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DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

December 2025

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, EXTENSION AND AUGMENTATION OF THE ARRANGEMENT, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

In the context of the Second Review Under the Extended Credit Facility Arrangement, Requests for Waivers of Nonobservance of Performance Criteria, Modification of Performance Criteria, Extension and Augmentation of the Arrangement, and Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 19, 2025, following discussions that ended on November 5, 2025, with the officials of the Democratic Republic of São Tomé and Príncipe on economic developments and policies underpinning the IMF Arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 5, 2025.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for the Democratic Republic of São Tomé and Príncipe.

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PRESS RELEASE

PR 25/438

IMF Executive Board Completes the Second Review Under the Extended Credit Facility Arrangement for the Democratic Republic of São Tomé and Príncipe and Approves the Requests for Extension and Augmentation of the Arrangement

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the second review under the Extended Credit Facility (ECF) arrangement for São Tomé and Príncipe, enabling an immediate disbursement of about US$ 2.9 million, bringing total disbursements to about US$ 13.7 million.
- São Tomé and Príncipe's structural challenges—remoteness, small size, climate risk exposure, weak institutions, narrow exports, and labor losses from emigration—hinder job-rich, inclusive, and blue growth.
- The Executive Board approved a 12-month extension of the ECF arrangement and an increase in access by about US$ 6.1 million (30 percent of quota), raising total access to 155 percent of quota, to address economic challenges and a balance of payments gap.

Washington, DC – December 19, 2025: The IMF Executive Board completed the second review under the Extended Credit Facility (ECF) Arrangement with São Tomé and Príncipe. The completion of the second review allows for an immediate disbursement of an amount equivalent to about SDR 2.1 million (about US$ 2.9 million), bringing São Tomé and Príncipe's total disbursements under the ECF Arrangement to about US$ 13.7 million.

The authorities' commitments under the ECF Arrangement approved on December 19, 2024, with total access of the equivalent of SDR 18.5 million (about US$ 25.3 million, or 125 percent of quota), are expected to support economic rebalancing and bolster medium-term growth. São Tomé and Príncipe's structural impediments—including remoteness, small size, high exposure to climate risks, weak institutional capacity, narrow export base, and steady labor force losses from emigration—all pose challenges to achieving job-rich, inclusive, and blue growth.

In addition, São Tomé and Príncipe is facing unfavorable demographics, a shock to electricity supply, and delays in the energy transition. As a result, GDP growth forecasts have been revised downward from 2.9 to 2.1 percent, inflation is expected to decline at a slower pace, and an additional balance of payments gap is projected. In this context, the authorities requested a 12-month extension of the ECF Arrangement, along with an augmentation by the equivalent of SDR 4.44 million (about US$ 6.1 million, or 30 percent of quota), bringing total access to 155 percent of quota, combined with a more gradual and less front-loaded path for fiscal adjustment.

Performance under the ECF Arrangement has been broadly satisfactory, with four of the six end-June 2025 quantitative performance criteria being met. The Executive Board approved the authorities' request for waivers of nonobservance of the two missed performance criteria at end-June 2025 on the basis of the minor and temporary nature of the deviation with respect to the domestic primary balance which was impacted by a shock to the energy sector, and on the basis of corrective actions with respect to the ceiling on the accumulation of central government's new external payment arrears. On the structural side, out of a total of fifteen structural benchmarks assessed, five were met, three were converted into prior actions, and one was implemented with a delay.

Following the Executive Board discussion, Bo Li, Deputy Managing Director and Acting Chair, made the following statement:

“São Tomé and Príncipe’s performance under the ECF arrangement has been broadly satisfactory. The authorities have made progress on structural reforms, including the adoption of a comprehensive domestic revenue mobilization strategy and the submission of the draft Financial Institutions Law to Parliament. However, São Tomé and Príncipe’s economic recovery is facing headwinds from unfavorable demographic trends, an energy crisis, and delays in the energy transition. GDP growth forecasts have been revised downward, while inflation remains persistently high. These shocks have opened an additional balance of payments gap, which justifies a more gradual and less front-loaded path for fiscal adjustment. Despite these challenges, the medium-term outlook remains broadly positive, provided that energy sector reforms are implemented steadfastly and supported by sustained donor engagement to advance the energy transition and restructure the public utility company.

“The authorities are committed to vigorously implementing their domestic revenue mobilization strategy to underpin fiscal consolidation. Key measures include strengthening VAT administration, rebalancing the tax mix away from import duties toward excise taxes, and enhancing overall revenue administration capacity. Fiscal consolidation will be complemented by reforms aimed at strengthening public financial management to enhance transparency, accountability, and the efficiency of public spending.

“To address persistent inflationary pressures, the authorities are determined to further tighten the monetary policy stance. The appointment of all the members of the new BCSTP Board of Directors is an urgent priority, in order to fully operationalize the new central bank organic law and implement key safeguards recommendations.

“The authorities have adopted a new National Strategy for Sustainable Development, formulated through an inclusive process. The strategy’s strong emphasis on enhancing human capital, reinforcing fiscal sustainability, and strengthening social protection aligns closely with the priorities of the ECF-supported program.”

Table 1. São Tomé and Príncipe: Selected Economic Indicators, 2024-28

(Annual Change in Percent, unless otherwise indicated)

	2024	2025		2026		2027	2028
	Est.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.
National Income and Prices							
GDP at constant prices	1.1	2.9	2.1	4.7	3.9	3.9	3.3
GDP deflator	17.7	9.5	11.5	6.4	10.0	7.5	6.0
Consumer prices (End of period)	11.6	7.8	12.2	6.1	9.7	6.9	5.0
Consumer prices (Period Average)	14.4	9.7	11.9	7.0	11.0	8.3	6.0
External Trade							
Exports of goods and nonfactor services	21.4	15.5	13.7	8.2	14.7	10.2	9.5
Imports of goods and nonfactor services	-0.1	17.3	11.4	-8.7	12.9	6.8	5.0
Exchange rate (dobras per US$; end of period) [1]	23.4	…	…	…	…	…	…
Real effective exchange rate (period average, depreciation = -)	13.3	…	…	…	…	…	…
Money and Credit							
Base money	23.6	3.6	24.9	5.0	13.5	8.4	5.6
Broad money (M3)	0.6	5.1	10.6	11.4	9.6	8.4	7.9
Credit to the economy	6.1	5.8	9.1	5.7	8.5	8.1	7.3
Velocity (GDP to broad money; end of period)	4.9	5.3	5.1	5.3	5.3	5.5	5.6
Central bank reference interest rate (percent)	10.0	…	…	…	…	…	…
Average bank lending rate (percent)	17.8	…	…	…	…	…	…
Government Finance (in Percent of GDP)							
Total revenue, grants, and oil signature bonuses	24.7	27.7	21.2	22.1	20.5	21.4	22.2
Of which: tax revenue	10.7	13.3	11.1	13.7	11.4	12.4	13.3
Nontax revenue	2.6	3.3	2.3	3.3	2.8	2.9	3.0
Grants	11.4	11.1	7.8	5.1	6.3	6.1	6.0
Total expenditure and net lending	23.8	26.4	21.2	19.7	20.4	19.8	19.3
Personnel costs	6.9	8.0	7.1	8.4	8.1	8.1	8.1
Interest due	0.7	1.1	0.8	0.6	0.9	0.6	0.6
Nonwage noninterest current expenditure	7.2	5.8	6.8	5.3	5.2	4.8	4.6
Treasury funded capital expenditures	0.1	2.7	0.1	1.4	0.3	0.4	0.4
Donor funded capital expenditures	8.8	8.7	6.3	3.8	5.7	5.8	5.5
HIPC Initiative-related capital expenditure	0.1	0.2	0.2	0.2	0.2	0.1	0.1
Domestic primary balance (commitment basis, including net capital grants for EMAE) [2]	-1.8	-0.7	-1.1	1.2	0.0	1.5	2.6
Net domestic borrowing	0.0	-2.2	-2.4	-1.9	-0.1	-2.0	-2.9
Overall balance (commitment basis)	0.9	1.3	0.0	2.4	0.1	1.6	2.9
Public Debt [3]	65.2	54.0	54.0	47.7	48.2	44.8	42.2
Of which: EMAE's debt to ENCO	23.1	20.5	19.3	18.2	16.2	14.5	13.1

External Sector							
Current account balance (percent of GDP)							
Including official transfers	-2.2	-3.4	-4.6	-3.9	-5.3	-4.5	-3.6
Excluding official transfers	-13.6	-14.6	-12.4	-9.0	-11.6	-10.7	-9.6
PV of external debt (percent of GDP)	32.0	24.1	28.6	21.5	25.1	23.3	21.7
External debt service (percent of exports) [4]	7.7	10.3	10.2	11.9	11.2	10.5	9.7
Export of goods and non-factor services (US$ millions)	138.5	160.0	157.5	173.0	180.6	199.1	218.0
Gross international reserves (face value) [5]							
Millions of U.S. dollars	38.9	60.0	72.7	67.9	80.3	99.9	107.8
Months of imports of goods and services	1.5	2.5	2.6	2.6	2.6	3.1	3.1
Months of imports of goods and nonfactor services [6]	2.2	3.7	3.9	3.8	4.1	4.9	4.7
National Oil Account (stock, US$ millions)	19.6	21.0	19.7	22.8	19.6	19.9	20.6
Prospective financing (US$ millions)	…	**47.8**	**55.9**	**23.1**	**22.7**	**22.7**	**23.0**
Prospective nonproject grants and concessional loans	…	39.7	47.7	17.5	16.9	16.9	16.9
ECF disbursements	…	8.1	8.2	5.6	5.8	5.8	6.1
Memorandum Item							
Gross Domestic Product							
Millions of dobra	18,756	21,130	21,355	23,532	24,407	27,256	29,830
Millions of U.S. dollars	828	929	985	1,040	1,163	1,298	1,421
Per capita (in U.S. dollars)	3,517	3,866	4,098	4,245	4,746	5,198	5,580

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

[1] Central Bank (BCSTP) mid-point rate.

[2] Excludes oil related revenues, ENCO debt repayment, grants, scheduled interest payments, foreign-financed capital outlays, as defined in the TMU.

[3] Total public and publicly guaranteed debt as defined in the DSA, which includes EMAE's debt to ENCO.

[4] Percent of exports of goods and nonfactor services.

[5] Gross international reserves as defined in the TMU.

[6] Imports of goods and services excluding imports of investment goods and technical assistance.

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

December 5, 2025

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, EXTENSION AND AUGMENTATION OF THE ARRANGEMENT, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. São Tomé and Príncipe (STP) is confronting a challenging macroeconomic environment marked by unfavorable demographic trends, an energy crisis, and delays in the energy transition. As a result, GDP growth forecasts have been revised downward, and an additional balance of payments gap is projected. Against this backdrop, the authorities are requesting a 12-month extension of the 40-month ECF arrangement approved in December 2024, along with an augmentation of SDR 4.44 million (30 percent of quota), bringing total access to 155 percent of quota, combined with a more gradual and less front-loaded path for fiscal adjustment, on the heels of the large cumulative fiscal consolidation since 2022.

Program performance was broadly satisfactory. Four out of the six QPCs were met, including the floor on NIR and the ceiling on central bank credit to government. The QPCs on domestic primary balance and new external arrears were both missed. To prevent recurrence, the authorities have adopted a comprehensive domestic revenue mobilization strategy, incorporated several new tax policy and administrative measures in the 2026 budget, initiated the development of a quarterly fiscal cashflow plan, and will clear all external arrears accumulated since the completion of the First Review under the ECF arrangement. On the structural side, out of a total of fifteen structural benchmarks assessed, five were met, three were converted into prior actions, and one was implemented with a delay.

Program risks remain broadly manageable. Despite the proposed augmentation, STP's capacity to repay the Fund remains adequate, but subject to significant risks. However, the

ongoing recovery and domestic revenue-led fiscal consolidation provide important mitigating factors. Over the medium term, boosting the country's export potential and building up its SDR holdings will also help reduce risks. Risks to program implementation —including prolonged power outages, policy slippages in the run-up to next year's elections, commodity price volatility, and climate-related events—are manageable, backed by the government's strong commitment to engagement with the Fund.

Staff supports the authorities' requests for completion of the second review under the ECF arrangement, for waivers of non-observance of performance criteria, for modification of performance criteria, and for extension of the arrangement and the augmentation of access. Staff also supports the authorities' requests for completion of the financing assurances review. Completion of the second review under the ECF arrangement allows the immediate disbursement of SDR 2,114,286 (14.29 percent of quota).

Approved By
Costas Christou (AFR) and Anna Ivanova (SPR)

Discussions took place in São Tomé and Príncipe during October 23–November 5, 2025. The mission team comprised Slavi Slavov (head), Mesmin Koulet-Vickot, Tsolo Lehata, and Abolfazl Rezghi (all AFR), Sanghamitra Mukherjee (SPR), Hector Carcel-Villanova (STA), and Gustavo Ramirez (Resident Representative). Alsis Irene Da Cruz, Wagner Soares Pires Fernandes, and Evelyne Vilhete Antonio de Carvalho (all Resident Representative Office) assisted the team. Xaverie Biloa and Islom Urolov provided research and editorial support. The mission met with President Carlos Vila Nova, Prime Minister Américo d'Oliveira dos Ramos, Minister of State for Economy and Finance Gareth Haddad do Espírito Santo Guadalupe, Minister of Infrastructure and Natural Resources Nelson Mário Cardoso, Acting Governor of the Central Bank Lara Simone Beirão, other senior officials, members of parliament, commercial banks, and the local chamber of commerce. Mr. Kelvio Carvalho da Silveira (OED) joined key policy and technical meetings.

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CONTEXT

1. São Tomé and Príncipe (STP) is facing a demographic shock due to emigration. Newly released census data show that about 6 percent of the population emigrated between 2019 and 2024. Population growth has averaged 1.3 percent annually over the past decade, well below the previously assumed 2 percent, constraining labor supply and potential output. The lower population growth rate is expected to reduce STP's potential growth rate, while emigration is projected to eventually boost remittances.

2. The adverse macroeconomic impact of unfavorable demographics is further compounded by an energy crisis and delays in the energy transition. The new government (in office since January 2025) inherited a financially unsustainable Power Purchase Agreement with a foreign company. Arrears by EMAE, the electricity public utility company, prompted the foreign power producer to halt electricity generation in August, triggering daily power outages of up to 12 hours. The authorities are urgently seeking solutions, including emergency purchases of diesel generators as a short-term stopgap measure. As a result, their efforts to fast-track the energy transition have been delayed by the crisis, in addition to factors beyond their control, including delays in donor-supported renewable energy projects. Electricity shortages could extend into at least the middle of next year—posing risks to the economic recovery—and could heighten social discontent ahead of local, parliamentary, and presidential elections in 2026. Furthermore, delays in the transition from fossil fuels to renewable energy are estimated to increase diesel imports and create an additional BOP financing gap of around $6 million in 2028.

3. In this context, the authorities have requested a 12-month extension and augmentation of the ECF arrangement, which is set to expire in April 2028. The 40-month arrangement was approved in December 2024, with access equivalent to 125 percent of quota. An extension through April 2029 combined with an augmentation of SDR 4.44 million (30 percent of quota) would provide additional time and resources to advance the shift from fossil fuels to renewables, cover the emerging BOP gap estimated at around $6 million in 2028, complete the planned fiscal adjustment, and ensure the successful completion of the reform agenda, particularly in the energy sector. In this context, staff and the authorities agreed to strengthen program conditionality for the energy sector. A more gradual pace for fiscal consolidation would provide breathing space for energy sector reforms.

RECENT ECONOMIC DEVELOPMENTS, OUTLOOK, AND RISKS (MEFP ¶2-8)

4. The recovery has weakened, driven by persistent power outages, while inflationary pressures have re-emerged (Figure 1 and Table 1). Recurrent disruptions in electricity supply have constrained output, prompting a revision of projected GDP growth to 2.1 percent for 2025, 0.8 percentage points below the First Review under the ECF arrangement. Although higher than the 1.1 percent recorded in 2024, growth remains well below the 2010-19 average of 3.4 percent. Inflation rose to 12.1 percent in October after bottoming out at 9.9 percent in April, driven mainly by supply-side factors such as higher food prices amid emigration-related labor shortages, while core inflation reached 4.6 percent, up from 3.0 percent in December 2024.

5. **Preliminary data indicate that exports performed strongly in the first half of 2025.** Cocoa exports, in particular, benefited from both higher production and favorable prices. Tourism also strengthened, with increased arrivals and higher spending per visitor. These developments should help limit the widening of the current account deficit projected for 2025, following the massive improvement in 2024.

6. **Reserves overperformed in the first half of 2025 (Tables 3a-3b and 4).** By end-June, gross international reserves (GIR) reached US$59.1 million (face value, excluding commercial banks' reserves), up from US$38.9 million at end-2024. Net international reserves (NIR) rose to US$4.3 million, a notable improvement from -US$20.4 million at end-2024. The strong reserve buildup was mainly supported by disbursements of budget support (by the World Bank, AfDB, and France/AFD) and the positive impact of the export repatriation and surrender requirements.

Text Table 1. São Tomé and Príncipe: Fiscal Outturn at End-June 2025

(Millions of dobra, unless otherwise indicated)

	Jun-24	Jun-25			
	Est.	Outturn (Prel.)	Percent change (y/y)	Program Target	Deviation from program
I. Domestic revenue	**906**	**1236**	**36**	**1491**	**-255**
Tax revenue	770	1126	46	1248	-122
Import taxes	121	404	233	432	-28
Consumption taxes	302	347	15	365	-18
Profit taxes	72	92	29	76	17
Personal income taxes	219	224	2	306	-82
Other taxes	57	59	4	69	-10
Nontax revenue excl. oil revenue	135	110	-19	243	-133
II. Domestic primary expenditure	**1058**	**1215**	**15**	**1427**	**-213**
Current primary expenditure	1038	1203	16	1383	-180
Personnel costs	537	647	21	791	-144
Goods and services	192	188	-2	198	-9
Transfers	203	249	23	276	-27
Other current expenditure	106	118	11	118	0
Treasury financed capital expenditure	10	8	-17	29	-21
HIPC Initiative-related capital expenditure	9	4	-62	15	-12
Domestic primary balance (commitment basis) 1/	**-152**	**21**	**...**	**64**	**-43**
Net change in stock of domestic arrears	-42	-9	...	0	-9
Domestic primary balance (cash basis)	**-195**	**12**	**...**	**64**	**-52**

1/ Excludes government fuel purchases, oil-related revenues, ENCO debt repayments, grants, scheduled interest payments, and foreign-financed capital outlays, as defined in the TMU.

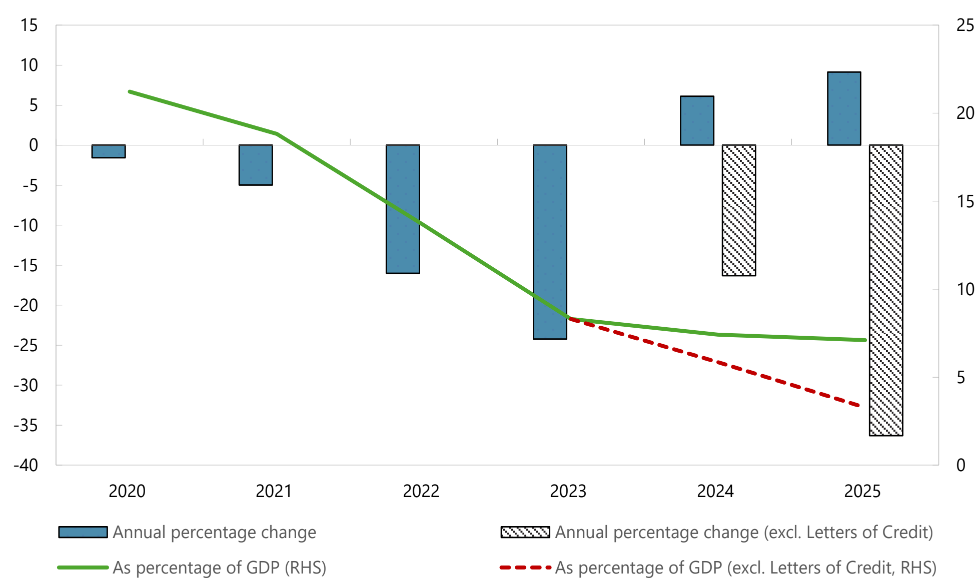
7. **Fiscal performance through end-June 2025 was stronger than in the same period of 2024, but below program targets (Text Table 1).** Tax revenues rose by 46 percent (y/y), driven mainly by one-off payments of arrears on customs duties and, to a lesser extent, higher consumption and profit taxes. Non-tax revenues fell by 19 percent, reflecting weaker receipts from state participation and service fees. On the expenditure side, domestic primary spending increased

moderately in real terms due to delays in the approval and execution of the 2025 budget. Consequently, the domestic primary balance (commitment basis, excluding government fuel purchases) posted a surplus of 21 million dobras in June 2025, compared with a deficit of 152 million dobras a year earlier, though it undershot marginally the end-June target.

8. **Credit to the economy expanded by 11 percent (y/y) in September 2025, driven by higher bank financing for fuel imports and projects in construction and manufacturing (Figure 2 and Table 6).** Credit provided by commercial banks for fuel imports to ENCO is guaranteed and serviced by the government. Excluding credit for fuel imports, credit to the economy is projected to shrink by 36 percent for 2025 (Text Figure 1). Base and broad money grew by 29 and 18 percent, respectively, in September, supported by strong inflows of remittances and the export repatriation and surrender requirements. As of June 2025, the banking sector remained sound, with a capital adequacy ratio of 34 percent, liquidity ratio of 55 percent, and non-performing loans stable at about 10 percent, though concentration risks persist and exposure to the government is high, especially after taking into account financing operations for fuel imports.

Text Figure 1. São Tomé and Príncipe: Credit to the private sector, 2020–25

(Percent)



Sources: São Tomé and Príncipe authorities, and Fund staff estimates.

9. **The medium-term outlook has been revised downwards, reflecting slower population growth.** After several years of subpar performance, GDP growth is now projected to rebound to 3.9 percent in 2026, down from 4.7 percent in the First Review under the ECF arrangement, driven by domestic demand supported by remittance inflows and construction activity, as well as solid export performance in tourism and a less front-loaded path for fiscal consolidation. Over the medium term, growth is now projected to be a quarter of a percentage point lower than in the First Review under the ECF arrangement due to the impact of emigration, stabilizing around 3¼ percent. Inflation is projected to decline more gradually, moderating to 11 percent in 2026 and 8.3 percent in 2027, before stabilizing at 5 percent over the medium term.

10. **The current account deficit is projected to widen to 4.6 percent of GDP in 2025, reflecting a significant reduction in project grants, despite lower imports of capital goods and fuel.** Over the medium term, it is expected to remain at around 4–5 percent of GDP, supported by strong exports and falling fuel-related imports. Gross international reserves are projected to rise steadily, reaching 3.1 months of imports by 2027, aided by continued enforcement of the export surrender and repatriation requirements.

11. **The balance of risks remains tilted to the downside (Annex I).** Externally, economic activity is vulnerable to weaker tourism, commodity price volatility, and lower donor support. Domestically, risks stem from prolonged power outages, higher-than-expected costs of energy sector reforms, possible fiscal slippages ahead of the 2026 elections, and climate-related shocks. On the upside, higher cocoa prices and lower oil prices could ease fiscal and external pressures.

12. **The macroeconomic implications of the materialization of one of the main risks are assessed in an adverse scenario (Text Table 2).** In 2024, tourism accounted for roughly two-thirds of total exports. Staff's estimates suggest that a 10 percent decline in tourism activity in both 2025 and 2026 could have a significant negative macroeconomic impact, with larger current account deficits, lower international reserves, lower growth, and lower tax revenues feeding into larger fiscal deficits and higher public debt.

Text Table 2. São Tomé and Príncipe: Adverse Scenario

(Changes Relative to the Baseline)

	2025	2026
Tourism	-10.0	-10.0
GDP growth	-0.5	-0.5
CPI Inflation	0.0	-0.2
Current account (percent of GDP)	-0.6	-0.5
Gross international reserves (millions of USD)	-5.3	-10.8
Domestic primary balance (percent of GDP)	-0.2	-0.1
Public debt (percent of GDP)	0.2	0.3

Source: IMF staff estimates.

Note: All changes are in percentage points (ppt) unless otherwise indicated.

PERFORMANCE UNDER THE ECF ARRANGEMENT

13. **Program performance was broadly satisfactory, and strong corrective measures have been implemented to safeguard the achievement of program objectives (MEFP ¶9-10, MEFP Tables 1-3):**

- Four out of six quantitative performance criteria (QPCs) for the June test date were met, including the floor on NIR which was met by a comfortable margin. The floor on the DPB was missed by 0.2 percent of GDP, due to revenue underperformance and emergency payments made by the government on behalf of the public utility company EMAE (1.5 million euros) to the foreign power producer to avoid power outages. The continuous ceiling on the accumulation of new external payment arrears was also breached, due to severe liquidity constraints, with total external payment arrears accumulated since the completion of the First Review under the ECF arrangement currently standing at around $5.6 million.[1] For both breaches, adopting the domestic revenue mobilization strategy (**PA2** in MEFP Table 2) coupled with the development of a quarterly fiscal cashflow plan (**SB4** in MEFP Table 4) should help avoid a recurrence. In addition, several strong tax policy and revenue administration measures have been incorporated into the draft 2026 budget. Finally, the authorities will clear all external payment arrears accumulated since completing the First Review under the ECF arrangement (**PA4** in MEFP Table 2).

- Three out of the four indicative targets (ITs) were met, including the floor on pro-poor expenditures. The floor on tax revenue was missed by 0.6 percent of GDP, reflecting delays in the implementation of new tax measures. Going forward, domestic revenue mobilization should prevent a recurrence.

