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INTERNATIONAL DEVELOPMENT ASSOCIATION

SÃO TOMÉ AND PRÍNCIPE

**Enhanced Heavily Indebted Poor Countries (HIPC) Initiative—
Preliminary Document**

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I. INTRODUCTION

1. This paper presents a preliminary assessment of São Tomé and Príncipe's eligibility for assistance under the enhanced Initiative for the Heavily Indebted Poor Countries (HIPC Initiative). Fund and World Bank staff conducted a debt sustainability analysis (DSA) with the authorities in São Tomé and Príncipe in October 2000. Preliminary results show that São Tomé and Príncipe's external debt situation would remain unsustainable over the medium term even after the full application of traditional debt-relief mechanisms. The net present value (NPV) of external public debt-to-exports ratio, which stood at about 1,400 percent in 1999, would remain well above 150 percent throughout the projection period. Section II provides background information on São Tomé and Príncipe's eligibility for HIPC Initiative assistance, an assessment of poverty, and the track record of policy implementation. Section III presents a summary of the DSA, including possible assistance under the enhanced HIPC Initiative. Section IV outlines the status and plans for the preparation of the poverty reduction strategy paper (PRSP) and discusses possible decision point timing and floating completion point triggers, including mechanisms to monitor the use of potential HIPC Initiative assistance. Section V sets out issues for discussion by the Executive Boards.

II. ASSESSMENT OF ELIGIBILITY

2. **PRGF and IDA status.** São Tomé and Príncipe is currently a Poverty Reduction and Growth Facility (PRGF)-eligible and IDA-only country, with an income per capita of about US\$300 in 1999.² São Tomé and Príncipe will continue to need substantial international concessional assistance and is likely to remain a PRGF-eligible and IDA-only country.

3. **Poverty and social development.** Social development and poverty data are sparse and very weak.³ It is estimated that in 1994 more than 40 percent of the population was below the poverty line and about 33 percent was living in extreme poverty. The poverty situation is likely to have further deteriorated as income per capita fell from US\$390 in 1993 to about US\$300 in 1999, accompanied by rapid inflation and a steep nominal depreciation of the currency until 1997.

² Significant uncertainties remain with regard to São Tomé and Príncipe's offshore petroleum prospects. While recent seismic analysis has indicated that São Tomé and Príncipe has good potential for commercially viable deposits, the country has not yet reached agreement with its neighbors on the delimitation of its exclusive economic zone. The baseline macroeconomic framework and projections, therefore, conservatively do not assume the development of a commercially viable oil field within the projection period (2000 to 2019). The earliest possible development of petroleum deposits could begin in 2006 and taper off from 2014 onward, provided that an agreement on maritime borders is reached with neighboring countries, and/or modalities are worked out for a joint development zone at a very early date. Under such an alternative scenario, GDP could increase by as much as 15-fold by 2011, and very large budget and current account surpluses could be generated in the last decade of the projection period. Such an optimistic scenario would result in NPV of debt-to-export ratios substantially below 150 percent from 2007 onward.

³ A new household survey is expected to be launched in January 2001.

4. In addition, with a particularly heavy and unsustainable public external debt burden, social spending has fallen sharply, compounding the adverse impact of the deteriorating economic situation on social indicators. Health and nutrition conditions have worsened, as witnessed by the deterioration in both the child mortality rate under 5 years and the maternal mortality rate (Table 1). Although still superior to most other sub-Saharan African countries, education indicators have sharply deteriorated in the last decade as a result of insufficient schools, classrooms, textbooks, and qualified teachers (only 45 percent of teachers have proper qualifications). According to the Ministry of Education, by end-1999, there were 71 primary schools, 10 secondary schools, 1 high school, and 1 technical and vocational school (polytechnical center).

Table 1. São Tomé and Príncipe: Social Indicators, 1993-99

	1993	1995	1999 Estimate
Population (in thousands)	122	127	145
Population growth (in percent)	2.5	2.4	2.4
GNP per capita (in U.S. dollars)	390	357	299
Health indicators			
Child mortality rate under 5 years (per 100,000 live births)		106	125
Maternal mortality (per 100,000)		79	122
Education indicators (In percent)			
Gross primary school enrollment rate	82.5	82.0	70.0
Primary school dropout rate	...	30.0	34.0
Primary school repetition rate	...	30.0	31.2

Sources: São Tomé and Príncipe authorities; and World Health Organization.

5. **Policy track record.** During the 1980s, São Tomé and Príncipe experienced a profound economic and financial crisis. With adverse external shocks and inappropriate economic policies, economic performance worsened and income per capita fell drastically. In addition, during the second half of the decade, the external public debt soared relative to GDP and became a particularly heavy and unsustainable burden. To reverse the situation, the country, with the support of the donor community, embarked on an ambitious recovery and economic development program in 1990. At the same time, São Tomé and Príncipe revised its constitution and established a democratic, multiparty political system; these actions have allowed for a smooth transition of power between the main political parties. The two presidential elections and the two legislative elections of the 1990s were free and fair.

Table 2. São Tomé and Príncipe: Selected Economic Indicators, 1987-2000

	1987-96 Annual Average	1997	1998	1999 Est.	2000 Prog.
(Annual percentage change, unless otherwise specified)					
Real GDP growth	0.9	1.0	2.5	2.5	3.0
Consumer prices (end of period)	42.8	81.1	20.8	12.6	9.0
Broad money	40.4	94.5	24.5	-2.8	16.8
Credit to government (net) 1/	60.3	-113.4	18.2	-17.8	-19.5
Exchange rate (dobras per U.S. dollar; period average)	572	4,553	6,927	7,093	...
Exchange rate (dobras per U.S. dollar; end of period)	2,833	6,970	6,885	7,300	...
Spread between official and parallel exchange rates (in percent; end of period)	6.5	2.5	1.5	1.0	...
(In percent of GDP, unless otherwise specified)					
Overall fiscal balance (commitment basis)	-36.0	-26.7	-30.5	-25.9	-18.2
Primary budget balance (commitment basis; excluding foreign-financed investment)	-16.9	-2.2	0.7	1.3	2.1
Current account balance (excluding official transfers)	-68.2	-74.8	-53.9	-58.0	-49.2
(including official transfers)	-43.2	-3.6	-21.1	-26.2	-25.0
External public debt outstanding	437.0	608.5	728.5	624.1	625.7
Net present value of external public debt (before debt relief) 2/ 3/	1,508	1,442	1,766	1,395	1,267
External debt service ratio (before debt relief) 2/	95.6	71.8	83.1	49.8	33.4

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

1/ In percent of broad money at beginning of period.

2/ In percent of three-year average exports of goods and services.

3/ The annual average refers to the period 1992-96.

6. The results of the recovery program were poor during 1990-97, owing to weak institutional capacity, the lack of adequately skilled human resources, continued external shocks, and heavy reliance on aging cocoa plantations. The country's development program remained ineffective, cocoa production and exports continued to decline, and coffee production became insignificant. Macroeconomic imbalances worsened further, and the living conditions of the population continued to deteriorate. In addition, the economy remained dependent on external assistance, while the external debt burden continued to increase markedly.

