-8.1	3.8	-13.4	-1.2	-6.2
Change in arrears (net)	1.7	-10.2	0.0	0.0	0.0	0.0	0.0	0.0
<b>Available funding</b>	<b>88.9</b>	<b>257.5</b>	<b>147.5</b>	<b>132.2</b>	<b>105.7</b>	<b>122.1</b>	<b>111.7</b>	<b>121.9</b>
National Oil Fund (net)	14.9	22.3	2.7	2.3	1.8	3.7	2.9	3.0
Oil signature bonuses	0.0	28.6	0.0	0.0	0.0	26.0	0.0	0.0
Saving (-ve = accumulation of oil reserve fund)	14.9	-6.3	2.7	2.3	1.8	-22.3	2.9	3.0
Expected disbursements	35.5	181.0	61.2	86.7	46.3	36.4	32.5	29.1
Multilateral HIPC interim assistance	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital transfers <sup>1, 2</sup>	0.0	162.7	34.8	52.8	0.0	0.0	0.0	0.0
Grants <sup>4</sup>	27.2	14.8	22.4	27.9	40.9	33.0	30.7	28.4
Concessional loans	4.4	3.5	3.9	5.9	5.4	3.3	1.8	0.7
Project loans	4.4	1.4	1.9	3.9	3.0	0.9	-0.2	-1.2
Program loans	0.0	2.1	2.0	2.0	2.4	2.4	2.0	2.0
Private sector (net)	37.3	53.0	82.9	42.0	56.4	80.9	75.7	89.8
IMF <sup>5</sup>	1.2	1.2	0.7	1.1	1.1	1.1	0.6	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>								
Reschedulable arrears (bilateral creditors)	0.0	10.2	0.0	0.0	0.0	0.0	0.0	0.0

Sources: São Tomé and Príncipe authorities and IMF staff estimates and projections.

<sup>1</sup> Includes HIPC and MDRI debt relief delivered at the completion point in 2007.

<sup>2</sup> Includes MDRI assistance from the IMF as a stock of debt reduction.

<sup>3</sup> For 2009, includes an additional SDR allocation of 5.5 million.

<sup>4</sup> Includes aid in kind received from Nigeria (Arcadia oil).

<sup>5</sup> Includes projected disbursements under the new ECF.

**Table 9. São Tomé and Príncipe: Financial Soundness Indicators  
for the Banking Sector, 2005–09<sup>1</sup>**

	2005	2006	2007	2008	2009 June
	(in percent)				
<b>Capital Adequacy</b>					
Regulatory capital to risk-weighted assets <sup>2</sup>	33.4	39.4	62.2	58.9	71.5
Capital (net worth) to assets	9.6	19.8	16.7	24.1	28.1
<b>Asset quality</b>					
Foreign exchange loans to total loans	68.9	79.5	77.9	75.7	75.0
Past-due loans to gross loans	37.6	44.3	26.6	19.3	22.6
Nonperforming loans (past-due more than 30 days)	...	...	...	7.9	
Watch-listed loans (past-due less than 30 days)	...	...	...	7.8	
Provision as percent of past-due loans <sup>2</sup>	12.9	27.7	53.4	10.9	38.0
<b>Earnings and profitability</b>					
Net profit before tax/net income	...	-47.6	-24.2	-13.1	4.0
Return on assets	-3.8	-3.5	-0.03	-1.5	1.0
Return on equity	-18.6	-20.1	-0.18	-6.9	0.4
Expense (including amortiz. & provisions)/ net income	...	126.6	122.2	109.3	98.8
Interest rate spread between lending and deposit rates	18.3	18.6	19.7	19.7	
<b>Liquidity</b>					
Liquid assets/total assets	46.2	43.5	44.0	44.7	43.1
Liquid assets/short term liabilities	69.2	82.0	86.4	81.8	82.9
Loan/deposits	56.5	77.2	76.2	64.9	81.9
Foreign exchange liabilities/total liabilities	50.5	71.7	71.0	71.0	74.7
<b>Sensitivity to market risk</b>					
Foreign exchange liabilities to shareholders funds	...	227.0	349.2	215.0	222.5

Source: São Tomé and Príncipe authorities and MCM technical assistance report November 2008.

<sup>1</sup> Preliminary data as of June 2009. The BCSTP is still in the process of finalizing the financial soundness indicators.

<sup>2</sup> Not comparable across years due to the change of the definition of past-due loans. The BCSTP is currently in the process of making them comparable.

**Table 10. São Tomé and Príncipe: Schedule of Disbursements Under the PRGF Arrangement, 2009–11**

<b>SDR Amount</b>	<b>Percent of Quota</b>	<b>Date</b>	<b>Disbursement conditions</b>
370,000	5	03/02/09	Board approval of arrangement.
370,000	5	09/15/09	Observance of PCs for end-June 2009 and completion of the first review.
370,000	5	03/15/10	Observance of PCs for end-December 2009 and completion of the second review.
370,000	5	11/30/10	Observance of PCs for end-June 2010 and completion of the third review.
370,000	5	03/15/11	Observance of PCs for end-December 2010 and completion of the fourth review.
370,000	5	09/15/11	Observance of PCs for end-June 2011 and completion of the fifth review.
370,000	5	03/15/12	Observance of PCs for end-December 2011 and completion of the sixth review.

Source: IMF

**Table 11: Sao Tome and Principe: Indicators of Capacity to Repay the Fund, 2009–2013**

	Projections				
	2009	2010	2011	2012	2013
<b>Fund obligations based on existing credit</b> (in millions of SDRs)					
Principal	0.00	0.00	0.00	0.00	0.40
Charges and interest	0.02	0.01	0.01	0.02	0.02
<b>Fund obligations based on existing and prospective credit</b> (in millions of SDRs) <sup>1/</sup>					
Principal	0.00	0.00	0.00	0.00	0.40
Charges and interest	0.02	0.01	0.01	0.03	0.03
<b>Total obligations based on existing and prospective credit</b> <sup>1/</sup>					
In millions of SDRs	0.02	0.01	0.01	0.03	0.43
In millions of U.S. dollars	0.03	0.02	0.02	0.05	0.69
In percent of exports of goods and services	0.15	0.06	0.06	0.16	2.12
In percent of debt service <sup>2/</sup>	2.84	1.11	0.92	2.56	24.98
In percent of quota	0.27	0.14	0.14	0.41	5.81
In percent of gross international reserves	0.05	0.03	0.02	0.07	0.87
<b>Outstanding Fund credit</b>					
In millions of SDRs	3.2	4.0	4.7	5.1	4.7
In millions of U.S. dollars	5.1	6.3	7.5	8.1	7.4
In percent of exports of goods and services	23.5	25.0	27.5	27.4	23.0
In percent of debt service <sup>2/</sup>	455.9	439.4	430.8	431.2	270.8
In percent of quota	43.4	53.4	63.4	68.4	63.0
In percent of gross international reserves	8.4	11.3	10.4	11.1	9.4
<b>Memorandum items:</b>					
Exports of goods and services (millions of U.S. dollars)	21.8	25.2	27.1	29.4	32.3
Debt service (millions of U.S. dollars) <sup>2/</sup>	1.1	1.4	1.7	1.9	2.7
Quota (millions of SDRs)	7.4	7.4	7.4	7.4	7.4
Gross international reserves (excl. oil account and security deposits by banks, millions of U.S. dollars)	61	56	72	73	79
GDP (millions of U.S. dollars)	190	205	216	234	253

Sources: Sao Tome and Principe authorities; and Fund staff estimates and projections.

1/ Assumes disbursement of SDR 0.74 million in 2009 under new three-year ECF arrangement.

2/ After HIPC and MDRI debt relief. Including IMF repurchases and repayments in total debt service.

**APPENDIX I—LETTER OF INTENT**

São Tomé, February 1, 2010

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

Dear Mr. Strauss-Kahn:

1. Last March, the Executive Board of the IMF approved São Tomé and Príncipe's request for a new three-year arrangement under the Extended Credit Facility (ECF). This letter and the attached Memorandum of Economic and Financial Policies (MEFP) report on recent economic developments, performance under the program to date, and the Government's policies in 2009 and for 2010.
2. Economic activity slowed down in 2009, driven by a decline in foreign direct investment (FDI). The drop off in FDI partly reflects the impact of the global financial and economic crisis. Inflation continued on its downward path, reflecting the decline in world food and fuel prices and a tightening of fiscal and monetary policies.
3. Most of the program's quantitative targets for the first three quarters of 2009 were met (MEFP, Table A1). However, performance criteria on the domestic primary deficit and on net claims of the banking system on the central government were not met, due to a shortfall in tax revenue associated with lower imports. There was good progress in implementing structural reforms, although some measures took longer to implement than initially expected (MEFP, Table B1).
4. At the beginning of 2010, São Tomé and Príncipe moved from a flexible exchange rate system to a fixed regime under which the Dobra is pegged to the Euro. We expect that the stability of the Dobra against the currency of our most important trading partners will help us achieve and sustain macroeconomic stability and boost investment and growth. The Government is committed to implementing the rigorous fiscal policy required to ensure the viability of the peg, and will continue to refrain from borrowing from the BCSTP. The BCSTP has ample international reserves which were boosted by the IMF's recent allocation of SDRs to São Tomé and Príncipe. Agreements we have negotiated with Portugal and the ECF-supported program together provide a framework for implementing the policies needed to ensure the success of the peg.

5. Key objectives in the program's updated medium-term macroeconomic framework include: (i) boosting real GDP growth from 4 percent in 2009 to an average rate of about 6 percent a year; (ii) reducing inflation to low single digit levels; and (iii) making progress toward fiscal and external sustainability.

6. To support these objectives and the related policies spelt out in the MEFP, the Government hereby requests completion of the first review and the second disbursement under the ECF arrangement in an amount equivalent to SDR0.37 million (5 percent of quota). The Government requests waivers for the nonobservance of the two end-June 2009 fiscal performance criteria, which reflected the adverse impact of the global economic crisis on customs revenue. In the second half of the year, revenue collection increased in response to the government actions to improve the collection of domestic taxes and to recover tax arrears. We are taking further actions to make domestic revenues more resilient to shocks over the medium-term. The revised macroeconomic framework agreed with Fund staff reflects these efforts.

7. The Government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it will take additional measures if needed. São Tomé and Príncipe will consult with the Fund in advance of the revisions to the policies contained in the MEFP, following the Fund's policies on such consultation. São Tomé and Príncipe will provide the Fund with the necessary data for monitoring purposes on a timely basis.

8. We propose that the Fund carry out the second review under the program in July 2010, based on the observance of end-December 2009 quantitative performance criteria, as established at the time of the approval of the arrangement (Table A1). In addition, we propose that the third and fourth reviews be conducted in November 2010 and March 2011, respectively, based on the observance of end-June 2010, and end-December 2010 quantitative performance criteria, as established in Table A2 of the attached MEFP.

9. The Government intends to make public the contents of this Letter of Intent, those of the attached MEFP and Technical Memorandum of Understanding (TMU), the IMF staff report on the first review, and the updated Debt Sustainability Analysis, and authorizes the IMF to arrange for them to be posted on the IMF website after completion of the first review by the Executive Board.

Yours truly,

/s/

/s/

Ms. Ângela Maria da Graça Viegas Santiago  
Minister of Planning and Finance

Mr. Luis Fernando Moreira de Sousa  
Governor of the Central Bank of São Tomé  
and Príncipe

Attachments: Memorandum of Economic and Financial Policies  
Technical Memorandum of Understanding

## ATTACHMENT I

## SÃO TOMÉ AND PRÍNCIPE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. **This Memorandum of Economic and Financial Policies (MEFP) supplements that of February 2009.** It first describes recent economic developments, including performance under São Tomé and Príncipe's program supported by the Extended Credit Facility (ECF) arrangement approved by the IMF Executive Board in March 2009. It then updates the program's medium-term macroeconomic framework and outlines policies for the remainder of 2009 and for 2010. The program is designed to help achieve sustained growth and poverty reduction as set out in the *Programa do XIII Governo*. Key elements of the government's strategy for achieving these objectives include ensuring macroeconomic stability, improving basic infrastructure, increasing food security, and promoting tourism as an engine of growth.

## I. RECENT ECONOMIC DEVELOPMENTS

2. **Economic activity slowed down in 2009.** Compared to 5.5 percent initially projected under the program, real GDP growth is now estimated at about 4 percent in 2009. The slowdown is mainly driven by a decline in foreign direct investment (FDI) which has heavily affected construction and trade-related activities. The drop off in FDI partly reflects the impact of the global financial and economic crisis. However, not all sectors registered slowdowns. In particular, tourism-related activity picked up—albeit from a low base—reflecting the recent improvements in the tourism infrastructure of the country.

3. **Inflation is on a downward path, reflecting the decline in world food and fuel prices and a tightening of fiscal and monetary policies.** Cumulative inflation in the first nine months of the year was 11.6 percent. On a year-on-year basis, inflation declined to 14.8 percent in October 2009 from a peak of 37 percent in July 2008. The price indices for housing, energy, and food (which comprise 82 percent of the CPI basket) continued to decline steadily from the peaks reached in July 2008. The deceleration in inflation also reflected tighter monetary policy in 2008 which stabilized the exchange rate.

4. **The fiscal outturns for 2008 and 2009 were weaker than envisaged at the time the program was formulated.** The domestic primary fiscal deficit in 2008 reached 7.4 percent of GDP, compared to an expected 5.8 percent under the program. This was mainly due to overruns in current spending mostly on utilities. This was financed by a budget support grant from the World Bank as well as a larger-than-programmed drawdown of government deposits at the central bank. During the first half of 2009, tax revenues were nearly 30 percent below program. Personal income and corporate tax revenues performed according to program, while taxes on imports fell short significantly, partially reflecting the slowdown in foreign direct investment. Although current expenditures were restrained, there was an accumulation of new domestic arrears, mostly with EMAE (*Empresa de Agua y Electricidade*), the utility company. On a commitment basis, non-

interest current expenditures were about 13 percent lower than programmed. Execution of capital expenditures neared 50 percent of the programmed level between January and July. Within this category, Treasury financed capital expenditures surpassed the level assumed in the program's baseline by almost 20 percent, but still remained below the maximum level allowed under the program.

5. **Payment arrears between the Treasury, EMAE and ENCO (*Empresa Nacional de Combustíveis e Oleos*, the fuel distributor) were partially cleared between January and August 2009, when the Treasury settled its outstanding debt to EMAE.** A down payment on the debt was made towards the end of 2008 when the Treasury paid Db85 billion to EMAE. By June 2009, government agencies had accumulated Db20 billion in new arrears to EMAE under the decentralized system of payments for energy by government agencies. At the same time, ENCO owed Db37.5 billion to the Treasury in taxes on petroleum products. In August, the Treasury settled its arrears to EMAE, while ENCO made a down payment but still owed the Treasury Db24.8 billion.

6. **Acceleration in base money growth in the first half of 2009 reflected the central bank's accumulation of international reserves.** Base money growth accelerated from 19 percent (year-on-year) in December 2008 to 44 percent in June 2009, before subsiding to 29 percent in October 2009. The BCSTP's accumulation of international reserves (beyond program levels) was aimed at achieving a very comfortable level of reserves in preparation for the move to a Euro peg for the dobra. The central bank achieved this by only partially sterilizing the budgetary use of oil bonuses and privatization proceeds. Recent foreign exchange auctions by the central bank contributed to the slowing down in the growth of base money.<sup>1</sup> In recognition of the marked decline in the inflation rate, the BCSTP lowered its discount rate from 19 percent to 17 percent in August 2009.

7. **The banking system's accumulation of foreign assets and lending to the private sector have been the main sources of growth in broad money.** Year-on-year growth of broad money declined to 33 percent in September 2009 from 35 percent in December 2008, mainly because of lower accumulation of foreign assets than in 2008. Credit to the economy continued to grow strongly and the ratio of non-performing loans to total outstanding loans increased to 19 percent in July 2009 from 7.9 percent at end-2008.