- On the structural side, out of a total of fifteen structural benchmarks (SBs) assessed, five were met, three were converted into prior actions (**PA2, PA3,** and **PA5** in MEFP Table 2), and one was implemented with a delay. Two SBs were not met, given legislative delays and capacity constraints, and are proposed to be reset (**SB3** and **SB5** in MEFP Table 4). Four monthly SBs were not met and are not proposed to be reset, as they are not deemed relevant anymore.

POLICY DISCUSSIONS

A. Addressing Macroeconomic Imbalances

Fiscal Policy (MEFP ¶11-17)

14. The authorities argued for a relaxation of the end-December 2025 domestic primary balance target to account for the adverse impact of ongoing power outages on economic activity (Text Table 3). Revenue underperformance is projected at 2.1 percent of GDP in 2025, on the back of power outages and delays in implementing various fiscal measures (such as environmental taxes and the new salary grid which affects revenues from the personal income tax). To partially offset these losses, spending is being reduced by 1.7 percent of GDP through savings from the delayed salary grid, lower transfers, and capped spending on goods and services. As a result, the 2025 domestic primary surplus target (commitment basis, excluding government fuel purchases) is now expected at about 0.5 percent of GDP, down from the programmed 1 percent. Given the unexpected nature of the energy shock and limited scope for further corrective measures late in the fiscal year, staff supports this moderate fiscal loosening, which still reflects continued fiscal consolidation from 2024 on top of the large cumulative fiscal consolidation since 2022.

15. The authorities also emphasized the need to recalibrate the fiscal consolidation path to reflect the downward revision in GDP growth projections. Under the Fund-supported program, the domestic primary surplus (commitment basis, excluding net capital grants for EMAE)

[1] This amount is the sum of several payments due to multiple creditors, most of which were made shortly after their due dates.

was targeted to reach 2.0 percent of GDP by 2027, supported by revenue measures amounting to 3.1 percent of GDP over 2026–27, of which 2.6 percent of GDP was programmed for 2026. The authorities are proposing to postpone the attainment of the target by one year, to 2028. They are also suggesting a revised adjustment package, comprising 2.6 percent of GDP in new revenue measures and 0.5 percent of GDP in spending cuts (wage bill and transfers). Staff supports the proposed fiscal recalibration, as it safeguards public debt sustainability and capacity to repay (see ¶19 and ¶38 below), while supporting growth.

Text Table 3. São Tomé and Príncipe: Deviations of Fiscal Outturns from the Program, 2025

	2025	
	In dobras	In percent of GDP[1]
I. Domestic revenue shortfalls	**-453**	**-2.1**
Tax revenue	-436	-2.1
Consumption taxes	-232	-1.1
Corporate income tax	33	0.2
Personal income tax	-147	-0.7
Others	1	0.0
Import taxes	-91	-0.4
Nontax revenue excl. oil revenue	-17	-0.1
II. Domestic primary expenditure savings	**358**	**1.7**
Current primary expenditure	309	1.5
Personnel costs	187	0.9
Goods and services	115	0.5
Transfers	-38	-0.2
Other current expenditure	45	0.2
Treasury financed capital expenditure	49	0.2
III. Net Impact on Domestic primary balance (commitment basis)[2]	**-96**	**-0.5**

[1] The "program" GDP number was used to facilitate comparison.

[2] Excludes oil related revenues, grants, scheduled interest payments, foreign-financed capital outlays, and expenses related to fuel imports, as defined in the TMU.

16. The authorities have adopted a comprehensive domestic revenue mobilization strategy to support their revenue mobilization efforts (PA2 in MEFP Table 2, see Text Table 4 below and MEFP Text Table 1 for details). In line with FAD TA recommendations, revenue administration efforts focus on improving VAT administration, introducing advance VAT payments on informal sales, and strengthening enforcement and monitoring. Tax policy measures include strengthening the environmental tax on packaging and fuel imports, reforming the import tariff structure, a revenue-increasing shift from import duties toward excises, and reforming the urban property tax. On the non-tax side, the authorities have launched their citizenship-by-investment program, which is expected to generate 0.2 percent of GDP per year. There are implementation risks associated with the tax administration measures, which account for about 40 percent of the planned fiscal adjustment. There also remains scope to further expand the strategy on the tax policy side, particularly with respect to corporate and personal income taxation.

Text Table 4. São Tomé and Príncipe: New Revenue Measures and Yields for 2026–28

(In Percent of GDP)

Category	Summary of Main Measures	2026	2027	2028
I. Revenue Administration		0.5	0.3	0.3
	Refinement of VAT administration; improved enforcement, inspection, and customs modernization.			
	Implementation of digital and automated tax systems.			
II. Tax Policy		0.5	0.3	0.2
	Application and strengthening of environmental and excise taxes; revision of vehicle and fuel taxation.			
	Clarification and enforcement of VAT rules; enhancement of property tax and minimum tax contribution.			
III. Non-Tax Measures		0.4	0.1	0.1
	Implementation of the citizenship-by-investment program; new fisheries agreements and maritime licenses.			
	Creation of the National Fund for Tourism, Environment, and Natural Resources.			
TOTAL (I+II+III)		1.4	0.7	0.5

Source: São Tomé and Príncipe authorities.

17. **For 2026, the authorities are targeting a domestic primary surplus (commitment basis, excluding net capital grants for EMAE) of 0.5 percent of GDP, compared with the initially programmed surplus of 1.5 percent of GDP.** Achieving the revised 2026 fiscal target will still require substantial additional revenue measures amounting to 1.4 percent of GDP, given the equivalent amount of one-off measures (mostly clearance of arrears on customs duties) expiring this year. Text Table 5 below illustrates that the domestic primary balance adjusted for one-off measures is projected to improve by 1.4 percent of GDP in 2026, 1 percent of GDP in 2027, and 0.6 percent of GDP in 2028, for a combined fiscal adjustment of 3.1 percent of GDP over the next 3 years. The authorities have submitted to Parliament a draft 2026 budget consistent with these parameters (**PA1** in MEFP Table 2). Should revenues underperform in 2026, the authorities have committed to reprioritizing spending, particularly for the wage bill and goods and services.

Text Table 5. São Tomé and Príncipe: Selected Economic Indicators, 2025–28

	2025		2026		2027		2028	
	First Review	Proj.	First Review	Proj.	First Review	Proj.	First Review	Proj.
GDP growth (percent)	2.9	2.1	4.7	3.9	3.9	3.9	3.5	3.3
CPI inflation (average, percent)	9.7	11.9	7.0	11.0	5.6	8.3	5.0	6.0
DPB (commitment basis, excluding net capital grants for EMAE, percent of GDP)	1.0	0.5	1.5	0.5	2.0	1.5	2.0	2.0
Adjusted DPB (commitment basis, excluding net capital grants for EMAE, percent of GDP)[1]	-1.1	-1.1	1.5	0.3	2.0	1.3	2.0	1.9
Public debt (percent of GDP)[2]	54.0	54.0	47.7	48.2	43.2	44.8	39.3	42.2
Current account balance (percent of GDP)	-3.4	-4.6	-3.9	-5.3	-4.1	-4.5	-3.9	-3.6
NIR (face value, million US$)	0.1	7.8	8.0	15.7	21.9	30.0	34.2	44.6
GIR (face value, million US$)	60.0	72.7	67.9	80.3	86.9	99.9	93.1	107.8

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

[1] Adjusted for one-off revenue measures (arrears clearance).

[2] Total public and publicly guaranteed debt as defined in the DSA, which includes EMAE's debt to ENCO.

18. **Regarding government financial support to EMAE for fuel imports, the authorities have agreed with the treatment in Tables 2a-2b.** These transactions are recorded as above-the-line capital transfers, consistent with IMF technical assistance advice. In addition, the authorities have agreed to including these capital transfers in the calculation of the QPC on domestic primary balance, starting in January 2026. The authorities indicated they will continue to treat these operations as advances to EMAE and therefore as below-the-line financing, but also agreed, for transparency purposes, to include explicit budget appropriations for them starting with the 2026 budget. They also committed to: (i) establishing a monitoring system for letters of credit; (ii) recognizing government liabilities upon credit issuance; and (iii) implementing a monitoring and reconciliation framework among the Ministry of Economy and Finance, EMAE, and the fuel importer ENCO. In addition, the fiscal adjustment plans discussed in ¶15 above does not include the

programmed gradual reduction in net capital grants to EMAE, from 1.8 percent of GDP in 2024 to -0.6 percent of GDP in 2028.

Debt Management (MEFP ¶18-20, DSA Annex)

19. The outlook for debt sustainability remains broadly unchanged; however, external debt vulnerabilities are increasing. The country remains in debt distress owing to longstanding external arrears amounting to 1.3 percent of GDP. The DSA incorporates a new non-concessional loan agreement with BADEA to partially finance a new hospital project. Separately, the DSA has also reclassified EMAE's arrears to the foreign power company as PPG debt. In addition, letters of credit for fuel imports have been included as PPG debt. All these changes are consistent with debt sustainability. Finally, the authorities will clear all external payment arrears accumulated since completing the First Review under the ECF arrangement (**PA4** in MEFP Table 2).

20. Strengthening debt management is critical to preserving debt sustainability. The authorities plan to develop a medium-term public debt management strategy by the end of 2027 and have started preparing an annual borrowing plan. Given the repeated breaches of the QPC on external arrears, they also recognize the importance of developing a quarterly cashflow plan and are working with AFRITAC on adopting the Cash Flow Analysis Tool (CFAT). As a corrective measure they have also committed to adopting the domestic revenue mobilization strategy (**PA2** in MEFP Table 2). In addition, with support from the World Bank, they are developing a debt database that has recently completed the first phase of implementation and will report detailed debt statistics. The authorities are also improving their capacity to perform debt service projections and risk analyses.

Energy Sector and SOE Fiscal Risks (MEFP ¶21-25)

21. The authorities remain committed to a rules-based fuel pricing mechanism to prevent fuel subsidies and contain fiscal risks. The mechanism, established under the GAMAP decree law, ensures full cost recovery and transparency in fuel pricing. However, the mechanism has been applied inconsistently, with pump prices typically above cost-reflective levels over the past three years. In October 2025, the authorities decreased retail prices for gasoline and diesel by 6 percent and 3 percent, respectively. In November, they adjusted fuel prices again to ensure that pump prices of diesel, gasoline and kerosene are aligned with the formula (**PA3** in MEFP Table 2). Going forward, the authorities proposed shifting from monthly to quarterly fuel price adjustments, to better align with actual fuel supply patterns (**SB1** in MEFP Table 4). Staff concurs that monthly fuel price adjustments have proven impractical, given that, on average, the country receives only 8 fuel shipments per year.

22. The authorities are committed to advancing the implementation of the comprehensive energy reform strategy (Annex II). The strategy is centered on implementing the Action Plan for the Decarbonization and Resilience of the Energy Sector (PADRES) and the National Energy Compact, both developed with help from the World Bank. The strategy is anchored on two key pillars: (i) expanding electricity generation capacity through a transition toward renewable energy sources, notably solar and hydropower; and (ii) restructuring the public utility company, EMAE, to enhance its efficiency and financial sustainability. Under the first pillar, several renewable energy projects are underway with support from development partners. Under the second pillar, the authorities have adopted a time-bound restructuring plan for EMAE. The plan covers financial, operational, and organizational/workforce restructuring, including an overhaul of management and governance. They are committed to raising again electricity tariffs by end-2025. The authorities will also continue the quarterly publication of EMAE's key performance indicators (**SB9** in MEFP Table 4) to enhance transparency and accountability, and will proceed with the recruitment of a concessionaire to manage the company's commercial operations (**SB10** in MEFP Table 4). They will acquire and install an Information Management System for EMAE by December 2026.

Monetary Policy (MEFP ¶26-28)

23. The BCSTP will further tighten its monetary policy stance to contain inflation, which has proven more persistent than previously anticipated. The authorities concurred with staff's assessment that while inflationary pressures are primarily driven by supply-side constraints, ample liquidity has also contributed. In this context, the BCSTP will continue to conduct CD auctions in order to reduce estimated excess reserves below STN 250 million (STN 275 million previously) until the six-month moving average of core inflation declines below 3.1 percent (**SB7** in MEFP Table 4). In addition to CD auctions, the central bank plans to experiment with FX sales to absorb excess liquidity, provided such operations are aligned with achieving the NIR targets under the program.

24. To boost demand for CDs, the BCSTP will hold weekly auctions with a clear issuance calendar and allow multi-rate bidding to enhance price discovery. CD rates will be gradually aligned with the policy interest rate corridor through the standing deposit and lending facilities. The BCSTP will also improve liquidity forecasting. Coordination with the Ministry of Economy and Finance is key in this regard.

B. Strengthening Governance

Public Financial Management (MEFP ¶29)

25. The authorities will intensify efforts to strengthen fiscal governance:

- They will revoke the Temporary Law on Investment Incentives (**SB2** in MEFP Table 4) and adopt and enact the Public Procurement Law (**SB3** in MEFP Table 4). A quarterly fiscal cash flow plan will be introduced in 2026 to help prevent arrears (**SB4** in MEFP Table 4). To enhance accountability, the authorities will publish the audits of the government's 2023 and 2024 annual financial statements (**SB5** and **SB6** in MEFP Table 4). They will also regularly publish semi-annual budget execution reports to improve the timeliness and reliability of fiscal information.

- By end-2025, the PFM reform unit (GARFIP) will be fully staffed, and a modern, interoperable IFMIS procured, with pilot implementation for the 2027 budget. Full transparency will be ensured in managing the National Transformation Fund, with all revenues and expenditures from the new Citizenship-by-Investment Program integrated into the budget and annual reports submitted to the government and National Assembly. The authorities are committed to strengthening public investment management, and an IMF TA mission will conduct a C-PIMA in early 2026.

Central Bank Governance and Financial Sector Oversight (MEFP ¶30-32)

26. The authorities recognize that efforts to further strengthen the BCSTP's governance crucially depend on the timely appointment of all the members of the new Board of Directors. Following these appointments, the authorities are fully committed to advancing the following priority reforms: (i) signing a Memorandum of Understanding with the government to clarify obligations related to the May 2023 FX swap derivative and other legacy debts; (ii) completing and publishing the 2024 external audits and restoring timely audit cycles; (iii) strengthening the internal audit function; (iv) preparing, reporting, and publishing the BCSTP's FY2025 financial statements under IFRS (**SB8** in MEFP Table 4); and (v) recapitalizing the central bank.

27. The authorities are advancing efforts to strengthen the banking sector's stability. The draft Financial Institutions Law was approved by the Council of Ministers and submitted to the National Assembly in August, which has returned it to the government for minor revisions. The law should be enacted by March 2026, and seeks to reinforce the legal framework for bank regulation and supervision. Progress is being made in refunding Banco Privado's outstanding deposits, and efforts will continue to expedite the judicial liquidation of Energy Bank and Banco Equador.

C. Advancing Structural Reforms to Boost Export Potential and Create Inclusive Growth (MEFP ¶33-36)

28. The authorities have adopted their new National Strategy for Sustainable Development 2026-40 (ENDS), aimed at guiding STP toward a prosperous, inclusive, and sustainable future. The strategy is structured around four key pillars: human capital development, inclusive economic growth, environmental sustainability, and state reform. The accompanying medium-term term action plan (2026-28) places a strong emphasis on competitiveness and growth, with the private sector expected to play a key role. The plan identifies four key priority sectors with significant growth potential: tourism, agriculture, fisheries, and financial services. Additionally, the plan underscores the importance of prudent fiscal management and commits to developing a resource mobilization strategy to ensure sustainable funding of the various sectoral programs.

29. Overall, ENDS is a comprehensive long-term strategy that aligns closely with the policies pursued under the ECF arrangement and meets the minimum requirements for a Poverty Reduction and Growth Strategy (PRGS). Developed through broad consultations across government and with political parties, civil society, the private sector, and development partners, it emphasizes human capital development, fiscal sustainability, and social protection to reduce poverty and enhance resilience. The strategy is grounded in conservative macroeconomic projections. Its priorities, focus on domestic resource mobilization, governance and debt management reforms are consistent with the objectives of the Fund-supported program. With regard to sectoral policies, staff encourages the authorities to intervene only when there are clearly identified market failures, and to regularly assess the effectiveness and efficiency of public support measures.

30. The authorities are committed to expanding the country's export potential, particularly for tourism. A key priority is to develop a plan to remove locally certified airlines from the EU's Air Safety blacklist (**SB11** in MEFP Table 4). Other planned interventions include investment in tourism infrastructure, promoting tourism products, and tapping into new markets. These measures will boost international arrivals, strengthen the sector's competitiveness, and improve the country's external position.

PROGRAM MODALITIES (MEFP ¶39-41)

31. The authorities are requesting waivers for the non-observance of the performance criteria related to the floor on the domestic primary balance and the non-accumulation of external payment arrears. The first breach was minor and both are attributed primarily to the weaker economy which affected revenue performance, emergency payments made by the government on behalf of the public utility company to a foreign power producer to avoid power outages, as well as severe liquidity constraints. As corrective measures, the authorities have committed to: (i) adopting the domestic revenue mobilization strategy; (ii) developing a quarterly fiscal cashflow plan; and (iii) clearing all external payment arrears accumulated since completing the First Review under the ECF arrangement. Given the strength of the proposed corrective measures, staff supports these requests. Given capacity constraints in debt management, staff also supports a change in the TMU language for the continuous performance criterion on the non-accumulation of external payment arrears, so that external debt service obligations will be considered in arrears only when they have not been paid within 30 days after the due date (TMU ¶13).

32. As a sign of their commitment to the Fund-supported program, the authorities will implement five prior actions before the Board consideration of the Second Review under the ECF arrangement. To address macroeconomic imbalances, they have submitted to Parliament the 2026 budget in line with the agreed program parameters. To support domestic revenue mobilization efforts, the Council of Ministers has adopted a domestic revenue mobilization strategy for 2026-28. To align fuel prices with the cost of fuel, they have adjusted the pump prices of diesel, gasoline, and kerosene to align them with the formula in the GAMAP Decree Law. To maintain credibility with the country's creditors, they will clear all external payment arrears of the central government accumulated since completing the First Review under the ECF arrangement. To curb inflation and support the peg to the euro, the central bank has reduced estimated excess reserves in local currency below STN 275 million.

33. The authorities are also requesting a 12-month extension of the ECF arrangement through April 2029 combined with an augmentation of access. Staff agrees that the proposed extension and augmentation would provide additional time and resources to advance the shift from fossil fuels to renewable sources of energy, cover the additional US$6 million balance of payments gap in 2028, complete the planned fiscal adjustment, and support the continued implementation of the reform agenda, particularly in the energy sector. In this context, staff and the authorities agreed to strengthen energy-sector conditionality. Key measures include finalizing the negotiations on an IFC-supported solar project, continuing to implement annual electricity tariff adjustments, hiring a concessionaire to manage EMAE's commercial operations (**SB10** in MEFP Table 4), and installing a new information management system. These measures are expected to improve the financial viability of the energy sector, reduce fiscal risks arising from EMAE, and strengthen external sustainability by lowering dependence on imported fuel.

34. Staff supports this request and proposes an augmentation of SDR 4.44 million (30 percent of quota), with two additional reviews and disbursements of SDR 2.22 million (15 percent of quota) each in 2028 (Tables 9a-9b). Total access under the ECF arrangement would rise to 155 percent of quota. The entire augmentation would not be for budget support but instead would support the rebuilding of BCSTP reserves and is expected to catalyze additional donor financing in 2028 from the World Bank (US$7 million), AfDB (US$5.5 million), and the EU (US$1.4 million, Text Table 6). IMF financing would represent about 30 percent of total IFI support for BOP and budget needs in 2028.

35. The authorities have requested modifications to the quantitative targets to reflect the downward revisions to GDP growth projections and the revised path of fiscal adjustment (MEFP Table 1). Specifically, they proposed lowering by 0.5 percent of GDP the end-December 2025 QPC on the DPB to account for the impact of the ongoing energy crisis. Beginning with the March 2026 test date, the QPC and IT on the domestic primary balance (DPB) will include government support to EMAE for fuel purchases (and the IT on the government's net financing of fuel imports will be dropped). Proposed revisions to the NIR targets stem solely from changes in projected budget support. In addition, new targets for QPCs and ITs are being proposed for end-September and end-December 2026. Finally, an exception to the program's zero ceiling on non-concessional external borrowing is proposed to accommodate the high-value hospital project partly financed by BADEA. In line with the signals-based approach,[2] the project is recognized as critical for national development as it is financed by a multilateral development bank (BADEA) and provides key heath infrastructure otherwise unavailable in the country. In addition, the authorities' new National Strategy for Sustainable Development clearly identifies human capital development, including health infrastructure expansion, as one of its four pillars (see ¶28-29 above). Staff has also established that no alternative concessional financing is available.

36. Five new SBs are being proposed, and two SBs are proposed to be reset to March 2026 (MEFP Table 4). The proposed new SBs cover: (i) revoking the Temporary Law on Investment Incentives to increase the efficiency and transparency of public procurement; (ii) developing a quarterly fiscal cashflow plan to improve liquidity management and help prevent the recurrence of arrears; (iii) publishing the Court of Auditors' report and opinion on the government's 2024 annual financial statements to increase fiscal transparency and accountability; (iv) publishing the BCSTP's FY2025 financial statements under IFRS to improve central bank transparency and governance; and (v) signing a contract with a concessionaire to manage EMAE's commercial operations in order to achieve financial viability for EMAE. Given legislative delays and capacity constraints, two SBs are

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[2] The signals-based approach is detailed in the Guidance Note on Implementing the IMF Debt Limits Policy in Fund Supported Programs.

proposed to be reset: the enactment of the new Public Procurement Law and the audit of the government's 2023 annual financial statements.

37. **The financing assurances review indicates that adequate safeguards remain in place for further use of Fund resources.** External financing will continue to play a crucial role in closing the financing gaps and ensuring the success of the program (Table 7 and Text Table 6). Firm commitments are in place to ensure the program is fully financed over the next 12 months, and good prospects exist for adequate financing for the remaining program period. STP's outstanding official external arrears total US$10.8 million (1.3 percent of GDP), owed to Angola, Brazil, and Equatorial Guinea, all of which have consented to Fund financing notwithstanding these arrears. For sovereign external arrears to private creditors, the Lending into Arrears Policy applies. The authorities are making good faith efforts to reach a collaborative agreement with private creditors, as well as facilitating discussions between debtors and creditors on non-sovereign external arrears, such as ENCO's debt to Sonangol.

Text Table 6. São Tomé and Príncipe: IMF Disbursements and Official Inflows

(In Millions of US Dollars)

	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.	2030 Proj.
Total 1/	**102.6**	**89.2**	**92.0**	**76.7**	**59.9**	**54.5**
Grants 2/	**73.5**	**70.7**	**70.2**	**57.9**	**45.0**	**42.9**
World Bank 3/	40.3	50.2	49.7	37.4	24.5	22.4
African Development Bank	18.3	8.2	8.2	8.3	8.3	8.3
Project grants	2.7	2.7	2.8	2.8	2.8	2.8
Program grants, including Nigeria Trust Fund	15.6	5.5	5.5	5.5	5.5	5.5
European Union (EU)	4.1	4.3	4.3	4.3	4.3	4.3
Project grants	2.8	2.9	2.9	2.9	2.9	2.9
Program grants	1.4	1.4	1.4	1.4	1.4	1.4
Other project grants	5.0	5.0	5.0	5.0	5.0	5.0
China	4.0	4.0	4.0	4.0	4.0	4.0
Japan	1.0	1.0	1.0	1.0	1.0	1.0
Other budget support grants	5.8	3.0	3.0	3.0	3.0	3.0
France/AFD	2.3	0.0	0.0	0.0	0.0	0.0
Timor-Leste	0.5					
Other	3.0	3.0	3.0	3.0	3.0	3.0
Loans	**29.1**	**18.5**	**21.8**	**18.8**	**14.9**	**11.5**
IMF	8.2	5.8	5.8	6.1		
Project loans 4/	6.2	12.7	16.0	12.6	14.9	11.5
Budget support loans	14.7	0.0	0.0			
Portugal	14.7					

Sources: São Tomé and Príncipe authorities; AfDB, World Bank, and Fund staff estimates.

[1] Some of the financing is pending approval.

[2] Grants amount excludes HIPC interim assistance.

[3] IDA financing figures are based on assumptions. Actual financing will depend on country performance, and other operational factors. Actual performance-based allocations (PBA) will be determined annually and will depend on (a) total IDA resources available; (b) the number of IDA-eligible countries; (c) the country's performance rating, per- capita gross national income, and population; (d) implementation of IDA's Sustainable Development Finance Policy (SDFP); and (e) the performance and other allocation parameters for IDA borrowers. IDA allocations and terms could significantly change because of adjustments to the IDA Grant Allocation Framework in new IDA cycles (https://ida.worldbank.org/en/home).

[4] The project loan amounts presented here and incorporated into the fiscal and balance of payments projections apply a historical execution rate to the forecasts used in the DSA.

38. **Despite the proposed augmentation, STP's capacity to repay the Fund remains adequate, but subject to significant risks (Table 8 and Annex III).** Outstanding Fund credit

would peak at 4.4 percent of GDP, 27.3 percent of exports, and 59 percent of GIR in 2025. Payments to the Fund would reach a maximum of 7.0 percent of GIR in 2026 and 3.2 percent of exports in 2027. As shown in Annex Figure 1 in Annex III, three of STP's CtR indicators are above the interquartile range for other PRGT borrowers, while two indicators are above the interquartile range only in the early forecast years. STP's weak debt-carrying capacity and uneven track record on structural reforms amplify these risks. However, the ongoing economic recovery, energy sector reforms, and fiscal adjustment, together with reliance on grants and concessional lending, provide important mitigating factors. Over the medium term, boosting the country's export potential and building up its SDR holdings will also help reduce risks.