7. The new government that came to power in 1997 implemented a stabilization program supported by the IMF, IDA, and other donors. To restore macroeconomic stability, reverse the economic decline, and improve social conditions, São Tomé and Príncipe adopted, in 1998, a government policy framework and, in 1999, a Fund staff-monitored program, under which the authorities focused their reform efforts on fiscal consolidation and a tight monetary policy in the context of a flexible, market-based exchange rate regime. Building on the progress made in macroeconomic stabilization during 1998 and 1999, the authorities embarked, in January 2000, on a medium-term program, in support of which the Fund approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) on April 28, in an amount of SDR 6.7 million (90 percent of quota), and IDA approved a Public Resource Management Credit on November 2, 2000, in an amount of US\$7.5 million, together with a Technical Assistance Credit, in an amount of US\$2.5 million. Budgetary support is also being provided by the African Development Bank (AfDB) and the European Union (EU). In addition, Paris Club creditors agreed on a three-year flow rescheduling, on Naples terms, in May 2000. A United Nations Development Program (UNDP)-sponsored donors' roundtable, held in October 2000, helped mobilize financing in support of the government's strategies and policy priorities.

8. Policy performance during the first ten months of 2000 under the PRGF- and IDA-supported program has been broadly satisfactory, in spite of a continued deterioration of the terms of trade.⁴ All performance criteria and benchmarks for end-June 2000 were observed, with the exception of the quantitative performance criterion on the primary budget balance and the structural performance criterion on the privatization of large plantations and land tenure. Corrective fiscal measures were implemented during June-September 2000, and the fiscal situation is back on track. The authorities have also adopted a privatization program for large plantations and issued a decree-law simplifying real property and land ownership, and the first semiannual review under the PRGF (originally scheduled for September) is now scheduled for Fund Board consideration in December 2000. The track record under the PRGF- and IDA-supported program is expected to reach one year by end-December 2000.

⁴As world cocoa prices remain 10 percent lower than program projections and petroleum import prices are 30 percent higher than projected, the terms of trade are projected to deteriorate by 1.5 percent in 2000, compared with a programmed improvement of 10.6 percent (Table 4).

9. Although this reform effort under the PRGF- and IDA-supported program is relatively recent, considerable progress had also been made under the government's program during the last three years in reducing financial imbalances, implementing structural reforms, and promoting real growth. As indicated in Table 2, the 12-month consumer price inflation rate fell from over 80 percent at end-1997 to 13 percent at end-1999 and is expected to decline further to 9 percent by end-2000. In the fiscal area, the primary budget balance (excluding foreign-financed investments) turned around from a deficit of over 2 percent of GDP in 1997 to a surplus of 1.3 percent of GDP in 1999, and the primary surplus is projected to reach 2.1 percent of GDP in 2000. The government has also implemented a broad structural reform agenda, including the elimination of price controls and the liberalization of the exchange and trade system (as indicated in Box 1).

Box 1. Major Structural Reforms, 1997-2000

Agriculture: liberalization of agricultural prices and marketing (1998).

Public administration: revision of the civil service regulations (December 1997); preparation of plans for an administrative reform (1998); and adoption of organizational and staffing plans for each of the ten ministries (October-November 1999).

Public enterprises and private sector development: liquidation of the National Savings and Loans Institution (CNPC) in 1997; partial privatization of the petroleum distribution company (ENCO) in 1998; placement under private management of two government-owned hotels (1998); adoption of a privatization program for large plantations (2000); and issuance of a decree-law simplifying real property and land ownership (2000).

Pricing: elimination of oil price controls and introduction in 1997 of a mechanism to automatically adjust retail prices of petroleum products in line with international prices.

Trade and exchange system: elimination of quantitative restrictions on imports in 1998; abolition of the requirement to surrender export receipts to the central bank in 1999; abolition of the practice of allocating foreign exchange for consumer staple imports (February 1999); adoption of a foreign exchange legislation that removed all nontariff import barriers and liberalized external current account transactions (August 1999); and abolition of export taxes and implementation of a comprehensive customs tariff reform (February 2000). These reforms helped reduce the index of trade policy restrictiveness from 10 (restrictive) in 1997 to 3 (moderately open) in 2000.

Oil sector: adoption of a law governing petroleum exploration and production (June 2000); and establishment of an administrative unit to oversee government policy in the oil sector (1999).

III. SUMMARY OF DEBT SUSTAINABILITY ANALYSIS AND POSSIBLE HIPC INITIATIVE ASSISTANCE

10. **Procedures and reconciliation.** The debt sustainability analysis (DSA), which was prepared jointly by the authorities and the staffs of the IMF and World Bank, examines the evolution of São Tomé and Príncipe's key external debt indicators over the next 20 years. The calculations are based on external public and publicly guaranteed debt outstanding and disbursed at end-1999. A loan-by-loan debt reconciliation has been fully completed with all multilateral creditors and with almost all bilateral creditors. However, the debt estimates and NPV calculations are preliminary, pending complete reconciliation with the former Yugoslavia.⁵ The baseline DSA simulates the full application of traditional debt-relief mechanisms involving a 67 percent reduction in NPV terms on pre-cutoff-date eligible debt (and a rescheduling of official development assistance (ODA) debt) at end-1999, with comparable treatment by non-Paris Club bilateral creditors (Tables 5-10).

11. **Structure of external debt.** At end-1999, the total public external debt stock before the application of traditional debt-relief mechanisms was estimated at US\$294 million in nominal terms, of which US\$74 million was in arrears (Table 5). In NPV terms, total debt is estimated at US\$190 million, equivalent to about 1,400 percent of exports of goods and services and about 2,090 percent of government revenue; this implies that the country has the highest debt-stock ratios of all HIPCs.⁶ Although multilateral creditors account for most of São Tomé and Príncipe's nominal debt (57 percent), in NPV terms bilateral creditors account for the majority (57 percent) of the debt outstanding at end-1999. IDA and the AfDB account for more than 85 percent of multilateral debt (Table 5). There was no debt outstanding to the IMF at end-December 1999, and the Fund will therefore not be providing assistance to São Tomé and Príncipe under the enhanced HIPC Initiative. Paris Club creditors account for about two-thirds of the NPV of bilateral debt.⁷ With about 12 percent each of the total NPV

⁵ Approximately 97 percent of the debt has been fully reconciled, with the only exception being the amount of debt outstanding to the former Yugoslavia. The DSA has adopted the higher amount recorded by the creditor (US\$5 million, compared with US\$4 million according to the authorities). While the debt outstanding to Italy has been reconciled (US\$17 million), the creditor authorities are determining whether these are commercial or official claims. These claims, which were not treated in the 2000 Paris Club rescheduling, have been included in the DSA as official debt.

⁶ The NPV of debt was calculated using end-1999 exchange rates, and the discount rates are the average currency-specific commercial interest reference rates (CIRRs) for the six-month period ended December 31, 1999. The NPV of debt-to-exports ratio is measured using the backward-looking three-year average of exports of goods and services. The debt service-to-exports ratio is measured in relation to current-year exports of goods and services. The NPV of debt-to-revenue ratio in the base year is based on a conversion of 1999 government revenue at the end-1999 exchange rate.

⁷ São Tomé and Príncipe has had one Paris Club flow rescheduling, which was concluded in May 2000 on Naples terms (with a 67 percent reduction in NPV terms). The consolidation period runs from April 2000 to

(continued)

of debt before rescheduling at end-1999, Portugal and Angola are the largest Paris Club and non-Paris Club bilateral creditors, respectively. All bilateral debt is pre-cutoff-date debt, with 10 percent being ODA.