8. **The impact of the global crisis on the balance of payments for 2009 has been limited.** Lower oil and food prices have reduced the value of imports, while exports of goods and services have been boosted by increased tourist arrivals (responding to the growth in hotel capacity). However, the tourist arrivals in 2009 are somewhat lower than what the government anticipated.

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<sup>1</sup> Six auctions of foreign exchange were conducted between March and October 2009, involving the use of US\$7.4 million.

Private capital inflows (dominated by foreign direct investment) have fallen significantly compared to 2008—mainly reflecting the completion of a large tourism-related project. However, the decline in FDI has been partially offset by an increase in the level of official grants and loans compared to 2008. The international reserves have increased steadily in preparation for the launch of the Euro peg. The exchange rate of dobra to the Euro remained steady during the first half the year, but depreciated in the second half.

9. **In July 2009, the government signed an agreement with Portugal to support pegging the dobra to the Euro from the beginning of 2010.** Under the agreement, Portugal stands ready to provide support to the peg with a line of credit, within the context of a jointly agreed program of sustainable macroeconomic policies for São Tomé and Príncipe.

10. **Most of the program’s quantitative financial targets for the first three quarters of 2009 were met (Table A1).** The targets on net usable international reserves, net domestic assets of the central bank, and external borrowing were all met. However, the two fiscal targets—domestic primary deficit, and net claims of the banking system on the central government—were not met, due to a shortfall in tax revenue.

11. **There was good progress in implementing structural reforms, although some measures are taking longer to implement than initially expected (Table B1).** New income tax laws, a new procurement law and a decree to facilitate rescheduling of tax obligations have all come into effect. The performance criterion regarding the purchase and installation of IT equipment for SAFE by end-September was partially met. The equipment was purchased on time but installation was completed in November.

12. **The Government continues to reform public administration and the public financial management (PFM) system.** A number of significant advances have been made in the last two years, including: (i) approval of the new public auction and procurement regulations, with the publication of Law No. 8/2009; (ii) requirement to deposit government revenue in Treasury accounts with the Central Bank; (iii) financial deepening and payment of all civil servant salaries into bank accounts; (v) improvements in the IT system (SAFINHO), which has supported budget and financial execution since 2006; (vi) increase in budget coverage with the inclusion of externally-funded projects; (vii) start of the preparation of a medium-term fiscal framework (MTFF) and a medium-term expenditure framework for road transport; (viii) creation and operation of the Information Technology Department; (ix) establishment of the Accounting Department; (x) start up of decentralization of budget and financial execution for the pilot ministries; and (xi) acquisition of IT equipment, creation of a data center and setup of a communications network to connect the various ministries and allow them to use an integrated financial information management system.

## II. MEDIUM-TERM MACROECONOMIC FRAMEWORK (2010–12)

13. **The government expects a strong rebound in 2010 from the slowdown in growth that occurred in 2009.** This is based on a projected large increase in private capital inflows (mainly foreign direct investment) and improved implementation of the public investment program. Also, pegging the dobra to the Euro from the beginning of 2010 should have a positive and decisive impact on the ongoing disinflation process.

14. **The macroeconomic goals for the next three years are:** (i) boosting real GDP growth to an average rate of about 6 percent a year; (ii) reducing inflation to low single digit levels; and (iii) making progress toward fiscal and external sustainability. The acceleration of real economic growth is expected to come largely from construction, fueled by foreign direct investment and the public infrastructure program. For example, ground was broken for the construction of a new deep-water port in September 2009.<sup>2</sup> We also expect new foreign investments in the agriculture sector (palm oil and coffee production), and the construction of a new five star hotel. Financial sector reforms will also continue with a view to preserving stability and strengthening the ability of the banking system to support the development of the real sector.

15. **Fiscal consolidation.** The government aims to reduce the primary domestic deficit from 5.9 percent of GDP in 2009 to about 4.7 percent in 2010, with the goal of stabilizing it below 3.0 percent by 2013. In pursuing its fiscal goals, government will be guided by the principles of avoiding nonconcessional and monetary financing of fiscal deficits. We will redouble our efforts to mobilize domestic revenues by broadening the tax base and increasing tax compliance in order to create fiscal space for necessary public expenditure. We will also follow through on implementing the SAFE project, which will help the government improve the management of public resources.

16. **Financial sector reforms.** The central bank will continue strengthening banking sector supervision and is committed to take the necessary steps to reduce the risk of distress in the banking system. The central bank will implement the regulation to increase the minimum capital of banks by end-March 2010, as well as regulation on the intervention of financial institutions. A full on-site inspection of all the seven commercial banks will be completed by mid-2010. Other actions to improve the effectiveness of the financial system will involve the implementation of the Credit Reference Bureau to reduce credit risk, and the introduction of a network of automatic teller machines and debit cards to improve the payments system and the productivity of the banking sector.

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<sup>2</sup> This is a US\$500 million project of which about US\$100 million (equivalent to 50 percent of GDP) is expected to be spent in 2010. The government's main contribution to this project is a road from the airport to the site of the new port.

17. **Current account balance.** External inflows (both private and official) are expected to continue to finance the current account deficits, which are projected to remain sizable during 2010–12, reflecting strong demand for FDI-related imports.

18. **External debt.** The Government is fully aware of the importance of ensuring debt sustainability after HIPC and MDRI debt relief. We will refrain from new external borrowing on commercial terms, and redouble our efforts to seek full delivery of HIPC debt relief from the remaining official creditors. We have initiated discussions on debt cancellation with Angola and will try to conclude this agreement as soon as possible. We plan to introduce the Framework Law for Public Debt. A first draft prepared by government officials is being reviewed with assistance from Debt Relief International and the World Bank.

19. **Oil prospects.** After information from the exploratory drillings that started in 2009 become available, the Government will review with IMF staff the medium-term fiscal and financing strategy, including the use of NOA resources.

20. **Risks to our medium-term outlook include exogenous shocks that disrupt external financing from foreign investors or development partners.** The focused implementation of our program will enhance our country's attractiveness and help reduce our vulnerability to those risks. The government is preparing a new Strategic Plan for National Development which will draw on lessons from implementation of the PRSP and from a needs assessment for achieving the MDGs. The main objectives will remain broadly in line with those in the *Programa do XIII Governo*.

### III. POLICIES FOR 2010

21. **Coping with potential revenue shortfalls and ensuring the success of the new exchange rate regime are the government's principal challenges.** Compared to the projections in the original program, government revenues are now projected to be lower in 2009 and 2010. Thus, we will need additional external financing (on appropriate terms) to safeguard the government's carefully considered expenditure plans. We recognize that fiscal discipline will become even more important under the pegged exchange rate regime. We will tighten fiscal policy if international reserves come under pressure. However, we believe the level of international reserves accumulated by the BCSTP, which has been boosted by the IMF's recent allocation of SDRs to São Tomé and Príncipe, provides a strong starting point for the peg. The agreement we have with Portugal and the ECF-supported program together provide a framework for implementing the policies needed to ensure the success of the peg.

#### A. Fiscal Policy and Related Structural Reforms

22. **Uncertain revenue prospects may require some adjustment to discretionary expenditures.** We need to make provision to cover the costs—about US\$3 million in total—of organizing the local government and parliamentary elections slated for the first quarter of 2010.

We are actively seeking donor assistance to cover the costs of the elections, but may have to postpone some approved expenditures if donor funding is not forthcoming.

23. **The government plans to reduce the domestic primary deficit from 5.9 percent of GDP in 2009 to 4.7 percent in 2010.** Revenues have been estimated conservatively in view of a high degree of uncertainty about the short-term impact of recent changes in income tax laws, and the responsiveness of import revenues to increased FDI-financed imports. Fiscal consolidation in the 2010 budget will come mainly from current expenditures associated with purchases of goods and services. The domestic primary deficit is expected to be financed by draw downs from the National Oil Account (US\$2 million) and privatization proceeds (US\$4.8 millions). Other discretionary expenditures, especially outside the priority areas, will be restrained as needed to stay within available resources.

24. **The government will step up its efforts to strengthen revenue administration in order to broaden the revenue base and enforce compliance with the tax and customs laws.** With support from Portugal and the U.S. Millennium Challenge Corporation (MCC), we will work to expand the register of tax payers, conduct more audits and undertake more enforcement operations including the collection of tax arrears. With respect to customs, several measures targeted at improving the efficiency of the collection system are under way. These include the implementation of a new customs code, a new tariff schedule, a new version of ASYCUDA, and related regulations.

25. **On the expenditure side, the Ministry of Planning and Finance will strengthen expenditure management in order to prevent the recurrence of expenditure overruns and arrears.** The 2010 budget includes realistic provisions for expenditure on utilities in order to address a problem underlying the cycle of arrears accumulation between EMAE, ENCO and the Treasury. At the same time, we are decentralizing the payment of utility bills to agencies. We expect agencies to take responsibility for checking the accuracy of the bills and making prompt payment to EMAE.

26. **Comprehensive pay reform will be informed by a study commissioned by the government.** Because of the considerable dispersion of fringe benefits across different parts of the public administration, which goes against the spirit of law No. 5/97, the government is carrying out a comprehensive wage study with the support of development partners. The study will result in a revised government salary structure which emphasizes the base salary, with benefits defined according to professional categories and rank.

27. **Improving the execution of public investment projects remains a high priority for the government.** Increasing infrastructure investment, especially in transportation and the electricity sector, will help address supply bottlenecks and enhance growth potential. We will work closely with our external development partners to accelerate implementation of foreign-

funded projects, while ensuring adequate resources for Treasury funded investment projects and maintenance in order to enhance the country's growth potential.

28. **The government will continue to assist the most vulnerable segments of the population.** We plan to achieve this goal by strengthening implementation of HIPC-related expenditure programs and selected targeted schemes, such as the school meals program. Building on earlier work to identify pro-poor expenditures (see paragraph 6 of the Technical Memorandum of Understanding), we will work with IMF staff to establish indicative targets under the current program to facilitate more effective monitoring of these expenditures.

### **B. Monetary Policy, Financial Sector and Related Reforms**

29. **At the beginning of 2010, the BCSTP fixed the Dobra/Euro exchange rate and will ensure the convertibility of the dobra.** Two agreements have been signed with Portugal to support the peg. One agreement sets up the economic cooperation framework between Portugal and São Tomé and Príncipe, and the other establishes a precautionary line of credit up to Euro 25 million. The government is aware of the need for strict discipline in the conduct of fiscal policy for the viability of a fixed exchange rate, and will refrain from borrowing from the BCSTP. The introduction of the peg is expected to move inflation on a downward path toward convergence with inflation in the Euro area.

30. **Effective monetary management under the fixed exchange rate regime will require close cooperation between the BCSTP and the Ministry of Planning and Finance.** The monetary program is geared to supporting the peg. Regular information-sharing among the Ministry of Planning and Finance and BCSTP officials will include the Treasury's cash outlays (in both domestic and foreign currency), which are important for the BCSTP's liquidity forecast and foreign exchange operations.

31. **The BCSTP will continue strengthening banking sector supervision.** To reduce the risk of bank distress arising from non-performing loans, the BCSTP, with IMF technical assistance, will further strengthen its capacity to enforce banking supervision regulations through training, implementing the new chart of accounts and quarterly financial reporting by banks.

32. **As soon as the amended AML/CFT law is approved, the government plans to implement it with the help of our development partners.** The Ministry of Planning and Finance, the Ministry of Justice and the BCSTP will cooperate in the implementation of the law. In the meantime, the government has an action plan to make functional the law in 2010, including the establishment of a Financial Information Unit, within the Ministry of Planning and Finance,

33. **The BCSTP will enhance its communication with banks and the general public.** In addition to regular meetings with the banking community and the media, the BCSTP will continue posting data on monetary and macroeconomic aggregates on its website. The BCSTP

will also continue to post yearly its audited financial statements. Aggregate quarterly data of commercial banks will also be available on the BCSTP website. The audited 2008 accounts have been published on the BCSTP website.

**34. The BCSTP will strengthen oversight of its internal controls and audit functions in line with the recommendations of the recent Safeguards Assessment mission from the IMF.** Beginning with the audit of the 2009 accounts, the Audit Board of the BCSTP will discuss with the external auditors (at the planning and concluding stages of the audit) the audit approach and audit findings in the areas of internal control and financial reporting. The BCSTP has also prepared an action plan to introduce International Financial Reporting Standards (IFRS) in three stages: (i) a statement of the intent to implement IFRS and a qualitative description of differences with the current reporting standards (i.e., a gap analysis) in the notes to the audited financial statements for 2009 (to be prepared in 2010); (ii) a quantification and disclosure of material differences from IFRS in the 2010 financial statements (to be prepared in 2011); and (iii) publication of IFRS based financial statements for 2011 (to be prepared in 2012).

### **C. Other Structural Reforms**

**35. The government has changed the procedure for setting the prices of petroleum products.** In order to promote more flexibility in the pricing of petroleum products and avoid the need for potentially burdensome government subsidies, the government has authorized ENCO to adjust domestic prices in line with the evolution of world prices. The guiding principle is to operate a transparent and symmetric system that passes through to consumers both increases and reductions in world prices. To this end, ENCO will be allowed to adjust prices after each shipment it receives based on detailed cost information it provides to the government.

**36. The government will seek private investment in EMAE.** Due to the technical and financial challenges EMAE has experienced in the last few years, the government intends to adopt a recovery strategy aimed at improving financial viability of this company, maintaining its features as utility service and promoting renewable energies. To that end, it will open up to the private sector, the company's equity which is 100 percent state owned, just as it did with the telecommunication company some years ago.

**37. Reducing the cost of investing and doing business in São Tomé and Príncipe is crucial for developing our economy's productive and export potential.** The Government has already taken several steps to improve the investment climate, including revising the labor, commercial and customs codes. The government has created a "one-stop window" ("*guichet unico*") and the central bank is in the process of establishing a credit reference bureau.

#### **D. Capacity Building**

38. **São Tomé and Príncipe continues to need external support to build capacity for policy formulation and implementation as well as for monitoring economic developments.** Our bilateral and multilateral development partners are providing support for our public financial management reforms, as well as for strengthening tax and customs administration and macroeconomic analysis at the Ministry of Planning and Finance. In order to deepen the public financial management reforms, we need assistance to build capacity in all Ministries in order to make use of the new systems being introduced. We are also benefiting from advice on how to improve the business environment. We will welcome additional support from the IMF in the areas of banking supervision, public financial management (in particular on the establishment of a single treasury account), and national accounts statistics. We also request assistance from the IMF to help us strengthen our Anti-Money Laundering framework.

#### **E. Program Monitoring**

39. **Quantitative program targets for 2010 are contained in Table A2.** There is no change in the fiscal, monetary and external debt variables for which quantitative performance criteria and indicative targets are set. Structural conditionality has been streamlined (Table B2). Submission to parliament of a budget for 2010 in line with understandings reached with IMF staff on limiting the size of the domestic primary deficit to 4.7 percent of GDP is a prior action for completing the first review. The attached Technical Memorandum of Understanding sets out the modalities of program monitoring, including definitions, adjustors for deviations from program assumptions, data sources and frequency of reporting to IMF staff.