39. Program implementation risks remain sizeable but are assessed as manageable. Key risks include potential policy slippages and weakening of reform momentum in the run-up to elections in 2026 and delays in implementing EMAE reforms. Overall, staff considers these risks to be manageable, supported by broad political consensus around program objectives, continued donor engagement through financial and technical assistance, and strengthened program conditionality, particularly in the energy sector.

STAFF APPRAISAL

40. São Tomé and Príncipe's recovery is confronted with unfavorable demographic dynamics, an ongoing energy sector crisis, and delays in the energy transition. Growth projections have been revised downward, while inflation remains persistently high, driven primarily by supply-side pressures, though demand factors have also contributed. Despite these challenges, the medium-term outlook remains broadly positive, contingent on steadfast implementation of energy sector reforms, supported by sustained donor engagement, to engineer the energy transition and restructure EMAE.

41. Program performance was broadly satisfactory. Four of the six end-June 2025 QPCs were met. One of the two breaches, related to the domestic primary balance (DPB), was minor. Resolute implementation of the newly approved domestic revenue mobilization strategy, alongside the development of a quarterly fiscal cashflow plan, should help prevent recurrence. As a prior action for this review, all external arrears will be cleared. Three of the four indicative targets (ITs) were also met. On the structural side, out of a total of fifteen structural benchmarks assessed, five were met, three were converted into prior actions, and one was implemented with a delay.

42. A more gradual and less front-loaded path for fiscal adjustment is appropriate, especially after taking into account the large cumulative fiscal consolidation since 2022. The authorities should intensify efforts to mobilize domestic revenue to achieve domestic primary balance targets. Staff welcomes the adoption of a comprehensive medium-term domestic revenue mobilization strategy to anchor fiscal consolidation efforts. While commending the inclusion in the strategy of measures aimed at strengthening VAT administration, rebalancing the tax mix from import duties toward excise taxes, and enhancing overall revenue administration, staff notes that there remains scope to further expand the strategy on the tax policy side, particularly with respect to corporate and personal income taxation. Continued capacity development is required to ensure the effective implementation of the measures outlined in the domestic revenue mobilization strategy.

43. Fiscal consolidation efforts should be complemented by public financial management (PFM) reforms to enhance transparency, accountability, and value-for-money of public spending. Key priorities include the repeal of the Temporary Law on Investment Incentives, adoption of the long-overdue Public Procurement Law, and publication of the audits of the government's 2023 and 2024 annual financial statements. Staff welcomes the authorities' commitment to ensure the highest governance, transparency, and accountability standards for the new Citizenship-by-Investment Program and the National Transformation Fund it will finance. Staff also welcomes the authorities' commitment to strengthening public investment management.

44. It is necessary to further tighten the monetary policy stance to contain persistent inflationary pressures, while reforms to strengthen the BCSTP's governance framework and safeguard financial sector stability should be accelerated. Following the appointment of all the members of the new BCSTP Board of Directors, the top priority is to fully operationalize the new central bank organic law and implement key safeguards recommendations. Priority actions include clarifying legacy obligations, restoring timely external audits, strengthening internal audit, preparing IFRS-based financial statements, and recapitalizing the BCSTP. Staff welcomes progress on the draft Financial Institutions Law, which will reinforce the supervisory and regulatory framework, and encourages swift adoption and enactment, as well as more decisive actions to resolve insolvent banks and preserve financial stability.

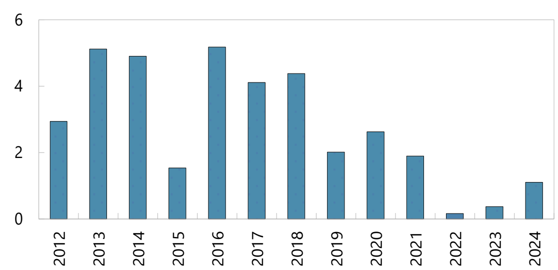
45. Staff commends the authorities for the preparation of the new National Strategy for Sustainable Development, which is well aligned with the objectives of the ECF-supported program. The inclusive formulation process and the strong emphasis placed on enhancing human capital, reinforcing fiscal sustainability, and strengthening social protection to reduce poverty and bolster resilience are all consistent with the program's priorities. With regard to sectoral policies, staff encourages the authorities to intervene only when there are clearly identified market failures, and to regularly assess the effectiveness and efficiency of public support measures. In all cases, such sectoral interventions should complement broad-based structural reforms aimed at addressing critical bottlenecks to private sector development.

46. Based on the program performance and the authorities' commitment to the overall program objectives, staff supports the authorities' request for completion of the second ECF review under the ECF arrangement and for waivers of non-observance of performance criteria. Staff also supports the authorities' request for modifications of QPCs and ITs for December 2025 and for March and June 2026. Finally, staff supports the authorities' request for completion of the financing assurances review. Completion of the second review under the ECF arrangement allows the immediate disbursement of SDR 2.114286 million (14.29 percent of quota). In addition, staff supports the authorities' request for a 12-month extension of the 40-month ECF arrangement approved in December 2024, as well as an access augmentation of SDR 4.44 million (30 percent of quota).

Figure 1. São Tomé and Príncipe: Macroeconomic Developments, 2010–25

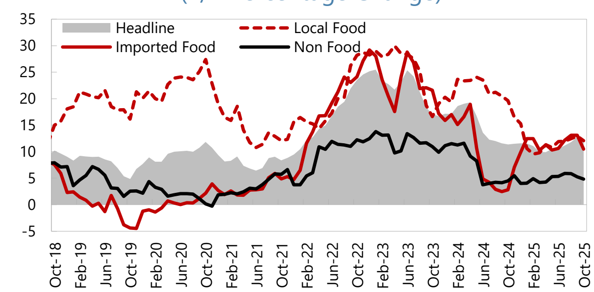
Growth was anemic in 2022-24, due to FX and energy shortages.

Real GDP
(Annual Percentage Change)



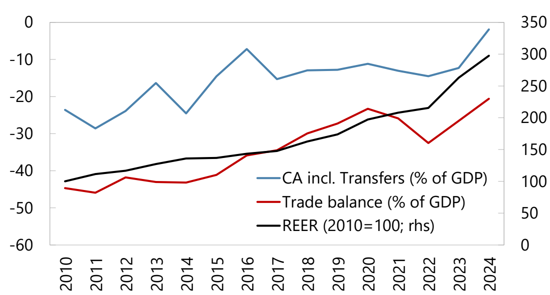
Overall inflation has gradually declined, in tandem with food inflation, but remains stuck in the low double digits.

Consumer Price Index
(Y/Y Percentage Change)



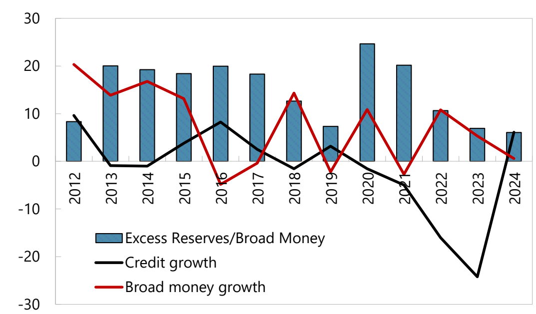
The CA deficit narrowed significantly in 2024, reflecting a better trade balance and an uptick in official transfers.

Current Account Balance and REER
(As Indicated)



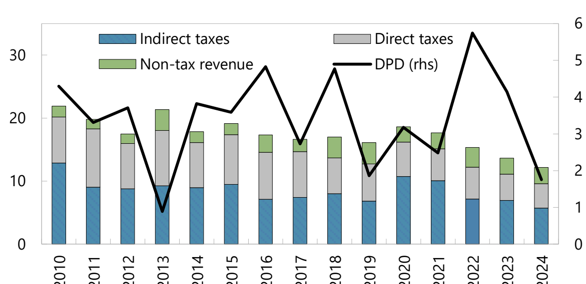
Credit growth to the economy turned positive in 2024, for the first time in years.

Liquidity, Credit and Broad Money
(Percent)



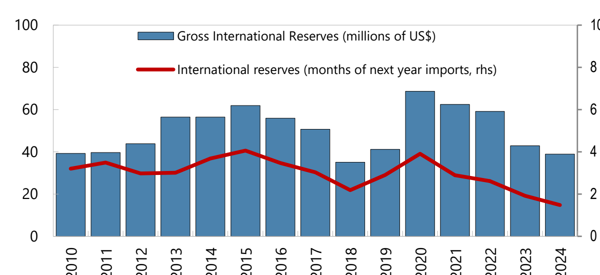
The domestic primary deficit continued to narrow in 2024, mainly due to spending restraint.

Government Revenue and Primary Balance
(Percent of GDP)



FX reserves declined further in 2024, reflecting delays in donor support.

International Reserves
(As Indicated)



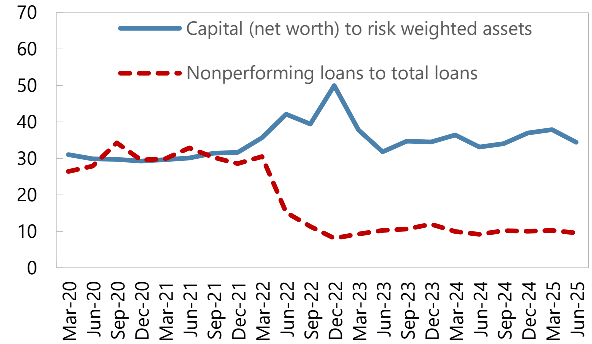
Sources: São Tomé and Príncipe authorities, and Fund staff estimates.

Figure 2. São Tomé and Príncipe: Banking Sector, 2015–25

Bank capital jumped due to new regulations in 2022, but has stabilized at lower levels since then.

Capital Adequacy and NPLs

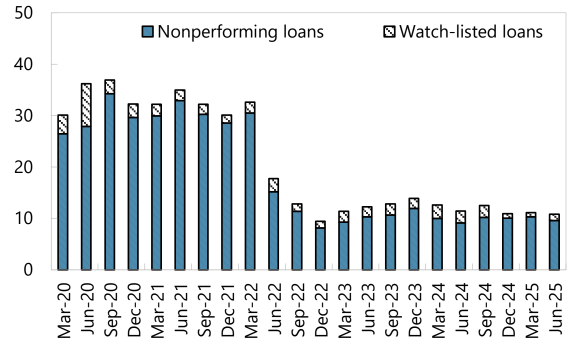
(Percent)



NPLs dropped in 2022 due to new regulations, but have stabilized at somewhat higher levels since then.

Past Due Loans to Gross Loans

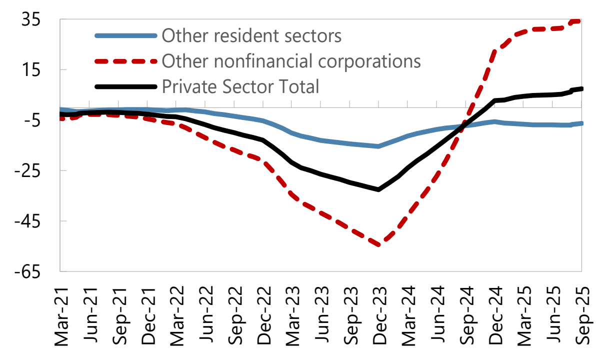
(Percent)



Credit to the economy recently increased, mainly due to fuel imports and new projects in manufacturing and construction.

Growth in Credit to the Economy

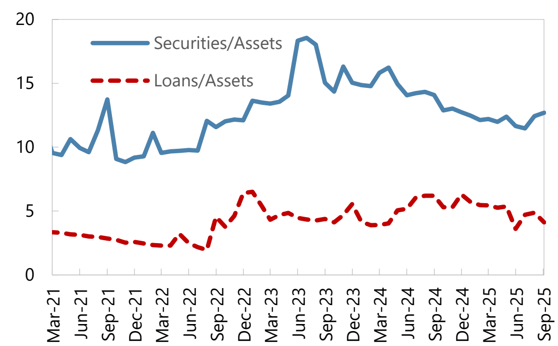
(Percent, 12-Month Moving Average)



Banks' exposure to the government (excluding fuel imports) is elevated but has trended downwards in recent years.

Government Securities and Claims

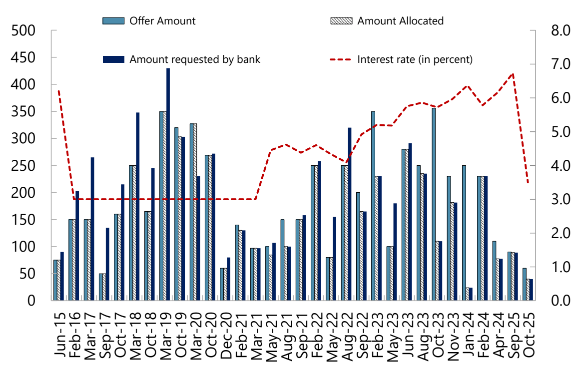
(Percent of Total Commercial Banks' Assets)



Historically, the central bank relied mostly on the placement of T-bills by the MoF to absorb excess liquidity.

T-Bill Auctions

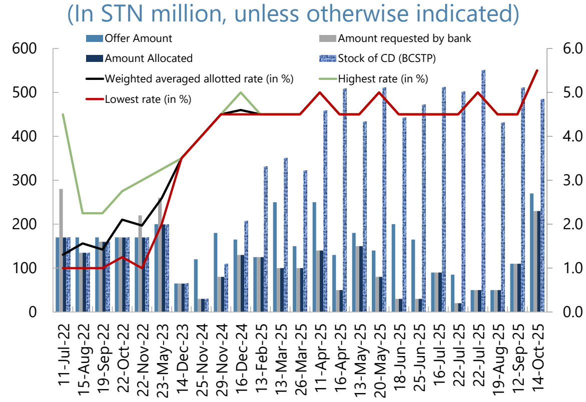
(In STN million, unless otherwise indicated)



Since late 2024, the BCSTP has started actively issuing Certificates of Deposits to manage liquidity conditions.

CD Auctions

(In STN million, unless otherwise indicated)



Sources: São Tomé and Príncipe authorities, and Fund staff estimates.

Table 1. São Tomé and Príncipe: Selected Economic Indicators, 2022–30

(Annual Change in Percent, unless otherwise indicated)

	2022	2023	2024	2025		2026		2027	2028	2029	2030
			Est.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
National Income and Prices											
GDP at constant prices	0.2	0.4	1.1	2.9	2.1	4.7	3.9	3.9	3.3	3.3	3.3
GDP deflator	15.8	23.7	17.7	9.5	11.5	6.4	10.0	7.5	6.0	5.6	5.7
Consumer prices (End of period)	25.2	17.1	11.6	7.8	12.2	6.1	9.7	6.9	5.0	5.0	5.0
Consumer prices (Period Average)	18.0	21.2	14.4	9.7	11.9	7.0	11.0	8.3	6.0	5.0	5.0
External Trade											
Exports of goods and nonfactor services	18.5	17.7	21.4	15.5	13.7	8.2	14.7	10.2	9.5	8.8	7.5
Imports of goods and nonfactor services	23.2	4.5	-0.1	17.3	11.4	-8.7	12.9	6.8	5.0	9.2	7.7
Exchange rate (dobras per US$; end of period) [1]	23.1	22.5	23.4	...	...	...	...	...	...	...	...
Real effective exchange rate (period average, depreciation = -)	3.5	22.1	13.3	...	...	...	...	...	...	...	...
Money and Credit											
Base money	-1.7	-11.6	23.6	3.6	24.9	5.0	13.5	8.4	5.6	4.0	3.7
Broad money (M3)	10.8	5.3	0.6	5.1	10.6	11.4	9.6	8.4	7.9	6.1	5.8
Credit to the economy	-16.0	-24.2	6.1	5.8	9.1	5.7	8.5	8.1	7.3	6.0	5.9
Velocity (GDP to broad money; end of period)	3.5	4.2	4.9	5.3	5.1	5.3	5.3	5.5	5.6	5.7	5.9
Central bank reference interest rate (percent)	9.5	10.0	10.0	...	...	...	...	...	...	...	...
Average bank lending rate (percent)	17.9	17.8	17.8	...	...	...	...	...	...	...	...
Government Finance (in Percent of GDP)											
Total revenue, grants, and oil signature bonuses	25.5	21.8	24.7	27.7	21.2	22.1	20.5	21.4	22.2	21.7	21.8
Of which: tax revenue	10.6	11.3	10.7	13.3	11.1	13.7	11.4	12.4	13.3	13.4	13.5
Nontax revenue	3.1	2.5	2.6	3.3	2.3	3.3	2.8	2.9	3.0	3.0	3.0
Grants	11.7	8.0	11.4	11.1	7.8	5.1	6.3	6.1	6.0	5.4	5.3
Total expenditure and net lending	27.7	23.9	23.8	26.4	21.2	19.7	20.4	19.8	19.3	19.1	19.0
Personnel costs	9.2	7.7	6.9	8.0	7.1	8.4	8.1	8.1	8.1	8.1	8.1
Interest due	0.5	0.7	0.7	1.1	0.8	0.6	0.9	0.6	0.6	0.5	0.5
Nonwage noninterest current expenditure	7.0	9.3	7.2	5.8	6.8	5.3	5.2	4.8	4.6	4.6	4.6
Treasury funded capital expenditures	2.4	0.3	0.1	2.7	0.1	1.4	0.3	0.4	0.4	0.6	0.8
Donor funded capital expenditures	8.5	5.8	8.8	8.7	6.3	3.8	5.7	5.8	5.5	5.1	4.8
HIPC Initiative-related capital expenditure	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Domestic primary balance (commitment basis, including net capital grants for EMAE) [2]	-5.7	-4.1	-1.8	-0.7	-1.1	1.2	0.0	1.5	2.6	2.5	2.5
Net domestic borrowing	4.6	3.6	0.0	-2.2	-2.4	-1.9	-0.1	-2.0	-2.9	-2.8	-2.6
Overall balance (commitment basis)	-2.2	-2.1	0.9	1.3	0.0	2.4	0.1	1.6	2.9	2.6	2.8
Public Debt [3]	86.8	73.2	65.2	54.0	54.0	47.7	48.2	44.8	42.2	40.1	37.2
Of which: EMAE's debt to ENCO	33.3	28.3	23.1	20.5	19.3	18.2	16.2	14.5	13.1	12.0	10.9
External Sector											
Current account balance (percent of GDP)											
Including official transfers	-14.5	-12.3	-2.2	-3.4	-4.6	-3.9	-5.3	-4.5	-3.6	-4.2	-4.3
Excluding official transfers	-26.2	-20.3	-13.6	-14.6	-12.4	-9.0	-11.6	-10.7	-9.6	-9.6	-9.6
PV of external debt (percent of GDP)	26.6	27.2	32.0	24.1	28.6	21.5	25.1	23.3	21.7	20.1	18.3
External debt service (percent of exports) [4]	6.2	4.7	7.7	10.3	10.2	11.9	11.2	10.5	9.7	8.0	8.1
Export of goods and non-factor services (US$ millions)	97.0	114.1	138.5	160.0	157.5	173.0	180.6	199.1	218.0	237.2	255.1
Gross international reserves (face value) [5]											
Millions of U.S. dollars	59.2	42.9	38.9	60.0	72.7	67.9	80.3	99.9	107.8	116.1	125.5
Months of imports of goods and services	2.6	1.9	1.5	2.5	2.6	2.6	2.6	3.1	3.1	3.1	3.1
Months of imports of goods and nonfactor services [6]	3.4	2.7	2.2	3.7	3.9	3.8	4.1	4.9	4.7	4.7	4.7
National Oil Account (stock, US$ millions)	15.7	16.6	19.6	21.0	19.7	22.8	19.6	19.9	20.6	21.5	22.7
Prospective financing (US$ millions)	...	...	...	**47.8**	**55.9**	**23.1**	**22.7**	**22.7**	**23.0**	**16.9**	**16.9**
Prospective nonproject grants and concessional loans	...	...	...	39.7	47.7	17.5	16.9	16.9	16.9	16.9	16.9
ECF disbursements	...	...	...	8.1	8.2	5.6	5.8	5.8	6.1	0.0	0.0
Memorandum Item											
Gross Domestic Product											
Millions of dobra	12,690	15,762	18,756	21,130	21,355	23,532	24,407	27,256	29,830	32,518	35,498
Millions of U.S. dollars	546	696	828	929	985	1,040	1,163	1,298	1,421	1,549	1,691
Per capita (in U.S. dollars)	2,412	3,014	3,517	3,866	4,098	4,245	4,746	5,198	5,580	5,967	6,392

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

[1] Central Bank (BCSTP) mid-point rate.

[2] Excludes oil related revenues, ENCO debt repayment, grants, scheduled interest payments, foreign-financed capital outlays, as defined in the TMU.

[3] Total public and publicly guaranteed debt as defined in the DSA, which includes EMAE's debt to ENCO.

[4] Percent of exports of goods and nonfactor services.

[5] Gross international reserves as defined in the TMU.

[6] Imports of goods and services excluding imports of investment goods and technical assistance.

Table 2a. São Tomé and Príncipe: Financial Operations of the Central Government, 2022–30

(Millions of Dobra)

	2022	2023	2024	2025		2026		2027	2028	2029	2030
			Est.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants[1]	**3,232**	**3,434**	**4,636**	**5,860**	**4,528**	**5,204**	**5,006**	**5,833**	**6,624**	**7,071**	**7,730**
Total revenue	1,747	2,177	2,498	3,512	2,864	4,000	3,456	4,163	4,836	5,309	5,845
Of which: new tax and nontax measures						619	342	572	776	845	923
Tax revenue	1,348	1,780	2,015	2,815	2,379	3,224	2,774	3,384	3,953	4,346	4,794
Consumption taxes	248	516	644	1,031	799	959	1,025	1,233	1,538	1,677	1,831
Corporate income tax	91	104	138	151	184	169	235	352	415	457	499
Personal income tax	396	415	465	644	497	717	666	798	903	984	1,075
Import taxes	461	604	640	949	858	693	752	862	944	1,029	1,173
Other taxes	151	139	128	40	41	68	96	139	153	199	217
Nontax revenue	399	397	483	536	485	776	683	779	883	963	1,051
of which: oil revenue	114	92	143	120	86	134	79	88	97	105	115
Of which: citizenhsip by investment				...		...	47	52	57	0	0
Grants	1,484	1,258	2,138	2,348	1,664	1,204	1,549	1,670	1,788	1,762	1,885
Project grants	1,006	813	1,531	1,367	874	733	1,124	1,255	1,374	1,348	1,471
Nonproject grants[2]	418	360	569	904	716	395	355	355	355	355	355
HIPC Initiative-related grants	61	85	38	77	73	76	71	60	60	59	59
Total expenditure	**3,516**	**3,770**	**4,464**	**5,585**	**4,528**	**4,633**	**4,970**	**5,396**	**5,766**	**6,209**	**6,736**
Of which: domestic primary expenditure	2,362	2,737	2,685	3,029	3,013	3,340	3,369	3,655	3,961	4,380	4,845
Current expenditure	2,121	2,787	2,768	3,148	3,139	3,374	3,475	3,668	3,981	4,329	4,718
Personnel costs	1,169	1,214	1,287	1,698	1,510	1,985	1,988	2,220	2,430	2,649	2,891
Interest due	70	113	133	222	180	152	211	150	165	169	177
Goods and services	262	297	337	455	340	507	420	469	514	560	611
Transfers	370	937	767	526	908	527	667	618	642	700	764
of which : Capital grants for EMAE (net)		506	338	...	344		155	-17	-184	-184	-184
Capital grants (gross)		506	505	...	505		339	167	0	0	0
Repayments by EMAE		0	168	...	161		184	184	184	184	184
Other current expenditure	251	225	244	245	200	203	189	211	230	251	274
Capital expenditure	1,384	962	1,669	2,399	1,352	1,214	1,453	1,689	1,746	1,841	1,983
Financed by the Treasury	300	42	23	65	16	325	63	98	107	182	269
Financed by external sources	1,084	920	1,646	1,828	1,336	888	1,390	1,591	1,639	1,660	1,714
HIPC Initiative-related capital expenditure	11	21	27	38	38	46	42	39	39	39	35
COVID-19 spending	0	...	...	...	...	...	...	...	...	...	...
Financed by the Treasury	0	...	...	...	...	...	...	...	...	...	...
Financed by external sources	0	...	...	...	...	...	...	...	...	...	...
Domestic primary balance (commitment basis, including net capital grants for EMAE)[3]	**-728**	**-653**	**-330**	**-142**	**-235**	**274**	**8**	**420**	**778**	**824**	**885**
Change in the stock of domestic expenditure arrears	**-17**	**-109**	**-54**	**-22**	**-22**	**-22**	**-22**	**-22**	**-22**	**-22**	**-22**
Domestic primary balance (cash basis, including net capital grants for EMAE)[3]	**-746**	**-761**	**-383**	**-164**	**-257**	**251**	**-14**	**397**	**755**	**801**	**862**
Overall fiscal balance (commitment basis)	**-284**	**-336**	**173**	**275**	**0**	**570**	**36**	**437**	**859**	**862**	**994**
Net change in external arrears	0	0	0	0	0	0	0	0	0	0	0
Net change in domestic arrears	-17	-109	-54	-22	-22	-22	-22	-22	-22	-22	-22
Float and statistical discrepancies	-330	0	0	0	1	0	1	0	0	0	0
Overall fiscal balance (cash basis)	**-632**	**-445**	**119**	**253**	**-22**	**548**	**15**	**415**	**836**	**839**	**972**
Financing	**632**	**445**	**-119**	**-253**	**23**	**-548**	**-14**	**-415**	**-836**	**-839**	**-972**
Net external	-55	-77	238	156	475	-192	-82	56	-63	-18	-122
Disbursements (project loans)	79	103	80	461	461	156	266	336	265	312	242
Program financing (loans)[2]	0	0	368	0	318	0	0	0	0	0	0
Scheduled amortization	-134	-180	-210	-305	-305	-348	-348	-280	-329	-331	-364
Net domestic	687	521	-357	-409	-452	-356	68	-471	-773	-821	-850
Net bank credit to the government	645	631	70	-385	-428	-356	68	-471	-773	-821	-850
Banking credit (net, excluding National Oil Account)[4]	585	561	-6	-473	-510	-452	-15	-553	-857	-908	-941
National Oil Account	59	70	76	89	82	95	83	83	84	87	91
Nonbank financing	42	-109	-426	-25	-25	0	0	0	0	0	0
Of which: Amortization payments of CG to ENCO	42	-113	-426	-25	-25	0	0	0	0	0	0
Prospective financing[2]	...	...	...	**904**	**1035**	**395**	**355**	**355**	**355**	**355**	**355**
World Bank	...	...	...	387	223	158	147	147	147	147	147
African Development Bank	...	...	...	352	339	121	115	115	115	115	115
EU	...	...	...	48	29	48	29	29	29	29	29
Other	...	...	...	117	443	68	63	63	63	63	63
Memorandum Items											
Domestic primary balance (commitment basis, excluding net capital grants for EMAE)[3]	-728	-147	8	202	110	347	116	402	594	640	701
Domestic primary balance (cash basis, excluding net capital grants for EMAE)[3]	-746	-256	-45	180	87	325	94	380	571	617	678
Gross Domestic Product	12,690	15,762	18,756	21,130	21,355	23,532	24,407	27,256	29,830	32,518	35,498
Public Debt (in percent of GDP)	87	73	65	54	54	48	48	45	42	40	37

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

[1] Revenue is measured on a cash basis.