12. **Debt sustainability.** The macroeconomic projections assume the continuation of the sound economic and financial policies implemented since 1998, further structural reforms, and the improvement of key social indicators through the implementation of a poverty reduction strategy. The main assumptions underlying the DSA are summarized in Annex I. Under the baseline scenario, the results of the DSA show that São Tomé and Príncipe's debt is unsustainable after the full use of traditional debt-relief mechanisms under both the exports and fiscal criteria.⁸ At end-1999, the NPV of debt-to-exports ratio was 861 percent, while the NPV of debt-to-revenue ratio was 1,290 percent, both well above the enhanced HIPC Initiative thresholds of 150 percent and 250 percent, respectively. Before HIPC Initiative assistance, the NPV of debt-to-exports ratio would continue to remain well above the threshold throughout the projection period, and the debt service-to-exports ratio would remain above 20 percent until 2010.

13. **Sensitivity analysis.** The economic outlook of São Tomé and Príncipe is highly dependent on the prospects for oil production and the terms of external assistance. Under the oil development scenario, the NPV of debt-to-exports ratio would nevertheless continue to remain well above the 150 percent threshold through 2006, and the debt service-to-exports ratio would remain above 20 percent through 2007. Less concessional borrowing (with a grant element lower than the 50 percent required under the program) would result in an NPV of debt-to-exports ratio that is higher than the baseline scenario by 50 percentage points on average during the projection period (Table 10).

14. **Possible HIPC Initiative assistance.** The potential assistance levels under both the export and fiscal criteria are very similar, and calculations of assistance and debt projections are based on the export criterion, which provides approximately US\$2 million more in assistance. São Tomé and Príncipe would require assistance of about US\$97 million in end-1999 NPV terms (or about US\$220 million in nominal terms) to reduce its debt burden to the 150 percent of exports threshold at the decision point. Based on proportional burden sharing, the largest share of HIPC Initiative assistance would be provided by multilateral creditors (US\$68 million, or 70 percent of total assistance), while Paris Club creditors would account for about 67 percent of total bilateral assistance (equivalent to US\$20 million). The implied common reduction factor for all creditors would be 83 percent of their exposure (in NPV terms) remaining at end-1999 after the full use of traditional debt-relief mechanisms, reflecting the exceptionally heavy debt burden faced by São Tomé and Príncipe.

April 2003 (the first phase is applicable through end-April 2001), and creditors agreed to reschedule all arrears on eligible debt outstanding at end-March 2000.

⁸ São Tomé and Príncipe satisfies the fiscal criterion, with a three-year average revenue-to-GDP ratio at the decision point of 18 percent and a three-year average exports-to-GDP ratio of 31 percent.

15. **Impact of HIPC Initiative assistance.** Given the limited institutional capacity in São Tomé and Príncipe, it was assumed that the conditions for the floating completion point could be fulfilled within three years from the decision point, that is, by December 2003. Paris Club creditors are expected to deliver interim assistance through a flow rescheduling on Cologne terms (90 percent in NPV reduction) following the decision point, with delivery of the remaining required assistance at the completion point through a stock-of-debt operation on Cologne terms. Non-Paris Club official bilateral creditors would be expected to provide treatment comparable to that of Paris Club creditors. For multilateral creditors, it is assumed that interim assistance would be provided from the decision point by IDA, the AfDB, and the EU. In addition, given the high common reduction factor and the relatively short maturity of their claims, the OPEC Fund and the Arab Bank of Economic Development in Africa (BADEA) are expected to provide 100 percent reduction of debt service due from 2002 onward to allow the full delivery of their assistance.

16. After possible assistance under the enhanced HIPC Initiative, and based on the above assumptions (including on new borrowing), the ratio of NPV of debt to exports would fall to 146 percent by 2003 and average 110 percent between 2010 and 2019. The ratio of debt service paid to exports, after enhanced HIPC Initiative assistance, would fall from 24 percent in 1999 to an average of 6 percent during 1999-2009 and to an average of 5 percent during 2010-19. As a percentage of government revenue, this ratio would fall from 43 percent in 1999 to 11 percent during 1999-2009 and 10 percent during 2010-19.⁹ Debt-relief savings over the next 20 years are expected to total US\$131 million, or approximately US\$6.5 million annually, of which 68 percent would be delivered by multilateral institutions. Debt relief from 2001 to 2007 would be equivalent to 9 percent of GDP a year. On the basis of the assumptions noted above, total interim HIPC Initiative debt- service relief would amount to an average of about US\$4.7 million (about 35 percent of government revenue) a year during 2001-03 (Table 3).

IV. DECISION AND FLOATING COMPLETION POINTS

17. **The PRSP process.** Following an initial consultation with civil society, São Tomé and Príncipe prepared an interim PRSP (EBD/00/29 dated April 6, 2000 and correction 1, and IDA/Sec M 2000 – 167 dated April 12, 2000), which the Fund and IDA Executive Boards considered in April 2000 as an adequate basis for concessional assistance. The interim PRSP is based on achieving a sustainable growth in income per capita and on implementing measures designed to improve the living conditions of the most vulnerable groups of the population. The authorities' strategy gives priority to restoring an adequate delivery of public education and health services. The interim PRSP identifies increased

⁹ Debt service would rise during 2006-10, reflecting payments due on new borrowing, including the PRGF arrangement approved in April 2000.

public management capacity and good governance as critical factors for achieving the authorities' poverty reduction objectives.

18. The full-fledged PRSP is being prepared through an open participatory process, with the involvement of the authorities, civil society, and donors. In this context, the authorities plan to launch a round of consultations with local communities and the poor before end-2000 in line with their time schedule for completion of the full-fledged PRSP by end-2001. In terms of diagnostic work, a household living standards survey is expected to be launched in January 2001 with support from the AfDB, and a poverty analysis is expected to be completed by June 2001. The authorities have already formulated draft sectoral strategies for health, education, and rural development.

19. **Possible decision point timing.** Although São Tomé and Príncipe's track record under the PRGF- and IDA-supported program is limited and falls short of the normal three years required for a decision point, the authorities' performance of policy implementation has been satisfactory during the last three years. In view of the government's strong commitment to reform, as well as the exceptionally heavy and unsustainable debt burden indicated in the DSA, the adoption of the interim PRSP by the authorities in early 2000, and the virtually completed debt reconciliation, Executive Directors may wish to consider São Tomé and Príncipe for a decision point at end-2000, contingent on the completion of the first semiannual review of the PRGF-supported program and on the establishment of a special treasury account at the central bank to track savings arising from possible HIPC Initiative assistance.

- *PRGF status.* The PRGF-supported program remains broadly on track. The Fund Executive Board meeting to consider the review of the program is scheduled for December 2000.
- *Use of HIPC Initiative interim relief.* Understandings were reached on a detailed three-year spending plan (2001-03) for the interim assistance that could become available under the enhanced HIPC Initiative. The spending plan covers the following priority sectors: education, health, social affairs, and economic and sectoral management (including the strengthening of administrative capacity in the social sectors). The authorities have further indicated that they would use possible HIPC Initiative interim assistance (a) to improve the country's infrastructure through investments in sanitation, water, and electricity supply, as well as road rehabilitation, with particular emphasis on rural areas; and (b) to support good governance and transparency by strengthening the judiciary and pursuing administrative reform.