Table A1. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2009  
(Billions of dobras, cumulative from beginning of year, unless otherwise specified)

	2009							
	Mar	June			Sep		Dec	
	Indicative Target	Performance Criteria <sup>1</sup>	Performance w/adjustment	Actual	Indicative Target	Performance w/adjustment	Actual	Performance Criteria <sup>1</sup>
<b>Performance criteria:</b>								
1 Floor on domestic primary balance (as defined in the TMU) <sup>2</sup>	-26	-84	-107	-120	-110	-141	-171	-143
2 Ceiling on changes in net bank financing of the government (at program exchange rate) <sup>2,3,4,5</sup>	28	89	44	48	118	153	188	146
3 Ceiling on changes in net domestic assets of the central bank (at program exchange rate) <sup>2,3,4,5</sup>	62	88	43	40	144	155	-6	162
4 Floor on changes in the net usable international reserves of the central bank (in US\$ millions) <sup>4,5</sup>	-7	-7.4	-7.0	-2	-8	-10	-9	-10
5 Ceiling on central government's outstanding external payment arrears (stock, in US\$ millions) <sup>6</sup>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6 Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the central government or the BCSTP (in US\$ millions) <sup>6,7,8</sup>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
7 Ceiling on the outstanding stock of external debt with original maturity of up to and including one year owed or guaranteed by the central government or the BCSTP (stock, in US\$ millions) <sup>6,8,9</sup>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Indicative targets:</b>								
Ceiling on dobra base money (stock, in billion dobras) <sup>10</sup>	269	258	258	252	291	291	279	314
<b>Memorandum items:</b>								
Privatisation account - stock (US \$ million)	...	...	...	...	...	...	...	17
Transfer from NOA to the budget (in US\$ millions)	0.0	2.4		2.4	2.4		2.4	2.4
Net external debt service payments (in US\$ millions)	0.3	0.5		1.4	0.8		1.9	1.1
Official external program support (in US\$ millions) <sup>11</sup>	8	15		0.8	23		1.2	31
Treasury-funded capital expenditure (in billion dobras)	23	46		54	68		95	91

Sources: São Tomé and Príncipe authorities; and IMF staff estimates and projections.

<sup>1</sup> The June and December test dates are applied on all reviews.

<sup>2</sup> The ceiling will be adjusted downward or upward according to definitions in the TMU.

<sup>3</sup> The ceiling will be adjusted downward by the amount of accumulated domestic arrears.

<sup>4</sup> Excluding the National Oil Account (NOA) at the Central Bank.

<sup>5</sup> The floor on net usable international reserves will be adjusted upward or downward according to definitions in the TMU.

<sup>6</sup> This performance criterion applies not only to debt as defined in point No. 9 of the *Guidelines on Performance Criteria with Respect to Foreign Debt* (August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received.

<sup>7</sup> With a grant element of less than 50 percent.

<sup>8</sup> Only applies to debt with a grant element of less than 50 percent (defined as non-concessional for least developed countries).

<sup>9</sup> Debt is defined as in point 9 of the *Guidelines on Performance Criteria with Respect to Foreign Debt* (August 24 2000).

<sup>10</sup> BCSTP targets the dobra component of base money, rather than total base money, since the latter includes a large, volatile foreign currency component.

<sup>11</sup> Official external program support, as defined in the TMU, valued at the program exchange rate.

Table A2. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2010  
(Billions of dobras, cumulative from beginning of year, unless otherwise specified)

	2010			
	Mar	Jun	Sep	Dec
	Indicative Target	Performance Criteria <sup>1</sup>	Indicative Target	Performance Criteria <sup>1</sup>
<b>Performance criteria:</b>				
1 Floor on domestic primary balance (as defined in the TMU) <sup>2</sup>	-24	-119	-142	-168
2 Ceiling on changes in net bank financing of the government (at program exchange rate) <sup>2,3,4,5</sup>	2	51	78	121
3 Ceiling on changes in net domestic assets of the central bank (at program exchange rate) <sup>2,3,4,5</sup>	-27	18	28	94
4 Floor on changes in the net usable international reserves of the central bank (in US\$ millions) <sup>4,5</sup>	-6	-6	-7	-8
5 Ceiling on central government's outstanding external payment arrears (stock, in US\$ millions) <sup>6</sup>	0.00	0.00	0.00	0.00
6 Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the central government or the BCSTP (in US\$ millions) <sup>6,7,8</sup>	0.00	0.00	0.00	0.00
7 Ceiling on the outstanding stock of external debt with original maturity of up to and including one year owed or guaranteed by the central government or the BCSTP (stock, in US\$ millions) <sup>6,8,9</sup>	0.00	0.00	0.00	0.00
<b>Indicative targets:</b>				
Ceiling on dobra base money (stock, in billion dobras) <sup>10</sup>	251	280	286	339
<b>Memorandum items:</b>				
Privatisation account - stock (US \$ million)	...	...	...	10.5
Transfer from NOA to the budget (in US\$ millions)	0.0	2.0	2.0	2.0
Net external debt service payments (in US\$ millions)	0.4	0.7	1.1	1.4
Official external program support (in US\$ millions) <sup>11</sup>	0.3	0.5	0.7	1.0
Treasury-funded capital expenditure (in billion dobras)	25	60	85	100

Sources: São Tomé and Príncipe authorities; and IMF staff estimates and projections.

<sup>1</sup> The June and December test dates are applied on all reviews.

<sup>2</sup> The ceiling will be adjusted downward or upward according to definitions in the TMU.

<sup>3</sup> The ceiling will be adjusted downward by the amount of accumulated domestic arrears.

<sup>4</sup> Excluding the National Oil Account (NOA) at the Central Bank.

<sup>5</sup> The floor on net usable international reserves will be adjusted upward or downward according to definitions in the TMU.

<sup>6</sup> This performance criterion applies not only to debt as defined in point No. 9 of the *Guidelines on Performance Criteria with Respect to Foreign Debt* (August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received.

<sup>7</sup> With a grant element of less than 50 percent.

<sup>8</sup> Only applies to debt with a grant element of less than 50 percent (defined as non-concessional for least developed countries).

<sup>9</sup> Debt is defined as in point 9 of the *Guidelines on Performance Criteria with Respect to Foreign Debt* (August 24 2000).

<sup>10</sup> BCSTP targets the dobra component of base money, rather than total base money, since the latter includes a large, volatile foreign currency component.

<sup>11</sup> Official external program support, as defined in the TMU, valued at the program exchange rate.

**Table B1. São Tomé and Príncipe: Prior Actions and Structural Performance Criteria and Benchmarks for 2009**

Action	Performance Criteria / Benchmark	Status
<b>Prior actions</b>		
<p><i>Approval of arrangement</i></p> <ul style="list-style-type: none"> <li>• Prepare the 2009 budget in line with the organic law (SAFE) and submit to National Assembly.</li> <li>• Prepare a detailed list of priority treasury-funded capital projects for 2009, indicating their size in millions of dobra, a summary timetable, and the government agency responsible for execution (Table C of this MEFP).</li> </ul> <p><i>Completion of first review</i></p> <ul style="list-style-type: none"> <li>• Submit to parliament 2010 budget with domestic primary deficit of no more than 4.7 percent of GDP.</li> </ul>		<p>Met.</p> <p>Met.</p> <p>Met.</p>
<b>End-March 2009</b>		
<ul style="list-style-type: none"> <li>• Adopt the 2009 budget in line with the ECF-supported program.</li> </ul>	Benchmark for January, 2009	Met in December 2008.
<ul style="list-style-type: none"> <li>• Start on-site banking supervision inspections.</li> </ul>	Benchmark	Met with delay.
<b>End-June 2009</b>		
<ul style="list-style-type: none"> <li>• Fully implement the automatic pricing mechanism for petroleum products.</li> </ul>	Benchmark	Not met.
<ul style="list-style-type: none"> <li>• Submit new labor law to the National Assembly</li> </ul>	Benchmark	Met.
<b>End-September 2009</b>		
<ul style="list-style-type: none"> <li>• Establish a Directorate of Accounting and an IT office at the Ministry of Planning and Finance.</li> <li>• Purchase and install IT equipment related to the SAFINHO.</li> </ul>	Benchmark	Met.
<ul style="list-style-type: none"> <li>• Prepare a draft Framework Law for the Public Debt.</li> </ul>	Benchmark	Met.
<ul style="list-style-type: none"> <li>• Establish the one stop shop.</li> </ul>	Benchmark	Decision on location pending.
<ul style="list-style-type: none"> <li>• Submit reform of the tax laws to grant the tax authority power to accept limited debt deferrals.</li> </ul>	Benchmark	Met.
<b>By December 2009</b>		
<ul style="list-style-type: none"> <li>• Prepare the 2010 budget in line with the organic law (SAFE) and submit to National Assembly.</li> </ul>	Benchmark for end-November, 2009	Met.
<ul style="list-style-type: none"> <li>• Prepare an action plan to address prudential issues in the banking system.</li> </ul>	Benchmark for end-December, 2009	Met.
<ul style="list-style-type: none"> <li>• Establish a bureau of credit registry.</li> </ul>	Benchmark for end-December, 2009	Delayed; expected in 2010 Q1.

**Table B2. São Tomé and Príncipe: Structural Benchmarks for 2010**

Benchmark	Macroeconomic Rationale
<b>End-March 2010</b>	
<ul style="list-style-type: none"> <li>• Complete a draft new commercial code to reduce the cost and time of doing business.</li> <li>• Make the new Accounting Department at the Ministry of Finance operational.</li> <li>• Establish a bureau of credit registry.</li> </ul>	<ul style="list-style-type: none"> <li>• Facilitate investment and boost long term growth.</li> <li>• Improve public financial management, accountability and policy implementation.</li> <li>• Improve credit risk assessment and hence facilitate lending.</li> </ul>
<b>End-June 2010</b>	
<ul style="list-style-type: none"> <li>• Enforce regulation on minimum capital requirements for banks.</li> <li>• Finalize the regulations for bank intervention.</li> <li>• Initiate execution of action plan to implement IFRS at the BCSTP.</li> </ul>	<ul style="list-style-type: none"> <li>• Preserve the stability of the banking system.</li> <li>• Maintain the health of the banking system.</li> <li>• Improve BCSTP transparency and accountability.</li> </ul>
<b>End-September 2010</b>	
<ul style="list-style-type: none"> <li>• SAFE regulations are completed and system is fully operational.</li> <li>• Quarterly management report on taxpayer registration by category.</li> </ul>	<ul style="list-style-type: none"> <li>• Improve public expenditure implementation and monitoring.</li> <li>• Broaden the tax base.</li> </ul>
<b>End-December 2010</b>	
<p>Submit the 2011 budget to Parliament in line with the organic law (SAFE) and with understandings reached with IMF staff, namely, that the size of the domestic primary deficit amounts to 4.7 percent of the estimated GDP.</p>	<ul style="list-style-type: none"> <li>• Increase transparency in economic policy implementation.</li> </ul>
<ul style="list-style-type: none"> <li>• Fully implement the BCSTP new Chart of Accounts.</li> <li>• Complete first round of on-site examination of all banks.</li> </ul>	<ul style="list-style-type: none"> <li>• Improve quality of commercial banks' balance sheet data to international standards.</li> <li>• Assess the health of the banking system and for policy design purposes.</li> </ul>

## ATTACHMENT II

### SÃO TOMÉ AND PRÍNCIPE: TECHNICAL MEMORANDUM OF UNDERSTANDING

February 1, 2010

1. This technical memorandum of understanding (TMU) contains definitions and adjuster mechanisms that clarify the measurement of variables in Table A1 and A2, Quantitative Performance Criteria, and Indicative Targets under the ECF arrangement for 2009–11, which is attached to the Memorandum of Economic and Financial Policies. Unless otherwise specified, all quantitative performance criteria and benchmarks will be evaluated in terms of cumulative flows from the beginning of each calendar year.

#### I. Provision of Data to the Fund

2. Data with respect to all variables subject to performance criteria and indicative targets will be provided to Fund staff monthly with a lag of no more than four weeks for data on the net domestic assets and net international reserves of the Central Bank of São Tomé and Príncipe (BCSTP) and eight weeks for other data. The authorities will transmit promptly to Fund staff any data revisions. For variables that are relevant for assessing performance against program objectives but are not specifically defined in this memorandum, the authorities will consult with Fund staff as needed on the appropriate way of measuring and reporting. Performance criteria included in the program, as defined below, refer to the primary balance and net bank financing of the central government, net domestic assets and net usable international reserves of the central bank, external payments arrears, new nonconcessional short-term and medium- and long-term external debt owed or guaranteed by the central government and/or the central bank.

#### II. Definitions

3. **Government** is defined for the purposes of this TMU to comprise the central government, which includes all governmental departments, offices, establishments, and other bodies that are agencies or instruments of the central authority of São Tomé and Príncipe. The central government does not include the operations of state-owned enterprises.

4. **Government domestic revenue (excluding oil revenue)** comprises all tax and non-tax revenue of the government (in domestic and foreign currencies), excluding: (1) foreign grants, (2) the receipts from the local sale of in-kind grants (e.g., crude oil received from Nigeria, food aid, etc.), and (3) any gross inflows to the government on account of oil signature bonus receipts and accrued interest on the National Oil Account (NOA). Revenue will be measured on a cash basis as reported in the table of government financial operations prepared by the Directorate of Budget and the Directorate of Treasury in the Ministry of Planning and Finance.

5. **Domestic primary expenditure** comprises all government spending assessed on a commitment basis (base *compromisso*), excluding (1) capital expenditure financed with external concessional loans and grants and (2) scheduled interest payments. Reporting of government domestic expenditure will be based on the state budget execution prepared every month by the Directorate of Budget and the Directorate of Treasury in the Ministry of Planning and Finance.

6. Within domestic primary expenditure, **pro-poor expenditure** refers to government outlays recorded in the budget that have a direct effect on reducing poverty, as agreed with the IMF and World Bank staffs. These expenditures, which include both current and capital outlays, are defined as follows:

a. **Pro-poor current spending:** These cover the following ministries and expenditure categories (by budget code) as described in the matrix below:

Code	Description of expenditure	Ministry of Education	Ministry of Health	Ministry of Labour
01.00.00	Personnel expenses	x	x	x
02.01.05	Other durable goods	x	x	
02.02.02	Fuel and lubricants	x	x	x
02.02.04	Food	x		
02.02.05	Medicine	x	x	
02.02.06	Clothing and footwear	x	x	x
02.02.09	Other nondurable goods	x	x	
02.03.01.01	Water and energy	x	x	x
02.03.02	Custody of goods	x	x	
02.03.06	Communications	x	x	x
04.02.01	Private institutions	x		x
04.03.01	Individuals	x		x
04.04.02	Other outward transfers		x	
06.01.00	Education and training		x	
06.04.01	Project costs	x		
06.04.04.02	Miscellaneous	x	x	

\* Expenditures on fuels and lubricants (*combustíveis e lubrificantes*) that are effected for administrative purposes are excluded. Likewise, food (*alimentação*) and clothing and shoes (*roupas e calçados*) supplied to administrative staff are excluded.

b. **Pro-poor treasury-funded capital spending:** This covers projects that are deemed to have a direct impact on alleviating poverty in the following sectors: education, health, social safety nets, agriculture and fisheries, rural development, youth and sports, provision of potable water, and electrification.

7. **Treasury-funded capital expenditure:** This is classified as part of domestic primary expenditure and covers projects that are not directly financed by grants and concessional loans. For 2010, the projects that comprise total potential expenditure under this category fall in two groups: (i) a group of projects worth 12 billion dobras to be financed with traditional sources of funds, and (ii) a group worth up to 78 billion dobras to be financed by drawing

down the proceeds from the privatization of ENCO.<sup>1</sup> Treasury-funded capital spending will correspond to the 2010 government plan for investment on roads, bridges, schools, water, and power. It will include spending on new construction, rehabilitation, and maintenance. Expenditure on wages and salaries and the purchase of goods and services related to the projects will not be classified as capital expenditure. The government investment program will be carried out by the Ministries of Public Works, Education, Health and Natural Resources.

8. The **domestic primary balance** is defined as the difference between government domestic revenue and domestic primary expenditure. For reference, this balance for end-December 2009 is projected at -179 billion dobra, broken down as follows:

Government domestic revenue:	565 billion
<i>Less:</i> Government primary expenditure: (as defined in paragraph 5)	744 billion
<i>Equals:</i> Domestic primary balance:	-179 billion

9. **Domestic arrears** are defined as the difference between expenditure on a commitment basis and cash payments (amounts past due after 40 days and unpaid).