[2] Of the prospective financing amounts, some are pending approval.

[3] Excludes oil related revenues, ENCO debt repayment, grants, scheduled interest payments, foreign-financed capital outlays, as defined in the TMU.

[4] Includes use of past IMF budget support.

Table 2b. São Tomé and Príncipe: Financial Operations of the Central Government, 2022–30

(In Percent of GDP)

	2022	2023	2024	2025		2026		2027	2028	2029	2030
			Est.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants[1]	**25.5**	**21.8**	**24.7**	**27.7**	**21.2**	**22.1**	**20.5**	**21.4**	**22.2**	**21.7**	**21.8**
Total revenue	13.8	13.8	13.3	16.6	13.4	17.0	14.2	15.3	16.2	16.3	16.5
Of which: new tax and nontax measures						2.6	1.4	2.1	2.6	2.6	2.6
Tax revenue	10.6	11.3	10.7	13.3	11.1	13.7	11.4	12.4	13.3	13.4	13.5
Consumption taxes	2.0	3.3	3.4	4.9	3.7	4.1	4.2	4.5	5.2	5.2	5.2
Corporate income tax	0.7	0.7	0.7	0.7	0.9	0.7	1.0	1.3	1.4	1.4	1.4
Personal income tax	3.1	2.6	2.5	3.0	2.3	3.0	2.7	2.9	3.0	3.0	3.0
Import taxes	3.6	3.8	3.4	4.5	4.0	2.9	3.1	3.2	3.2	3.2	3.3
Other taxes	1.2	0.9	0.7	0.2	0.2	4.1	0.4	0.5	0.5	0.6	0.6
Nontax revenue	3.1	2.5	2.6	3.3	2.3	3.3	2.8	2.9	3.0	3.0	3.0
Of which: oil revenue	0.9	0.6	0.8	0.6	0.4	0.6	0.3	0.3	0.3	0.3	0.3
Of which: citizenship by investment							0.2	0.2	0.2	0.0	0.0
Grants	11.7	8.0	11.4	11.1	7.8	5.1	6.3	6.1	6.0	5.4	5.3
Project grants	7.9	5.2	8.2	6.5	4.1	3.1	4.6	4.6	4.6	4.1	4.1
Nonproject grants[2]	3.3	2.3	3.0	4.3	3.4	1.7	1.5	1.3	1.2	1.1	1.0
HIPC Initiative-related grants	0.5	0.5	0.2	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Total expenditure	**27.7**	**23.9**	**23.8**	**26.4**	**21.2**	**19.7**	**20.4**	**19.8**	**19.3**	**19.1**	**19.0**
Of which: Domestic primary expenditure	18.6	17.4	14.3	14.3	14.1	14.2	13.8	13.4	13.3	13.5	13.6
Current expenditure	16.7	17.7	14.8	14.9	14.7	14.3	14.2	13.5	13.3	13.3	13.3
Personnel costs	9.2	7.7	6.9	8.0	7.1	8.4	8.1	8.1	8.1	8.1	8.1
Interest due	0.5	0.7	0.7	1.1	0.8	0.6	0.9	0.6	0.6	0.5	0.5
Goods and services	2.1	1.9	1.8	2.2	1.6	2.2	1.7	1.7	1.7	1.7	1.7
Transfers	2.9	5.9	4.1	2.5	4.3	2.2	2.7	2.3	2.2	2.2	2.2
of which : Capital grants for EMAE (net)	0.0	3.2	1.8	...	1.6	...	0.6	-0.1	-0.6	-0.6	-0.5
Capital grants (gross)		3.2	2.7	...	2.4	...	1.4	0.6	0.0	0.0	0.0
Repayments by EMAE		0.0	0.9	...	0.8	...	0.8	0.7	0.6	0.6	0.5
Other current expenditure	2.0	1.4	1.3	1.2	0.9	0.9	0.8	0.8	0.8	0.8	0.8
Capital expenditure	10.9	6.1	8.9	11.4	6.3	5.2	6.0	6.2	5.9	5.7	5.6
Financed by the Treasury	2.4	0.3	0.1	2.7	0.1	1.4	0.3	0.4	0.4	0.6	0.8
Financed by external sources	8.5	5.8	8.8	8.7	6.3	3.8	5.7	5.8	5.5	5.1	4.8
HIPC Initiative-related capital expenditure	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Domestic primary balance (commitment basis, including net capital grants for EMAE)[3]	**-5.7**	**-4.1**	**-1.8**	**-0.7**	**-1.1**	**1.2**	**0.0**	**1.5**	**2.6**	**2.5**	**2.5**
Change in the stock of domestic expenditure arrears	-0.1	-0.7	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Domestic primary balance (cash basis, including net capital grants for EMAE)[3]	-5.9	-4.8	-2.0	-0.8	-1.2	1.1	-0.1	1.5	2.5	2.5	2.4
Overall fiscal balance (commitment basis)	**-2.2**	**-2.1**	**0.9**	**1.3**	**0.0**	**2.4**	**0.1**	**1.6**	**2.9**	**2.6**	**2.8**
Net change in external arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net change in domestic arrears	-0.1	-0.7	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Float and statistical discrepancies	-2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (cash basis)	**-5.0**	**-2.8**	**0.6**	**1.2**	**-0.1**	**2.3**	**0.1**	**1.5**	**2.8**	**2.6**	**2.7**
Financing	**5.0**	**2.8**	**-0.6**	**-1.2**	**0.1**	**-2.3**	**-0.1**	**-1.5**	**-2.8**	**-2.6**	**-2.7**
Net external	-0.4	-0.5	1.3	0.7	2.2	-0.8	-0.3	0.2	-0.2	-0.1	-0.3
Disbursements (project loans)	0.6	0.7	0.4	2.2	2.2	0.7	1.1	1.2	0.9	1.0	0.7
Program financing (loans)[2]	0.0	0.0	2.0	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-1.1	-1.1	-1.1	-1.4	-1.4	-1.5	-1.4	-1.0	-1.1	-1.0	-1.0
Net domestic	5.4	3.3	-1.9	-1.9	-2.1	-1.5	0.3	-1.7	-2.6	-2.5	-2.4
Net bank credit to the government	5.1	4.0	0.4	-1.8	-2.0	-1.5	0.3	-1.7	-2.6	-2.5	-2.4
Banking credit (net, excluding National Oil Account)[4]	4.6	3.6	0.0	-2.2	-2.4	-1.9	-0.1	-2.0	-2.9	-2.8	-2.6
National Oil Account	0.5	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Nonbank financing	0.3	-0.7	-2.3	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Amortization payments of CG to ENCO	0.3	-0.7	-2.3	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Prospective financing[2]	...	...	...	**4.3**	**4.8**	**1.7**	**1.5**	**1.3**	**1.2**	**1.1**	**1.0**
World Bank	...	...	...	1.8	1.0	0.7	0.6	0.5	0.5	0.5	0.4
African Development Bank	...	...	...	1.7	1.6	0.5	0.5	0.4	0.4	0.4	0.3
EU	...	...	...	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Other	...	...	...	0.6	2.1	0.3	0.3	0.2	0.2	0.2	0.2
Memorandum Items											
Domestic primary balance (commitment basis, excluding net capital grants for EMAE)[3]	-5.7	-0.9	0.0	1.0	0.5	1.5	0.5	1.5	2.0	2.0	2.0
Domestic primary balance (cash basis, excluding net capital grants for EMAE)[3]	-5.9	-1.6	-0.2	0.9	0.4	1.4	0.4	1.4	1.9	1.9	1.9
Nominal GDP (Millions of dobra)	12,690	15,762	18,756	21,130	21,355	23,532	24,407	27,256	29,830	32,518	35,498
Public Debt	87	73	65	54	54	48	48	45	42	40	37

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

[1] Revenue is measured on a cash basis.

[2] Of the prospective financing amounts, some are pending approval.

[3] Excludes oil related revenues, ENCO debt repayment, grants, scheduled interest payments, foreign-financed capital outlays, as defined in the TMU.

[4] Includes use of past IMF budget support.

Table 3a. São Tomé and Príncipe: Balance of Payments, 2022–30

(Millions of U.S. Dollars)

	2022	2023	2024	2025		2026		2027	2028	2029	2030
			Est.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Trade Balance	**-177.6**	**-184.8**	**-173.1**	**-204.5**	**-195.3**	**-168.5**	**-224.0**	**-240.5**	**-252.8**	**-279.1**	**-301.9**
Exports, f.o.b.	21.9	23.6	29.3	36.9	33.6	42.0	33.4	32.1	32.2	32.6	33.0
Cocoa	7.8	10.1	18.2	26.6	22.5	30.4	21.0	19.8	19.8	19.8	19.8
Palm oil	7.9	5.8	6.1	6.5	6.8	6.7	7.2	7.4	7.6	7.9	8.1
Re-export	5.1	6.7	4.2	3.0	3.4	3.9	4.1	3.6	3.5	3.4	3.5
Imports, f.o.b.	-199.4	-208.5	-202.4	-241.4	-228.9	-210.6	-257.5	-272.5	-285.0	-311.6	-334.9
Food	-35.1	-43.4	-37.2	-38.2	-44.3	-40.0	-46.0	-47.8	-49.4	-52.0	-54.7
Petroleum products	-51.4	-64.7	-42.3	-38.3	-42.1	-37.4	-46.7	-40.3	-37.5	-37.5	-38.0
Non-oil investment goods	-36.1	-33.0	-31.3	-55.2	-35.9	-32.1	-50.0	-56.8	-59.7	-60.0	-63.1
Oil sector related investment goods	-54.5	-27.6	-44.3	-46.7	-50.5	-51.3	-57.7	-64.5	-69.2	-75.5	-82.4
Other	-22.3	-39.8	-47.4	-63.0	-56.1	-49.6	-57.0	-63.1	-69.2	-86.6	-96.6
Services and Income (Net)	**25.7**	**34.8**	**47.9**	**55.5**	**57.6**	**59.5**	**71.1**	**82.1**	**93.9**	**104.3**	**110.9**
Exports of nonfactor services	75.1	90.5	109.2	123.0	123.8	131.0	147.2	167.1	185.8	204.6	222.0
Of which : travel and tourism	47.5	64.0	93.3	105.1	105.7	111.0	124.3	141.7	158.3	174.8	191.9
Imports of nonfactor services	-59.9	-62.5	-68.3	-73.2	-72.6	-76.6	-83.0	-91.2	-96.9	-105.5	-114.4
Factor services (net)	10.5	6.8	7.1	5.7	6.4	5.0	7.0	6.2	5.0	5.2	3.3
Of which: oil related	0.2	0.7	0.8	0.1	0.8	0.1	0.1	0.1	0.0	0.0	0.0
Private Transfers (Net)	**8.8**	**9.0**	**12.3**	**13.8**	**15.6**	**15.4**	**17.7**	**20.1**	**23.1**	**26.0**	**28.8**
Official Transfers (Net)	**63.8**	**55.5**	**94.4**	**103.2**	**76.7**	**53.2**	**73.8**	**79.6**	**85.2**	**83.9**	**89.8**
Of which : Project grants (excluding HIPC grants)	43.3	35.9	67.6	60.1	40.3	32.4	53.5	59.8	65.4	64.2	70.1
Nonproject grants	18.0	15.9	25.1	39.7	33.0	17.5	16.9	16.9	16.9	16.9	16.9
HIPC Initiative-related grants	2.61	3.74	1.7	3.4	3.4	3.4	3.4	2.9	2.8	2.8	2.8
Current Account Balance											
Including official transfers	-79.2	-85.5	-18.4	-32.0	-45.4	-40.5	-61.4	-58.7	-50.6	-64.8	-72.4
Excluding official transfers	-143.1	-141.1	-112.9	-135.2	-122.1	-93.7	-135.2	-138.3	-135.8	-148.7	-162.2
Capital and Financial Account Balance	**86.2**	**63.7**	**55.6**	**48.6**	**68.2**	**49.4**	**68.4**	**73.3**	**65.9**	**86.5**	**94.7**
Capital transfer	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	86.2	63.7	55.6	48.6	68.2	49.4	68.4	73.3	65.9	86.5	94.7
Foreign Direct Investment	106.7	67.8	65.5	65.4	75.3	71.6	88.6	96.6	102.9	112.6	123.4
Portfolio Investment (net)	0.0	-0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil signature bonuses	4.9	4.1	6.3	5.3	4.0	5.9	3.8	4.2	4.6	5.0	5.5
Other investment (net)	-25.4	-7.7	-16.4	-22.1	-11.0	-28.2	-24.0	-27.5	-41.6	-31.1	-34.2
Assets	-25.1	2.1	11.6	11.9	11.9	12.1	12.2	12.4	12.7	12.9	13.1
Public sector liabilities (net)	-0.6	20.8	13.8	-4.8	8.9	-9.3	-3.7	-1.3	-5.0	-0.9	-5.8
Project loans	3.4	12.9	19.4	7.1	6.2	6.9	12.7	16.0	12.6	14.9	11.5
Program loans	0.0	0.0	15.9	0.0	14.7	0.0	0.0	0.0	0.0	0.0	0.0
Other loans	0.0	11.8	-17.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-4.0	-3.9	-4.1	-11.9	-11.9	-16.2	-16.3	-17.3	-17.6	-15.7	-17.4
Of which : HIPC Initiative-related grants	-2.3	-3.3	-1.5	-3.1	-3.1	-3.1	-3.1	-2.6	-2.6	-2.6	-2.6
Private sector liabilities (net)	0.3	-30.5	-41.8	-29.1	-31.9	-30.9	-32.5	-38.7	-49.2	-43.1	-41.6
Commercial banks	0.3	-35.9	1.8	-1.4	-4.5	-2.0	-2.2	-2.3	-2.4	0.0	-2.7
Private capital	0.0	5.4	-43.6	-27.8	-27.4	-29.0	-30.3	-36.3	-46.8	-43.1	-38.9
Errors and Omissions	-25.3	-2.7	-41.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	**-18.4**	**-24.6**	**-4.6**	**16.6**	**22.9**	**8.9**	**7.0**	**14.6**	**15.3**	**21.7**	**22.3**
Financing	18.4	24.6	4.6	-24.7	-31.1	-14.5	-12.8	-20.4	-21.4	-21.7	-22.3
Change in official reserves, excl. IMF and NOA (increase= -)	16.0	26.5	8.6	-20.5	-28.2	-7.9	-7.9	-14.3	-14.6	-14.8	-15.7
Use of Fund resources (net)	4.5	-1.1	-1.0	-2.7	-2.8	-4.9	-5.0	-5.8	-6.2	-6.1	-5.4
Disbursements	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments (incl. MDRI repayment)	-0.6	-1.1	-1.0	-2.7	-2.8	-4.9	-5.0	-5.8	-6.2	-6.1	-5.4
National Oil Account (increase = -)	-2.1	-0.9	-3.0	-1.4	-0.1	-1.8	0.1	-0.3	-0.7	-0.9	-1.2
Exceptional financing (IMF CCRT)	...	...	...	...	...	...	...	...	...	...	...
Prospective Financing	...	...	...	**47.8**	**55.9**	**23.1**	**22.7**	**22.7**	**23.0**	**16.9**	**16.9**
Prospective nonproject grants and concessional loans	...	...	...	39.7	47.7	17.5	16.9	16.9	16.9	16.9	16.9
ECF disbursements	...	...	...	8.1	8.2	5.6	5.8	5.8	6.1	0.0	0.0
Memorandum Items:											
Current account balance (percent of GDP)											
Including official transfers	-14.5	-12.3	-2.2	-3.4	-4.6	-3.9	-5.3	-4.5	-3.6	-4.2	-4.3
Excluding official transfers	-26.2	-20.3	-13.6	-14.6	-12.4	-9.0	-11.6	-10.7	-9.6	-9.6	-9.6
Debt service ratio (percent of exports) [1]	6.2	4.7	7.7	10.3	10.2	11.9	11.2	10.5	9.7	8.0	8.1
Gross international reserves (face value) [2]											
Millions of U.S. dollars	59.2	42.9	38.9	60.0	72.7	67.9	80.3	99.9	107.8	116.1	125.5
Months of imports of goods and services	2.6	1.9	1.5	2.5	2.6	2.6	2.6	3.1	3.1	3.1	3.1
Months of imports of goods and nonfactor services[3]	3.4	2.7	2.2	3.7	3.9	3.8	4.1	4.9	4.7	4.7	4.7

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

[1] Percent of exports of goods and nonfactor services.

[2] Gross international reserves as defined in the TMU.

[3] Imports of goods and services excluding imports of investment goods and technical assistance.

Table 3b. São Tomé and Príncipe: Balance of Payments, 2022–30
(In Percent of GDP)

	2022	2023	2024	2025		2026		2027	2028	2029	2030
			Est.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Trade Balance	**-32.5**	**-26.6**	**-20.9**	**-22.0**	**-19.8**	**-16.2**	**-19.3**	**-18.5**	**-17.8**	**-18.0**	**-17.9**
Exports, f.o.b.	4.0	3.4	3.5	4.0	3.4	4.0	2.9	2.5	2.3	2.1	2.0
Cocoa	1.4	1.4	2.2	2.9	2.3	2.9	1.8	1.5	1.4	1.3	1.2
Palm oil	1.4	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.5
Re-export	0.9	1.0	0.5	0.3	0.3	0.4	0.4	0.3	0.2	0.2	0.2
Imports, f.o.b.	-36.5	-30.0	-24.4	-26.0	-23.3	-20.2	-22.1	-21.0	-20.1	-20.1	-19.8
Food	-6.4	-6.2	-4.5	-4.1	-4.5	-3.8	-4.0	-3.7	-3.5	-3.4	-3.2
Petroleum products	-9.4	-9.3	-5.1	-4.1	-4.3	-3.6	-4.0	-3.1	-2.6	-2.4	-2.2
Non-oil investment goods	-6.6	-4.7	-3.8	-5.9	-3.7	-3.1	-4.3	-4.4	-4.2	-3.9	-3.7
Oil sector related investment goods	-10.0	-4.0	-5.4	-5.0	-5.1	-4.9	-5.0	-5.0	-4.9	-4.9	-4.9
Other	-4.1	-5.7	-5.7	-6.8	-5.7	-4.8	-4.9	-4.9	-4.9	-5.6	-5.7
Services and Income (Net)	**4.7**	**5.0**	**5.8**	**6.0**	**5.9**	**5.7**	**6.1**	**6.3**	**6.6**	**6.7**	**6.6**
Exports of nonfactor services	13.8	13.0	13.2	13.2	12.6	12.6	12.7	12.9	13.1	13.2	13.1
Of which: travel and tourism	8.7	9.2	11.3	11.3	10.7	10.7	10.7	10.9	11.1	11.3	11.3
Imports of nonfactor services	-11.0	-9.0	-8.3	-7.9	-7.4	-7.4	-7.1	-7.0	-6.8	-6.8	-6.8
Factor services (net)	1.9	1.0	0.9	0.6	0.6	0.5	0.6	0.5	0.4	0.3	0.2
Of which: oil related	0.0	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Private Transfers (Net)	**1.6**	**1.3**	**1.5**	**1.5**	**1.6**	**1.5**	**1.5**	**1.5**	**1.6**	**1.7**	**1.7**
Official Transfers (Net)	**11.7**	**8.0**	**11.4**	**11.1**	**7.8**	**5.1**	**6.3**	**6.1**	**6.0**	**5.4**	**5.3**
Of which: Project grants (excluding HIPC grants)	7.9	5.2	8.2	6.5	4.1	3.1	4.6	4.6	4.6	4.1	4.1
Nonproject grants	3.3	2.3	3.0	4.3	3.4	1.7	1.5	1.3	1.2	1.1	1.0
HIPC Initiative-related grants	0.5	0.5	0.2	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Current Account Balance											
Including official transfers	-14.5	-12.3	-2.2	-3.4	-4.6	-3.9	-5.3	-4.5	-3.6	-4.2	-4.3
Excluding official transfers	-26.2	-20.3	-13.6	-14.6	-12.4	-9.0	-11.6	-10.7	-9.6	-9.6	-9.6
Capital and Financial Account Balance	**15.8**	**9.2**	**6.7**	**5.2**	**6.9**	**4.7**	**5.9**	**5.6**	**4.6**	**5.6**	**5.6**
Capital transfer	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	15.8	9.2	6.7	5.2	6.9	4.7	5.9	5.6	4.6	5.6	5.6
Foreign Direct Investment	19.5	9.7	7.9	7.0	7.6	6.9	7.6	7.4	7.2	7.3	7.3
Portfolio Investment (net)	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil signature bonuses	0.9	0.6	0.8	0.6	0.4	0.6	0.3	0.3	0.3	0.3	0.3
Other investment (net)	-4.7	-1.1	-2.0	-2.4	-1.1	-2.7	-2.1	-2.1	-2.9	-2.0	-2.0
Assets	-4.6	0.3	1.4	1.3	1.2	1.2	1.0	1.0	0.9	0.8	0.8
Public sector liabilities (net)	-0.1	3.0	1.7	-0.5	0.9	-0.9	-0.3	-0.1	-0.4	-0.1	-0.3
Project loans	0.6	1.9	2.3	0.8	0.6	0.7	1.1	1.2	0.9	1.0	0.7
Program loans	0.0	0.0	1.9	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Other loans	0.0	1.7	-2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.7	-0.6	-0.5	-1.3	-1.2	-1.6	-1.4	-1.3	-1.2	-1.0	-1.0
Of which: HIPC Initiative-related grants	-0.4	-0.5	-0.2	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2
Private sector liabilities (net)	0.1	-4.4	-5.1	-3.1	-3.2	-3.0	-2.8	-3.0	-3.5	-2.8	-2.5
Commercial banks	0.1	-5.2	0.2	-0.1	-0.5	-0.2	-0.2	-0.2	-0.2	0.0	-0.2
Private capital	0.0	0.8	-5.3	-3.0	-2.8	-2.8	-2.6	-2.8	-3.3	-2.8	-2.3
Errors and Omissions	**-4.6**	**-0.4**	**-5.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**-3.4**	**-3.5**	**-0.6**	**1.8**	**2.3**	**0.9**	**0.6**	**1.1**	**1.1**	**1.4**	**1.3**
Financing	3.4	3.5	0.6	-2.7	-3.2	-1.4	-1.1	-1.6	-1.5	-1.4	-1.3
Change in official reserves, excl. IMF and NOA (increase= -)	2.9	3.8	1.0	-2.2	-2.9	-0.8	-0.7	-1.1	-1.0	-1.0	-0.9
Use of Fund resources (net)	0.8	-0.2	-0.1	-0.3	-0.3	-0.5	-0.4	-0.4	-0.4	-0.4	-0.3
Disbursements	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Oil Account (increase = -)	-0.4	-0.1	-0.4	-0.2	0.0	-0.2	0.0	0.0	0.0	-0.1	-0.1
Exceptional financing (IMF CCRT)	...	...	...	...	...	...	...	...	...	...	...
Prospective Financing	...	...	...	**5.1**	**5.7**	**2.2**	**2.0**	**1.7**	**1.6**	**1.1**	**1.0**
Prospective nonproject grants and concessional loans	...	...	...	4.3	4.8	1.7	1.5	1.3	1.2	1.1	1.0
ECF disbursements	...	...	...	0.9	0.8	0.5	0.5	0.4	0.4	0.0	0.0
Memorandum Items:											
Debt service ratio (percent of exports) [1]	6.2	4.7	7.7	10.3	10.2	11.9	11.2	10.5	9.7	8.0	8.1
Gross international reserves (face value) [2]											
Millions of U.S. dollars	59.2	42.9	38.9	60.0	72.7	67.9	80.3	99.9	107.8	116.1	125.5
Months of imports of goods and services	2.6	1.9	1.5	2.5	2.6	2.6	2.6	3.1	3.1	3.1	3.1
Months of imports of goods and nonfactor services [3]	3.4	2.7	2.2	3.7	3.9	3.8	4.1	4.9	4.7	4.7	4.7

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

[1] Percent of exports of goods and nonfactor services.

[2] Gross international reserves as defined in the TMU.

[3] Imports of goods and services excluding imports of investment goods and technical assistance.