**Table 3. São Tomé and Príncipe: Debt Service
Before and After HIPC Initiative Assistance, 1997-2003^{1/}**

(In millions of U.S. dollars, unless otherwise indicated)

	1997	1998	1999	2000	2001	2002	2003
	Est.			Prog.			Proj.
Debt service due before enhanced HIPC Initiative 1/	8.9	10.0	8.2	6.0	6.2	8.6	8.7
Debt service due after enhanced HIPC Initiative 2/	8.9	10.0	8.2	4.3	2.1	1.3	1.4
Debt service paid after enhanced HIPC Initiative 2/	2.5	5.6	3.9	4.3	2.1	1.3	1.4
Interim HIPC Initiative assistance	...	...	...	...	3.7	5.0	4.7
Social spending (as percent of GDP) 3/	17.4	11.9	17.4	17.5	19.5	22.4	24.0
Memorandum items:							
Debt-service ratio (percent) 4/	19.7	46.8	23.8	24.0	10.4	6.1	5.7
Debt service-to-government revenue ratio (percent) 4/	35.7	71.6	43.0	40.7	17.4	9.8	9.6
Exports of goods and services	12.4	12.0	16.5	17.8	20.2	22.2	24.9
Government revenue	6.9	7.9	9.1	10.5	12.2	13.7	14.9

1/ Before any debt relief, including full use of traditional mechanisms.

2/ In 2000, debt service due after Paris Club flow rescheduling, and assuming comparable treatment by non-Paris Club bilateral creditors.

3/ Government spending on health and education, including HIPC Initiative spending during 2001-03.

4/ Debt service paid after enhanced HIPC Initiative assistance, as percentage of exports of goods and services.

20. **Floating completion point.** IMF and IDA staffs have, in principle, reached understandings with the government on possible triggers for the floating completion point. Items 1-3 in Box 2 below are general triggers covering the satisfactory implementation of the full PRSP, the PRGF-supported program, and the strengthening of public expenditure management (including the use of HIPC Initiative assistance). They should be complemented by satisfactory performance on the more specific measures described in items 4-8. Given São Tomé and Príncipe's prospects for possible significant offshore oil development over the medium term, item 4 calls for the adoption and implementation of a program to build capacity for the management of potential petroleum revenues. To strengthen public and corporate governance, item 5 calls for the establishment of an auditor general's office and a

tribunal for business arbitration. The remaining three items are specific and clearly monitorable targets to be reached in the education and health sectors in line with São Tomé and Príncipe's interim PRSP and the government's draft sectoral strategies. Item 6 suggests the building of new classrooms and the hiring and training of teachers to eliminate the triple-shift classes in primary schools, increase the average school day for students, and improve the quality of education. To reduce child mortality and morbidity, item 7 calls for an increased immunization rate. Item 8 aims at reducing the child (under-5) morbidity rate caused by malaria, in the context of the program to roll back malaria supported by the World Health Organization (WHO), the United Nations Children's Fund (UNICEF), the World Bank, and bilateral donors.

21. **Monitoring the use of HIPC Initiative resources.** IDA and Fund staff also reached agreement with the authorities on mechanisms to monitor and ensure an efficient and transparent use of possible interim assistance under the enhanced HIPC Initiative, as part of the general effort to develop the capacity to track poverty-related public spending. A number of activities have been identified to increase the poverty reduction programs, in view of the availability of possible HIPC Initiative assistance. A special treasury account will track savings arising from debt relief. Its proceeds will be integrated into the government's budget, beginning with the 2001 budget, for priority education, health, and other poverty-related expenditure identified in the HIPC Initiative spending plan and in line with the interim PRSP and sectoral strategies. Expenditures will be monitored by a committee chaired by the Minister of Planning and Finance and comprising the ministers of the sectors concerned, the Governor of the Central Bank of São Tomé and Príncipe, and representatives of the poverty reduction steering committee, donors, and civil society. The publication of regular progress reports and annual financial audits in line with international standards will facilitate the monitoring of the effective use of HIPC Initiative resources. The dialogue with the World Bank on public expenditure reviews is being reinforced, including with the introduction of annual consultations, to help the authorities improve the social and poverty impact of the use of public resources.

V. ISSUES FOR DISCUSSION

22. This paper presents a preliminary assessment of São Tomé and Príncipe's eligibility for assistance under the enhanced HIPC Initiative. Executive Directors' views and guidance are sought on the following issues:

- **Eligibility.** Do Directors consider São Tomé and Príncipe to be eligible for assistance under the enhanced HIPC Initiative?
- **Timing of the decision point.** Do Directors agree that São Tomé and Príncipe could reach its decision point at end-2000, provided that (a) it successfully concludes the first semiannual review of the PRGF-supported program, and (b) establishes a special treasury account at the central bank to receive assistance under the enhanced HIPC Initiative and pay for poverty reduction expenditure identified in the HIPC Initiative spending plan?

- **Interim assistance.** Do Bank Directors agree with staff recommendations for providing interim assistance between the decision point and completion point in line with existing guidelines?
- **Floating completion point.** What are Directors' views on the possible completion point triggers and key policy measures (for which satisfactory progress has to be achieved) linked to the floating completion point?

Box 2. Possible Triggers for Floating Completion Point

Poverty reduction strategy paper

1. A full poverty reduction strategy paper (PRSP) has been prepared through a participatory process and satisfactorily implemented, as evidenced by a joint staff assessment of the country's first annual progress report.

Macroeconomic measures

2. There has been continued maintenance of macroeconomic stability as evidenced by the satisfactory implementation of the medium-term program supported by the IMF under the Poverty Reduction and Growth Facility (PRGF).

Governance/public expenditure management

3. Substantial progress has been made in strengthening public expenditure management and the use of HIPC Initiative assistance:

- The sectoral strategies for health and education have been costed in the context of the development of a medium-term expenditure framework (MTEF).
- The control and monitoring mechanism to ensure an efficient and transparent use of HIPC Initiative interim assistance (as per paragraph 21) has been satisfactorily implemented.
- The programming and execution of foreign-financed capital expenditure have been placed under the control of the Ministry of Planning and Finance.

4. A capacity-building program to manage oil resources has been adopted and implemented, and a petroleum revenue oversight and control committee has been established.

5. The auditor general's office (*Tribunal de Contas*) and the tribunal for arbitration in business and contract matters have been made operational.

Social sectors

6. At least 40 new classrooms in primary schools and 15 classrooms in secondary schools have been built and equipped, and 120 primary school teachers have been recruited, trained, or retrained, in accordance with the interim PRSP and the national education program.

7. At least eight primary health care centers have been built and equipped, and the immunization rate for children has increased (for measles, DPT3—diphtheria, tetanus, pertussis—and polio) to 85 percent (from 69 percent in 1999), in accordance with the interim PRSP and the national health strategy.

8. The child (under-5) morbidity rate caused by malaria (WHO definition and measurement) has been reduced to 60 per 10,000 (from 86 per 10,000 in 1999), in the context of the program to roll back malaria.

Table 4. São Tomé and Príncipe: Selected Economic and Financial Indicators, 1999-2003