10. **The program exchange rate** for the purposes of this TMU will be 17,353 dobra per U.S. dollar. The exchange rate of the dobra against the Euro will be 24,066 dobra per Euro and against the SDR will be 26,552dobra per SDR for 2010. The fixed parity between the dobra and the Euro, upon the adoption of peg in 2010, will replace the dobra per U.S. dollar as the program exchange rate.

11. **Net bank financing of the central government (NCG)** is defined as the stock of all outstanding claims on the government held by the BCSTP and by deposit money banks (DMBs),<sup>2</sup> less all deposits held by the central government with the BCSTP and with DMBs, as they are reported monthly by the BCSTP to the IMF staff. The balance of the National Oil Account (NOA) is not included in NCG. All foreign exchange-denominated accounts will be converted to dobras at the program exchange rate. For reference, at end-December 2009, outstanding net bank financing of the government excluding NOA is projected to be at – 152 billion dobra, broken down as follows:

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<sup>1</sup> For 2009, the privatization-financed projects included in the second group were listed individually in Table C of the 2009 MEFP. The baseline projected that these projects would be executed by 50 percent in 2009.

<sup>2</sup> Deposit money banks (DMBs) refer to other depository corporations, as defined in the *Monetary and Financial Statistics Manual*.

BCSTP credit, including use of IMF resources:	150 billion
<i>Less:</i> Government deposits with BCSTP:	425 billion
<i>Of which:</i> Balance of the National Oil Account (NOA)	162 billion
Treasury foreign currency–denominated accounts	175 billion
Treasury dobra–denominated accounts	55 billion
Counterpart deposits	33 billion
<i>Equals:</i> Net credit to government by the BCSTP	– 275 billion
<i>Plus:</i> DMBs credit	0 billion
<i>Less:</i> Government deposits with DMBs (including counterpart funds)	39 billion
<i>Equals:</i> Net bank financing of the government	– 314 billion
<i>Less:</i> Balance of the National Oil Account (NOA)	162 billion
<i>Equals:</i> Net bank financing of the government excluding NOA	– 152 billion

12. **Dobra base money** is defined as the sum of currency issued—which consists of currency outside banks and cash in vaults—and bank reserves denominated in dobra. Bank reserves refer to reserves of commercial banks - in dobra - held with the central bank and include reserves in excess of the reserve requirements. For reference, at end-December 2009 dobra base money is projected to be at 300 billion dobra, calculated as follows:

Currency issued:	149 billion
<i>Of which:</i> Cash in vaults	21 billion
Currency outside banks	128 billion
<i>Plus:</i> Bank reserves denominated in dobras	151 billion
Bank reserves denominated in foreign currency	224 billion
<i>Equals:</i> Base money	524 billion
<i>Less:</i> Bank reserves denominated in foreign currency	224 billion
<i>Equals:</i> Dobra base money	300 billion

13. **Net usable international reserves** (usable NIR) of the BCSTP are defined for program-monitoring purposes as short-term foreign assets of the BCSTP minus short-term external liabilities including liabilities to the IMF. All short-term foreign assets that are not fully convertible external assets nor readily available to and controlled by the BCSTP (i.e., they are pledged or otherwise encumbered external assets, including but not limited to the HIPC umbrella SDR account and assets used as collateral or guarantees for third-party liabilities) will be excluded from the definition of usable NIR. The balance of the (1) NOA at the BCSTP and (2) bank reserves denominated in foreign currency are excluded. From this, usable NIR is reached. All values are to be converted to U.S. dollars at actual market exchange rates prevailing at the test date. For reference, at end-December 2009 usable NIR is estimated to be at 637 billion dobra, calculated as follows:

Gross international reserves:	1,152 billion
Short-term liabilities (including guaranteed deposits by banks	
<i>Less:</i> and liabilities to the IMF)	128 billion
<i>Equals:</i> Net international reserves	1,024 billion
<i>Plus:</i> Other foreign assets	196 billion
<i>Less:</i> Medium and long-term liabilities	0 billion
<i>Equal</i> Net foreign assets	1,220 billion
Net international reserves:	1,024 billion
<i>Less:</i> NOA	162 billion
Banks reserves denominated in foreign currency	225 billion
<i>Equals:</i> Net usable international reserves	637 billion

14. **Net domestic assets (NDA)** of the central bank of São Tomé and Príncipe are defined as the difference between base money and net foreign assets of the BCSTP, all at program exchange rates. The balance of the NOA at the BCSTP is also excluded. All foreign-denominated accounts will be converted to dobras at the program exchange rate. For reference, at end-December 2009, net domestic assets are projected to be at 708 billion dobra, calculated as follows:

Base money:	524 billion
<i>Less:</i> Net foreign assets:	1,220 billion
<i>Equals:</i> Net domestic assets of the BCSTP:	696 billion

15. The performance criterion on **short-term external debt** refers to the outstanding stock of external debt with an original maturity of one year or less (including overdraft positions) owed or guaranteed by the government and/or the BCSTP.<sup>3</sup> With respect to the precautionary line of credit from Portugal to support the pegging of the Dobra to the Euro, unpaid balances outstanding during the first three quarters of a given year will be excluded from the short-term external debt limit. However, outstanding balances at the end of a given year will be included in the assessment of compliance with the short-term external performance criterion. For reference, at end-December 2009 the stock of short-term external debt is projected to be zero.

16. **The performance criterion on nonconcessional medium- and long-term external debt** is a continuous performance criterion that refers to the contracting or guaranteeing of new external debt with original maturity of more than one year by the government and/or the

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<sup>3</sup> The term “debt” is defined as in point 9 of the IMF *Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF*, as amended effective December 1, 2009.

BCSTP.<sup>4,5</sup> Debt rescheduling and restructuring are excluded from the ceilings set on nonconcessional borrowing. Medium-and long-term debt will be reported by the Debt Management Department of the Ministry of Finance and Planning and (as appropriate) by the BCSTP, measured in US dollars at the prevailing exchange rates. The government should consult with IMF staff before contracting new debt obligations.

17. The non-accumulation of new **external payment arrears** is a continuous performance criterion. Government external payment arrears are defined as all unpaid external public debt obligations, according to the data established by the Debt Management Department and (as appropriate) by the BCSTP, except for arrears pending rescheduling arrangements. The latter are considered as technical arrears. Debt would be deemed to be in arrears when it has not been paid by the time it is due, unless arrears have otherwise been contractually defined. The performance criterion relating to external arrears does not apply to those arrears pending the signing of bilateral agreements in the context of debt-rescheduling with the Paris Club and other bilateral creditors.

18. **Net external debt service payments** are defined as debt service due less the accumulation of any new external payment arrears, including technical arrears.

19. **Official external program support** is defined as grants and loans, including in-kind aid when the products are sold by the government and receipts are earmarked for a budgeted spending item, and other exceptional financing provided by foreign official entities and incorporated into the budget. Amounts assumed in the program consistent with this definition are shown in Tables A1 and A2 of the MEFP as a memorandum item labeled “official external program support”.

### III. Use of Adjusters

20. **The Performance Criterion on the domestic primary deficit will have one adjuster.** The limit on the domestic primary deficit will be adjusted upward if the government finds

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<sup>4</sup> This performance criterion applies not only to debt as defined in point 9 of the IMF *Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF*, as amended effective December 1, 2009, but also to commitments contracted or guaranteed for which value has not been received.

<sup>5</sup> The concessionality of loans is assessed according to the reference interest rate by currency published, by the Development Assistance Committee of the Organization for Economic Cooperation and Development. For loans of terms of no less than 15 years, the 10-year average of commercial interest reference rates for the currency in which the loan is denominated will be used. For loans of shorter terms, the six-month average will apply. For least developed countries such as São Tomé and Príncipe, a loan is deemed to be on concessional terms if, on the date of initial disbursement, the ratio of the present value of the loan, calculated on the basis of the reference interest rate, to the nominal value of the loan is less than 50 percent (in other words, a grant element of at least 50 percent). For currencies with no available reference interest rates, the SDR rate will be used. This performance criterion does not apply to IMF facilities.

budget support for 2009 and 2010 in addition to that described in the MEFP; this adjuster will be capped at 15 billion dobras (0.5 percent of GDP) for the year as a whole.<sup>6</sup>

21. **Adjustors for the Performance Criteria on net bank financing of the central government, net domestic assets of the BCSTP, and net usable international reserves will be set.** Deviations from amounts projected in the program for budget transfer from the NOA, official external program support, net external debt service payments, and domestic arrears will trigger adjustments on the above-mentioned performance criteria. These deviations will be calculated cumulatively from end-December 2008 (see Tables A1 and A2). The following is an explanation of these adjustments:

- **Adjustors on ceilings on changes in net bank financing of the central government (NCG) and net domestic assets (NDA) of the BCSTP:** Quarterly differences between actual and projected receipts of the budget transfer from the NOA, official external program support, net external debt service payments, and Fund's disbursements under the ECF arrangement, in foreign exchange will be converted to dobras at the program exchange rate and aggregated from end-December 2008 to the test date. The ceilings will be adjusted downward (upward) by cumulative deviations downward (upward) of actual from projected net payments in external debt service, and by deviations upward (downward) in the budget transfers from the NOA, external program support, and the Fund's disbursements under the ECF arrangement.
- **Adjustors for the floor on changes in net usable international reserves (usable NIR) of the BCSTP:** Quarterly differences between actual and projected receipts of the budget transfer from the NOA, official external support, and net external debt service payments, will be converted to dobras at the program exchange rate and aggregated from end-December 2008 to the test date. The floor will be adjusted upward (downward) by the cumulative deviation downward (upward) in external debt service and by deviations upward (downward) for the budget transfer from the NOA, and official external support. The combined application of all adjusters at the December test date is capped in such a way that the adjusted floor does not fall short of the equivalent of 4 months of imports in 2009.

#### IV. Data Reporting

22. The following information will be provided to the IMF staff for the purpose of monitoring the program.

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<sup>6</sup> Grants and related expenditures to cover the cost of the elections will be excluded from the measurement of the domestic primary deficit.

i. **Fiscal Data:** The Directorate of Budget at the Ministry of Planning and Finance will provide the following information to IMF staff, within two months after the end of each month or quarter, except for the public investment program (PIP), which will be provided three months after each quarter:

- Monthly data on central government operations for revenues, expenditure, and financing, including detailed description of net earmarked resources (*recursos consignados*), on commitment (*compromisso*) and cash payments (*caixa*);
- Monthly data on net credit to the government by the BCSTP, recorded account by account in a format fully compatible with the monetary accounts of the BCSTP;
- Monthly detailed data on tax and nontax revenues;
- Monthly detailed data on domestically financed capital expenditure on commitment (*compromisso*) and cash payments (*caixa*);
- Monthly data on domestic arrears by type;
- Monthly data on official external program support (non-project);
- Quarterly data on the execution of the public investment program (PIP) by project and sources of financing;
- Quarterly data on the execution of Treasury-funded capital expenditure by project type, amount, timetable of execution, and progress of execution (see Table C);
- Quarterly data on project grant and loan disbursement (HIPC and non-HIPC);
- Quarterly data on bilateral HIPC debt relief;
- Latest outstanding petroleum price structures and submission of new pricing structures (within a week of any changes).

ii. **Monetary Data:** The BCSTP will provide the IMF staff, within three weeks from the end of each month, the monetary accounts of the BCSTP. Other monetary data will be provided within six weeks after the end of each month for monthly data, within two months after the end of each quarter for quarterly data, and within two months after the end of each year for annual data. Weekly data will be provided no later than two weeks after the end of the week. The BCSTP will provide the following information to IMF staff:

- Daily data on exchange rates, to be posted on the central bank's web site;
- Daily data on interest rates, to be posted on the central bank's web site;
- Daily liquidity management table, including base money and currency in circulation, to be posted on the central bank's web site;
- Daily net usable international reserve position, to be posted on the central bank's web site;
- Monthly balance sheet data of BCSTP (in BCSTP and IMF formats);
- Monthly balance sheet data of individual deposit money banks (in BCSTP and IMF formats);

- Monthly consolidated balance sheet data of deposit money banks (in BCSTP and IMF formats);
- Monthly consolidated monetary survey (in BCSTP and IMF formats);
- Monthly central bank foreign exchange balance (*Orçamento cambial*);
- Quarterly table on bank prudential ratios and financial soundness indicators;
- Quarterly data on the BCSTP's financial position (profit and loss statement, deficit, budget execution, etc.).

iii. **External Debt Data:** The Debt Management Unit at the Ministry of Planning and Finance will provide the IMF staff, within two months after the end of each month the following information:

- Monthly data on amortization and interest on external debt by creditor: paid, scheduled, and subject to debt relief or rescheduled;
- Quarterly data on disbursements for foreign-financed projects and program support loans.

iv. **National Accounts and Trade Statistics:** The following data will be provided to IMF staff:

- Monthly consumer price index data, provided by the National Institute of Statistics within one month after the end of each month;
- Monthly data on imports (value of imports, import taxes collected, and arrears) and commodity export values, provided by the Customs Directorate at the Ministry of Planning and Finance, within two months after the end of each month;
- Monthly data on petroleum shipments and consumption (volumes and c.i.f. prices, by product), provided by the Customs Directorate.

INTERNATIONAL MONETARY FUND  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

**Joint IMF-World Bank Debt Sustainability Analysis for Low-Income Country  
Framework Update<sup>1</sup>**

Prepared by the staff of the  
International Monetary Fund  
Approved by Sharmini Coorey and Dhaneshwar Ghura (IMF)

February 3, 2010

*São Tomé and Príncipe's risk of debt distress remains high.<sup>2</sup> Compared to the previous DSA, the overall assessment of debt distress is unchanged. One indicator, present value of exports to debt ratio, still exceeds the threshold before the oil production starts. The risk of debt distress worsens significantly in the scenario without oil production. This is similar to the previous DSA's result indicating that the country's debt outlook critically depends on oil prospects.*

## I. BACKGROUND

1. **São Tomé and Príncipe (STP) reached the completion point under the enhanced HIPC Initiative in March 2007, received topping-up assistance in December 2007, and benefited from HIPC/MDRI debt relief.<sup>3</sup>** As a result, the debt service-to-exports ratio declined to 5.7 percent in 2008 from 24.3 percent in 2007, and is estimated at around 5.8 percent in 2009. MDRI, in particular, brought substantial debt service savings, since 54 percent of total debt before the HIPC completion point was with IDA, AfDF, and IMF. Debt relief from Paris Club members also helped improve the country's debt profile as it represented 14 percent of total debt before the completion point.

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<sup>1</sup> This report updates the DSA prepared for the 2009 Request for a Three-Year Arrangement under the Poverty Reduction and Growth Facility (Country Report No. 09/106). The update has been prepared by Fund staff and reviewed by World Bank staff. The next DSA—to be prepared for the ECF second review and 2010 Article IV consultation—will be done jointly by Fund and World Bank staff.

<sup>2</sup> São Tomé and Príncipe is classified as a “Weak Performer” according to the three-year average of IDA's Country Policy and Institutional Assessment (CPIA) index. Under the joint IDA/IMF debt sustainability framework, the thresholds for “Weak Performer” are: 30 percent for the present value of debt-to-GDP ratio, 100 percent for present value of debt-to-exports ratio, 15 percent for the debt service-to-exports ratio, 200 percent for present value of debt-to-revenue ratio, and 25 percent of debt service-to-revenue ratio excluding grants.

<sup>3</sup> The country benefited from MDRI on two occasions, one from the MDRI Trust and one from topping-up assistance.

2. **STP's medium- and long-term external debt was estimated at \$107.4 in nominal terms at the end of October 2009 down from \$109 million in nominal terms at the end of 2008 and down from \$150 million at the end of 2007.** The debt composition changed substantially after the HIPC completion point. The share of multilateral debt declined to 28 percent in late-2009 from around 60 percent before the completion point, while the share of bilateral debt rose to 72 percent from around 40 percent. At the end of October 2009, Angola was the country's main creditor, with around 35 percent of total debt, followed by China with around 17 percent. The main multilateral creditor is the IDA. STP has no domestic debt, no short-term debt, and no commercial loans.