Table 4. São Tomé and Príncipe: Summary Accounts of the Central Bank, 2022–30

(Millions of Dobra)

	2022	2023	2024	2025		2026		2027	2028	2029	2030
			Est.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Net Foreign Assets	**772**	**629**	**976**	**1,308**	**1,276**	**1,654**	**1,492**	**2,049**	**2,332**	**2,620**	**2,939**
Claims on nonresidents	2,220	2,006	2,498	2,831	2,809	3,177	3,015	3,571	3,855	4,142	4,462
Official foreign reserves	1,845	1,386	1,838	2,171	2,139	2,436	2,296	2,719	2,935	3,154	3,398
Other foreign assets	376	620	660	660	670	741	719	852	920	988	1,064
Liabilities to nonresidents	-1,448	-1,377	-1,523	-1,523	-1,533	-1,523	-1,523	-1,523	-1,523	-1,523	-1,523
Short-term liabilities to nonresidents[1]	-797	-748	-872	-1,354	-1,364	-1,357	-1,357	-1,472	-1,333	-1,198	-1,067
Other foreign liabilities	-652	-629	-651	-169	-169	-166	-166	-51	-190	-324	-456
Net Domestic Assets	**1,348**	**1,245**	**1,341**	**1,093**	**1,617**	**868**	**1,790**	**1,510**	**1,425**	**1,287**	**1,111**
Net domestic credit	958	1,275	1,239	1,239	1,239	874	874	368	-147	-712	-1,247
Claims on other depository corporations	198	467	467	467	467	477	477	487	497	507	517
Net claims on central government	608	656	610	610	610	223	223	-294	-822	-1,399	-1,979
Claims on central government	1,547	1,486	1,500	1,500	1,500	1,203	1,203	906	608	311	311
Liabilities to central government	-939	-831	-890	-890	-890	-980	-980	-1,200	-1,430	-1,710	-2,290
Claims on other sectors	152	153	162	162	162	173	173	175	177	179	214
Other items (net)	390	-31	102	-146	378	-5	917	1,141	1,572	1,999	2,359
Base Money (M0)	**2,120**	**1,874**	**2,317**	**2,401**	**2,893**	**2,522**	**3,282**	**3,558**	**3,758**	**3,906**	**4,051**
Currency issued	541	546	715	741	893	779	1,013	1,098	1,160	1,206	1,250
Bank reserves	1,579	1,328	1,602	1,660	2,000	1,744	2,269	2,460	2,598	2,701	2,800
Of which : domestic currency	1,457	1,254	1,336	1,337	1,851	1,378	2,120	2,311	2,449	2,552	2,652
Of which: foreign currency	122	74	265	323	149	366	149	149	149	149	149
Memorandum Items:											
Gross International Reserves (face value, US$ millions) [2]	59.2	42.9	38.9	60.0	72.7	67.9	80.3	99.9	107.8	116.1	125.5
Months of imports of goods and services	2.6	1.9	1.5	2.5	2.6	2.6	2.6	3.1	3.1	3.1	3.1
Months of imports of goods and nonfactor services[3]	3.4	2.7	2.2	3.7	3.9	3.8	4.1	4.9	4.7	4.7	4.7
Percent of ARA metric	85	61	50	81	83	84	85	101	100	100	100
Gross international reserves (face value, US$ millions) incl. commercial banks reserves	64.5	46.3	50.2	74.3	79.8	84.1	87.3	106.9	114.8	123.1	132.5
Months of imports of goods and services	2.9	2.1	2.0	3.1	2.8	3.2	2.9	3.4	3.3	3.3	3.3
Months of imports of goods and nonfactor services[3]	3.7	2.9	2.9	4.5	4.3	4.7	4.5	5.2	5.0	5.0	5.0
Percent of ARA metric	92	66	64	100	91	104	93	108	107	106	106
Gross international reserves (market value, US$ millions) incl. commercial banks reserves	52.2	35.9	40.6	64.6	70.2	74.5	77.7	97.3	105.2	113.5	122.9
Months of imports of goods and services	2.3	1.6	1.6	2.7	2.5	2.9	2.6	3.1	3.0	3.0	3.0
Months of imports of goods and nonfactor services[3]	3.0	2.3	2.3	3.9	3.7	4.2	4.0	4.8	4.6	4.6	4.6
Percent of ARA metric	75	51	52	87	80	92	83	99	98	98	98
Net international reserves (face value, US$ millions) [4]	14.8	-11.8	-20.4	0.1	7.8	8.0	15.7	30.0	44.6	59.3	75.0
Months of imports of goods and services	0.7	-0.5	-0.8	0.0	0.3	0.3	0.5	0.9	1.3	1.6	1.9
Months of imports of goods and nonfactor services[3]	0.9	-0.7	-1.2	0.0	0.4	0.4	0.8	1.5	2.0	2.4	2.8
Net foreign assets in months of imports of goods and services of the current year	1.5	1.2	1.8	2.2	2.4	3.1	2.5	3.2	3.5	3.6	3.7
National Oil Account (stock, US$ millions)	15.7	16.6	19.6	21.0	19.7	22.8	19.6	19.9	20.6	21.5	22.7
Commercial banks reserves in foreign currency (US$ millions)	5.3	3.3	11.3	14.3	7.1	16.2	7.1	7.1	7.1	7.1	7.1
Base money (annual percent change)	-1.7	-11.6	23.6	3.6	24.9	5.0	13.5	8.4	5.6	4.0	3.7

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

[1] The Central Bank's short-term liabilities to nonresidents includes the country's liability to the IMF.

[2] Gross international reserves as defined in the TMU.

[3] Imports of goods and services excluding imports of investment goods and technical assistance.

[4] Net international reserves as defined in the TMU.

Table 5. São Tomé and Príncipe: Monetary Survey, 2022–30

(Millions of Dobra)

	2022	2023	2024	2025		2026		2027	2028	2029	2030
			Est.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Net Foreign Assets	**903**	**1,564**	**1,906**	**2,238**	**2,206**	**2,631**	**2,469**	**3,075**	**3,409**	**3,751**	**4,127**
Net foreign assets of the BCSTP	772	629	976	1,308	1,276	1,654	1,492	2,049	2,332	2,620	2,939
Net foreign assets of other depository corporations	131	935	931	931	931	977	977	1,026	1,077	1,131	1,188
Net Domestic Assets	**2,678**	**2,207**	**1,887**	**1,748**	**1,989**	**1,809**	**2,127**	**1,908**	**1,965**	**1,954**	**1,910**
Net domestic credit	2,930	2,664	2,709	2,614	2,623	2,246	2,738	2,319	1,592	799	-21
Net claims on central government	1,201	1,354	1,319	1,143	1,106	691	1,091	538	-319	-1,227	-2,167
Claims on central government	2,678	2,668	2,636	2,636	2,636	2,394	2,394	2,097	1,800	1,502	1,502
Liabilities to central government	-1,477	-1,313	-1,318	-1,494	-1,530	-1,703	-1,303	-1,559	-2,118	-2,729	-3,669
Claims on other sectors	1,729	1,310	1,390	1,471	1,517	1,555	1,646	1,781	1,910	2,026	2,146
Other items (net)	-252	-457	-822	-866	-634	-437	-611	-410	374	1,155	1,932
Broad Money (M3)	**3,581**	**3,771**	**3,793**	**3,987**	**4,196**	**4,440**	**4,596**	**4,983**	**5,375**	**5,705**	**6,037**
Local currency liabilities included in broad money (M2)	2,911	2,492	2,948	3,152	3,318	3,511	3,634	3,940	4,250	4,511	4,774
Money (M1)	2,586	2,202	2,576	3,042	3,163	3,325	3,416	3,661	3,909	4,122	4,337
Currency outside depository corporations	444	476	605	715	715	730	730	745	760	775	790
Transferable deposits in dobra	2,143	1,726	1,971	2,327	2,448	2,595	2,686	2,916	3,149	3,347	3,547
Other deposits in dobra	325	290	372	111	154	186	218	279	341	389	437
Foreign currency deposits	670	940	794	834	878	929	962	1,043	1,125	1,194	1,263
Memorandum Items:											
Velocity (ratio of GDP to M3; end of period)	3.5	4.2	4.9	5.3	5.1	5.3	5.3	5.5	5.6	5.7	5.9
Money multiplier (M2/M0)	1.7	2.0	1.6	1.7	1.5	1.8	1.4	1.4	1.4	1.5	1.5
Base money (12-month growth rate)	-1.7	-11.6	23.6	3.6	24.9	5.0	13.5	8.4	5.6	4.0	3.7
Claims on other resident sectors (12-month growth rate)	-16.0	-24.2	6.1	5.8	9.1	5.7	8.5	8.1	7.3	6.0	5.9
Claims on other resident sectors (percent of GDP)	13.6	8.3	7.4	7.0	7.1	6.6	6.7	6.5	6.4	6.2	6.0
Broad money (12-month growth rate)	10.8	5.3	0.6	5.1	10.6	11.4	9.6	8.4	7.9	6.1	5.8
Eurorization ratio	21.3	31.8	25.3	...	...	...	...	...	...	...	...

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

Table 6. São Tomé and Príncipe: Financial Soundness Indicators, 2022–25

	2022	2023	2023	2023	2023	2024	2024	2024	2024	2025	2025
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Capital Adequacy											
Regulatory capital to risk-weighted assets, ratio	50.0	37.9	31.8	34.7	34.5	36.4	33.1	34.1	37.0	37.9	34.4
Total Capital to Total Assets, ratio	17.7	18.2	16.9	19.2	17.7	19.1	17.7	18.5	19.0	18.6	16.3
Asset Quality											
Non-performing Loans to Total Gross Loans, ratio	8.1	9.3	10.3	10.6	11.9	10.0	9.1	10.2	10.0	10.3	9.6
Provision of Non-performing Loans, percent	86.0	85.7	81.9	81.7	86.3	60.6	76.9	68.1	67.8	55.0	60.0
Earnings and Profitability											
Return on assets, ratio	2.8	0.7	1.0	1.8	2.2	1.2	0.6	2.5	3.8	0.8	1.3
Return on equity, ratio	14.2	3.1	5.0	9.0	11.4	4.9	1.6	9.8	14.5	3.4	5.2
Interest margin to gross income, percent	39.8	43.7	45.4	42.7	39.3	36.0	43.4	37.1	37.8	37.2	39.5
Liquidity											
Liquid assets to total assets, ratio	49.9	53.5	49.3	48.6	53.0	52.7	53.7	51.8	54.0	56.8	55.4
Liquid assetsto short term liabilities, ratio	65.2	70.4	63.6	71.2	68.9	70.2	66.5	70.6	75.6	74.6	74.7
Sensitivity to Market Risk											
Foreign-currency-denominated loans to total loans, ratio	3.6	4.3	3.8	3.1	3.3	3.4	3.0	2.6	2.6	2.2	2.5
Foreign-currency-denominated liabilities to total liabilities, ratio	20.6	27.5	22.4	31.4	28.5	31.5	27.5	26.2	23.5	25.0	21.1

Sources: São Tomé and Príncipe authorities, and Fund staff estimates.

Table 7. São Tomé and Príncipe: External Financing Requirements and Sources, 2025–30

(Millions of U.S. Dollars)

	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.	2030 Proj.
Gross Financing Requirements	**-164.9**	**-164.4**	**-175.6**	**-174.2**	**-185.3**	**-200.6**
Current account, excluding official transfers	-122.1	-135.2	-138.3	-135.8	-148.7	-162.2
Exports, f.o.b.	33.6	33.4	32.1	32.2	32.6	33.0
Imports, f.o.b.	-228.9	-257.5	-272.5	-285.0	-311.6	-334.9
Services and income (net)	57.6	71.1	82.1	93.9	104.3	110.9
Private transfers	15.6	17.7	20.1	23.1	26.0	28.8
Financial account	-14.7	-21.3	-23.0	-23.8	-21.8	-22.7
Scheduled amortization	-11.9	-16.3	-17.3	-17.6	-15.7	-17.4
IMF repayments	-2.8	-5.0	-5.8	-6.2	-6.1	-5.4
Change in net external reserves (- = increase)	-28.2	-7.9	-14.3	-14.6	-14.8	-15.7
Available Funding	**109.0**	**141.7**	**152.9**	**151.2**	**168.4**	**183.7**
National Oil Fund (net)	3.8	3.9	3.9	3.9	4.1	4.3
Oil signature bonuses	4.0	3.8	4.2	4.6	5.0	5.5
Saving (- = accumulation of oil reserve fund)	-0.1	0.1	-0.3	-0.7	-0.9	-1.2
Expected disbursements	49.9	69.6	78.7	80.9	81.9	84.4
Project grants	40.3	53.5	59.8	65.4	64.2	70.1
Multilateral HIPC interim assistance	3.4	3.4	2.9	2.8	2.8	2.8
Concessional loans	6.2	12.7	16.0	12.6	14.9	11.5
Project loans	6.2	12.7	16.0	12.6	14.9	11.5
Program loans	0.0	0.0	0.0	0.0	0.0	0.0
Private sector (net)	55.3	68.3	70.4	66.3	82.4	95.0
Total Financing Gap (+)	**55.9**	**22.7**	**22.7**	**23.0**	**16.9**	**16.9**
Prospective Financing 1/	**55.9**	**22.7**	**22.7**	**23.0**	**16.9**	**16.9**
ECF disbursements	8.2	5.8	5.8	6.1	0.0	0.0
World Bank	10.3	7.0	7.0	7.0	7.0	7.0
African Development Bank	15.6	5.5	5.5	5.5	5.5	5.5
Other multilateral and bilateral grants	7.1	4.4	4.4	4.4	4.4	4.4
Other multilateral and bilateral concessional loans	14.7	0.0	0.0	0.0	0.0	0.0

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

[1] Of the prospective financing amounts, some are pending approval.

Table 8: São Tomé and Príncipe: Indicators of Capacity to Repay the Fund, 2025–39

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Fund Obligations Based on Existing Credit (millions of SDRs)															
Principal	2.0	3.6	4.2	4.5	4.4	3.9	2.9	2.2	1.6	1.6	0.8	0.0	0.0	0.0	0.0
Charges and interest	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)															
Principal	2.0	3.6	4.2	4.5	4.4	3.9	3.6	3.6	3.9	4.6	3.8	2.4	1.5	0.7	0.0
Charges and interest	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Total Obligations Based on Existing and Prospective Credit															
Millions of SDRs	2.6	4.1	4.7	5.0	4.8	4.4	4.0	4.1	4.4	5.1	4.3	2.8	2.0	1.1	0.5
Millions of U.S. dollars	3.5	5.6	6.4	6.9	6.7	6.0	5.6	5.7	6.1	7.0	5.9	3.9	2.7	1.6	0.6
Percent of exports of goods and services	2.2	3.1	3.2	3.1	2.8	2.4	2.0	1.9	1.9	2.1	1.7	1.1	0.7	0.4	0.2
Percent of debt service [1]	21.9	27.9	30.6	32.5	35.1	29.3	24.9	24.8	26.0	28.7	26.5	19.5	16.3	10.6	4.7
Percent of quota	17.6	27.6	31.5	33.6	32.8	29.5	27.1	27.7	29.6	34.1	28.8	19.1	13.4	7.6	3.1
Percent of gross international reserves [2]	4.8	7.0	6.4	6.4	5.8	4.8	4.4	4.4	4.7	5.4	4.5	2.9	2.0	1.2	0.5
Percent of GDP	0.4	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.0
Outstanding Fund Credit															
Millions of SDRs	31.8	32.4	32.4	32.3	27.9	24.1	20.5	16.9	12.9	8.4	4.6	2.2	0.7	0.0	0.0
Millions of U.S. dollars	42.9	44.4	44.6	44.6	38.6	33.3	28.4	23.3	17.9	11.6	6.3	3.0	0.9	0.0	0.0
Percent of exports of goods and services	27.3	24.6	22.4	20.5	16.3	13.1	10.3	7.9	5.7	3.5	1.8	0.8	0.2	0.0	0.0
Percent of debt service [1]	266.9	220.7	213.1	211.0	202.5	161.6	126.9	102.1	76.6	47.5	28.3	15.1	5.5	0.0	0.0
Percent of quota	214.6	218.7	218.9	218.4	188.8	162.5	138.5	113.9	87.4	56.4	30.8	14.8	4.5	0.0	0.0
Percent of gross international reserves [2]	59.0	55.4	44.6	41.4	33.3	26.5	22.4	18.4	13.8	8.8	4.8	2.3	0.7	0.0	0.0
Percent of GDP	4.4	3.8	3.4	3.1	2.5	2.0	1.5	1.2	0.9	0.5	0.3	0.1	0.0	0.0	0.0
Net Use of Fund Credit (millions of SDRs)	4.0	0.6	0.0	-0.1	-4.4	-3.9	-3.6	-3.6	-3.9	-4.6	-3.8	-2.4	-1.5	-0.7	0.0
Disbursements	6.1	4.2	4.2	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	2.0	3.6	4.2	4.5	4.4	3.9	3.6	3.6	3.9	4.6	3.8	2.4	1.5	0.7	0.0
Memorandum Items:															
Exports of goods and services (millions of U.S. dollars)	157.5	180.6	199.1	218.0	237.2	255.1	275.2	294.6	312.6	328.6	344.9	362.0	379.9	398.7	418.5
Debt service (millions of U.S. dollars)	16.1	20.1	20.9	21.1	19.1	20.6	22.4	22.8	23.4	24.3	22.3	20.1	16.9	14.7	13.8
Quota (millions of SDRs)	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8
Gross international reserves [2]	72.7	80.3	99.9	107.8	116.1	125.5	126.8	128.0	129.3	130.6	131.9	133.2	134.6	135.9	137.3
GDP (millions of U.S. dollars)	985	1,163	1,298	1,421	1,549	1,691	1,833	1,969	2,094	2,203	2,317	2,438	2,565	2,699	2,840

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

[1] After HIPC and MDRI debt relief. Including IMF repurchases and repayments in total debt service.

[2] Gross international reserves as defined in the TMU.

Table 9a. Sao Tomé and Príncipe: Current Schedule of Disbursements Under ECF Arrangement, 2024–27[1]

Availability Date	Disbursement Conditions	SDR Amount	Percent of Quota[1]
12/19/24	Board approval of arrangement.	3,964,286	26.79
04/01/25	Observance of continuous and end-December 2024 PCs and completion of the first review.	3,964,286	26.79
10/01/25	Observance of continuous and end-June 2025 PCs and completion of the second review.	2,114,286	14.29
04/01/26	Observance of continuous and end-December 2025 PCs and completion of the third review.	2,114,286	14.29
10/01/26	Observance of continuous and end-June 2026 PCs and completion of the fourth review.	2,114,286	14.29
04/01/27	Observance of continuous and end-December 2026 PCs and completion of the fifth review.	2,114,286	14.29
10/01/27	Observance of continuous and end-June 2027 PCs and completion of the sixth review.	2,114,284	14.29
	Total	18,500,000	125.00

Source: International Monetary Fund.

[1] The total percent of quota adds up to 125.03 as a result of rounding.

Table 9b. Sao Tomé and Príncipe: Proposed Schedule of Disbursements Under ECF Arrangement, 2024–28

Availability Date	Disbursement Conditions	SDR Amount	Percent of Quota
12/19/24	Board approval of arrangement.	3,964,286	26.79
04/01/25	Observance of continuous and end-December 2024 PCs and completion of the first review.	3,964,286	26.79
10/01/25	Observance of continuous and end-June 2025 PCs and completion of the second review.	2,114,286	14.29
04/01/26	Observance of continuous and end-December 2025 PCs and completion of the third review.	2,114,286	14.29
10/01/26	Observance of continuous and end-June 2026 PCs and completion of the fourth review.	2,114,286	14.29
04/01/27	Observance of continuous and end-December 2026 PCs and completion of the fifth review.	2,114,286	14.29
10/01/27	Observance of continuous and end-June 2027 PCs and completion of the sixth review.	2,114,284	14.29
04/01/28	Observance of continuous and end-December 2027 PCs and completion of the seventh review.	2,220,000	15.00
10/01/28	Observance of continuous and end-June 2028 PCs and completion of the eight review.	2,220,000	15.00
	Total	22,940,000	155.00

Source: International Monetary Fund.

Annex I. Risk Assessment Matrix[1]

Sources of Risks	Likelihood of Risk	Expected Impact of Risk	Policy Responses
		External Risks	
Decline in International Aid	High A further sharp reduction in international financial assistance, including development aid and humanitarian support, could severely affect low-income and fragile countries. Such an additional aid withdrawal would strain public finances, worsen current accounts, increase debt vulnerabilities, and lead to a further deterioration in living conditions and food security.	High The country heavily depends on external support, and lower ODA would undermine growth and exacerbate loss of international reserves.	• Improve coordination on externally financed projects to avoid delays. • Build up fiscal and reserve buffers.
Climate change	Medium Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	High Natural hazards and climate change could cause severe economic damage. They could cause loss of human life and livelihoods, negatively impact agriculture and infrastructure, make transport even more difficult, and accelerate emigration.	• Strengthen climate adaption efforts and provide targeted relief to affected households recognizing limited fiscal space and capacity constraints.
Commodity price volatility	High Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability.	High Sharp rise in energy prices could feed into domestic inflation, and higher energy imports, which could further widen current account deficits, adding pressure on FX reserves. Higher energy prices would have negative spillovers on the non-energy sector, slowing growth. They could also impact fiscal revenues, explicit subsidies, and budget implementation. Conversely, higher cocoa prices could boost exports and growth.	• Remain vigilant about inflationary second-round effects and be prepared to adjust policy swiftly. • Continue implementing the fuel pricing formula to avoid explicit fuel subsidies. • Provide targeted social assistance to the most vulnerable. • Accelerate implementation of energy sector reforms to improve the cost efficiency of electricity generation and distribution, and reduce fuel imports. • Given limited fiscal space, implement credible medium-term revenue-based fiscal consolidation.

[1]The Risk Assessment Matrix shows events that could materially alter the baseline path. The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline. ("Low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more.) The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Sources of Risks	Likelihood of Risk	Expected Impact of Risk	Policy Responses
Escalating Trade Measures and Prolonged Uncertainty	High Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge—especially in countries imposing tariffs. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.	Medium Higher trade barriers and disruption in FDI and supply chains could delay the implementation of investment projects.	• Continue economic diversification and enhance supply chain resilience. • Accelerate structural reforms to support investor confidence and overcome growth constraints. • Strengthen public investment management and capacity.
Geopolitical Tensions	High Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	Medium Higher geopolitical tensions would have a negative impact on tourism, FDI, and export demand, thereby slowing growth and deteriorating the external position.	• Accelerate structural reforms to support investor confidence and overcome growth constraints. • Continue economic diversification and boost export potential.
		Domestic Risks	
Fiscal Vulnerabilities and Higher Long-Term Interest Rates	High Rising public debt and deficit levels may put upward pressure on long-term interest rates and increase the risk of sovereign bond market disruptions. These developments could amplify capital flow volatility, tighten financial conditions, threaten sovereign debt sustainability, and trigger global spillovers. To the extent that major economies are affected, market imbalances (such as reduced investor capacity to absorb sovereign debt) could emerge, exacerbating risks from a close sovereign-financial nexus.	High Delays in fiscal consolidation and pressures on debt sustainability.	• Continue revenue mobilization reforms and focus on pro-poor priority spending. • Implement PFM, cash management, and budget execution reforms. • Implement regular pump price adjustment for petroleum products. • Identify fiscal measures to create additional fiscal space. • Ensure transparency of fiscal spending through governance reforms.
Risks in the public sector	Medium Overruns in fiscal spending, including from contingent liabilities from SOEs could further exacerbate fiscal deficit, public debt, and FX reserve positions.	High Systemic SOEs, such as the electricity company, are sources of contingent liabilities that could weigh on the budget.	• Enhance monitoring of SOEs and ensure SOEs have a clear and sustainable business plan, including ensuring cost-recovery tariffs for public utilities.
Limited implementation capacity	High Weak capacity and weak absorption of technical assistance in a context of fragility and an ambitious reform agenda.	Medium Slower pace of reform implementation.	• Continued delivery of well-tailored hands-on CD with in-person missions. • Strengthen absorption of TA through improved coordination mechanisms at ministerial levels. • Continued governance and transparency reforms.

Sources of Risks	Likelihood of Risk	Expected Impact of Risk	Policy Responses
Rising Social Discontent	Medium High living costs, weak growth, and inequality may fuel social unrest, hinder necessary reforms, and weaken countries' capacity to address domestic and external shocks.	Medium Dissatisfaction could ignite social tensions and accelerate emigration. Social tensions could cause economic disruptions and political instability, especially in an election year.	• Accelerate measures to enhance governance, growth and inclusion. • Proactive outreach to stakeholders to explain policy tradeoffs. • Strengthened measures to protect the vulnerable by ensuring adequate access to health care and social assistance, including cash transfer and food support programs. • Strengthen communication of policy plans and support measures.
Stronger-than-expected impact of fiscal consolidation	Medium Negative impact from large and frontloaded fiscal consolidation on aggregate demand.	Medium Fiscal consolidation could reduce growth more than expected and delay the recovery further.	• Mitigate the negative effect, focusing on pro-poor spending. • Continue economic diversification and boost export potential. • Accelerate structural reforms to overcome growth constraints. • Proactive outreach to stakeholders to explain policy tradeoffs.
Prolonged electricity outages	Medium Extended electricity outages could disrupt economic activity, reduce productivity, and undermine investor confidence. They would negatively affect manufacturing, services, and agriculture; increase operational costs for businesses; and worsen living conditions.	High Prolonged electricity outages would disrupt economic activity in STP, where power supply is fragile and reliant on imported fuel. Outages would force reliance on smaller, inefficient generators, undermine tourism and other sectors, and increase fiscal pressures through emergency spending and fuel subsidies.	• Accelerate implementation of energy sector reforms to improve reliability and reduce technical losses. • Enhance investment in generation and distribution infrastructure, prioritizing cost-effective solutions. • Promote diversification of energy sources, including renewables, to reduce dependence on imported fuels. • Strengthen governance and transparency in the electricity sector to ensure timely maintenance and project execution.
Higher than expected cost of energy sector reform	Medium Energy sector reforms may require larger fiscal outlays than anticipated, straining limited fiscal space and delaying other priority spending. Higher costs could arise from restructuring SOEs, clearing arrears, or implementing cost-recovery tariffs. This could increase debt vulnerabilities and create social tensions if reforms lead to higher consumer prices.	High Reforms could require rehabilitating aging infrastructure, clearing EMAE arrears to ENCO and Tesla, and implementing larger-than-planned tariff increases. Losing grants for renewable energy projects would further raise costs, straining limited fiscal space and crowding out priority social and investment spending.	• Conduct comprehensive cost-benefit analysis and phased implementation of reforms to manage fiscal impact. • Ensure transparent communication of reform objectives and expected benefits to build public support. • Explore concessional financing and private sector participation to reduce fiscal burden. • Strengthen monitoring and accountability mechanisms to avoid cost overruns and inefficiencies.