	1999	2000		2001		2002		2003
	Est.	Prog.	Rev.	Prog.	Rev.	Prog.	Rev.	Proj.
			Prog.		Prog.		Prog.	
(In units indicated)								
Production								
Cocoa export volume (in thousands of metric tons)	3.3	3.8	3.8	4.0	3.8	4.1	3.8	3.8
Cocoa export unit value (in U.S. dollars per kilogram)	0.9	1.1	1.0	1.3	1.1	1.4	1.2	1.3
Gross domestic product (in millions of dobras)	334,109	369,533	369,533	408,654	408,209	441,896	455,020	494,374
At constant prices (percentage change)	2.5	3.0	3.0	4.0	4.0	4.0	5.0	5.0
Gross domestic product deflator (percentage change)	16.0	7.4	7.4	6.3	6.3	4.0	6.2	3.5
Consumer prices (percentage change; end of period)	12.6	5.0	9.0	3.0	5.0	3.0	3.0	3.0
Consumer prices (percentage change; average)	16.3	7.4	10.7	4.3	6.9	3.0	4.0	4.0
(Annual percentage change, unless otherwise specified)								
External sector								
Exports, f.o.b.	-17.3	28.5	11.2	21.3	33.2	14.4	16.6	23.5
Imports, c.i.f.	30.3	25.2	-2.0	17.3	15.2	15.7	11.2	14.4
Exchange rate (in dobras per U.S. dollar; period average)	7,093	...	...	...	...	...	...	...
Exchange rate (in dobras per U.S. dollar; end of period)	7,300	...	...	...	...	...	...	...
Real effective exchange rate	12.8	...	...	...	...	...	...	...
Terms of trade	-50.0	10.6	-1.5	24.9	6.1	13.1	11.6	5.2
Money and credit (end of period)								
Net domestic assets 1/	-15.3	-22.8	-23.6	...	-14.2	...	...	...
Credit to government (net) 1/	-17.8	-27.2	-19.5	...	-17.6	...	...	...
Credit to the economy 1/	7.5	4.3	2.3	...	3.2	...	...	...
Broad money	-2.8	5.0	16.8	...	10.7	...	...	...
Velocity (ratio of GDP to average broad money)	3.8	3.9	3.9	...	3.7	...	...	...
Central bank discount rate (in percent; end of period)	17.0	...	...	...	...	...	...	...
Commercial bank lending rate (in percent; end of period)	38.0 to 44.0	...	...	...	...	...	...	...
Commercial bank deposit rate (in percent; end of period)	24.0 to 28.0	...	...	...	...	...	...	...
(In percent of GDP, unless otherwise specified)								
National accounts								
Consumption	109.3	104.9	104.9	97.0	105.9	97.7	105.3	102.2
Gross investment	40.0	49.3	39.3	59.3	42.1	61.2	44.5	52.5
Public investment	26.0	23.3	22.8	31.1	23.1	30.8	23.5	21.8
Private investment	14.0	26.0	16.5	28.2	19.0	30.5	21.0	30.7
Of which: oil sector	0.0	6.0	0.0	9.2	0.0	13.5	0.0	9.4
Gross domestic savings	-9.3	-4.9	-4.9	3.0	-5.9	2.3	-5.3	-2.2
Public savings	-11.9	-11.8	-9.8	-2.5	-10.4	-0.9	-9.6	-10.2
Private savings	2.6	7.0	4.9	5.5	4.6	3.3	4.3	7.9
Gross national savings	13.8	24.0	14.3	21.2	22.2	20.2	22.0	24.7
Government budget								
Total revenue and grants	43.9	46.5	43.5	46.2	53.3	46.8	52.6	52.7
Of which: grants	24.6	26.2	22.7	25.2	31.6	25.2	30.6	30.6
Total expenditure	69.8	68.1	61.7	64.5	66.5	62.5	68.5	68.6
Of which: noninterest current expenditure	15.8	15.6	16.8	14.9	16.6	13.9	21.1	21.8
Overall balance (commitment basis)	-25.9	-21.5	-18.2	-18.2	-13.1	-15.9	-15.8	-15.9
Primary balance (incl. HIPC Initiative spending) 2/	1.3	2.3	2.1	3.4	0.7	5.0	-1.5	-2.2
Primary balance (excl. HIPC Initiative spending) 2/	1.3	2.3	2.1	3.4	2.7	5.0	3.4	4.3
External sector								
Current account balance (excluding official transfers)	-58.0	-62.0	-49.2	-64.0	-54.5	-66.2	-55.6	-60.0
Current account balance (including official transfers)	-26.2	-25.2	-25.0	-38.1	-20.0	-41.0	-22.5	-27.8
Total external debt outstanding (before debt relief)	624.1	...	625.7	...	...	...	...	...
Net present value of total debt (before debt relief)	404.3	...	421.4	...	...	...	...	...
Net present value of total debt (before debt relief) 3/	1,394.6	...	1,266.7	...	...	...	...	...
(In millions of U.S. dollars, unless otherwise specified)								
External sector								
Export earnings	3.9	5.0	4.4	6.1	5.8	7.0	6.8	8.4
Of which: cocoa	2.9	4.0	3.3	5.0	4.0	5.8	4.6	4.9
Overall balance	-2.7	-0.8	-0.1	-6.6	-1.8	-9.0	-7.5	-12.3
Outstanding medium- and long-term debt	294.0	...	...	...	...	...	...	...
Of which: arrears	74.0	...	...	...	...	...	...	...
Gross foreign reserves (in months of following year's imports of goods and services)	3.1	4.0	4.3	4.2	5.2	5.6	5.6	5.9
External debt service								
Before debt relief 4/	49.8	43.6	33.6	39.7	30.6	48.2	38.9	34.8
Actual debt service paid 4/	23.8	...	...	...	...	...	...	...

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

1/ In percent of broad money at beginning of period.

2/ Excluding interest obligations, grants, and foreign-financed capital outlays; commitment basis.

3/ In percent of three-year average exports of goods and services.

4/ In percent of exports of goods and services.

Table 5. São Tomé and Príncipe: Nominal and Net Present Value (NPV) of Public External Debt Outstanding Before and After Application of Traditional Debt-Relief Mechanisms
(In millions of U.S. dollars, at end-December 1999)

	Nominal Debt at End-1999 1/			NPV of Debt at End-1999 1/			NPV of Debt after the Application of Traditional Debt-Relief Mechanisms 2/		
	US\$ millions	Percent of total debt	Percent of category	US\$ millions	Percent of total debt	Percent of category	US\$ million:	Percent of total debt	Percent of category
Total public and publicly guaranteed debt	294	100		190	100		118	100	
Multilateral creditors	168	57	100	82	43	100	82	70	100
IDA	61	21	36	29	15	35	29	24	35
African Development Bank	89	30	53	41	22	51	41	35	51
European Union	1	0	1	1	1	1	1	1	1
International Fund for Agricultural Development	7	2	4	3	2	4	3	3	4
Arab Bank for Economic Development in Africa	8	3	5	6	3	7	6	5	7
Organisation of Petroleum Exporting Countries	2	1	1	2	1	2	2	2	2
Bilateral creditors	126	43	100	109	57	100	36	30	100
Paris Club	81	27	64	71	37	65	24	20	67
Belgium	1	0	1	1	0	1	1	1	2
France	7	2	5	5	3	5	3	3	9
Germany	13	5	11	13	7	12	4	4	12
Italy	17	6	13	17	9	15	5	5	15
Portugal	29	10	23	21	11	19	6	5	18
Russia	11 3,	4	9	11 3	6	10	1	1	3
Spain	3	1	3	3	2	3	3	2	8
Non-Paris Club official bilateral	45	15	36	38	20	35	12	10	33
Algeria	1	0	1	1	1	1	0	0	1
Angola	22	8	18	22	12	21	7	6	21
Cape Verde	0	0	0	0	0	0	0	0	1
China	17	6	13	9	5	9	2	2	7
Yugoslavia, former	5	2	4	5	3	4	2	1	4

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

1/ Includes US\$74 million of arrears.

2/ Assumes full use of traditional debt-relief mechanisms, i.e., a Paris Club stock-of-debt operation on Naples terms at end-December 1999, and at least comparable treatment by other official bilateral and commercial creditors.

3/ The data for Russia are before the application of the 70 percent up-front discount agreed in the context of Russia's participation in the Paris Club.