3. **To implement the terms of the May 2007 Agreed Minute, the authorities signed bilateral agreements with all their Paris Club creditors, except Russia, with whom agreement has been reached but the bilateral agreement has not been signed.** In July 2008, STP received debt relief from Portugal, its main non-Paris Club creditor at that time. Since then, the authorities have concentrated their efforts on concluding negotiations with Angola, the main remaining creditor.

	Million USD	Share
Multilateral creditors	29.6	28%
IDA	9.7	9%
African Development Bank	2.2	2%
Arab Bank for Economic Development in Africa (BADEA)	2.5	2%
IMF	3.9	4%
OPEC	6.2	6%
Others	5.1	5%
Bilateral creditors	77.8	72%
Portugal	15	14%
Angola	35.4	33%
China	17.3	16%
Others	10.1	9%
<b>Total</b>	<b>107.4</b>	<b>100%</b>

Sources: Country authorities and IMF staff estimates.  
<sup>1</sup> Debt to other bilateral creditors includes debt in dispute.

## II. REVISIONS TO THE NEW DSA AND MEDIUM-TERM MACROECONOMIC FRAMEWORK

4. **The new DSA uses an updated DSA template with a different discount rate and an SDR sheet.** The new discount rate is 4 percent compared to 5 percent in the previous DSA template. The new template also assumes the use of 6.5 million SDR by the authorities in 2010 and 2011.

5. **Macroeconomic assumptions were updated from the previous DSA.** Real GDP growth has been revised downward for the period 2009–14 (see Box 1) to account for the impact of the global economic and financial crisis. The new DSA also uses an updated oil price, which is slightly higher than the one used in the previous DSA, as well as an updated exchange rate based on the latest projections from the World Economic Outlook. It has also updated the new debt service and disbursement schedules including the PRGF program approved in March 2009. The domestic primary deficit is expected to be around one percentage point of GDP higher for the period 2009–14, which will be financed by faster drawdown of privatization proceeds than previously assumed. Starting in 2015, the deficit is expected to gradually converge to the level assumed in the previous DSA.

6. **The assumptions in the previous DSA about the level of external financing have proven to be too optimistic.** Future external financing has therefore been scaled down in

line with the latest medium term outlook. For the 2009–14 period concessional loans contracted by the government are assumed to be around \$15 million a year, down from \$25–\$30 million. Similarly, grants are now expected to be around \$30 million a year for the same period down from between \$30–\$50 million a year previously. The revisions are also partly due to lower level of external financing available during the global economic crisis. The reduction in external financing, however, is assumed to be only in project based grants and loans and therefore does not affect the domestic primary deficit. The DSA assumes no reduction in budget support grants and loans. Once the country enters the oil era, it is expected to receive even less external financing. No financing from future privatization operations, no commercial loans, no domestic borrowing and no short-term loans are assumed throughout the period.<sup>4</sup>

### **Box 1. Baseline Macroeconomic Assumptions**

**Real GDP growth:** Real GDP growth is expected to reach 6.5 percent in 2011, after slowing down in 2009 and 2010, and remain there through 2014. In 2015, real GDP growth is expected to jump to 20 percent due to the beginning of oil production. Thereafter, it then gradually declines to 4.5 percent per year.

**Inflation:** Inflation is projected to decline to 5 percent by 2012 and remain at that level thereafter, reflecting the assumption of strong macroeconomic policies and consistent with the successful implementation of the peg of the dobra against the euro.

**Current account balance:** In the period 2009–14, the current account deficit is projected to increase to around 34 percent of GDP due to large import demand for investment goods. Once oil exports start, the current account deficit is expected to gradually decline to around 12 percent of GDP.

**Government balance:** In the period of 2009–14, the domestic primary deficit after budget transfers from the NOA is projected to improve gradually to around 3 percent of GDP, reflecting strong macroeconomic policies. After 2015 when oil exports start, the non-oil domestic primary deficit increases to around 6 percent of GDP, while the overall fiscal balance averages 12 percent.

**External assistance:** During 2009–14, the government is projected to receive around \$30 million in grants a year and to contract concessional loans amounting to around \$15 million a year to finance investment. Once oil exports start in 2015, both grants and concessional loans are projected to decline substantially.

**Domestic borrowing:** No domestic borrowing is assumed.

7. **Oil production and exports is expected to start in 2015.** It is assumed that the Joint Development Zone (JDZ) produces around 13,000 barrels per day. This is expected to yield \$349 million in export earnings on average and to bring \$197 million in revenues to the Joint

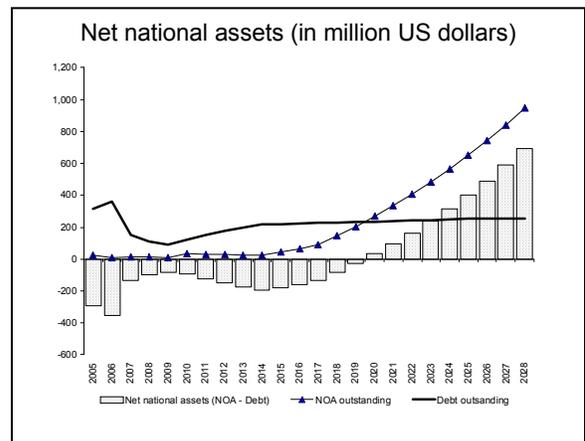
<sup>4</sup> It is assumed that all of the remaining bilateral creditors provide debt relief in 2010 on terms comparable to those of the Paris Club. Currently the country does not service bilateral debt under negotiation. Therefore even if the country does not receive debt relief from those bilateral creditors, its debt payment schedule remains unchanged on a cash flow basis.

Development Agency (JDA) per year. São Tomé and Príncipe will receive 40 percent of the JDA's take and is expected to accumulate it in the National Oil Account (NOA) from which resources flow to the budget in accordance with the Oil Revenue Management Law (ORML). The Exclusive Development Zone is assumed to produce no oil in the time horizon covered in this paper.

**8. Inflation is projected to decline to 5 percent by 2012 and remain at that level thereafter, consistent with the adoption of a peg of the dobra to the euro in January 2010 and in line with strong policy actions.** In the context of the PRGF program, monetary policy is expected to be conducted accordingly and fiscal policy actions aim to stabilize the domestic primary deficit below 3 percent of GDP in 2014.

**9. The current account balance will gradually improve once oil exports start in 2015.** FDI and private capital inflows are projected to grow rapidly once the country starts to produce and export oil.<sup>5,6</sup> As a result, the country is projected to record a surplus in the overall balance, and increases assets in the NOA by approximately 10 percent of GDP a year.

**10. Net national assets are projected to grow rapidly reflecting mounting oil wealth in the NOA.** In line with the ORML the oil revenues continue to be accumulated in the NOA from which annual budget transfers are allocated. As a result, net national assets including the NOA are projected to substantially increase during the oil era, reaching 68 percent of GDP at the end of 2029.



**11. The main risk to the macroeconomic framework arises from uncertain oil prospects.** Commercially viable oil reserves have not yet been found. The balance of the NOA has already declined to \$9.8 million by mid-2009 from \$12 million at the end 2008 (at its inception in 2005, the balance was \$49 million). Under the current assumptions of budget transfers from the NOA, and without additional oil signature bonuses and oil production revenues, the NOA would be depleted by end of 2014.<sup>7</sup> Then, the fiscal position would become significantly constrained by the lack of financing. Moreover, if commercially viable reserves are not identified and developed, resources will remain limited to those coming from

<sup>5</sup> Oil signature bonuses are recorded as FDI in the balance of payment.

<sup>6</sup> It is assumed that oil-related projects are funded by FDI and do not accumulate public debt.

<sup>7</sup> Oil signature bonuses of US\$26 million of Block 5 and 6 have not been disbursed yet. The authorities expect to receive them in 2011. The baseline scenario assumes that the bonuses will be released in 2011.

the non-oil sectors and donors. Other financing, such as from privatization operations, could provide temporary relief, but would not change the nature of a non-oil scenario.

### III. EXTERNAL DEBT SUSTAINABILITY ANALYSIS <sup>8</sup>

12. **The baseline scenario indicates a vulnerable debt outlook before oil production starts.** As opposed to the previous DSA, only the PV of the debt-to-exports ratio exceeds its threshold during 2009–14. Meanwhile, the PV of the debt-to-revenue ratio shows improvement relative to the previous DSA due to the lower level of new debt contracted. As in the previous DSA, all debt indicators fall sharply once oil exports start.

13. **The stress tests show that debt indicators are vulnerable to various macroeconomic shocks.** In the most extreme stress tests, which assume exports shock or a combination of lower growth, weaker exports, and a lower US dollar GDP deflator, most of the debt ratios are projected to breach the thresholds during 2009–14, and then fall sharply after oil exports start.<sup>9</sup>

14. **In the scenario with no oil production, debt dynamics becomes explosive and in all cases worsens relative to the previous DSA.** In this scenario, all debt indicators are projected to continue increasing well above the thresholds. This will call for a significant tightening of policies.

15. **Different price projections do not alter significantly the conclusions of this DSA.** The size of the oil sector implied by the assumptions made here is quite large relative to the non-oil sector. Thus, even with significantly different oil prices, the qualitative thrust of the conclusions from the scenarios with oil would stand—if the oil sector develops, debt ratios will remain low and assets will accumulate.

### IV. FISCAL DEBT SUSTAINABILITY ANALYSIS <sup>10</sup>

16. **The public sector debt sustainability analysis shows little difference compared to external debt analysis.** The fiscal stress tests show that the fiscal debt indicators are vulnerable to lower growth. The debt ratios under that scenario climb faster than the baseline scenario. São Tomé and Príncipe is not projected to issue domestic debt in the baseline scenario. The fiscal and external DSA produce similar conclusions because the government is the main borrower among domestic residents.

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<sup>8</sup> See Figure 1 and Tables 1a and 1b for the external debt sustainability analysis.

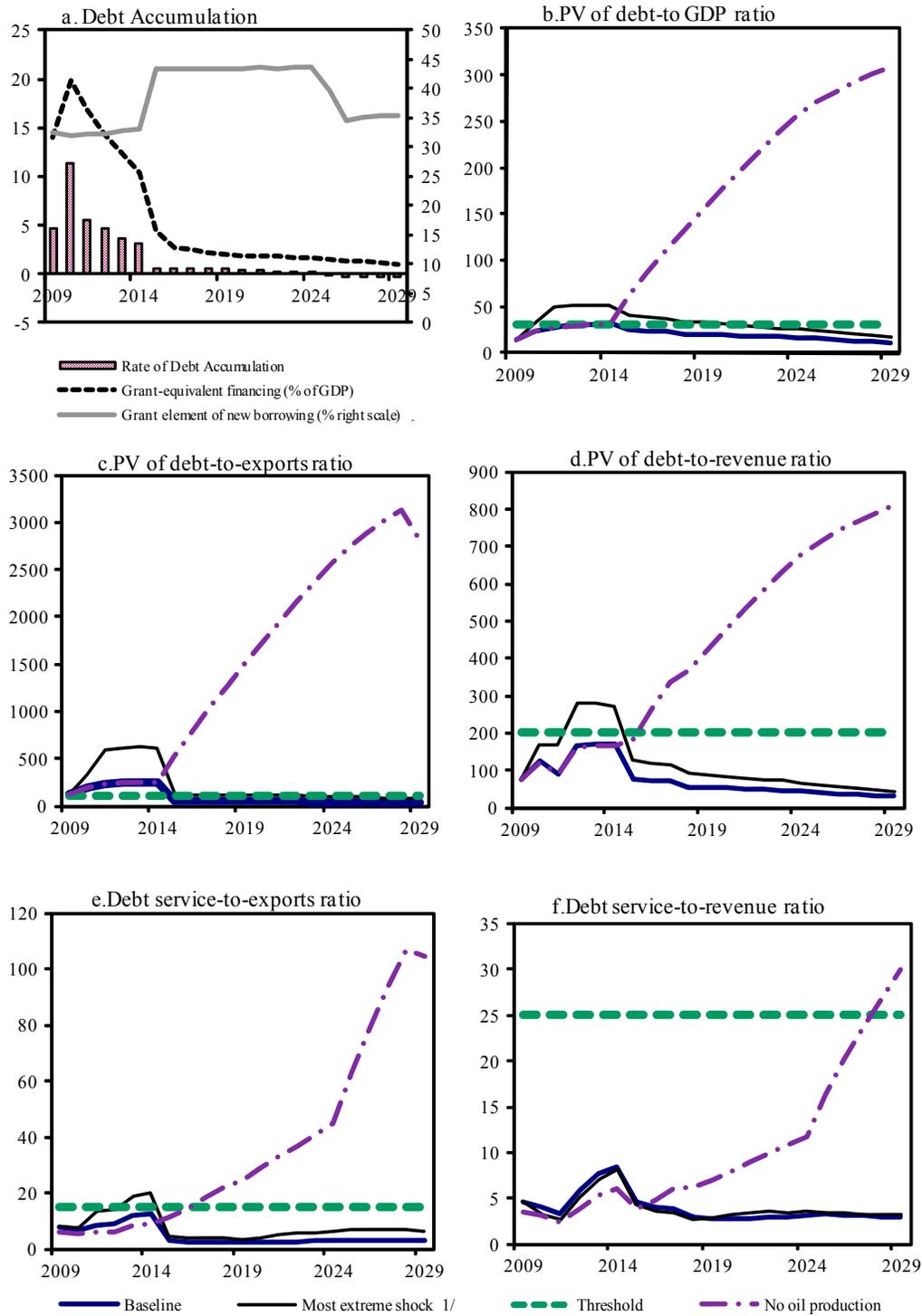
<sup>9</sup> In the DSA template, US dollar GDP deflator is used to calculate endogenous debt dynamics. See footnote 2 of Table 1a.

<sup>10</sup> See Figure 2 and Tables 2a and 2b for the fiscal debt sustainability analysis.

## V. CONCLUSION

17. **In staff's view, São Tomé and Príncipe should be considered at a high risk of debt distress.** The DSA shows improvement in all debt indicators before oil production starts. However, in the scenario without oil production, the debt burden explodes and clearly shows the dependence of the debt outlook on the development of the oil sector. The present DSA also indicates that debt distress intensifies in the face of various macroeconomic shocks, although the gap against the baseline scenario appears to decline. These results continue to highlight the need for fiscal consolidation supported by a prudent borrowing strategy. Moreover, broadening the country's export base remains crucial for mitigating the debt risk in the face of uncertain oil prospects.