Annex II. Key Actions and Timeline for Energy Sector, 2023–26

Measure	Status or Target Date
1. Establish a high-level crisis committee, chaired by the Prime Minister, to oversee reform progress.	Completed
2. Rescind Decree Law No. 18/2020 which prevents EMAE from cutting service to non-paying institutional clients.	Completed
3. Prepare a time-bound restructuring plan for EMAE. The plan will cover financial, operational, and organizational/workforce restructuring, including overhaul of management and governance.	Completed
4. Replace incandescent light bulbs with LED ones nationwide.	Completed
5. To limit non-technical losses, start enforcing existing law according to which stealing electricity is a crime.	Ongoing
6. EMAE to continue to develop arrears clearance plans with non-public sector customers.	Ongoing
7. Start publishing key performance indicators for EMAE.	Quarterly
8. Implement further fuel control measures, such as installing fuel meters.	December 2025
9. Raise electricity tariffs, while preserving or enhancing the progressivity of the tariff structure.	December 2025
10. Council of Ministers to submit the draft Framework Law on Regulatory Entities to the National Assembly, in order to strengthen AGER, the electricity sector regulator.	December 2025
11. Council of Ministers to approve the Regulation on Independent Producers.	December 2025
12. Sign a contract with a concessionaire to run EMAE's commercial operations.	September 2026
13. Roll out the gradual installation of electricity meters, including 20,000 prepaid smart meters for small clients supported by the EIB, 40,000 prepaid meters supported by the AfDB, and an additional 10,000 meters supported by the World Bank.	December 2026
14. Acquire, install, and migrate to a new Information Management System for EMAE.	December 2026

Annex III. Strengthened Policy Safeguards

1. The relative share of STP's *de facto* senior debt plus other multilateral debt as a share of total external debt is projected to be about 36 percent in 2025 and is projected to increase to 48 percent by 2030 under baseline projections (Annex Table 1). In 2024, debt held by institutions afforded preferred creditor status—the IMF, World Bank, and other major development banks—accounted for 23.1 percent of external debt. Adding debt held by other multilaterals brings the total to around 35.9 percent of external debt in 2024. Risks coming from this exposure are mitigated by the envisaged fiscal consolidation and revenue mobilization reforms. To lower the risk of debt distress, the program includes QPCs on contracting and disbursement of non-concessional external borrowing, and on the accumulation of external payment arrears, as well as an IT on the present value of new external borrowing. Measures for improving debt coverage and transparency are also envisaged.

2. STP's Capacity to Repay (CtR) indicators remain elevated relative to other PRGT borrowers. Annex Figure 1 shows that several CtR measures—in particular, total Fund credit outstanding as a share of gross international reserves, total Fund credit outstanding as a share of PPG external debt, and total debt service to the Fund as a share of exports of goods and services—lie above the interquartile range for much of the projection horizon. By contrast, Fund credit outstanding as a percent of GDP and total debt service to the Fund relative to revenues fall within the interquartile range in the medium and long term. The charts in Panel C highlight pronounced peaks for Fund credit outstanding (relative to reserves) and for total debt service to the Fund (relative to exports), reinforcing the elevated CtR risks noted in ¶38 of the main text.

3. One of the main objectives of STP's request for an ECF-supported program is to reduce debt vulnerabilities, including those stemming from the pandemic. STP is assessed to be in debt distress, due to prolonged unsettled external arrears of around 1.3 percent of GDP. Both the debt-service-to-exports ratio and the debt-to-exports ratio are forecasted to breach their respective thresholds from 2025 to 2028, illustrating the high vulnerability to shocks and sensitivity of the assessment to macroeconomic assumptions. Weaker than expected export growth and higher fuel import needs could exacerbate the already severe burden on external balances and put debt sustainability at risk. Moreover, the baseline of the PV of the PPG debt-to-GDP ratio also breaches the threshold through 2030, but after discounting the government's debt to ENCO and EMAE's debt and arrears to ENCO it is projected to fall below the benchmark after 2025. The Fund-supported program is designed to reduce debt vulnerabilities through the implementation of strong macroeconomic policies and continued reforms, including energy sector reforms, fiscal consolidation, revenue mobilization, and growth-enhancing structural reforms. The authorities should be cautious in their external financing activities to carefully balance debt sustainability concerns with the country's investment needs. External financing in the form of highly concessional loans and grants should continue to be prioritized.

Table 1. Sao Tomé and Príncipe: Debt Composition[1]

(In US$ Million, unless otherwise indicated)

	2022 Est.	2023 Est.	2024 Proj.	2025 Proj.
Total	**473.6**	**509.6**	**540.3**	**531.3**
External Debt	**221.2**	**244.5**	**286.8**	**290.3**
Multilateral creditors [2]	86.5	97.2	103.1	117.2
o/w IMF	33.6	32.9	36.2	42.9
o/w World Bank	11.1	11.0	11.0	11.0
o/w ADB/AfDB/IADB	19.3	18.7	19.3	23.0
Other Multilaterals	22.4	34.6	36.6	40.3
Bilateral Creditors	134.7	147.3	183.7	173.1
o/w Paris Club	5.1	5.1	5.1	5.1
o/w Non-Paris Club	119.6	120.4	156.9	146.2
Commercial creditors	10.0	21.8	21.8	21.8
Domestic Debt	**252.4**	**265.1**	**253.5**	**241.0**
Memorandum Items:				
Collateralized debt[3]	0.0	0.0	0.0	0.0
Nominal GDP	545.9	695.8	828.4	984.6
Multilateral Debt				
Multilateral Debt	86.5	97.2	103.1	117.2
Percent of External Debt	39.1	39.7	35.9	40.4
Percent of GDP	15.8	14.0	12.4	11.9
o/w IMF and WB	44.8	43.9	47.2	53.9
Percent of External Debt	20.2	18.0	16.4	18.6
Percent of GDP	8.2	6.3	5.7	5.5
o/w ADB/AfDB/IADB	19.3	18.7	19.3	23.0
Percent of External Debt	8.7	7.6	6.7	7.9
Percent of GDP	3.5	2.7	2.3	2.3
o/w other Multilaterals	22.4	34.6	36.6	40.3
Percent of External Debt	10.1	14.2	12.8	13.9
Percent of GDP	4	5	4	4

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

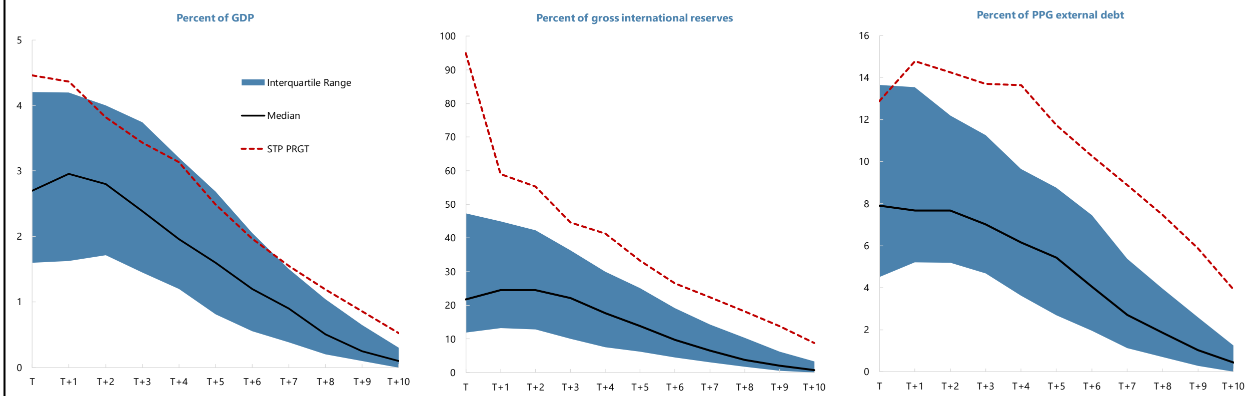
2/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

3/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

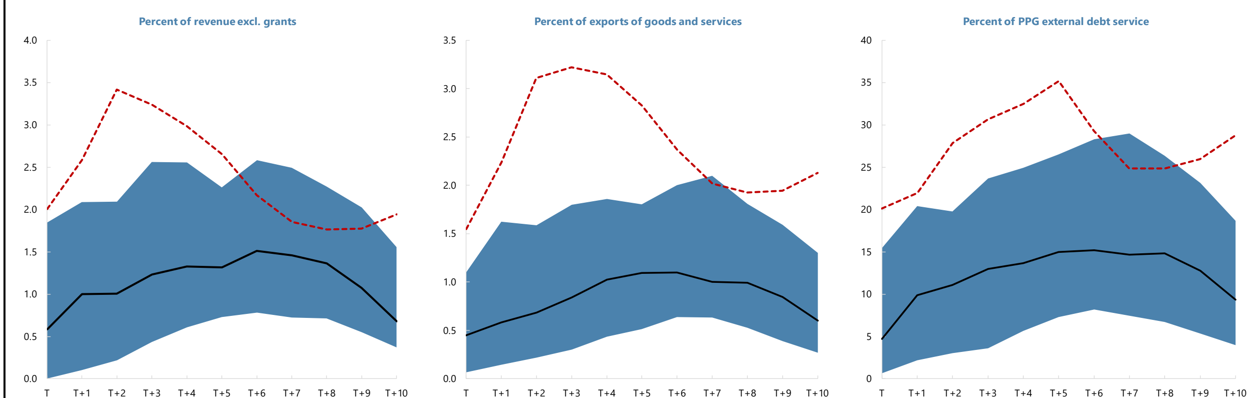
Figure 1. São Tomé and Príncipe: Capacity-to-Repay Indicators Compared to Upper Credit Tranche Arrangements for PRGT Countries1

(In Percent of the Indicated Variable)

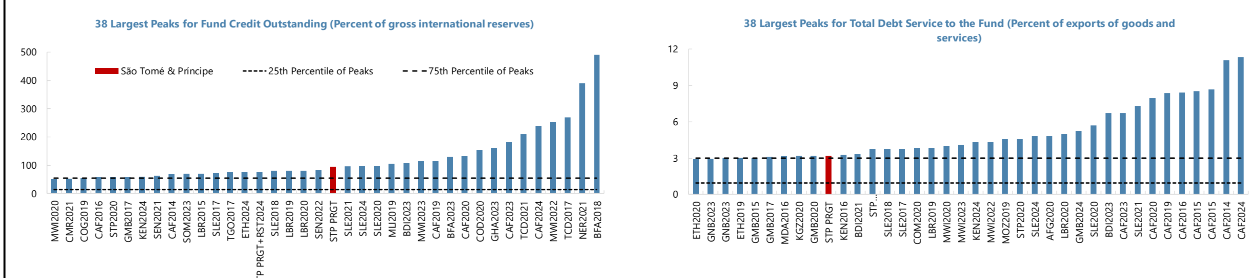
A. Total Fund Credit Outstanding



B. Total Debt Service to the Fund



C. Largest Peaks



Notes:
1) T = date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect arrangements (including blends) approved for PRGT countries between 2014 and 2024.
4) The comparator group "All PRGT" excludes arrangements that never had a UCT between 2014 and 2024.
5) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
6) Comparator series is for PRGT arrangements only and runs up to T+10.
7) Debt service obligations to the Fund reflect prospective payments, including for the current year.
8) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.
9) International reserves are proxied by imputed reserves as measured by net foreign assets or by the currency union's total reserves for LICs that are part of currency unions.

Appendix I. Letter of Intent

São Tomé, December 3, 2025

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431, USA

Dear Managing Director Georgieva:

The government of the Democratic Republic of São Tomé and Príncipe requests the IMF Executive Board to complete the Second Review of the program supported by the Extended Credit Facility (ECF) arrangement and approve the third disbursement based on performance on the end-June 2025 quantitative performance criteria (QPCs) and the completion of prior actions (PAs). We also request the IMF Executive Board to complete the financing assurances review and to approve a 12-month extension and augmentation of the ECF arrangement by SDR 4.44 million (30 percent of quota).

The attached documents provide updates to the Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU). The updated MEFP reports on recent economic developments, reviews progress in implementing São Tomé and Príncipe's program under the Extended Credit Facility (ECF) arrangement and sets out macroeconomic and structural policies that we plan to implement going forward.

Economic conditions have deteriorated since the first review under the ECF arrangement, as noted in the attached MEFP. Long-standing socio-economic vulnerabilities were further compounded by accelerating emigration and the ongoing energy crisis. As a result, in 2025 growth is now expected at 2.1 percent, below the 2.9 previously expected. Inflation has picked up to 12.1 percent year-on-year in October 2025 (with core inflation at 4.6 percent).

Program performance has been broadly satisfactory. Strong corrective measures have been undertaken to safeguard the achievement of program objectives. Most of the quantitative performance criteria (QPCs) and indicative targets (ITs) for the end-June 2025 were met, including the QPCs on net international reserves (NIR) and central bank credit to government, as well as the ITs on domestic arrears clearance, pro-poor expenditures, and external borrowing. However, the QPCs on the domestic primary balance and external payment arrears were both missed, mainly due to unexpected emergency spending, severe liquidity pressures, and underperformance of fiscal revenues. To prevent recurrence, we have adopted a comprehensive domestic revenue mobilization strategy, incorporated several new tax policy and administrative measures in the 2026 budget, and initiated the development of a quarterly fiscal cashflow plan, to be implemented starting with Q2 of

2026. Given the minor nature of some of these deviations and the decisive corrective measures undertaken, we request that the Board approve waivers for the nonobservance of the missed QPCs. We also request the modification of QPCs and establishment of end-December 2026 PCs as set forth in the attached.

On the structural front, we encountered difficulties in implementing several structural reforms on time because of limited capacity, the impact of the ongoing energy crisis, and legislative scheduling constraints. More specifically, out of a total of fifteen structural benchmarks assessed, five were met, three were converted into prior actions, and one was implemented with a delay. We propose to reset two other SBs to March 2026.

We remain committed to addressing the current macroeconomic imbalances, by staying the course on fiscal consolidation and domestic revenue mobilization. This will ensure adequate resources for boosting growth and for providing public services, including social protection, health, education, and the maintenance of public infrastructure. We are also determined to rationalize non-priority public expenditure and contain fiscal risks from SOEs, particularly in the energy sector. We believe that these efforts will create fiscal space for the implementation of growth-enhancing development programs, thus helping to put public debt on a downward trajectory. In addition to fiscal consolidation, we will continue to maintain a tight monetary policy stance to reduce balance of payments pressures. We will also continue to strengthen governance and reduce vulnerabilities to corruption, including in public financial management, central bank governance and operations, and financial sector oversight. Finally, we will accelerate structural reforms to boost export potential and create job-rich, inclusive, and blue growth, in line with our recently adopted National Strategy for Sustainable Development 2026-40.

As a sign of our commitment to the Fund-supported program, we will implement five prior actions before the Board consideration of the Second Review under the ECF arrangement. To address macroeconomic imbalances, we have submitted to Parliament the 2026 budget in line with the agreed program parameters. To support domestic revenue mobilization efforts over the medium term, the Council of Ministers has adopted a domestic revenue mobilization strategy for 2026-28. To align fuel prices with the cost of fuel, we have adjusted the pump prices of diesel, gasoline, and kerosene to align them with the formula in the GAMAP Decree Law. To maintain credibility with the country's creditors, we will clear all external payment arrears of the central government accumulated since completing the First Review under the ECF arrangement. To curb inflation and support the peg to the euro, the BCSTP has reduced estimated excess reserves in local currency below STN 275 million.

The government believes that the policies contained in the attached MEFP are adequate to achieve the objectives of the program, but it is prepared to take further measures that may become appropriate for this purpose. We will consult the IMF in advance on the adoption of these measures and regarding revisions to the policies contained in the MEFP, in accordance with IMF policies on such consultations. We will also consult in advance with IMF staff on the terms of possible external borrowing to ensure that such borrowing does not jeopardize debt sustainability and is in line with the IMF's debt limits policy. We shall provide timely information necessary for monitoring economic developments and the implementation of policies defined in the program as agreed in the TMU, or upon request. Furthermore, we are committed to (i) not introducing or intensifying any exchange restrictions; (ii) not introducing or imposing import restrictions; (iii) not introducing or modifying multiple currency practices; and (iv) not concluding bilateral payment agreements in violation of Article VIII of the Articles of Agreements. All of these will continue to be continuous performance criteria under the ECF arrangement.

In line with its commitment to transparency and accountability, the government authorizes the IMF to publish this letter, its attachments, and the related staff report, including placement of these on the IMF website in accordance with IMF procedures, following the IMF Executive Board's approval of the Second Review under the ECF arrangement.

Sincerely yours,

/s/

Mr. Américo d'Oliveira dos Ramos
Prime Minister and Head of the Government of São Tomé and Príncipe

/s/
Mr. Gareth Haddad do Espírito Santo Guadalupe
Minister of State for Economy and Finance

/s/
Ms. Lara Simone Beirão
Acting Governor
Central Bank of São Tomé and Príncipe

Attachments:
1. Memorandum of Economic and Financial Policies (MEFP)
2. Technical Memorandum of Understanding (TMU)

Attachment I. Supplementary Memorandum of Economic and Financial Policies for 2025–29

INTRODUCTION

1. This Memorandum of Economic and Financial Policies (MEFP) updates the MEFP reviewed by the IMF Executive Board on July 31, 2025. In this MEFP, we review recent developments and performance under the ECF-supported program, assess the economic outlook and risks, and set out our macroeconomic policies for 2026 and beyond. The program aims to lay the foundation for stronger, more inclusive growth, and to catalyze financial support from bilateral and multilateral partners. The ECF arrangement will help to address the pressure on the balance of payments through energy sector reforms and fiscal consolidation, while bolstering social protection. A 12-month extension and augmentation of the ECF arrangement would provide additional time and resources to advance the shift from fossil fuels to renewable energy, cover the emerging BOP gap, complete the planned fiscal adjustment, and ensure the successful completion of the reform agenda, particularly in the energy sector.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

2. The macroeconomic recovery remains fragile, facing headwinds from recurrent power outages and unfavorable demographic trends. The electricity disruptions in the second half of 2025 are negatively impacting economic activity. Concurrently, recent census data indicate a substantial slowdown in population growth. As a result, GDP growth for 2025 is now projected at 2.1 percent, 0.8 percentage points lower than before. Inflation remains elevated, reaching 12.1 percent in October. It is projected to average 11.9 percent in 2025, versus 9.7 percent previously, as recent inflation outcomes have surprised on the upside. These inflationary pressures reflect mostly supply-side constraints, although demand-side dynamics play a role as well.

3. Disbursements of budget support and the implementation of the export repatriation and surrender requirements have significantly boosted reserves. By end-August, gross international reserves (GIR) reached US$67.9 million (face value, excluding commercial banks' FX reserves), compared to US$38.9 million at end-2024. Net international reserves (NIR) rose to US$9.6 million, a notable improvement from -US$20.4 million at end-2024.

4. Budget execution through end-June was characterized by stronger revenue performance compared to the same period in 2024, alongside under-execution of capital spending. Tax revenues grew by 46 percent (y-o-y), driven by buoyant import taxes, and to a lesser extent by consumption and profit taxes. Non-tax revenues fell by 19 percent, reflecting weaker receipts from state participation and service fees. On the expenditure side, primary spending was under-executed, reflecting delays in the approval of the 2025 budget. As a result, the domestic primary balance (DPB) recorded a surplus of 21 million dobras in June 2025, compared to a deficit of 152 million dobras in June 2024.

5. The current account deficit narrowed sharply to 2.2 percent of GDP in 2024, from 12.3 percent of GDP in 2023. The deficit is expected to widen to 4.6 percent of GDP in 2025, reflecting a significant reduction in project grants, despite lower fuel and investment goods imports. Over the medium term, it is projected to stabilize at around 4 percent of GDP, supported by a continued recovery in the tourism sector and declining fuel import needs.

6. São Tomé and Príncipe (STP) remains in debt distress, due to unsettled post-HIPC external arrears of around 1.3 percent of GDP at end-2024. This includes the unresolved regularization of STP's post-HIPC arrears to Angola, Brazil and Equatorial Guinea. Additionally, significant arrears from EMAE to its suppliers reflect the severe liquidity constraints of the public sector. The high level of external debt and debt service obligations also adds to those burdens. However, we believe that STP still possesses the capacity to repay these arrears over time and that debt remains sustainable. STP continues to actively seek rescheduling agreements with its creditors and to explore more concessional loans or grants from other countries or institutions.

7. Credit to the economy continued to expand, rising by 11 percent (yoy) in September. This growth was driven by increased bank financing for fuel imports and construction activities, while lending to households continued to decline. As of June 2025, financial soundness indicators revealed a stable banking system, with regulatory capital to risk-weighted assets at 34 percent, liquid assets to total assets at 55 percent, and non-performing loans to total gross loans remaining stable at around 10 percent. However, there is high concentration risk in the banking system. Broad money and reserve money grew by 18 and 29 percent respectively (yoy) in September 2025, mainly due to remittances and the new export repatriation and surrender requirements.

8. The government's continued commitment to far-reaching reforms is expected to strengthen the medium-term economic outlook. GDP is projected to grow by 3.9 percent in 2026 and 2027, and then stabilize at around 3¼ percent over the medium term. Growth will be supported by public investment, stronger tourism and remittances, increased electricity supply, and rising exports of palm oil and cocoa. Reforms at EMAE and planned renewable energy projects are expected to reduce the oil import bill, enhance investor confidence, and boost economic activity. Inflation is projected to decline from 11.9 percent in 2025 to 8.3 percent in 2027, reflecting easing supply disruptions and a tighter policy stance.

PROGRAM PERFORMANCE

9. We met most of the QPCs and ITs for the end-June 2025 test date (Table 1). In particular, we met the QPCs on net international reserves and central bank credit to government, as well as the ITs on domestic arrears clearance, pro-poor expenditures, and external borrowing. However:

- The QPC on the domestic primary balance was missed by a small margin despite various budget restraints, mainly due to the underperformance of fiscal revenues, which also lead to breaching the IT on tax revenues. To strengthen fiscal resilience, we have adopted a domestic revenue mobilization strategy as a prior action (**PA2** in Table 2), and several strong tax policy and revenue administration measures have been incorporated in the 2026 budget.

- The continuous QPC on the accumulation of new external payment arrears by the central government was missed due to severe liquidity constraints, given competing demands from public salary payments and other social priorities. Going forward, the development of a quarterly fiscal cashflow plan starting with Q2 of 2026 (**SB4** in Table 4) together with enhanced predictability and revenue mobilization should help avoid a recurrence. As a prior action for this review, we will also clear these arrears (**PA4**).

10. Out of a total of fifteen structural benchmarks assessed, five were met, three were converted into prior actions, and one was implemented with a delay (Table 3):

- The SBs on the submission of the new Financial Institutions Law to Parliament and the preparation of a restructuring plan for EMAE were met well ahead of schedule.
- The SB on the publication of the Q2 KPIs for the electricity company EMAE was implemented with a one-week delay, in the midst of the ongoing energy crisis, which caused delays in data availability. The KPIs for Q3 were also published in late October, two months ahead of schedule.
- The SB on the adoption of a domestic revenue mobilization strategy for 2026-30 was delayed by the need to align it with the 2026 budget process and was implemented as prior action (**PA2**) for the completion of this review.
- The SB on monthly fuel price adjustments was met in October and November, though it was missed in August and September. As a prior action for this review, we adjusted pump prices for diesel, gasoline, and kerosene to align them with the formula set out in the GAMAP Decree Law (**PA3**). Going forward, we would like to request that this SB shifts from monthly to quarterly fuel prices adjustments to better align with actual fuel supply patterns (the country receives about 8 fuel shipments per year).
- The SB on reducing excess reserves was met in September and November 2025 (as a prior action), though it was missed in August and October. Although the BCSTP conducted monthly CD auctions, demand for CDs often fell short due to the heterogeneity of banks' liquidity positions and the large volume of FX purchases by the central bank under the new export repatriation and surrender requirements. As a prior action for this review, we have reduced estimated excess reserves below 275 million (**PA5**).

However:

- The SB on auditing the government's 2023 financial statements was not met, as the Court of Auditors needs additional time to reconcile the data submitted by the government. We request that this SB be reset to March 2026.
- The SB on enacting the public procurement law was not met, as the entire legislative process had to restart following the formation of the 19th constitutional government in January. We request that this SB be reset to March 2026.