Table 6. São Tomé and Príncipe: Estimated HIPC Initiative Assistance 1/
 is of U.S. dollars in end-December 1999 net present value (NPV) terms, unless otherwise indicated) 2/

	Total	Multilateral	Bilaterals	Common Reductio n Factor 3/ (Percent)	Memo Item: Required NPV Debt Reduction on Comparable Treatment on Bilateral Debt Based on Overall Exposure 4/ (in Percent)
Debt relief	97	68	29	83	
NPV of debt ^{5/ 6/}	118	82	36		
Three-year export average	14				
NPV of debt-to-exports ratio (percent) ⁷	861				
Memorandum items:					
NPV of debt of Paris Club creditors:	24				94
<i>of which: pre-cutoff-date non-ODA</i>	17				105
NPV of debt of non-Paris Club credito	12				94
<i>of which: pre-cutoff-date non-ODA</i>	9				102

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

1/ Assumes proportional burden sharing as described in "HIPC Initiative: Estimated Costs and Burden-Sharing Approaches" (EBS/97/127; 7/7/97, and IDA/SEC M97-306;7/7/97), that is, after full application of traditional debt-relief mechanisms.

2/ Using six-month backward-looking discount rates at end-1999 and end-December 1999 exchange rates.

3/ Each creditor's NPV reduction at the decision point in percent of its exposure at the decision point.

4/ Includes traditional debt relief: a hypothetical stock-of-debt operation on Naples terms with comparable treatment from non-Paris Club bilateral creditors.

5/ Applies a hypothetical stock-of-debt operation on Naples terms at end-December 1999.

6/ Based on latest data available at the decision point after full application of traditional debt-relief mechanisms.

7/ Based on the three-year backward looking average of exports of goods and services (i.e. 1997-99).

8/ Paris Club's cutoff date is April 1, 1999.

Table 7. São Tomé and Príncipe: Discount Rate and
Exchange Rate Assumptions
(At end-December 1999)

Currency Name	Discount Rate 1/	Exchange Rate 2/
Algerian dinar	5.6	69.3
Austrian schilling	5.5	13.7
Belgian franc	5.5	40.2
Canadian dollar	6.7	1.4
Chinese yuan	5.6	8.3
Danish krone	5.3	7.4
European currency unit	5.5	1.0
Finnish markka	5.5	5.9
French franc	5.5	6.5
German mark	5.5	1.9
Pound sterling	6.7	0.6
Italian lira	5.5	1927.4
Japanese yen	2.0	102.2
Norwegian krone	6.6	8.0
Portuguese escudo	5.5	200.3
Russian ruble	5.6	0.6
Spanish peseta	5.5	165.6
Special drawing rights	5.6	0.7
Swedish krona	5.8	8.5
Swiss franc	4.3	1.6
U.S. dollar	7.0	1.0

Sources: OECD; and IMF, *International Financial Statistics*.

1/ The discount rates used are the average commercial interest reference rates (CIRRs) for the respective currencies over the six-month period ended December 1999. For all currencies for which the CIRRs are not available, the SDR rate is used as a proxy.
2/ Local currency per one U.S. dollar.

Table 8. São Tomé and Príncipe: Net Present Value (NPV) of Debt After Full Use of Traditional Debt-Relief Mechanisms, 1999-2019^{1/}
(In millions of U.S. dollars, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2015	2019
	Actual	Projections												
NPV of total debt ^{2/}	117.5	122.7	127.2	131.3	134.2	137.1	140.2	143.0	144.9	145.8	146.2	146.1	148.9	147.1
NPV of old debt	117.5	118.5	119.3	119.7	120.3	121.0	121.4	121.5	121.3	120.4	119.5	118.3	108.5	93.6
Official bilateral and commercial	35.6	36.0	36.7	37.5	38.1	38.7	39.4	40.0	40.6	41.1	41.6	41.9	41.9	36.9
Paris Club	23.7	24.2	24.7	25.3	25.8	26.2	26.7	27.1	27.5	27.9	28.2	28.5	28.7	25.9
Post-cutoff date	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>of which: official development assistance</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-cutoff date	23.7	24.2	24.7	25.3	25.8	26.2	26.7	27.1	27.5	27.9	28.2	28.5	28.7	25.9
<i>of which: official development assistance</i>	6.6	6.7	6.7	6.7	6.8	6.8	6.8	6.9	6.9	7.0	7.0	7.1	7.4	7.2
Other official bilateral	11.9	11.8	12.0	12.1	12.3	12.5	12.7	12.9	13.1	13.2	13.3	13.4	13.3	11.0
Post-cutoff date	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>of which: official development assistance</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-cutoff date	11.9	11.8	12.0	12.1	12.3	12.5	12.7	12.9	13.1	13.2	13.3	13.4	13.3	11.0
<i>of which: official development assistance</i>	2.5	2.5	2.6	2.8	3.0	3.2	3.4	3.6	3.8	4.1	4.3	4.6	6.3	7.2
Commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral	81.9	82.4	82.6	82.3	82.3	82.2	82.0	81.5	80.6	79.3	77.9	76.4	66.5	56.7
IDA	28.7	29.3	29.8	29.9	30.1	30.4	30.5	30.7	30.7	30.5	30.3	30.0	25.6	21.0
African Development Bank	41.4	42.0	42.5	42.8	43.2	43.6	44.0	44.2	44.1	43.8	43.5	43.2	38.4	33.5
Others	11.7	11.1	10.3	9.5	8.9	8.2	7.5	6.7	5.9	5.0	4.1	3.2	2.5	2.2
NPV of new debt	0.0	4.2	7.9	11.5	13.8	16.2	18.8	21.4	23.6	25.3	26.7	27.8	40.4	53.6
Multilateral	0.0	3.3	6.2	9.3	11.0	12.6	14.2	15.7	16.8	17.2	17.3	17.1	23.0	30.4
Bilateral	0.0	0.9	1.7	2.3	2.8	3.6	4.6	5.7	6.9	8.1	9.4	10.7	17.4	23.2
Memorandum items:														
Exports of goods and services ^{3/}	16.5	17.8	20.2	22.2	24.9	27.4	30.1	32.9	36.0	39.0	42.1	45.0	60.0	69.8
Three-year export average ^{4/}	13.7	15.4	18.2	20.1	22.4	24.8	27.5	30.1	33.0	35.9	39.0	42.0	57.7	67.4
Government revenue ^{5/}	9.1	10.5	12.2	13.7	14.9	16.0	17.1	18.6	20.4	22.1	23.4	24.7	31.1	36.2
GDP	47.1	46.4	47.5	52.9	57.5	61.5	66.2	71.2	76.4	81.7	87.4	92.9	123.1	151.7
NPV of debt-to-exports ratio ^{6/}	860.7	794.4	700.4	654.2	598.0	552.1	510.1	474.3	438.9	405.5	374.7	347.6	258.2	218.3
NPV of debt-to-government revenue ratio	1,290.3	1,167.4	1,047.2	956.3	899.1	859.2	822.1	769.2	711.2	661.0	624.3	591.9	478.8	406.7
NPV of debt-to-GDP ratio	249.5	264.3	268.1	248.1	233.4	223.0	211.8	200.7	189.6	178.5	167.2	157.4	121.0	97.0

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

1/ Refers to public and publicly guaranteed external debt only and assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) at the end of 1999, and at least comparable action by other official bilateral and commercial creditors.

2/ Discounted on the basis of the average commercial interest reference rate for the respective currency, derived over the six-month period prior to the latest date for which actual data are available (base date). The conversion of currency-specific NPVs into U.S. dollars occurs for all years at the base date exchange rate.

3/ As defined in IMF, *Balance of Payments Manual*, 5th edition, 1993.

4/ Backward-looking average (e.g., average over 1997-99 for exports in 1999).

5/ Revenues are defined as central government revenues, excluding grants.