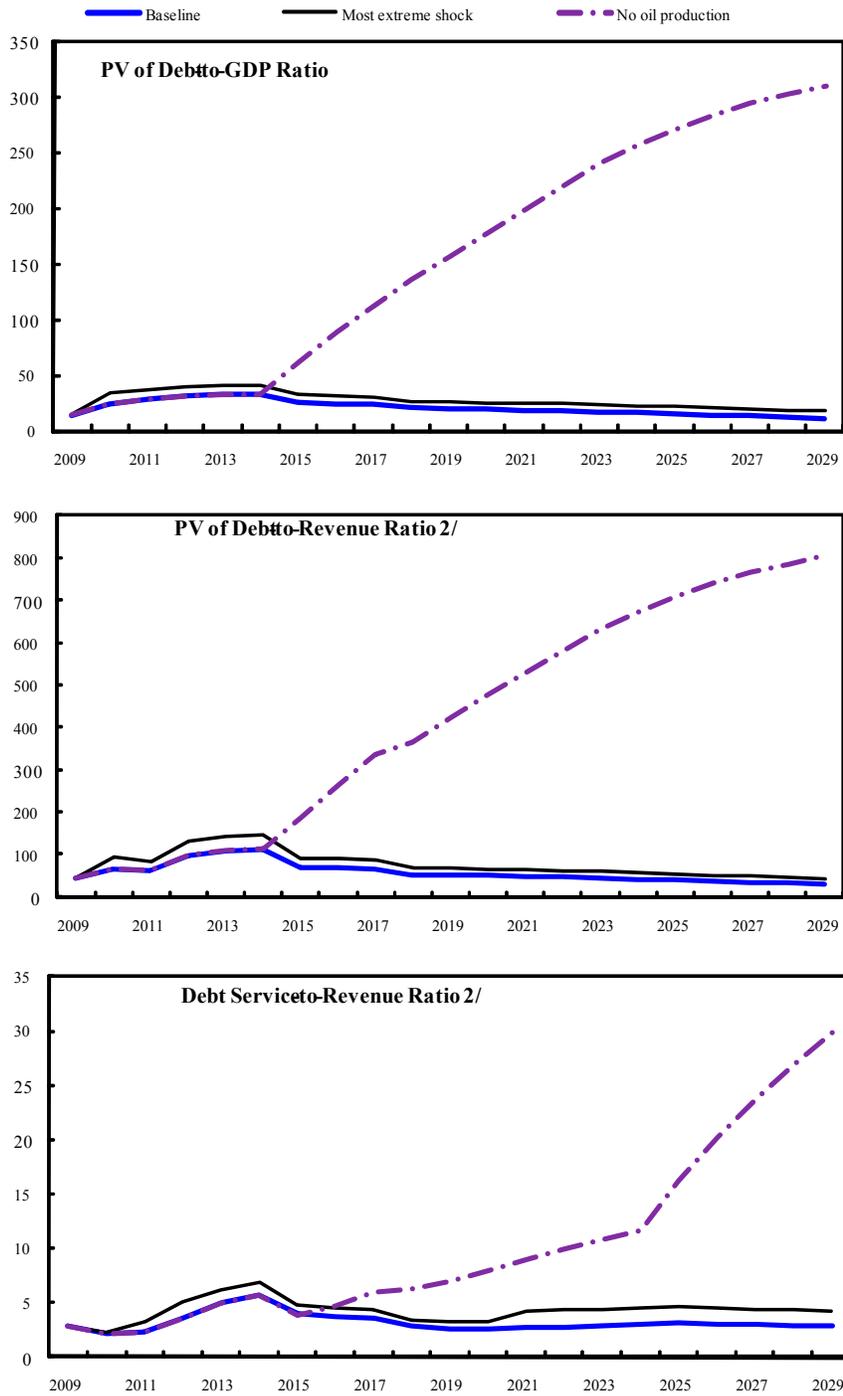
Figure 1. Sao Tome and Principe: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2009–29<sup>1</sup>



Sources: Country authorities; and staff estimates and projections.

<sup>1</sup> The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a Non-debt flows shock; in c. to a Exports shock; in d. to a Non-debt flows shock; in e. to a Exports shock and in figure f. to a Terms shock.

Figure 2. São Tomé and Príncipe: Indicators of Public Debt under Alternative Scenarios, 2009–29<sup>1/</sup>



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2019.

2/ Revenues are defined inclusive of grants.

Table 1a.: External Debt Sustainability Framework, Baseline Scenario, 2006–29<sup>1</sup>  
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average <sup>6</sup>	Standard Deviation <sup>6</sup>	Projections						2009–14 Average		2015–29 Average	
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009–14 Average	2015–29 Average		
<b>External debt (nominal)</b> <sup>1</sup>	<b>300.1</b>	<b>108.5</b>	<b>65.0</b>			<b>35.6</b>	<b>42.5</b>	<b>46.6</b>	<b>49.4</b>	<b>50.3</b>	<b>50.4</b>			<b>29.9</b>	<b>16.7</b>
o/w public and publicly guaranteed (PPG)	300.1	108.5	65.0			35.6	42.5	46.6	49.4	50.3	50.4			29.9	16.7
Change in external debt	-9.1	-191.7	-43.5			-29.4	7.0	4.1	2.7	1.0	0.0			-1.2	-1.4
Identified net debt-creating flows	-18.6	-59.1	-11.6			10.0	21.9	10.1	20.4	19.2	17.9			-9.2	-9.3
<b>Non-interest current account deficit</b>	<b>25.7</b>	<b>18.0</b>	<b>37.6</b>	<b>13.1</b>	<b>19.9</b>	<b>22.1</b>	<b>30.8</b>	<b>32.3</b>	<b>31.9</b>	<b>32.6</b>	<b>33.4</b>			<b>15.1</b>	<b>11.7</b>
Deficit in balance of goods and services	56.7	53.9	54.5			40.4	54.0	51.2	49.4	48.6	48.2			11.5	18.7
Exports	13.7	9.2	11.2			11.1	11.9	12.0	12.0	12.3	12.6			42.5	35.6
Imports	70.3	63.1	65.8			51.5	65.9	63.2	61.5	60.8	60.8			54.0	54.3
Net current transfers (negative = inflow)	-26.0	-11.5	-14.5	-20.9	5.8	-16.4	-21.5	-17.2	-15.5	-14.1	-13.1			-8.7	-9.4
o/w official	-24.8	-10.2	-12.8			-14.8	-19.7	-15.0	-12.9	-11.1	-9.5			-1.8	-1.0
Other current account flows (negative = net inflow)	-4.9	-24.3	-2.4			-2.0	-1.6	-1.6	-2.1	-1.9	-1.7			12.3	2.5
<b>Net FDI (negative = inflow)</b>	<b>-21.5</b>	<b>-36.2</b>	<b>-31.0</b>	<b>-16.2</b>	<b>16.8</b>	<b>-9.8</b>	<b>-7.2</b>	<b>-19.9</b>	<b>-9.0</b>	<b>-10.8</b>	<b>-13.0</b>			<b>-23.1</b>	<b>-20.4</b>
<b>Endogenous debt dynamics</b> <sup>2</sup>	<b>-22.8</b>	<b>-40.9</b>	<b>-18.3</b>			<b>-2.2</b>	<b>-1.8</b>	<b>-2.3</b>	<b>-2.4</b>	<b>-2.5</b>	<b>-2.5</b>			<b>-1.1</b>	<b>-0.6</b>
Contribution from nominal interest rate	3.4	0.5	0.1			0.2	0.2	0.3	0.4	0.4	0.5			0.3	0.2
Contribution from real GDP growth	-18.9	-15.5	-5.2			-2.4	-1.9	-2.6	-2.8	-3.0	-3.0			-1.5	-0.8
Contribution from price and exchange rate changes	-7.3	-25.8	-13.2			...	...	...	...	...	...			...	...
<b>Residual (3-4)</b> <sup>3</sup>	<b>9.5</b>	<b>-132.6</b>	<b>-31.8</b>			<b>-39.5</b>	<b>-14.9</b>	<b>-6.0</b>	<b>-17.7</b>	<b>-18.2</b>	<b>-17.9</b>			<b>7.9</b>	<b>7.9</b>
o/w exceptional financing (including debt relief)	-1.3	-111.9	-19.9			-27.9	0.0	0.0	0.0	0.0	0.0			0.0	0.0
o/w accumulation to NOA from oil revenue <sup>5</sup>	-12.4	14.2	-1.7			-1.3	-1.0	10.0	-1.8	-1.7	-1.5			13.7	0
PV of external debt <sup>4</sup>	...	...	11.2			14.1	24.1	27.6	30.1	31.3	31.8			19.7	11.4
In percent of exports	...	...	99.4			126.4	203.2	230.0	250.0	255.4	252.7			46.3	32.0
<b>PV of PPG external debt</b>	<b>...</b>	<b>...</b>	<b>11.2</b>			<b>14.1</b>	<b>24.1</b>	<b>27.6</b>	<b>30.1</b>	<b>31.3</b>	<b>31.8</b>			<b>19.7</b>	<b>11.4</b>
<b>In percent of exports</b>	<b>...</b>	<b>...</b>	<b>99.4</b>			<b>126.4</b>	<b>203.2</b>	<b>230.0</b>	<b>250.0</b>	<b>255.4</b>	<b>252.7</b>			<b>46.3</b>	<b>32.0</b>
<b>In percent of government revenues</b>	<b>...</b>	<b>...</b>	<b>63.3</b>			<b>74.2</b>	<b>125.9</b>	<b>91.4</b>	<b>164.1</b>	<b>169.6</b>	<b>167.9</b>			<b>53.5</b>	<b>30.0</b>
<b>Debt service-to-exports ratio (in percent)</b>	<b>65.8</b>	<b>24.5</b>	<b>5.6</b>			<b>7.8</b>	<b>6.6</b>	<b>8.5</b>	<b>9.0</b>	<b>11.7</b>	<b>12.7</b>			<b>2.3</b>	<b>3.1</b>
<b>PPG debt service-to-exports ratio (in percent)</b>	<b>65.8</b>	<b>24.5</b>	<b>5.6</b>			<b>7.8</b>	<b>6.6</b>	<b>8.5</b>	<b>9.0</b>	<b>11.7</b>	<b>12.7</b>			<b>2.3</b>	<b>3.1</b>
<b>PPG debt service-to-revenue ratio (in percent)</b>	<b>43.1</b>	<b>5.6</b>	<b>3.6</b>			<b>4.6</b>	<b>4.1</b>	<b>3.4</b>	<b>5.9</b>	<b>7.7</b>	<b>8.5</b>			<b>2.7</b>	<b>2.9</b>
Total gross financing need (Billions of U.S. dollars)	0.0	0.0	0.0			0.0	0.1	0.0	0.1	0.1	0.1			0.0	-0.1
Non-interest current account deficit that stabilizes debt ratio	34.8	209.7	81.1			51.5	23.8	28.2	29.1	31.6	33.4			16.3	13.2
<b>Key macroeconomic assumptions</b>															
Real GDP growth (in percent)	6.7	6.0	5.8	5.4	3.0	4.0	6.0	6.5	6.5	6.5	6.5	6.0	4.9	4.5	6.9
GDP deflator in US dollar terms (change in percent)	2.4	9.4	13.9	3.8	5.1	3.9	3.6	-0.7	1.5	1.5	1.7	1.9	0.8	0.8	0.8
Effective interest rate (percent) <sup>5</sup>	1.2	0.2	0.1	0.8	0.4	0.3	0.5	0.8	0.9	1.0	1.0	0.8	1.1	1.0	1.1
Growth of exports of G&S (US dollar terms, in percent)	7.8	-22.0	47.2	9.1	31.6	6.9	17.2	6.8	8.5	10.0	11.2	10.1	2.9	6.4	32.4
Growth of imports of G&S (US dollar terms, in percent)	45.2	4.0	25.7	15.5	15.1	-15.4	40.5	1.4	5.2	6.9	8.2	7.8	5.5	5.6	7.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	32.7	31.9	32.2	32.3	32.8	33.1	32.5	43.5	35.4	41.0
Government revenues (excluding grants, in percent of GDP)	20.9	40.1	17.6			19.0	19.2	30.2	18.3	18.5	19.0			36.8	38.0
Aid flows (in Billions of US dollars) <sup>7</sup>	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0
o/w Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0
Grant-equivalent financing (in percent of GDP) <sup>8</sup>	...	...	...			14.1	19.9	16.8	14.4	12.2	10.5			2.0	1.0
Grant-equivalent financing (in percent of external financing) <sup>8</sup>	...	...	...			75.9	76.6	76.4	77.2	77.9	77.8			81.7	85.6
<b>Memorandum items:</b>															
Nominal GDP (Billions of US dollars)	0.1	0.1	0.2			0.2	0.2	0.2	0.2	0.3	0.3			0.5	0.8
Nominal dollar GDP growth	9.3	16.0	20.5			8.0	9.9	5.7	8.1	8.1	8.3			8.0	5.7
PV of PPG external debt (in Billions of US dollars)	...	...	0.0			0.0	0.0	0.1	0.1	0.1	0.1			0.1	0.1
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...			4.6	11.4	5.5	4.7	3.7	3.1			5.5	0.5

Sources: Country authorities; and staff estimates and projections.

<sup>1</sup> Includes both public and private sector external debt.

<sup>2</sup> Derived as  $[(r - g - \rho(1+g))/(1+g+p+gp)]$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate, and  $\rho$  = growth rate of GDP deflator in U.S. dollar terms.

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

<sup>4</sup> Assumes that PV of private sector debt is equivalent to its face value.

<sup>5</sup> Current-year interest payments divided by previous period debt stock.

<sup>6</sup> Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

<sup>7</sup> Defined as grants, concessional loans, and debt relief.

<sup>8</sup> Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b.Sao Tome and Principe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009–29  
(In percent)

	Projections					
	2009	2010	2011	2012	2019	
<b>PV of debt-to GDP ratio</b>						
<b>Baseline</b>	14	24	28	30	<b>20</b>	11
<b>A. Alternative Scenarios</b>						
A1. Key variables at their historical averages in 2009–29 <sup>1</sup>	14	7	1	-12	<b>-28</b>	20
A2. New public sector loans on less favorable terms in 2009–29 <sup>2</sup>	14	26	32	35	<b>26</b>	18
A2. No oil production	14	23	27	30	<b>156</b>	308
<b>B. Bound Tests</b>						
B1. Real GDP growth at historical average minus one standard deviation in 2010–11	14	24	29	32	<b>21</b>	12
B2. Export value growth at historical average minus one standard deviation in 2010–11 <sup>3</sup>	14	26	34	36	<b>23</b>	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010–11	14	24	29	31	<b>20</b>	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010–11 <sup>4</sup>	14	32	50	51	<b>32</b>	17
B5. Combination of B1-B4 using one-half standard deviation shocks	14	29	43	45	<b>29</b>	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 <sup>5</sup>	14	33	38	42	<b>27</b>	16
<b>PV of debt-to-exports ratio</b>						
<b>Baseline</b>	126	203	230	250	<b>46</b>	32
<b>A. Alternative Scenarios</b>						
A1. Key variables at their historical averages in 2009–29 <sup>1</sup>	126	56	8	-99	<b>-66</b>	55
A2. New public sector loans on less favorable terms in 2009–29 <sup>2</sup>	126	215	263	294	<b>61</b>	50
A2. No oil production	128	197	228	247	<b>1499</b>	2819
<b>B. Bound Tests</b>						
B1. Real GDP growth at historical average minus one standard deviation in 2010–11	126	196	228	246	<b>46</b>	32
B2. Export value growth at historical average minus one standard deviation in 2010–11 <sup>3</sup>	126	329	585	618	<b>113</b>	75
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010–11	126	196	228	246	<b>46</b>	32
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010–11 <sup>4</sup>	126	271	418	427	<b>76</b>	47
B5. Combination of B1-B4 using one-half standard deviation shocks	126	289	496	514	<b>93</b>	59
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 <sup>5</sup>	126	196	228	246	<b>46</b>	32
<b>PV of debt-to-revenue ratio</b>						
<b>Baseline</b>	74	126	91	164	<b>53</b>	30
<b>A. Alternative Scenarios</b>						
A1. Key variables at their historical averages in 2009–29 <sup>1</sup>	74	34	3	-65	<b>-76</b>	52
A2. New public sector loans on less favorable terms in 2009–29 <sup>2</sup>	74	133	104	193	<b>70</b>	47
A2. No oil production	75	122	91	162	<b>423</b>	809
<b>B. Bound Tests</b>						
B1. Real GDP growth at historical average minus one standard deviation in 2010–11	74	126	97	174	<b>57</b>	32
B2. Export value growth at historical average minus one standard deviation in 2010–11 <sup>3</sup>	74	135	111	195	<b>63</b>	34
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010–11	74	128	95	170	<b>56</b>	31
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010–11 <sup>4</sup>	74	168	166	280	<b>88</b>	44
B5. Combination of B1-B4 using one-half standard deviation shocks	74	149	144	246	<b>78</b>	40
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 <sup>5</sup>	74	171	127	227	<b>74</b>	42
<b>Debt service-to-exports ratio</b>						
<b>Baseline</b>	8	7	8	9	<b>2</b>	3
<b>A. Alternative Scenarios</b>						
A1. Key variables at their historical averages in 2009–29 <sup>1</sup>	8	5	4	2	<b>0</b>	-2
A2. New public sector loans on less favorable terms in 2009–29 <sup>2</sup>	8	5	7	8	<b>3</b>	3
A2. No oil production	6	5	6	6	<b>25</b>	104
<b>B. Bound Tests</b>						
B1. Real GDP growth at historical average minus one standard deviation in 2010–11	8	5	6	6	<b>2</b>	3
B2. Export value growth at historical average minus one standard deviation in 2010–11 <sup>3</sup>	8	8	13	14	<b>3</b>	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010–11	8	5	6	6	<b>2</b>	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010–11 <sup>4</sup>	8	5	7	9	<b>2</b>	4
B5. Combination of B1-B4 using one-half standard deviation shocks	8	6	9	11	<b>3</b>	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 <sup>5</sup>	8	5	6	6	<b>2</b>	3

Sources: Country authorities; and staff estimates and projections.