POLICY OBJECTIVES FOR 2025–29

Our policy objectives continue to be centered on: i) addressing macroeconomic imbalances, including by restoring fiscal sustainability, tackling fiscal risks from the energy sector, reducing debt *vulnerabilities, and maintaining a tight monetary stance; (ii) strengthening governance and reducing vulnerabilities to corruption, including in public financial management, central bank governance and operations, and financial sector oversight; and (iii) accelerating structural reforms to boost export potential and create job-rich, inclusive, and blue growth.*

A. Addressing Macroeconomic Imbalances

Fiscal Policy

11. Since the completion of the first review under the ECF arrangement, new fiscal pressures have emerged, primarily driven by the adverse effects of ongoing power outages on business activity and the delayed implementation of new fiscal measures. We estimate that the negative impact of the power outages on revenue collection would amount to about 1 percent of GDP. In addition, the postponement of the new environmental tax on packaging and fuel imports to September and the delayed rollout of the new salary grid to October are expected to result in revenue shortfalls. To mitigate the impact of these revenue shortfalls (2.1 percent of GDP in total) on the domestic primary balance target, we have implemented measures to reduce primary spending by 1.7 percent of GDP), of which 0.9 percent of GDP from delayed rollout of the new salary grid to the fourth quarter and 0.5 percent from capping expenditures on goods and services at their 2024 levels. Consequently, we are now targeting a domestic primary surplus (commitment basis, excluding government fuel purchases) for 2025 of about 0.5 percent of GDP, compared to the initial objective of 1 percent of GDP.

12. In view of the downward revision to medium-term growth prospects, we need one more year to achieve the domestic primary surplus target of 2 percent of GDP. To this end, we have approved a comprehensive domestic revenue mobilization strategy aimed at generating additional revenues totaling 2.6 percent of GDP over 2026–2028 (see Text Table 1). In parallel, we are committed to reducing expenditures by 0.5 percent of GDP over the same period by capping the wage bill at 8.1 percent of GDP and rationalizing other spending. Overall, our fiscal adjustment efforts will continue to amount to 3.1 percent of GDP over 2026–2028.

13. In this context, we have presented a draft budget for 2026 to parliament (PA1), targeting a domestic primary surplus of 0.5 percent of GDP, compared to the previously agreed 1.5 percent of GDP. This will be supported by revenue measures worth 1.4 percentage points of GDP, mostly to offset one-off revenues collected in 2025. Revenue administration efforts will focus on improving VAT administration, introducing advance VAT payments on informal sales, and strengthening enforcement and monitoring. On tax policy, priorities include reforming the import tariff structure and a revenue-increasing shift from import duties toward excises.

14. The budget for 2026 also incorporates proceeds from the Citizenship-by-Investment (CBI) Program launched in 2025. This program enables applicants to obtain citizenship through a non-refundable contribution starting at USD 90,000. Of this amount, 56 percent is allocated to the budget and subsequently transferred to the National Transformation Fund (NTF), which supports priority projects in energy, infrastructure, tourism, and other key sectors. We anticipate 50 to 100 applications per year, generating an estimated USD 2.5–5.0 million in revenue, equivalent to around 0.2 to 0.4 percent of GDP per year.

Text Table 1. São Tomé and Príncipe: Revenue Measures and Yields, 2026–28
(In Percent of GDP)

Category	Measure	2026	2027	2028
I. Revenue Administration	1. Refine VAT administration.	0.25	0.15	0.10
	2. Introduce a 5 percent advance VAT payment on informal sales collected at importation.	0.04		
	3. Apply coercive collection and sanctioning of infractions.	0.05	0.01	0.01
	4. Introduce new inspection and audit programs.	0.05	0.01	0.01
	5. Introduce a large taxpayers monitoring program.	0.02	0.01	0.01
	6. Limit the importation of vehicles to one unit per year per individual.		0.01	
	7. Establish warehouses for products subject to excises.	0.05	0.01	0.01
	8. Install pallet, container, and baggage scanners in customs control.	0.02	0.01	0.01
	9. Implement the National Digital Taxation Project (STP 2.0).	0.00	0.02	0.02
	10. Implement the new SAFE – Electronic System of State Financial Administration.	0.00	0.03	0.02
	11. Implement self-clearance and prepayment of customs declarations at SYDONIA World.	0.00		0.01
	12. Introduce the automatic valuation of customs declarations module.	0.06	0.01	0.02
	13. Reconfigure fuel taxation.	0.00		
	14. Revise the 2009 customs code.		0.01	0.01
	15. Establish an autonomous tax and customs court.		0.05	0.03
Subtotal (I)		**0.54**	**0.33**	**0.27**
II.Tax Policy	16. Apply and strengthen environmental tax on packaging and fuel imports.	0.39		
	17. Apply 5 percent import duties on sugar and salt.	0.01	0.01	0.01
	18. Modify the vehicle taxation, based on cylinder capacity and age of the vehicles.	0.03	0.01	0.01
	19. Strengthen and extend excise on alcoholic, tobacco, and sugary beverages.	0.04	0.01	
	20. Clarify the application of the 7.5 percent VAT on vehicles with tax exemptions and implement mechanisms to control deviation of purpose.	0.01		
	21. Update the minimum tax contribution.		0.28	0.09
	22. Improve the management and collection of the urban property tax.			0.06
Subtotal (II)		**0.48**	**0.31**	**0.17**
Subtotal Tax measures (I+II)		**1.02**	**0.64**	**0.44**
III. Non-Tax	23. Implement the Citizenship by Investment or Donation Program.	0.10	0.00	0.00
	24. Implement the new fisheries agreements and maritime licenses.	0.20	0.05	0.05
	25. Establish the National Fund for Tourism, Environment, and Natural Resources.	0.05	0.02	0.01
Subtotal (III)		**0.35**	**0.07**	**0.06**
TOTAL (I+II+III)		**1.37**	**0.71**	**0.50**

Source: São Tomé and Príncipe authorities.

15. We will ensure full transparency in the government's financial support to EMAE for fuel imports and other items. To this end, specific appropriations for this operation will be included in the budget and recorded in the TOFE as cash advances. A monitoring system for letters of credit will be implemented, and government liabilities will be recognized at the time of credit issuance. In addition, we will establish a joint monitoring and reconciliation framework among the Ministry of Economy and Finance (MEF), EMAE, and ENCO to promote transparency and consistency in fiscal reporting. Detailed information on these transactions will be provided to IMF staff within one month of their completion. Finally, we propose to modify the program definition of the QPC on the domestic primary balance to incorporate government fuel purchases, in addition to all other spending on behalf of EMAE, beginning in 2026.

16. We will continue to strengthen public service delivery and advance the modernization of the public compensation framework. In line with the Public Administration Reform Strategy 2023–30, efforts are underway to expand Project 5, which seeks to enhance citizens' access to services through the Integrated Public Service (SPI) initiative, to additional districts. The pilot project is already operational in the Mé-Zóchi and Lobata districts. In Q4 of 2025, we initiated the consolidation of overtime payments into the base salaries of civil servants under the general regime.

This measure is expected to enhance transparency and reinforce budget predictability. Implementation of the new minimum wage and salary grid also commenced in October, with the associated budgetary costs remaining consistent with the medium-term expenditure ceiling established under the program, at 8.1 percent of GDP.

17. We will continue to advance the development of our social assistance programs and strengthen targeting mechanisms. We will carefully analyze and consider the distributional impact of reforms under the program and potential risks to social stability. With support from the World Bank, we are further developing the Unique Social Registry, which now contains socio-demographic data on more than 8,000 households, representing over 39,000 individuals.

Debt Management

18. We recognize that external debt vulnerabilities are increasing. The government is considering a loan agreement with BADEA, worth about 2 percent of GDP, to partially finance a new hospital. The loan is non-concessional, with a grant element estimated at about 28 percent. The loan agreement is still pending parliamentary approval. We are seeking additional grants to blend the financing and enhance concessionality. We are also requesting an exception from the program's zero ceilings on contracting and disbursing non-concessional external borrowing to accommodate this high-value social project in case grants or concessional financing are not available.

19. Cautious borrowing and fiscal adjustment program would help place public debt on a downward path. We will strive to keep external debt disbursements below 2 percent of GDP and limit contracting of new loans to 3 percent of GDP per year. These parameters will be adjusted as debt vulnerability evolves. Under our program, public debt would be on a firm downward trajectory, supported by our commitment to fiscal consolidation and energy sector reforms. To preserve public debt sustainability, our objectives are to: (i) reduce the present value of total PPG debt, after discounting EMAE's and the central government's debt and arrears to ENCO, to below the DSA benchmark associated with the country's weak debt-carrying capacity (35 percent of GDP) by 2026; and (ii) reduce the external PPG debt stock and debt service ratios below the DSA threshold values throughout the projection horizon. That said, we recognize that public debt sustainability remains subject to large risks beyond our control. We will continue to engage actively with bilateral creditors to regularize post-HIPC arrears. At least for the duration of the program, we will maintain the status of ENCO's debt to Sonangol as external commercial debt.

20. The government is implementing measures to strengthen debt management. We will develop a medium-term public debt management strategy and start preparing an annual borrowing plan, with support from a debt advisor, by the end of 2027. In addition, with the support from the World Bank, we are developing a debt database that will report detailed debt statistics, as well as improve our capacity to perform debt service projections and risk analyses.

Energy Sector and SOE Fiscal Risks

21. We will resume the regular application of the fuel price adjustment mechanism with price smoothing to prevent implicit fuel subsidies, contain fiscal risks, and reduce pressure on reserves. In October 2025, the government decreased retail prices for gasoline and diesel by 6 percent and 3 percent, respectively, to bring them in line with international markets. We adjusted fuel prices again in November to ensure that the pump prices of diesel, gasoline, and kerosene align with the formula in Decree Law No. 07/2018 (**PA3**). Going forward, the government will continue to apply the fuel price adjustment mechanism and publicize the outcome every quarter (**SB1** in Table 4). The quarterly frequency aligns better with actual fuel supply patterns, as the country receives about 8 fuel shipments per year.

22. The electricity sector continues to face structural challenges, including high technical and non-technical losses, low bill collection rates, electricity tariffs below cost-recovery, and overstaffing. Between March 2021 and end-2023, the country experienced daily shortages of electricity, caused by depreciation and lack of maintenance of our diesel-based electricity generators. Although conditions improved in early 2024 following the installation of five new generators by a foreign investor, daily power outages resurfaced in August 2025. Despite the first electricity tariff increase in many years, implemented in January 2025, EMAE still faces low bill collection and persistent losses. Reform efforts have progressed slowly, but several initiatives are underway. Fuel designated for EMAE is now color-marked at the point of loading, and cameras have been installed to prevent misuse. Additionally, prepaid meters are also being rolled out to electricity consumers, and the process is expected to accelerate in 2026.

23. The government remains committed to implementing its comprehensive reform strategy for the energy sector, which aims to address the current crisis. The strategy is centered on implementing the Action Plan for the Decarbonization and Resilience of the Energy Sector (PADRES) and the National Energy Compact, in order for EMAE to gradually achieve full cost recovery. The strategy includes four interlocking objectives: increase electricity generation capacity (with a shift towards renewables), contain consumption, enhance the efficiency of EMAE's operations by reducing losses and increasing bill collection rates, and improve the design of the electricity tariff structure in the country. We have also prepared a time-bound restructuring plan for EMAE with the objective of achieving financial viability. The plan covers financial, operational, and organizational/workforce restructuring, including overhaul of management and governance.

24. Our near-term actions will continue to focus on addressing the crisis in the electricity sector:

- We will raise again electricity tariffs by end-2025.
- To limit non-technical losses, we are enforcing the law according to which stealing electricity is a crime.
- We will continue publishing EMAE's key performance indicators (KPIs) every quarter (**SB9** in Table 4).
- By end-September 2026 we will sign a contract with a concessionaire to run EMAE's commercial operations (**SB10** in Table 4)
- We will acquire and install an Information Management System for EMAE by December 2026.
- We will also implement other measures listed in Text Table 2.

Text Table 2. São Tomé and Príncipe: Key Actions and Timeline for EMAE/Energy Sector, 2023–26

Measure	Status or Target Date
1. Establish a high-level crisis committee, chaired by the Prime Minister, to oversee reform progress.	Completed
2. Rescind Decree Law No. 18/2020 which prevents EMAE from cutting service to non-paying institutional clients.	Completed
3. Prepare a time-bound restructuring plan for EMAE. The plan will cover financial, operational, and organizational/workforce restructuring, including overhaul of management and governance.	Completed
4. Replace incandescent light bulbs with LED ones nationwide.	Completed
5. To limit non-technical losses, start enforcing existing law according to which stealing electricity is a crime.	Ongoing
6. EMAE to continue to develop arrears clearance plans with non-public sector customers.	Ongoing
7. Start publishing key performance indicators for EMAE.	Quarterly
8. Implement further fuel control measures, such as installing fuel meters.	December 2025
9. Raise electricity tariffs, while preserving or enhancing the progressivity of the tariff structure.	December 2025
10. Council of Ministers to submit the draft Framework Law on Regulatory Entities to the National Assembly, in order to strengthen AGER, the electricity sector regulator.	December 2025
11. Council of Ministers to approve the Regulation on Independent Producers.	December 2025
12. Sign a contract with a concessionaire to run EMAE's commercial operations.	September 2026
13. Roll out the gradual installation of electricity meters, including 20,000 prepaid smart meters for small clients supported by the EIB, 40,000 prepaid meters supported by the AfDB, and an additional 10,000 meters supported by the World Bank.	December 2026
14. Acquire, install, and migrate to a new Information Management System for EMAE.	December 2026

25. **We remain committed to improving the financial oversight of SOEs.** The Council of Ministers has approved a new decree-law reforming the legal regime for SOEs and will submit it to the President for enactment. To further strengthen governance, we will adopt an SOE ownership strategy in 2026.

Monetary Policy

26. **Fiscal consolidation will continue to be complemented by a tight monetary stance to reduce inflation, accumulate reserves, and rebalance the economy.** Since November 2024, we have issued CDs worth STN 1.6 billion, versus only STN 65 million during the preceding 12 months, with interest rates on CDs increasing by 100-150 basis points. Since the completion of the First Review under the ECF arrangement in July 2025, we have offered CDs amounting to STN 700 million against demand of STN 390 million, corresponding to a subscription rate of 56 percent. The six-month moving average of core inflation declined to 3.3 percent in January 2025, down from 14.9 percent in February 2024, but increased to 5.2 percent in October 2025, well above the 3.1 percent

target. Our objective is to reduce banks' estimated excess reserves in local currency below STN 250 million through the issuances of CDs or FX sales until the 6-month moving average of y-o-y core inflation declines below 3.1 percent (**SB7** in Table 4).

27. To foster demand for CDs, we will maintain the price discovery mechanism in our auctions, ensure that CD rates are fully integrated into the monetary policy interest rate corridor, and strengthen short-term liquidity forecasting. In this regard, we will increase auction frequency by conducting CD auctions on a weekly basis when excess reserves are above STN 250 million, and strengthen predictability through an issuance calendar that outlines the volumes to be offered, enabling banks to prepare and bid more efficiently. We will issue CDs at market rates, with variable rates determined by bids submitted by participants. We will continue offering 12-month CDs alongside the existing 1-month, 3-month, 6-month and 9-month maturities. Furthermore, we will gradually ensure that CD rates are aligned with the policy interest rate corridor. To this end, we will operationalize our standing deposit facility and closely align the CD rate with the standing deposit and lending facility rates to form a coherent interest rate corridor. Finally, we will enhance our short-term liquidity forecasting capacity, through closer coordination with the Ministry of Economy and Finance (MEF), to better calibrate auction sizes and improve overall liquidity management.

28. To ensure effective monetary policy implementation, we will strengthen the BCSTP's financial autonomy. In this regard, a joint technical commission between BCSTP and the Ministry of Economy and Finance is being established to design a recapitalization program ensuring monetary policy effectiveness and institutional autonomy, with the intention of having biweekly technical meetings and formal follow-up reports. We also remain committed to rebuilding our SDR balances as part of our foreign exchange reserves, including by receiving program disbursements in SDRs. This approach will bolster reserve adequacy and generate significant interest savings for the country.

B. Strengthening Governance and Reducing Vulnerabilities to Corruption

Public Financial Management

29. We are committed to fast-tracking PFM reforms to promote transparency and spending efficiency. Specifically:

- We will revoke the Temporary Law on Investment Incentives, in order to reinstate normal public procurement processes (**SB2** in Table 4). We will also enact and publish the new public procurement law, which mandates the collection and online publication of beneficial ownership information for companies awarded public procurement contracts (**SB3** in Table 4).
- We will develop a quarterly fiscal cashflow plan, beginning with Q2 of 2026, to help prevent the recurrence of arrears, both domestic and external, using the Cash Forecasting and Analysis Tool (CFAT), possibly with technical assistance from the IMF (**SB4** in Table 4).
- MEF will submit the government's 2024 financial statements by end-2025. The Court of Auditors will publish the audit of the government's 2023 and 2024 financial statements by March 2026 and September 2026, respectively (**SB5** and **SB6** in Table 4). We will address key

recommendations from the audits in a timely manner. We will protect the autonomy and independence of the Court of Auditors.

- We will staff the newly revived PFM reform unit in MEF (GARFIP) by end-2025.
- To strengthen transparency, we will ensure timely publication of the semi-annual budget execution reports.
- We affirm our commitment to the principles of transparency, integrity, and good governance in the implementation of the Citizenship-by-Investment (CBI) Program. The Program will be administered in full conformity with international standards on due diligence and the prevention of money laundering and terrorist financing (AML/CFT), under the supervision of the Review Committee and the competent regulatory authorities. The management of the National Transformation Fund (NTF) will be conducted with the highest standards of transparency and accountability. All revenues derived from the CBI program will be incorporated in the budget, and all expenditures will follow the standard budgetary procurement procedures. Allocations will be strictly limited to the legally defined priority sectors of national development, including energy, infrastructure, health, education, and housing. The operations of the NTF will be subject to an annual independent audit, the supervision of the Court of Auditors and the Central Bank. In addition, they will be subject to regular reporting requirements, including the submission of an annual report to both the government and the National Assembly, ensuring maximum transparency and institutional accountability.
- We will procure a modern and interoperable IFMIS system before the end of 2025. A pilot implementation will begin with the preparation of the 2027 budget, with the goal of achieving full deployment with 2027 budget execution. In the meantime, we will continue to ensure that all central government spending units register all commitments in the SAFE-e.
- We will strengthen public investment management. An IMF TA mission will conduct a C-PIMA in early 2026.
- We will publish power purchase and concession agreements together with the underlying contracts.
- We will reorganize the MEF, following a comprehensive diagnostic, including a review of staffing levels.

Central Bank Governance and Financial Sector Oversight

30. The BCSTP will step up efforts to implement the recommendations from the update safeguards assessment:

- After BCSTP's new board of directors is officially constituted, BCSTP will sign a memorandum of understanding with the government that will specify the parties' roles and responsibilities in servicing obligations associated with the FX swap derivative instrument contracted in May 2023 as well as other legacy government debt on BCSTP's balance sheet, including costs to be borne by the government.

- The FY2024 audited financial statements will be published in December 2025. We will work on resolving the issues identified in the audits and ensure a resumption of timely audit cycles. BCSTP will implement Fund TA recommendations on the transition to IFRS. The 2025 financial statements under IFRS are being prepared, with technical notes already reviewed by BCSTP's board. After receiving feedback and making adjustments, BCSTP will publish the FY2025 financial statements under IFRS by September 2026 (**SB8** in Table 4). In this context, the BCSTP will continue strengthening the accounting function, providing IFRS technical training, and adopting a medium-term capacity building strategy for the recruitment and professional certification of staff. In addition, we will implement other safeguards recommendations, such as strengthening the internal audit function.

31. We will continue to strengthen banking supervision and remain committed to implementing measures to safeguard the soundness of the banking sector. To support effective on-site and off-site supervision, the BCSTP will continue implementing a bank rating model, upgrading banking regulation, and training staff on its effective enforcement. The BCSTP will also continue implementing regular stress-testing exercises. To preserve financial stability during stress times, we will operationalize our emergency liquidity assistance (ELA) facility.

32. Our new Financial Institutions Law will strengthen the legal framework for bank regulation and supervision. This will include matters such as bank authorization, change in ownership, corporate governance of banks, major acquisitions, related party transactions, exposure risks, and respective powers, responsibilities, and functions of the BCSTP. The draft law was submitted to the National Assembly in August, which has returned it to the government for minor revisions. It should be enacted and published by March 2026. While the decree law and regulations for the Credit Risk Center are already in place, we are continuing our work to operationalize the platform, with help from the WB. Next, we will prepare a blueprint that will inform the operational and administrative functions of the system, and we will develop the software. Moreover, part of Banco Privado's outstanding deposits were returned to depositors but some still remain to be shared, and we will continue our efforts to expedite the judicial liquidation of Energy Bank and Banco Equador. The BCSTP will also continue to implement its National Financial Inclusion Strategy, having conducted the second financial inclusion survey in March 2025. Based on the results of this survey, the BCSTP will draft a new strategy for 2026-30.

C. Accelerating Structural Reforms to Boost Export Potential and Create Job-Rich, Inclusive, and Blue Growth

33. The government has finalized the National Strategy for Sustainable Development 2026-40 that seeks to guide São Tomé and Príncipe towards a prosperous, inclusive, and sustainable future. The ENDS is a two-pronged plan that is aligned to the wider global development agenda. The first component is a long-term vision for the next 15 years anchored on four fundamental pillars: human capital development, inclusive economic growth, environmental sustainability, and state reform. The second component is a medium-term action plan (2026-28), designed to serve as a building block for Sao Tome and Principe's long-term vision, with an emphasis on competitiveness and growth. The key priority sectors to foster inclusive growth in the medium term are tourism, agriculture, fisheries, and financial services.

34. We recognize the criticality of removing the country from the European Union's Air Safety blacklist to facilitate the recovery of the tourism sector and exports. We will develop a strategic plan to remove airlines certified in the country from the EU's Air Safety blacklist by end-March 2026 (**SB11** in Table 4). Specific measures will include enhancing air safety regulations and procedures, providing training to INAC and ENASA staff, and improving airport infrastructure (construction of a cargo terminal, runway expansion, fencing the airport area, and enhancing firefighting facilities). We are also undertaking a program with the International Civil Aviation Organization (ICAO) to support regulatory reforms and training, with milestones defined for the next 12 months. In addition, we are updating laws and regulations to bring them in line with EU guidelines and providing training to staff.

35. We will strengthen the country’s economic resilience to climate change and protect our natural resources. Climate change affects our country primarily through coastal erosion, changing precipitation patterns, and rising sea levels—all of which damage export-oriented sectors, such as agriculture, fisheries, and tourism. Enhancing our economic resilience necessitates improving our water management and safeguarding our forests—covering about half of the country’s land—which act as infrastructure by reducing surface runoff and by providing infiltration and flood protection. In September 2025, we submitted our NDCs 3.0 to the United Nations Framework Convention on Climate Change (UNFCCC), and we are finalizing the Fourth National Communication Report on Climate Change to fulfill our obligations to the UNFCCC.

36. The government will also promote women’s economic empowerment. We published the results of our second survey on financial inclusion focusing on improving women’s financial access, fostering financial digitalization, and improving financial literacy. We are collecting data about gender disparities in access to education, healthcare, and financial services, as well as in labor market outcomes (including labor force participation rates, unemployment rates, wages, access to managerial positions) and we will publish them through the statistical agency INE by end-2025.

D. Capacity Development and Data Issues

37. We are continuing to improve economic data, which is currently constrained by insufficient capacity. We will strengthen macroeconomic statistics, particularly leading indicators of economic activity. We are working on improving our balance of payments statistics, including recording imports related to oil exploration FDI, with the help of IMF TA. We are also working on improving our fiscal data and reporting, expanding the coverage of fiscal and debt data to include more SOEs, and producing fiscal financing data consistent with above-the-line data. We will also endeavor to improve data reporting on exposure and vulnerability to natural disasters, income and gender inequality, and financial access and inclusion.

38. Continued hands-on technical assistance is essential to build capacity. In the current context of reforms and needed capacity building, we appreciate the Fund’s continued intensive CD efforts, and we view on-the-job training as especially important and valuable. Our medium-term capacity development strategy includes enhancing domestic revenue mobilization; improving public financial management, public investment management, public wage bill management, and public debt recording; and strengthening the financial sector's legal and regulatory framework.

E. Program Monitoring and Other Issues

39. Our program is fully funded over the medium term. We have obtained financing commitments from our external partners, including firm assurances for the next 12 months and good prospects for the duration of the program. Over the medium term, we will continue to work with our partners to ensure we receive financing that will fully cover the financing gap for the remainder of the program.

40. The program will be monitored through semi-annual reviews of the quantitative performance criteria, indicative targets, and structural benchmarks in the attached Tables 1 and 4. These are defined in the attached Technical Memorandum of Understanding (TMU), which also sets out the reporting requirements under the ECF arrangement. The third semi-annual review will be based on data and performance criteria at end-December 2025 and is expected to take place on or after April 1, 2026. The fourth semi-annual review will be based on data and performance criteria at end-June 2026 and is expected to take place on or after October 1, 2026. The fifth semi-annual review will be based on data and performance criteria at end-December 2026 and is expected to take place on or after April 1, 2027.

41. We will strengthen internal monitoring mechanisms to ensure strong program implementation. MEF and BCSTP will establish a join technical committee that will monitor program implementation and will be submitting monthly program reports to the Minister and the Governor.