6/ NPV of debt in percent of three-year average of exports of goods and services.

Table 9. São Tomé and Príncipe: External Debt Service After Full Use of Traditional Debt-Relief Mechanisms, 2000-19
(In millions of U.S. dollars, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000-09	2010-19
	Projections									Averages		
Total debt service before debt relief	6.0	6.2	8.6	8.7	8.7	10.0	10.4	11.4	12.2	12.6	9.5	10.3
Multilateral	3.9	4.3	4.7	4.4	4.5	4.7	4.9	5.3	5.7	5.6	4.8	5.8
Official bilateral	2.0	1.8	3.7	4.0	3.9	4.9	4.9	4.8	4.6	4.5	3.9	2.5
Debt service on new borrowing	0.1	0.2	0.2	0.3	0.3	0.4	0.7	1.3	2.0	2.4	0.8	1.9
Total debt service after traditional debt relief ^{1/}	5.8	6.0	6.6	6.5	6.6	6.8	7.5	8.6	9.7	10.3	7.4	10.9
Multilateral	3.9	4.3	4.7	4.4	4.5	4.7	4.9	5.3	5.7	5.6	4.8	5.8
IDA	1.0	1.2	1.6	1.5	1.4	1.6	1.6	1.7	1.9	1.9	1.5	2.4
African Development Bank	1.5	1.6	1.7	1.7	1.8	1.8	2.0	2.3	2.6	2.6	2.0	3.1
Others	1.4	1.5	1.5	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.3	0.3
Official bilateral	1.9	1.6	1.6	1.8	1.8	1.8	1.9	2.0	2.1	2.2	1.9	3.1
Paris Club	0.9	0.9	0.9	1.1	1.1	1.1	1.2	1.3	1.3	1.4	1.1	2.0
Non-Paris Club	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.7	1.1
Debt service on new borrowing	0.1	0.2	0.2	0.3	0.3	0.4	0.7	1.3	2.0	2.4	0.8	1.9
Total debt service after enhanced HIPC Initiative assistance ^{2/}	6.0	2.1	1.3	1.4	1.0	1.0	1.5	2.1	2.8	3.3	2.3	2.9
Multilateral	3.9	1.4	0.5	0.5	0.5	0.5	0.5	0.6	0.7	0.7	1.0	0.8
IDA	1.0	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
African Development Bank	1.5	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.6
Others	1.4	1.1	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0
Official bilateral	2.0	0.6	0.6	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.5	0.2
Paris Club	1.7	0.4	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.4	0.2
Non-Paris Club	0.4	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Debt service on new borrowing	0.1	0.2	0.2	0.3	0.3	0.4	0.7	1.3	2.0	2.4	0.8	1.9
Memorandum items:												
Exports of goods and services	17.8	20.2	22.2	24.9	27.4	30.1	32.9	36.0	39.0	42.1	29.3	58.2
Debt-service ratio after tradit. debt relief ^{2/}	32.6	29.9	29.6	26.0	23.9	22.7	22.7	23.8	24.9	24.4	26.0	18.9
Debt-service ratio after enhanced HIPC Initiative assistance ^{3/}	24.2	11.8	6.7	6.4	3.9	3.8	4.8	6.5	7.9	8.5	8.5	5.4

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

1/ Reflects the external debt situation after the full use of traditional debt relief mechanisms, and assuming at least comparable treatment from official bilateral creditors.

2/ Debt service in percent of current-year exports of goods and services. Completion point is assumed to be reached at end-2003.

3/ Debt service paid in percent of exports of goods and services.

Table 10. São Tomé and Príncipe: Key Public External Debt Sustainability Indicators, 1999-2019 1/

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2015	2019	1999-2009	2010-19	
	Est.							Projections						Averages			
								(In percent, unless otherwise indicated)									
Key ratios before any debt relief																	
Debt-to-GDP	624.1	625.7	604.1	530.4	477.1	435.7	393.2	354.3	319.3	288.3	259.4	235.1	143.5	100.9	446.5	157.8	
Net present value (NPV) of debt-to-GDP	404.3	421.4	421.9	382.6	353.5	331.7	307.8	285.2	263.8	243.9	224.3	207.6	147.2	119.8	330.9	156.7	
NPV of total debt-to-exports 2/	1,394.6	1,266.7	1,102.2	1,008.8	905.6	821.4	741.4	673.9	610.7	554.0	502.9	458.7	314.3	269.5	871.1	340.7	
NPV of existing debt-to-exports 2/	1,394.6	1,239.5	1,058.6	951.3	843.9	756.4	672.9	602.8	539.1	483.5	434.4	392.6	244.2	190.0	816.1	270.2	
NPV of total debt-to-revenues	2,090.7	1,861.6	1,648.0	1,474.6	1,361.6	1,278.3	1,194.8	1,092.8	989.6	903.1	837.8	781.0	582.7	502.2	1,339.4	631.3	
NPV of existing debt-to-revenues	2,090.7	1,821.6	1,582.8	1,390.6	1,268.9	1,177.1	1,084.4	977.5	873.6	788.1	723.8	668.5	452.7	354.1	1,252.6	499.9	
Debt-service of total debt to exports 3/	49.8	33.6	30.6	38.9	34.8	31.7	33.1	31.7	31.6	31.3	29.8	28.3	16.5	11.4	34.3	18.4	
Debt-service of existing debt to exports 3/	49.8	33.1	29.9	37.9	33.8	30.5	31.9	29.5	27.9	26.3	24.0	22.2	14.0	8.4	32.2	15.0	
Debt-service of total debt to revenue	90.2	56.9	50.9	62.8	58.2	54.4	58.5	56.1	55.9	55.2	53.6	51.7	31.8	22.0	59.4	35.9	
Debt-service of existing debt to revenue	90.2	56.1	49.6	61.2	56.4	52.4	56.3	52.3	49.3	46.4	43.2	40.5	27.0	16.2	55.8	29.4	
Key ratios after traditional debt relief 1/																	
NPV of debt-to-GDP	249.5	264.3	268.1	248.1	233.4	223.0	211.8	200.7	189.6	178.5	167.2	157.4	121.0	97.0	221.3	125.2	
NPV of total debt-to-exports 2/	860.7	794.4	700.4	654.2	598.0	552.1	510.1	474.3	438.9	405.5	374.7	347.6	258.2	218.3	578.5	272.3	
NPV of existing debt-to-exports 2/	860.7	1,167.4	1,047.2	956.3	899.1	859.2	822.1	769.2	711.2	661.0	624.3	591.9	478.8	406.7	852.5	505.1	
NPV of total debt-to-revenues	1,290.3	665.4	590.5	539.6	482.9	441.7	402.7	369.3	337.0	309.1	283.8	262.8	180.9	134.1	519.3	191.2	
NPV of existing debt-to-revenues	1,290.3	1,127.4	982.0	872.3	806.4	758.0	711.7	653.9	595.2	546.1	510.3	479.4	348.7	258.6	804.9	373.7	
Debt-service of total debt to exports 3/	49.8	32.6	29.9	29.6	26.0	23.9	22.7	22.7	23.8	24.9	24.4	23.9	17.5	17.5	28.2	18.9	
Debt-service of existing debt to exports 3/	49.8	32.2	29.1	28.6	24.9	22.8	21.5	20.5	20.1	19.9	18.6	17.8	15.0	14.4	26.2	15.6	
Debt-service of total debt to revenue	90.2	55.3	49.7	47.8	43.4	41.1	40.1	40.1	42.1	44.1	43.8	43.6	33.7	33.7	48.9	36.9	
Debt-service of existing debt to revenue	90.2	54.5	48.4	46.2	41.6	39.1	37.9	36.3	35.5	35.2	33.4	32.4	29.0	27.8	45.3	30.5	
												2.2	2.1	7.8			
Sensitivity analysis																	
With oil production																	
NPV of total debt-to-exports 2/	860.7	795.1	702.3	657.8	602.1	553.5	497.6	282.1	89.2	50.1	34.2	31.2	37.1	106.1	465.9	51.1	
Debt-service of total debt to exports 3/	49.8	48.1	36.5	36.7	32.3	29.8	31.4	33.0	30.4	11.3	2.9	2.2	2.1	7.8	31.1	3.3	
New borrowing on less concessional terms																	
NPV of total debt-to-exports 2/	860.7	812.5	731.9	694.0	640.5	598.5	560.7	528.3	495.1	463.1	433.1	406.3	315.5	273.0	619.9	329.6	
Debt-service of total debt to exports 3/	49.8	36.7	36.6	35.8	32.8	30.2	29.6	30.0	31.7	32.9	32.5	31.8	24.7	25.1	34.4	26.5	
Key ratios after enhanced HIPC Initiative assistance 4/																	
NPV of debt-to-GDP ratio	349.2	250.0	262.0	252.7	56.8	57.5	58.0	58.0	57.3	56.0	54.1	52.4	50.1	49.4	137.4	50.3	
NPV of total debt-to-exports ratio 2/	1,204.5	751.6	684.6	666.2	145.5	142	140	137.1	132.7	127.2	121.3	115.7	107.0	111.3	386.6	109.6	
NPV of existing debt-to-exports ratio 2/	1,204.5	724.4	640.9	608.7	83.9	77.3	71.2	66.0	61.1	56.8	52.9	49.6	36.9	31.8	331.6	39.1	
NPV of total debt-to-revenues ratio	1,805.8	1,104.6	1,023.6	973.8	218.8	221.5	225.2	222.4	215.0	207.4	202.1	197.0	198.4	207.3	583.7	203.8	
NPV of existing debt-to-revenues ratio	1,805.8	1,064.6	958.3	889.8	126.1	120.3	114.8	107.1	99.1	92.5	88.1	84.5	68.3	59.2	496.9	72.4	
Debt-service of total debt to exports ratio 3/	23.8	24.2	10.4	6.1	5.7	3.5	3.5	4.4	6.0	7.3	7.9	8.1	4.3	4.6	9.3	5.2	
Debt-service of existing debt to exports ratio 3/	23.8	24.2	9.7	5.1	4.7	2.4	2.2	2.3	2.3	2.3	2.1	2.0	1.8	1.6	7.4	1.8	
Debt-service of total debt to revenue ratio	43.0	40.9	17.4	9.8	9.6	6.0	6.2	7.8	10.5	12.9	14.2	14.9	8.2	8.9	16.2	10.0	
Debt-service of existing debt to revenue ratio	43.0	40.9	16.1	8.2	7.8	4.1	4.0	4.0	4.0	4.0	3.8	3.7	3.4	3.0	12.7	3.5	
								(In millions of U.S. dollars)									
Memorandum items:																	
GDP	47.1	46.4	47.5	52.9	57.5	61.5	66.2	71.2	76.4	81.7	87.4	92.9	123.1	151.7	63.3	120.8	
Exports of goods and services 5/	13.7	15.4	18.2	20.1	22.4	24.8	27.5	30.1	33.0	35.9	39.0	42.0	57.7	67.4	25.5	55.5	
Exports of goods and services 6/	16.5	17.8	20.2	22.2	24.9	27.4	30.1	32.9	36.0	39.0	42.1	45.0	60.0	69.8	28.1	58.2	
Government revenue	9.1	10.5	12.2	13.7	14.9	16.0	17.1	18.6	20.4	22.1	23.4	24.7	31.1	36.2	16.2	29.7	