<sup>1</sup> Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

<sup>2</sup> Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

<sup>3</sup> Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

<sup>4</sup> Includes official and private transfers and FDI.

<sup>5</sup> Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

<sup>6</sup> Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a. Sao Tome and Principe: Public Sector Debt Sustainability Framework, Baseline Scenario, 2006–29  
(In percent of GDP, unless otherwise indicated)

	Actual			Average <sup>5</sup>	Standard Deviation <sup>5</sup>	Estimate						Projections			
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-14 Average	2019	2029	2015-29 Average
<b>Public sector debt<sup>1</sup></b>	300.1	108.5	65.0			35.6	42.5	46.6	49.4	50.3	50.4		29.9	16.7	
o/w foreign-currency denominated	300.1	108.5	65.0			35.6	42.5	46.6	49.4	50.3	50.4		29.9	16.7	
Change in public sector debt	-9.1	-191.7	-43.5			-29.4	7.0	4.1	2.7	1.0	0.0		-1.2	-1.4	
Identified debt-creating flows	-26.8	-165.7	-47.0			-25.1	9.7	-5.6	4.8	3.2	2.2		-15.0	-11.3	
Primary deficit	16.6	-8.7	5.3	5.4	16.2	10.2	11.3	-2.6	7.7	6.5	5.6	6.4	-13.6	-10.5	-11.5
Revenue and grants	30.8	48.1	27.5			30.9	36.3	44.5	30.7	29.0	27.9		38.5	38.9	
<i>of which: grants</i>	10.0	8.0	9.9			11.9	17.1	14.3	12.3	10.5	9.0		1.7	0.9	
Primary (noninterest) expenditure	47.4	39.4	32.8			41.1	47.6	41.9	38.4	35.5	33.5		24.8	28.4	
Automatic debt dynamics	-42.0	-39.2	-19.1			-7.7	-1.6	-2.9	-2.9	-3.3	-3.4		-1.4	-0.7	
Contribution from interest rate/growth differential	-25.0	-23.9	-8.0			-3.1	-2.2	-2.8	-3.2	-3.5	-3.5		-1.9	-1.0	
<i>of which: contribution from average real interest rate</i>	-5.6	-6.9	-2.0			-0.6	-0.2	-0.2	-0.4	-0.4	-0.4		-0.4	-0.3	
<i>of which: contribution from real GDP growth</i>	-19.3	-17.0	-5.9			-2.5	-2.0	-2.6	-2.8	-3.0	-3.1		-1.5	-0.8	
Contribution from real exchange rate depreciation	-17.0	-15.3	-11.1			-4.6	0.6	-0.1	0.3	0.2	0.1		...	...	
Other identified debt-creating flows	-1.4	-117.8	-33.3			-27.7	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	-12.5			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-1.4	-117.8	-20.7			-27.7	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	17.7	-26.0	3.5			-4.3	-2.7	9.7	-2.1	-2.3	-2.2		13.8	9.9	
<b>Other Sustainability Indicators</b>															
<b>PV of public sector debt</b>	0.0	0.0	11.2			14.1	24.1	27.6	30.1	31.3	31.8		19.7	11.4	
o/w foreign-currency denominated	0.0	0.0	11.2			14.1	24.1	27.6	30.1	31.3	31.8		19.7	11.4	
o/w external	...	...	11.2			14.1	24.1	27.6	30.1	31.3	31.8		19.7	11.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need <sup>2</sup>	25.6	-6.4	6.0			11.1	12.1	-1.6	8.8	7.9	7.2		-12.6	-9.4	
PV of public sector debt-to-revenue and grants ratio (in percent)	0.0	0.0	40.6			45.6	66.5	61.9	98.1	108.0	113.9		51.1	29.3	
PV of public sector debt-to-revenue ratio (in percent)	0.0	0.0	63.3			74.2	125.9	91.4	164.1	169.6	167.9		53.5	30.0	
o/w external <sup>3</sup>	...	...	63.3			74.2	125.9	91.4	164.1	169.6	167.9		53.5	30.0	
Debt service-to-revenue and grants ratio (in percent) <sup>4</sup>	29.2	4.7	2.3			2.8	2.2	2.3	3.5	4.9	5.7		2.5	2.8	
Debt service-to-revenue ratio (in percent) <sup>4</sup>	43.1	5.6	3.6			4.6	4.1	3.4	5.9	7.7	8.5		2.7	2.9	
Primary deficit that stabilizes the debt-to-GDP ratio	25.7	183.0	48.8			39.7	4.3	-6.7	5.0	5.6	5.5		-12.4	-9.1	
<b>Key macroeconomic and fiscal assumptions</b>															
Real GDP growth (in percent)	6.7	6.0	5.8	5.4	3.0	4.0	6.0	6.5	6.5	6.5	6.5	6.0	4.9	4.5	6.9
Average nominal interest rate on forex debt (in percent)	1.2	0.2	0.1	0.8	0.4	0.3	0.5	0.8	0.9	1.0	1.0	0.8	1.1	1.0	1.1
Average real interest rate on domestic debt (in percent)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Real exchange rate depreciation (in percent, + indicates depreciation)	-6.0	-5.5	-11.0	-1.8	7.2	-7.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	21.0	19.4	23.0	12.0	6.5	15.6	7.2	6.4	4.3	4.6	4.7	7.1	3.2	3.2	3.2
Growth of real primary spending (deflated by GDP deflator, in percent)	0.2	-0.1	-0.1	0.1	0.2	0.3	0.2	-0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	32.7	31.9	32.2	32.3	32.8	33.1	32.5	43.5	35.4	...

Sources: Country authorities; and staff estimates and projections.

<sup>1</sup> Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

<sup>2</sup> Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

<sup>3</sup> Revenues excluding grants.

<sup>4</sup> Debt service is defined as the sum of interest and amortization of medium and long-term debt.

<sup>5</sup> Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2b.Sao Tome and Principe: Sensitivity Analysis for Key Indicators of Public Debt 2009–29

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
<b>PV of Debt-to-GDP Ratio</b>								
<b>Baseline</b>	14	24	28	30	31	32	20	11
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	14	18	30	31	31	31	121	284
A2. Primary balance is unchanged from 2009	14	23	39	44	48	53	130	321
A3. Permanently lower GDP growth <sup>1</sup>	14	24	28	31	33	35	30	59
A3. No oil production	14	24	28	30	31	32	156	308
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2010–11	14	26	33	37	39	41	38	55
B2. Primary balance is at historical average minus one standard deviations in 2010–11	14	34	62	63	63	62	40	30
B3. Combination of B1-B2 using one half standard deviation shocks	14	27	47	50	51	52	41	47
B4. One-time 30 percent real depreciation in 2010	14	32	34	36	36	37	25	19
B5. 10 percent of GDP increase in other debt-creating flows in 2010	14	34	37	39	40	41	26	17
<b>PV of Debt-to-Revenue Ratio <sup>2</sup></b>								
<b>Baseline</b>	46	67	62	98	108	114	51	29
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	46	50	68	99	105	111	309	725
A2. Primary balance is unchanged from 2009	46	64	89	144	167	190	338	825
A3. Permanently lower GDP growth <sup>1</sup>	46	67	64	102	114	123	78	151
A3. No oil production	46	67	62	98	108	114	423	809
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2010–11	46	70	72	116	132	144	98	142
B2. Primary balance is at historical average minus one standard deviations in 2010–11	46	95	139	206	218	224	105	78
B3. Combination of B1-B2 using one half standard deviation shocks	46	73	104	160	174	184	105	120
B4. One-time 30 percent real depreciation in 2010	46	87	76	116	125	131	64	50
B5. 10 percent of GDP increase in other debt-creating flows in 2010	46	94	84	129	139	145	66	43
<b>Debt Service-to-Revenue Ratio <sup>2</sup></b>								
<b>Baseline</b>	3	2	2	4	5	6	3	3
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	3	2	2	4	5	6	11	38
A2. Primary balance is unchanged from 2009	3	2	2	5	7	8	12	45
A3. Permanently lower GDP growth <sup>1</sup>	3	2	2	4	5	6	3	8
A3. No oil production	3	2	2	4	5	6	7	30
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2010–11	3	2	2	4	6	7	4	9
B2. Primary balance is at historical average minus one standard deviations in 2010–11	3	2	3	8	10	10	5	8
B3. Combination of B1-B2 using one half standard deviation shocks	3	2	3	6	8	8	5	9
B4. One-time 30 percent real depreciation in 2010	3	3	3	5	7	9	4	6
B5. 10 percent of GDP increase in other debt-creating flows in 2010	3	2	3	5	6	7	3	4

Sources: Country authorities; and staff estimates and projections.

<sup>1</sup> Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

<sup>2</sup> Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

**First Review Under the Three-Year Arrangement Under the Extended Credit Facility,  
and Request for Waivers of Performance Criteria—Informational Annex**

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

February 3, 2010

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange rate system.
- **Relations with the World Bank Group.** Describes IMF-World Bank collaboration in specific areas.
- **Relations with the African Development Group.** Describes the African Development Fund (ADF) and Technical Assistance Facility (TAF) ongoing projects.
- **Statistical Issues.** Describes the availability and quality of macroeconomic statistics.

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**APPENDIX I—RELATIONS WITH FUND<sup>1</sup>**

(As of December 31, 2009)

**I. Membership Status:** Joined: September 30, 1977; Article XIV

<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>Percent Quota</b>
Quota	7.40	100.00
Fund holdings of currency	7.40	100.05

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>Percent Allocation</b>
Net cumulative allocation	7.10	100.00
Holdings	6.48	91.29

<b>IV. Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>Percent Quota</b>
PRGF Arrangements	2.84	38.37

**V. Latest Financial Arrangements:**

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
PRGF	Mar 02, 2009	Mar 01, 2012	2.59	0.37
PRGF	Aug 01, 2005	Jul 31, 2008	2.96	2.96
PRGF	Apr 28, 2000	Apr 27, 2003	6.66	1.90

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

	<u>Forthcoming</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Principal	...	...	...	0.40	0.63
Charges/Interest	0.02	0.02	0.02	0.01	0.01
<b>Total</b>	<b>0.02</b>	<b>0.02</b>	<b>0.02</b>	<b>0.41</b>	<b>0.64</b>

<sup>1</sup> The information in this section does not reflect the LIC reforms effective January 7<sup>th</sup>, 2010.

## VII. Implementation of HIPC Initiative:

	Enhanced Framework
Commitment of HIPC assistance	
Decision point date	December 2000
Assistance committed by all creditors (US\$ Million) <sup>1</sup>	124.30
Of which: IMF assistance (US\$ million) (SDR equivalent in millions)	1.24 0.82
Completion point date	March 2007
Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	0.82
Interim assistance	...
Completion point balance	0.82
Additional disbursement of interest income <sup>2</sup>	0.04
<b>Total disbursements</b>	<b>0.87</b>

<sup>1</sup> Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

<sup>2</sup> Under the enhanced framework, an additional disbursement is made corresponding to interest income earned on the amount of HIPC assistance committed but not disbursed.

## VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I.	MDRI-eligible debt (SDR Million) <sup>1</sup>	1.43
	Financed by: MDRI Trust	1.05
	Remaining HIPC resources	0.38

### II. Debt Relief by Facility (SDR Million)

	<b>Eligible Debt</b>			
	<b><u>Delivery</u></b> <b><u>Date</u></b>	<b><u>GRA</u></b>	<b><u>PRGF</u></b>	<b><u>Total</u></b>
	March 2007	N/A	1.05	1.05
	December 2007	N/A	0.38	0.38

<sup>1</sup> The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

### **IX. Safeguards Assessments:**

An update safeguards assessment of the Central Bank of São Tomé and Príncipe (BCSTP) was finalized in November 2009. The update safeguards assessment of the Central Bank of São Tomé and Príncipe (BCSTP) concluded that the overall governance structure and oversight should be strengthened to mitigate the control risks associated with the capacity constraints at the bank. The BCSTP continues to be audited by reputable audit firms and the audited financial statements are published. However, the financial reporting framework and the internal audit practices do not yet adhere to international standards.

### **X. Exchange Arrangements:**

The IMF classifies São Tomé and Príncipe's exchange rate regime as other managed. São Tomé and Príncipe's exchange rate system has been liberalized in recent years and a number of exchange restrictions/multiple currency practices have been eliminated. In particular, current data indicate that there is no earmarking in foreign exchange to specific importers and a multiple currency practice resulting from the central bank's auction system has been eliminated with the move to a single price auction.

Sao Tome and Principe continues to avail itself of the transitional arrangements under Article XIV, but does not maintain restrictions under Article XIV. However, it maintains two measures subject to Fund approval under Article VIII: (i) a multiple currency practice arising from the existence of multiple exchange markets with multiple effective exchange rates for spot transactions with no mechanism to ensure that the spreads among rates for spot transactions in these markets do not diverge by more than 2 percent at any given time; and (ii) an exchange restriction arising from Article 3(i) and Article 10 b of the new investment code regarding limitations on the transferability of net income from investment resulting from the requirement that taxes and other obligations to the government have to be paid/fulfilled as a condition for transfer to the extent it includes the payment of taxes and the fulfillment of obligations unrelated to the net income to be transferred.

The dobra was pegged to the Euro as of January 5, 2010. Under the ECF-supported program, staff agreed with the authorities that the prevailing market rate should determine the level at which the Dobra is pegged to the Euro. In the event, the rate was set at Dobra 24,500 per Euro; a rounding up (by 1.6 percent) of the rate prevailing at the end of 2009. The BCSTP accumulated adequate reserves for launching the peg.

### **XI. Article IV Consultation:**

The Executive Board concluded the last Article IV consultation with São Tomé and Príncipe on June 18, 2008.

**XII. Financial Sector Assessment Program (FSAP), Reports on Observance of Standards and Codes (ROSCs), and Offshore Financial Center (OFC) Assessments:**

None.

**XIII. Technical Assistance:**

December 2009: MCM mission on banking supervision.

August 2009: MCM mission on banking supervision.

June 2009: FIN mission on safeguards assessment.

May 2009: FAD mission on public financial management.

April 2009: MCM mission on banking supervision.

March 2009: MCM mission on banking supervision.

January 2009: STA mission on national accounts.

November 2008: MCM mission on banking supervision.

August 2008: MCM mission on banking supervision.

March 2008: MCM mission on banking supervision.

September 2007: STA mission on government finance statistics.

July 2007: STA mission on monetary and financial statistics.

July 2007: MCM mission on banking supervision.

March 2007: FAD mission on public financial management.

March 2007: MCM mission on the foreign exchange market.

March 2007: STA mission on balance of payment statistics.

February 2007: LEG mission on tax laws.

November/December 2006: LEG mission on tax codes.

November/December 2006: MCM mission on banking supervision.

November/December 2006: MFD missions on foreign exchange market and monetary operations.

August 2006: MFD mission on banking supervision.

June 2006: MFD mission to assess implementation of technical assistance.

April/May 2006: STA mission on monetary and financial statistics.

February 2006: MFD mission on monetary operations and liquidity management.

January 2006: MFD mission on the foreign exchange market.

December 2005: LEG/MFD mission on the exchange system.

August/September 2005: MFD mission on banking supervision and foreign exchange operations.