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

1/ Reflects the external debt situation after the full use of traditional debt-relief mechanisms, and assuming at least comparable treatment from official bilateral creditors in 1999.

2/ In terms of a simple historical three-year average of exports of goods and services.

3/ In terms of current-year exports of goods and services.

4/ After assumed assistance under the enhanced HIPC Initiative. Projections assume completion point assistance in 2003 (see text for detailed assumptions).

5/ Simple historical three-year average of exports of goods and services.

6/ Current-year exports of goods and services.

Main Assumptions for the Debt Sustainability Analysis (DSA)

The following long-term macroeconomic assumptions have been used for the 20-year DSA projections, under the baseline scenario.

Growth

- Real GDP is projected to grow by an average of 4 percent a year during 2000-2019.
- Gross domestic investment would remain at about 40 percent of GDP during 2000-05. Government investment is projected to average 20 percent of GDP through 2009, of which foreign-financed investment would fall from 90 percent in 2000 to less than 20 percent in 2009.

Fiscal and monetary policy

- A prudent fiscal policy supports growth by increasing the primary budget surplus (excluding HIPC Initiative-related spending) from about 2 percent of GDP in 2000 to 6 percent of GDP during 2005-09. Including HIPC Initiative spending, there would be a primary budgetary deficit of 3 percent during 2005-09.
- Monetary policy is expected to contain average annual inflation at 5 percent a year over the projection period.

Balance of payments

- In the baseline balance of payments projections, export volumes would increase by about 3 percent over the projection period, with higher growth in the period through 2009 on account of non-cocoa agricultural goods. Import volume is projected to increase by 4 percent a year, in line with real GDP growth.
- After a decline of 50 percent in 1999 and 1.5 percent in 2000, the terms of trade are expected to improve through 2003 with a recovery in cocoa prices, and to remain stable thereafter.
- The external current account deficit (excluding official transfers) is expected to improve from an average deficit of 57 percent over 2000-09 to 34 percent in the following decade. Financing gaps (averaging \$5 million a year) are expected to remain throughout the projection period.
- Even though official project grants and loans will decline from an average of 20 percent of GDP over the first ten years of the projection period to 3 percent over the last decade, São Tomé and Príncipe is expected to continue requiring concessional assistance in order to meet its financing needs. Thus, new financing is assumed to have a grant element of over 60 percent on average, with most loans assumed to be contracted on IDA terms.
- Import cover increases from 3 months in 1999 to 6 months by 2003 and declines thereafter to average 4.5 months.

São Tomé and Príncipe: Selected Poverty and Living Standard Indicators, 1996-99

(Latest single year, 1996-99; in percent, unless otherwise specified)

	São Tomé and Príncipe	Sub-Saharan Africa
Population (in millions, 1999)	0.14	642
Urban population (in percent of total, 1999)	41.8	34
Population growth (1999)	2.4	2.4
Fertility rate (1997)	4.7	5.4
GNP per capita in U.S. dollars (1999)	298.9	500.0
Infant mortality rate (per 1,000, 1999)	65.0	91.8
Under-5 child mortality rate (per 1,000, 1999)	125.0	151.0
Maternal mortality (per 100,000 live births, 1999)	122.0	...
Total mortality rate (per 1,000 inhabitants, 1997)	8.5	14.0
Malaria cases (per 1,000 inhabitants, 1999)	235.0	...
HIV/AIDS prevalence (per 100,000 inhabitants, 1999)	10.0	8.0
Access to safe water (1996)	82.0	43.0
Literacy rate (1999)	80.0	61.0
Gross primary school enrollment (1999)	70.0	78.0
Female primary school enrollment (1999)	70.1	71.0

Sources: São Tomé and Príncipe authorities; World Bank; African Development Bank; and United Nations Development Program.