February 2005: STA technical assistance mission on national accounts statistics.

January 2005: MFD mission on monetary operations and liquidity management.

December 2004: STA mission to advise on compilation and reporting of monetary statistics.

October 2004: STA technical assistance mission on government finance statistics.

September 2004: MFD multi-sector mission to develop foreign exchange and interbank money markets.

July–September 2004: MFD expert mission on banking supervision.

June 2004: STA technical assistance mission on balance of payments statistics.

July 2004: MFD expert mission on monetary operations.

June 2003: STA technical assistance mission on balance of payments statistics.

March and June 2003: STA technical assistance missions on national accounts statistics.

March 2003 and April 2004: Visits by MFD advisors on monetary policy and banking supervision.

March 2003: STA technical assistance mission on national accounts statistics.

January 1998–December 2001: MFD advisor on the conduct of monetary policy, banking supervision, and foreign exchange management.

June 2001: MFD mission on handling of banking crisis and foreign exchange market organization.

#### **XIV. Resident Representative:**

The Fund has not had a Resident Representative office in São Tomé and Príncipe since October 2006.

**APPENDIX II—RELATIONS WITH THE WORLD BANK GROUP**  
**Joint Managerial Action Plan (JMAP) for São Tomé and Príncipe**  
(As of October, 2009)

1. The IMF and World Bank São Tomé and Príncipe teams discussed a joint managerial action plan under this initiative.
2. The World Bank's work program rests heavily in FY10 on the preparation of a Country Economic Memorandum to be delivered in FY11. Preparation of a new CAS is expected to be launched in the second half of FY10 pending approval of the Government's new Development Strategy. The Bank will participate in assessing Public Finance Management as part of the PEFA exercise led by the European Union.
3. The IMF's work program entails moving forward with continued coordination with FAD on public financial management technical assistance and updates from the IMF safeguard assessment.
4. Both institutions are working to prepare a joint Debt Sustainability Analysis and will prepare a Joint Staff Assessment Note of the Development Strategy under preparation.

<i>Title</i>	<i>Products</i>	<i>Provisional timing of missions</i>	<i>Expected delivery date</i>
<b><i>A. Mutual information on relevant work programs</i></b>			
World Bank work program in the next 12 months	<ul style="list-style-type: none"> <li>• Country Economic Memorandum.</li> <li>• New CAS (pending new PRSP).</li> <li>• PEFA.</li> </ul>	March 2010. FY2010. --	FY2011. FY2010/earlyFY11. November 2010.
IMF work program in the next 12 months	<ul style="list-style-type: none"> <li>• Second review of PRGF.</li> <li>• TA: MCM –Foreign exchange operations.</li> </ul>	March 2010. FY2009.	May 2010. FY2009.
<b><i>B. Requests for work program inputs</i></b>			
Fund request to Bank (with summary justification)	<ul style="list-style-type: none"> <li>• Provide comments on selected government-financed projects in the Public Investment Program (PIP) when the Fund receives sufficient detailed information for a Bank review (PRGF MEFP Table C).</li> <li>• PEFA results.</li> </ul>	September 2009.  --	September/October 2009.  November 2009.
Bank request to Fund (with summary justification)	<ul style="list-style-type: none"> <li>• Safeguard Assessment.</li> </ul>		November 2009.
<b><i>C. Agreement on joint products</i></b>			
Joint products in next 12 months	<ul style="list-style-type: none"> <li>• DSA.</li> <li>• JSAN.</li> </ul>	March 2010.  Pending new PRSP.	March 2010.  Pending new PRSP.

**APPENDIX III—RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP**

(As of September 20, 2009)<sup>1</sup>

1. São Tomé and Príncipe became a member of the African Development Bank Group in 1976. To date, the Bank Group has financed 26 operations in the country. The net commitments amount to UA 100.00 million, comprising UA 99.00 million of African Development Fund (ADF)<sup>2</sup> and Technical Assistance Facility (TAF) resources and UA 1.00 million of Nigerian Trust Fund (NTF) resources. The sectors benefiting from AfDB Group financing are agriculture (24 percent), transport (23 percent), multi-sector<sup>3</sup> (22 percent), social sector (20 percent), and public utilities (9 percent). These operations have helped build and rehabilitate basic economic and social infrastructure (roads, airport, electricity, water, schools, and health centers) and have strengthened São Tomé and Príncipe's economic and institutional capacities. The AfDB has had a national program office since 1999.

2. The AfDB has two ongoing projects started in 2005 and 2006 in human resource development, and agriculture (the second phase of the livestock development project). These projects, in accordance with the PRSP, focus on the main factors affecting poverty. The second phase of the livestock development project, financed with ADF-X resources, was approved in May 2006 and signed in July 2006. The human resource development project, financed with ADF-IX resources was signed in June 2003 and began in March 2005. This project tackles cross-sectoral capacity-building by providing for training in literacy, information, and community organization, as well as specialized vocational training adapted to specific demands, particularly in the oil and tourist sectors.

3. The AfDB Group assistance for STP (Country Strategy Paper 2005–09) rests on two pillars: poverty reduction in rural area and promotion of governance in public finance management. The country allocation on ADF-X resources (2005–07) was UA 5.15 million in the form of grants. The first pillar will help promote and diversify the country's economic base, especially the agricultural and rural sector, and reinforce operations in the social sectors. Under this pillar. The second pillar will support macroeconomic reforms and governance, through an institutional support project on governance and a technical assistance on the PRSP process, which will help improve public finance management and institutional capacity building to prepare the country for the forthcoming oil era. The UA 300 000 TA on PRSP process was approved in 2008. The Country Allocation on ADF-XI (2008–10) resource is UA 5.00 million in the form of grants. Under the ADF XI allocation, the AfDB

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<sup>1</sup> Provided by the African Development Bank.

<sup>2</sup> ADF is the concessional window (or grant for ADF-X for high debt countries), on the same conditions as IDA, of the African Development Bank Group.

<sup>3</sup> Institutional support and structural adjustment programs.

could finance one project in agriculture sector and one BOP operation. The UA 1 million grant as an AfDB response to STP food crisis, was approved by AfDB Board in April 2009, and disbursed in August 2009. In 2009, AfDB made two studies in STP one on STP governance profile and another on the insular cost study (began in late October) 2009. The study on the regional capacity building initiatives, within CEMAC, ECCAS, the African Portuguese-speaking countries and the small insular countries, was postponed. The mission for the completion of the AfDB Country Assistance for 2005–09 took place in August 2009 & the AfDB Country Assistance for 2010-2014 will be elaborated in the early 2010.

4. In addition, as STP reached decision and completion point respectively in 2000 and 2007, the AfDB could provide \$43.43 million (\$88.36 million in nominal value) under the HIPC initiative. In reaching the HIPC decision point, STP became eligible to MDRI and the debt service under the MDRI was estimated at \$99.56 million. The AfDB total assistance under HIPC and MDRI amounted to \$187.92. At the end of December 2008, the AfDB provided \$13.33 million under HIPC and \$99 million under MDRI.

Table 1. AfDB Ongoing Projects (Millions of UA)

Title of Projects	Window	Commitment	Disbursement Rate
Support for human resource development	ADF	3.50	9.93 percent
	ADF grant	0.50	43.63 percent
Livestock Development Project – Phase II	ADF grant	4.0	7.45 percent
Food crisis response (BOP)	ADF grant	1.0	100.0 percent
<i>Total</i>		<i>9.0</i>	<i>18.6 percent</i>

## APPENDIX IV—STATISTICAL ISSUES

### Introduction

1. Although economic data are generally adequate for surveillance, serious financial, human, and technological resource constraints have slowed down efforts to strengthen the statistical system.
2. The country has participated in the Fund's General Data Dissemination System (GDDS) since April 20, 2004. The metadata and plans for improvement have not been updated since the original metadata were posted on the DSBB. Over the period 2003–09, the country has benefited from technical assistance from STA and other providers, largely under the GDDS project for Lusophone Africa.

### National accounts

3. Statistics on GDP/GNP are compiled on a yearly basis and provided at the time of the Article IV consultation. STA provided technical assistance in national accounts to the National Statistics Institute in 2005, 2006, 2008 and 2009. Low response rates and/or insufficient rigor of the responses to the business surveys, including those from important enterprises, continue to affect the quality of the business data compiled.
4. A new GDP series for the period 2001–06 with base year 2001 became available in early-2007. The new estimates cover: (i) GDP by production approach at current and constant prices; and (ii) cross-classification tables by industry sectors. The revised series reflect more accurately recent economic developments. Based on the most recent population census, corporation census, and living conditions survey, higher weights are now attributed to the sectors that experienced faster growth, such as trade, transportation and communication, and services. Despite the considerable upward revision in GDP, São Tomé and Príncipe remains a low income country, with GDP per capita amounting to about \$771 in 2006, compared to \$497 before this revision. While the revision of the GDP series is a significant improvement, a number of shortcomings remain. Further improvements would require input from a new household expenditure survey (rather than living conditions survey), using producer prices, and better estimates for agricultural production.

### Consumer prices

5. Since 1997 the CPI weights have been based on a three-month household survey conducted in 1995. An updated and more comprehensive household expenditure survey is needed. Current price surveys only cover the capital, although there are plans to implement regional surveys.

### Government finance statistics

6. Detailed revenue and expenditure data are compiled and reported to AFR. The main areas that need to be strengthened at the Ministry of Planning and Finance (MPF) are

(i) monitoring of expenditures on projects financed by donors; and (ii) financing operations. All project loans financed by donors are programmed in the budget, but some are executed independently. The government has requested development partners to help in recording all external financing in the budget. The recording of financing operations and stocks is expected to improve since the debt data management capacity is expected to be strengthened.

7. An October 2004 government finance statistics (GFS) mission helped the MPF to compile and disseminate GFS for the general government in accordance with the *Government Finance Statistics Manual 2001 (GFSM 2001)*. The mission prepared bridge tables between national budget classification and *GFSM 2001* classifications to be used to compile GFS for reporting to STA and AFR, as well as in MOF policy work. Given the importance of oil-related revenues, the mission also reviewed the classification of oil revenues under the Oil Revenue Management Law and made recommendations on classification of such transactions. A September 2007 follow-up mission found some progress with regard to the recommendations made by the 2004 mission. In particular, in January 2007 a new budget law was approved that significantly improved national budget classifications. Notwithstanding these efforts, faster statistical progress is hampered by an inadequate accounting system.

### **Monetary and financial statistics**

8. STA missions provided technical assistance on monetary statistics in December 2004, April/May 2006, and June 2007. As a result, the accuracy and timeliness of the monetary data reported in the standardized report forms (SRF) for the central bank and the other depository corporations data have improved. However, the lags with which the Central Bank of São Tomé and Príncipe (BCSTP) reports monetary data based on the old reporting forms have increased again in recent months.

9. The missions found that the BCSTP monthly trial balance sheets were broadly adequate to compile monetary statistics in line with the *Monetary and Financial Statistics Manual (MFSM)*. However, the plan of accounts of the other depository corporations is not adequate to derive monetary statistics consistent with the *MFSM*, particularly with regard to the sectorization of institutional units.

10. The June 2007 follow-up mission assisted in implementing the SRFs for reporting monetary and financial statistics to the Fund. The mission assisted in finalizing the SRFs beginning with March 2006 and December 2006 data for the BCSTP and Other Depository Corporations respectively. It also provided on-the-job-training to compilers. For the integrated monetary database that will meet the data needs of STA, AFR, and BCSTP to be finalized, STA needs to reconstruct the historical data starting from December 2001.

### **External sector statistics**

11. There are significant weaknesses in the collection of source data related to merchandise trade. Some transactions, including certain imports related to investment, are

not fully captured in the balance of payments (BOP). Monthly data on the main exports and imports are reported to AFR regularly but with some lags in recent months, and unit prices and volumes of exports are only occasionally included.

12. The GDDS Lusophone project has targeted a substantial improvement in the source data, including the response rate to the surveys, and in the methodology for compiling the BOP in line with the *Fifth Edition of the Balance of Payments Manual*. A June 2003 mission reviewed the shortcomings of reported current and financial account transactions and concluded that weaknesses were mainly due to under coverage, including of foreign direct investment and commercial bank reports on international transactions.

13. A June 2004 mission found that despite efforts to implement the previous recommendations, several measures, in particular those related to improving source data were at best partially implemented. As a result, inconsistencies in the classification of BOP operations persisted and certain components continued to be largely estimated. Resource constraints, particularly with regard to qualified staff, contribute to the lack of improvement in the response rate to surveys. The mission recommended improving coordination and data sharing among data-producing agencies, intensifying contacts with survey respondents, and using alternative sources to improve source data. A March 2007 mission found that little progress had been achieved in implementing recommendations of previous missions, primarily due to resource constraints in the BCSTP. The mission assisted the authorities in reconciling balance of payments data and outlined a set of recommendations and detailed work plan to improve compilation capacity.

14. The authorities have built on previous efforts to strengthen debt data management, and a unit was created in late 2003 within the MOF. The authorities are reconciling debt records with creditors and the Commonwealth Secretariat debt recording and management system is being operationalized.

**Common Indicators Required for Surveillance**  
(As of January 15, 2009)

	Date of latest observation	Date received	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Frequency of publication <sup>6</sup>
Exchange rates	Jan 2009	Jan 2009	D	D	D
International reserve assets and reserve liabilities of the monetary authorities <sup>1</sup>	Dec 2008	Jan 2009	M	M	M
Reserve/base money	Jan 2009	Jan 2009	D	D	D
Broad money	Sep 2008	Nov 2008	M	M	M
Central bank balance sheet	Dec 2008	Jan 2009	M	M	M
Consolidated balance sheet of the banking system	Sep 2008	Nov 2008	M	M	M
Interest rates <sup>2</sup>	Jan 2009	Jan 2009	D	D	D
Consumer Price Index	Dec 2008	Jan 2009	M	M	M
Revenue, expenditure, balance and composition of financing <sup>3</sup> – general government <sup>4</sup>	NA	NA	NA	NA	NA
Revenue, expenditure, balance and composition of financing <sup>3</sup> – central government	Sep 2008	Nov 2008	M	M	NA
Stocks of central government and central government-guaranteed debt <sup>5</sup>	Oct 2008	Nov 2008	M	I	M
External current account balance	Dec 2007	Nov 2008	A	I	A
Exports and imports of goods	Sep 2008	Nov 2008	M	I	M
GDP/GNP	2007	Nov 2008	A	I	A
Gross external debt	Oct 2008	Nov 2008	M	I	M

<sup>1</sup> Includes reserve asset pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup> Central bank's reference rate.

<sup>3</sup> Foreign, domestic bank, and domestic non-bank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); not available (NA).



Press Release No. 10/65  
FOR IMMEDIATE RELEASE  
February 26, 2010

International Monetary Fund  
Washington, D.C. 20431 USA

**IMF Executive Board Completes the First Review of São Tomé and Príncipe's ECF Arrangement and Approves a US\$570,000 Disbursement**

The Executive Board of the International Monetary Fund (IMF) has completed the first review of the Democratic Republic of São Tomé and Príncipe's economic performance under a three-year Extended Credit Facility (ECF) arrangement. The completion of the review, which was undertaken on a lapse of time basis<sup>1</sup> and effective on February 17, enabled the release of an amount equivalent to SDR 370,000 (about US\$570,000), bringing total disbursements under the arrangement to SDR 740,000 (about US\$1.13 million). In completing the review, the Executive Board granted São Tomé and Príncipe waivers for the non-observance of two quantitative performance criteria that were missed because of a shortfall in tax revenues in the first half of 2009, which reflected the impact of the global crisis.

The Executive Board approved the three-year ECF arrangement on March 3, 2009 (see [Press Release No. 09/54](#)), for a total amount of SDR 2.59 million (about US\$3.97 million) to support the government's economic program for 2009–2011.

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<sup>1</sup> The Executive Board takes decisions under its lapse of time procedure when the Board agrees that a proposal can be considered without convening formal discussions.