Table 1. São Tomé and Príncipe: Quantitative Performance Criteria and Indicative Targets for 2024–26

(Millions of Dobra, Cumulative from Beginning of Year, unless otherwise specified)

	2024				2025											2026					
	Dec.				March				June				Sep.	Dec.		March		June		Sep.	Dec.
	PC	Adjusted	Outturn	Status	IT	Adjusted	Outturn	Status	PC	Adjusted	Outturn	Status	IT	PC		IT		PC		IT	PC
														Prog.	Prop.	Prog.	Prop.	Prog.	Prop.	Prop.	Prop.
Performance Criteria:																					
1. Floor on the domestic primary balance (cash basis)[1]	-172		-45	Met	-20		-112	Not met	64		12	Not met	147	180	87	24	-9	139	124	217	-14
2. Ceiling on the change in the stock of gross central bank claims on the central government[4]	0		0	Met	0		48	Not met	0		-13	Met	0	0	0	0	0	0	0	0	0
3. Floor on net international reserves of the central bank (face value, US$ millions)[2,3]	1.2	-7.2	-8.6	Not met	1.3	-1.6	10.6	Met	-4.3	8.1	24.7	Met	-14.5	20.5	28.2	-0.1	7.7	-4.5	4.5	1.2	7.9
4. Ceiling on the accumulation of central government's new external payment arrears (US$ millions)[4,5]	0		0.01	Not met	0		0.1	Not met	0		0.2	Not met	0	0	0	0	0	0	0	0	0
5. Ceiling on the contracting or guaranteeing of new non-concessional external debt by the central government or the BCSTP (in nominal value, US$ millions)[4,5,6]	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0	0	0	0
6. Ceiling on the disbursement of non-concessional external debt to the central government or the BCSTP (in nominal value, US$ millions)[4,5,6]	0		0	Met	0		0	Met	0		0	Met	0	0	0	0	0	0	0	0	0
Indicative Targets:																					
7. Ceiling on the change in the stock of central government's domestic expenditure arrears[4]	-82		-42.5	Not met	0		-6	Met	0		-9	Met	-11	-22	-22	0	0	0	0	-11	-22
8. Floor on pro-poor expenditures	680		1064	Met	192		280	Met	385		478	Met	618	1030	1030	230	236	459	471	707	1178
9. Floor on tax revenue (cash basis)	1,955		2,015	Met	574		585	Met	1,248		1,126	Not met	1,999	2,815	2,379	658	629	1,419	1,375	2,208	2,774
10. Ceiling on the present value of new external borrowing contracted or guaranteed by the central government or the BCSTP with original maturity of more than one year (US$ millions)[4]	23.1		10.6	Met	3.9		0.0	Met	7.9		0.0	Met	13.3	13.3	21.9	11.5	18.8	11.5	18.8	18.8	18.8
11. Ceiling on the government's net financing for fuel imports													293	344	344	29		51			
Memorandum Items:																					
12. Budget support grants (US$ millions)	33.8		25.6		0.0		0.0		0.0		15.3		0.0	39.7	33.0	0.0	0.0	0.0	0.0	0.0	16.9
13. Concessional program loans (US$ millions)	16.7		16.5		3.0		0.0		3.0		0.0		0.0	0.0	14.7	0.0	0.0	0.0	0.0	0.0	0.0
14. Budget transfers from the NOA (US$ millions)	3.3		3.3		3.8		3.9		3.8		3.9		3.9	3.9	3.9	4.2	3.9	4.2	3.9	3.9	3.9

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

[1] Starting from January 1, 2026, domestic primary balance (cash basis) include all expenditures paid by the government on behalf of EMAE (fuel purchases and others), net of any corresponding inflows associated with them.

[2] The floor will be adjusted upward or downward according to definitions in the TMU.

[3] Excluding the National Oil Account (NOA) at the Central Bank and FX reimbursement commitments to commercial banks. The floor applies to cumulative flows from the beginning of the year.

[4] The term "central government" is defined in the TMU, which excludes the operations of state-owned enterprises.

[5] This criterion will be assessed as a continuous performance criterion.

[6] Only applies to debt with a grant element of less than 35 percent.

Table 2. São Tomé and Príncipe: Prior Actions for the Second Review Under the ECF Arrangement

Measure	Macroeconomic Rationale	Status
1. Submit to Parliament the 2026 budget in line with the agreed program parameters.	To address macroeconomic imbalances.	Implemented.
2. Council of Ministers to adopt a domestic revenue mobilization strategy for 2026-28, in line with the agreed program parameters.	To support domestic revenue mobilization efforts over the medium term.	Implemented.
3. Adjust the pump prices of diesel, gasoline, and kerosene to align them with the formula in Decree Law No. 07/2018.	To align fuel prices with the cost of fuel.	Implemented.
4. Clear all external payment arrears of the central government accumulated since completing the First Review under the ECF arrangement.	To maintain credibility with the country's creditors.	Pending.
5. The BCSTP to reduce estimated excess reserves in local currency below STN 275 million through the issuance of Certificates of Deposits or FX sales.	To reduce excess liquidity, maintain a tight monetary policy stance, and support the peg to the euro.	Implemented.

Table 3. São Tomé and Príncipe: Structural Benchmarks for the Second ECF Review

Measure	Timing	Implementation Status
A. Fiscal Measures and Public Financial Management		
1. Council of Ministers to adopt a domestic revenue mobilization strategy for 2026-30.	October 2025	Not met, implemented with a delay as a prior action.
2. Implement monthly reviews (and adjustments, if necessary) of domestic fuel prices, consistent with the automatic fuel price adjustment mechanism in the amended Decree Law No. 07/2018.	Monthly	Met in October and November (as a prior action), not met in August and September.
3. President to enact the new Public Procurement Law that enables the collection and online publication of beneficial ownership information for companies awarded public procurement contracts.	September 2025	Not met. Proposed to be reset to March 2026.
4. The Court of Auditors to publish online its report and opinion on the government's annual financial statements (Conta Geral do Estado) for 2023.	September 2025	Not met. Proposed to be reset to March 2026.
B. Monetary Policy and Financial Stability		
5. The BCSTP to maintain estimated excess reserves in local currency below STN 275 million through the issuance of Certificates of Deposits until the 6-month moving average of y/y core inflation declines below 3.1 percent.	Monthly	Met in September and November (as a prior action), not met in August and October.
6. Submit to Parliament the draft Financial Institutions Law.	March 2026	Met.
C. Energy Efficiency and Structural Bottlenecks		
7. Publish online key performance indicators for EMAE.	Quarterly	Met for Q3. Not met for Q2, implemented with a delay.
8. Prepare a revised time-bound restructuring plan for EMAE.	March 2026	Met.

Table 4. São Tomé and Príncipe: Proposed Structural Benchmarks

Measure	Timing	Macroeconomic Rationale	TA Involved
A. Fiscal Measures and Public Financial Management			
1. Implement quarterly reviews (and adjustments, if necessary) of domestic fuel prices, consistent with the automatic fuel price adjustment mechanism in the amended Decree Law No. 07/2018.	Quarterly	To prevent a build-up of fuel subsidies going forward.	No TA involved.
2. Revoke the Temporary Law on Investment Incentives.	March 2026	To increase the efficiency and transparency of public procurement.	No TA involved.
3. President to enact the new Public Procurement Law that enables the collection and online publication of beneficial ownership information for companies awarded public procurement contracts.	March 2026	To increase the efficiency and transparency of public procurement.	No TA involved.
4. Develop a quarterly fiscal cashflow plan, beginning with Q2 of 2026.	March 2026	To improve liquidity management and help prevent the recurrence of domestic and external arrears.	TA may be needed.
5. The Court of Auditors to publish online its report and opinion on the government's annual financial statements (*Conta Geral do Estado*) for 2023.	March 2026	To increase fiscal transparency and accountability.	No TA involved.
6. The Court of Auditors to publish online its report and opinion on the government's annual financial statements (*Conta Geral do Estado*) for 2024.	September 2026	To increase fiscal transparency and accountability.	No TA involved.
B. Monetary Policy and Financial Stability			
7. The BCSTP to maintain estimated excess reserves in local currency below STN 250 million through the issuance of Certificates of Deposits or FX sales until the 6-month moving average of y/y core inflation declines below 3.1 percent.	Monthly	To reduce excess liquidity, maintain a tight monetary policy stance, and support the peg to the euro.	No TA involved.
8. Report and publish the FY2025 financial statements of the BCSTP under IFRS.	September 2026	To improve central bank transparency and governance.	TA needed.
C. Energy Efficiency and Structural Bottlenecks			
9. Publish online key performance indicators for EMAE.	Quarterly	To strengthen transparency in the electricity sector.	With World Bank support.
10. Sign a contract with a concessionaire to run EMAE's commercial operations.	September 2026	To achieve financial viability for EMAE.	With World Bank support.
11. Develop a plan to remove airlines certified in the country from the EU's Air Safety blacklist.	March 2026	To facilitate growth in the tourism sector.	With World Bank support.

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) contains definitions of the quantitative performance criteria, indicative targets, memorandum items, and structural benchmarks in Tables 1 and 4, which are attached to the Memorandum of Economic and Financial Policies for 2025-29. Unless otherwise specified, all quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from the beginning of each calendar year.

2. The program exchange rates will be the ones at end-2023, specifically 22.22630 dobras per U.S. dollar, 24.5 dobras per euro, 29.829485 dobras per SDR, and 29.829485 dobras per UA. The source of information is the IMF's International Financial Statistics (IFS) database. For exchange rates not covered by the IFS, mutually agreed sources for exchange rate data will be used.

DEFINITIONS

3. The terms "external debt" and "domestic debt" shall be defined on a residency basis.

4. Central government is defined to comprise all governmental departments, offices, establishments, and other bodies that are agencies or entities of the central authority of São Tomé and Príncipe. The central government does not include the operations of state-owned enterprises and all other sectors that have administrative and financial autonomy.

5. Debt is defined as in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 16919-(20/103) of the Executive Board (October 28, 2020). Debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time. These payments will discharge the principal and/or interest liabilities incurred under the contract.

6. Government domestic revenue (excluding oil revenue) comprises all tax and non-tax revenue of the government (in domestic and foreign currencies), including the proceeds from the citizenship-by-investment (CBI) program, with VAT revenue in net terms (excluding VAT refund and reimbursement payments), and exclude: (1) foreign grants; and (2) any gross inflows to the government on account of oil signature bonus receipts as well as 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, the Directorate of Treasury, and the Directorate of Public Accounting in the Ministry of Economy and Finance (MEF).

7. Domestic primary expenditure (cash basis) comprises all government spending assessed on a commitment basis (*compromisso*), adjusted for the net variation in domestic spending arrears (excluding commitments/payments to ENCO related to the fuel price differential), excluding: (1) expenditure financed with external concessional project loans and project grants; (2) the cost assumed by the budget to pay off small depositors following the liquidation of *Banco Equador*; and (3) interest payments. All CBI-funded spending is included. All government spending on behalf of

EMAE (net capital grants for EMAE) is included in this definition, with the exception of expenditures related to fuel purchases by the government. Starting from January 1, 2026, domestic primary expenditure shall also include all expenditures paid by the government on behalf of EMAE related to fuel purchases, net of any corresponding inflows associated with them. Reporting of government domestic expenditure will be based on the table of government financial operations prepared by the Directorate of Budget and the Directorate of Treasury in the MEF. All expenditures financed by budget support grants and budget support loans are treated as part of domestic primary spending, with no exceptions. See Text Table 1.

Text Table 1. São Tomé and Príncipe: Official External Program Support

	2025	2026 *H1*	2026	2027 *H1*	2027	2028 *H1*	2028	Currency
Projected budgetary support grants								
World Bank	10.3	0.0	7.0	0.0	7.0	0.0	7.0	million US dollars
European Union	1.2	0.0	1.2	0.0	1.2	0.0	1.2	million euros
African Development Bank	6.0	0.0	4.0	0.0	4.0	0.0	4.0	million UA
Nigeria Trust Fund	7.5	0.0	0.0	0.0	0.0	0.0	0.0	million US dollars
France/AFD	2.0	0.0	0.0	0.0	0.0	0.0	0.0	million euros
Other	3.5	0.0	3.0	0.0	3.0	0.0	3.0	million US dollars
Projected concessional program loans	13.0	0.0	0.0	0.0	0.0	0.0	0.0	million euros
IMF ECF program	6.1	2.1	4.2	2.1	4.2	2.2	4.4	million SDR

Sources: STP authorities, AFDB, WB, EU and Fund staff estimates.

PERFORMANCE CRITERIA

8. **Floor on the domestic primary balance (DPB, cash basis).** This performance criterion refers to the difference between government domestic revenue, as defined in paragraph 6, and domestic primary expenditure (cash basis), as defined in paragraph 7. To control spending, the MEF will not approve borrowing by any public entity in the central government other than the Treasury. Accordingly, for the purpose of program monitoring, borrowing by any public entity other than the Treasury recorded in the monetary survey as loans to the central government will be added as additional expenditure in calculating the DPB (excluding all sectors that have administrative and financial autonomy). For illustrative purposes, Text Table 2 presents a hypothetical calculation for the domestic primary balance.

9. **Ceiling on the change in the stock of gross central bank claims on the central government.** This performance criterion refers to the stock of all outstanding claims on the central government held by the BCSTP. The relevant data will be reported monthly by the BCSTP to IMF staff. This ceiling is cumulative from the beginning of each calendar year.

Text Table 2. São Tomé and Príncipe: Domestic Primary Balance
(Millions of Dobra)

I	Total Revenue (=1+2)	2,177
I.A	***of Which: Government Domestic Revenue (=I –2.1)***	**2,085**
1	Tax revenue	1,780
2	Nontax revenue	397
2.1	*of which: oil revenue*	92
II	Total Domestic Expenditure (=4+5+6)	2,344
II.A	***Of which: Domestic Primary Expenditure (=II –4.2)***	***2,231***
4	Current expenditure	2,281
4.1	Personnel costs	1,214
4.2	Interest due	113
4.3	Goods and services	297
4.4	Transfers	431
4.5	Other current expenditure	225
5	Domestic capital expenditure	42
5.1	Financed by the Treasury	42
5.2	Financed by privatization proceeds (sale of state assets)	0
6	HIPC Initiative-related capital expenditure	21
III	**Domestic Primary Balance, commitment basis (= I.A–II.A)**	**-147**
IV	**Change in the stock of domestic expenditure arrears**	**-109**
V	**Domestic Primary Balance, cash basis (= III+IV)**	**-256**

Sources: STP authorities; and Fund staff estimates.

10. Floor on net international reserves (NIR) of the BCSTP. The floor applies to cumulative flows from the beginning of the year. The NIR of the BCSTP are defined as **reserve assets** of the BCSTP minus **reserve liabilities** of the BCSTP. All assets that are not fully convertible nor readily available to nor controlled by the BCSTP (i.e., designated accounts for project financing by the World Bank and other donors, NOA's balances at the BCSTP, and assets that are pledged or otherwise encumbered, including but not limited to the HIPC umbrella SDR account, assets used as collateral or guarantees for third-party liabilities, and assets which are the counterpart to FX reserve requirement liabilities to commercial banks) will be excluded from the definition of **reserve assets**. Securities other than shares (i.e., Portuguese bonds) will be valued at their original nominal issue price. **Reserve liabilities** are defined as all FX-denominated liabilities of the BCSTP to residents and nonresidents. Those include short-term liabilities of the central bank with a remaining maturity of one year or less (including formal short-term FX reimbursement commitments to commercial banks) and all liabilities to the IMF. All values are to be converted to U.S. dollars at the "buy" market exchange rates prevailing at the test date. For illustrative purposes, Text Table 3 presents a hypothetical calculation for NIR.

Text Table 3. São Tomé and Príncipe: International Reserves
(Millions of Dobra)

Reserve Assets		**945**
	Cash	25
	Demand deposits	179
	Term deposits (excl. National Oil Account)	0
	Securities other than shares	855
	Valuation adjustments on securities	-42
	Reserve position in the Fund	0
	SDR holdings	3
	minus Banks' reserves denominated in foreign currency	0
	minus Banks' guaranteed deposits denominated in foreign currency	74
Reserve Liabilities		**1224**
	Short-term bilateral liabilities	22
	Liabilities to the IMF	726
	Formal short-term FX reimbursement commitments to commercial banks	476
Net International Reserves (NIR) (=I - II)		**-279**
Net Other Foreign Assets		**-9**
	Other foreign assets	620
	Medium and long-term liabilities (including SDR allocation)	629
Net Foreign Assets (III+IV)		**-288**
Memorandum Items:		
	National Oil Account (NOA)	**366**
	"Buy" market exchange rate (Dobras/US$)	22.04
	NIR in million US$ (at the "buy" market exchange rate)	**-12.6**

Sources: STP authorities and Fund staff calculations.

11. Ceiling on the contracting or guaranteeing of new non-concessional external debt by the central government or the BCSTP. This continuous performance criterion covers the contracting or guaranteeing of new external debt of any maturity (including overdraft positions but excluding short-term import-related and supplier credits) by the central government or the BCSTP. Debt is considered non-concessional if it includes a grant element less than 35 percent. The grant element is the difference between the nominal value of the debt and its net present value, expressed as a percentage of the nominal value. The ceiling applies to the nominal value of all new non-concessional external debt. The net present value of debt is calculated by discounting the stream of debt service payments at the time of contracting. The discount rate used for this purpose is 5 percent. A debt is considered contracted on the signature date of the contract, unless ratification by parliament is required for the contract to become effective. In this case, debt is considered contracted upon ratification by parliament. This performance criterion does not apply to IMF resources. Debt in the process of being rescheduled or restructured is excluded from this ceiling to the extent that such non-concessional debt is used for debt management operations that improve the overall public debt profile. This ceiling excludes the non-concessional loan contracted with the Arab Bank for Economic Development in Africa (BADEA) in the amount of US$18 million to finance a hospital project. The government should consult with IMF staff before contracting or guaranteeing any new debt obligations. This ceiling is cumulative from the beginning of each calendar year.

12. Ceiling on the disbursement of non-concessional external debt to the central government or the BCSTP. This continuous performance criterion applies for the same definition of debt as in paragraph 11 above. This ceiling is cumulative from the beginning of each calendar year. As in paragraph 11, this ceiling excludes the non-concessional loan contracted with the Arab Bank for Economic Development in Africa (BADEA) in the amount of US$18 million to finance a hospital project.

13. Ceiling on the accumulation of new external payment arrears by the central government. This is a continuous performance criterion. New external payment arrears by the central government subject to this performance criterion consist of external debt service obligations (principal and interest) that have not been paid within 30 days from the time they are due, as specified in the contractual agreement, subject to any applicable grace period. This performance criterion does not apply to arrears resulting from the nonpayment of debt service for which a clearance framework has been signed by the debtor and creditor before the relevant payment becomes due, or for which the government has sought rescheduling or restructuring as of end-November 2025. This ceiling is cumulative from the beginning of each calendar year.

INDICATIVE TARGETS

14. Ceiling on the change in the stock of central government's domestic expenditure arrears. Domestic expenditure arrears are expenditure commitments to domestic suppliers (of goods, services, labor, etc.) recognized by the government as being past due. This excludes commitments/payments to ENCO related to the fuel price differential.

15. Floor on pro-poor expenditure refers to government outlays within domestic primary expenditure, both current and capital, that have a direct effect on reducing poverty in the following sectors: education, health, social security and assistance, housing and community services, culture and sport, fuel and energy, and agriculture and fisheries. See Text Table 4.

16. Floor on tax revenue (cash basis). Tax revenue includes direct and indirect taxes, as well as the recovery of tax arrears and additional collection efforts, excluding VAT refund and reimbursement payments (at the moment of payment).

17. Ceiling on the present value of new external borrowing contracted or guaranteed by the central government or the BCSTP with original maturity of more than one year. This indicative target applies to the present value of all new external debt contracted or guaranteed by the central government or the BCSTP, including commitments contracted or guaranteed for which no value has been received. Debt is defined as in paragraph 5 above. This ceiling excludes the non-concessional loan contracted with the Arab Bank for Economic Development in Africa (BADEA) in the amount of US$18 million to finance a hospital project. The present value (PV) of new external debt is calculated by discounting the future stream of payments of debt service (principal and interest) due on this debt on the basis of a discount rate of 5 percent and taking account of all aspects of the debt agreement including the maturity, grace period, payment schedule, upfront commissions, and management fees. The guarantee of a debt arises from any explicit legal obligation of the government to service a debt in the event of nonpayment by the debtor (involving payments in cash or kind). The ceiling excludes: (i) loans stemming from the restructuring or rescheduling of external debt; (ii) central government securities issued in domestic currency, placed in the domestic primary or secondary markets, and held by nonresidents; (iii) debt contracted from the IMF, World Bank and AfDB; (iv) short-term trade credits for imports; and (v) central bank debt issuance and foreign exchange swaps for the purposes of monetary policy or reserves management.

18. **Ceiling on the government's net financing for fuel imports.** This indicative target refers to government-financed fuel imports minus repayments by EMAE and any other revenues derived from government-financed fuel imports. This IT is in effect through end-December 2025 only.

Text Table 4. São Tomé and Príncipe: Economic Classification of Pro-Poor Expenditures

Code	Economic classification of current expenditure	Education	Health	Social Security and Assistance	Housing and Community Services	Culture and Sport	Fuel and Energy	Agriculture and Fisheries
310000	Personnel Expenses	x	x					
331210	Specialty Durable Goods	x	x					
331290	Other Durable Goods	x	x					
331120	Fuels and Lubricants[1]	x	x					
331130	Foodstuffs, Food[1] and Accommodation	x	x					
331140	Specialized Current Consumable Materials (Specific to Each Sector)	x	x					
331190	Other Consumer Non Durable Goods	x	x					
332110	Water and Energy Services	x	x					
332120	Communication Services	x	x					
332130	Health services	x	x					
332220	Maintenance and Conservation Services	x	x					
353900	Other Miscellaneous Current Expenses	x	x	x				
352200	Transfers to non-profit institutions (private)		x	x				
352310	Retirement Pension and Veterans		x	x				
352320	Family Benefit		x	x				
352330	Scholarships	x						
352390	Other Current Transfers to Families		x	x				
353100	Unemployment Fund		x	x				
Code	**Economic classification of capital expenditure**							
411110	Feasibility Study and Technical Assistance	x	x	x	x	x	x	x
411120	Procurement and Construction of Real Estate	x	x	x	x	x	x	x
411200	Rehabilitation Works and Facilities	x	x	x	x	x	x	x
411300	Means and Equipments of Transportation	x	x	x	x	x	x	x
411400	Machinery and Equipment	x	x	x	x	x	x	x
411900	Other Fixed Capital Goods	x	x	x	x	x	x	x
412000	Stocks	x	x	x	x	x	x	x

Source: Diário da Republica de São Tome e Principe No. 21 - May 7, 2008, pages 12-13.

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

USE OF ADJUSTERS

19. **The floor on net international reserves (NIR) of the BCSTP will be adjusted upward (downward) by the deviations upward (downward) of budget support grants and program loans from projected levels.** Differences between actual and projected budget support grants and program loans in dobra, will be converted to U.S. dollars and aggregated from the beginning of the current calendar year to the test date.

20. **The floor on net international reserves (NIR) of the BCSTP will be adjusted upward (downward) by the deviations upward (downward) of budget transfers from the NOA from projected levels.** Differences between actual and projected budget transfers from the NOA in dobra, will be converted to U.S. dollars and aggregated from the beginning of the current calendar year to the test date.

STRUCTURAL BENCHMARKS

21. **Implement quarterly reviews (and adjustments, if necessary) of domestic fuel prices, consistent with the automatic fuel price adjustment mechanism in the amended Decree Law No. 07/2018.** The quarterly reviews will eliminate subsidies for gasoline, diesel, and kerosene. The outcome of the review will be communicated to the public via a press release to be issued by the last day of each quarter. The press release will explain how the review's outcome follows from the automatic fuel price adjustment mechanism in the amended decree law.

22. **Revoke the Temporary Law on Investment Incentives.** This structural benchmark will be met when the revocation law is published in the Official Gazette.

23. **President to enact the new Public Procurement law.** The new law should enable the collection and online publication of beneficial ownership information for companies awarded public procurement contracts, in line with IMF staff advice. The law will be published in the Official Gazette.

24. **Develop a quarterly fiscal cashflow plan, beginning with Q2 of 2026.** This structural benchmark will be met when the authorities share the fiscal cashflow plan with IMF staff.

25. **The Court of Auditors to publish online its report and opinion on the government's annual financial statements (*Conta Geral do Estado*) for 2023.** These should be published on the Court of Auditor's webpage and contain a report on the reliability of the statements.

26. **The Court of Auditors to publish online its report and opinion on the government's annual financial statements (*Conta Geral do Estado*) for 2024.** These should be published on the Court of Auditor's webpage and contain a report on the reliability of the statements.

27. **The BCSTP to maintain banks' estimated excess reserves in local currency below STN 250 million through the issuance of Certificates of Deposits or FX sales until the 6-month moving average of y/y core inflation declines below 3.1 percent.** This monthly structural benchmark will be met in month *t* when at least one of the following three conditions is met: (i) the 6-month moving average of y/y core inflation in month *t-1* is below 3.1 percent; (ii) estimated excess reserves in local currency in month *t* are below 250 million; or (iii) actual excess reserves in local currency in month *t* are below 250 million. For example, if month *t* is March, then month *t-1* would be February. For the purposes of this TMU, the best available forecast for excess reserves in local currency in month *t* is given by excess reserves in month *t-1* plus the stock of Certificates of Deposits maturing in month *t*.

28. **Report and publish the FY2025 financial statements under IFRS.** This structural benchmark will be met when the authorities publish online the financial statements.

29. **Publish online key performance indicators for EMAE.** The KPIs to be published online include: quantities of diesel consumed by EMAE plants, quantities of diesel consumed by other plants, energy generated by EMAE by source, energy generation by other suppliers by source, number of electricity clients, number of installed electricity meters, quantity of electricity billed

(MWh), quantity of electricity paid (MWh). Those will be published within 3 months from the end of each quarter.

30. Sign a contract with a concessionaire to run EMAE's commercial operations. This structural benchmark will be met when the authorities share the signed contract with IMF staff.

31. Develop a plan to remove airlines certified in the country from the EU's Air Safety blacklist. The plan should include measures enhancing air safety regulations and procedures, providing training to INAC and ENASA staff, and improving airport infrastructure (runway expansion, fencing the airport area, enhancing firefighting facilities). This structural benchmark will be met when the authorities share the plan with IMF staff.

DATA REPORTING

32. The following information will be provided to IMF staff (through the resident representative's office) for the purpose of monitoring the program:

1) **Fiscal Data.** The Directorate of Treasury and Directorate of Budget at the MEF will provide the following data to IMF staff within two months after the end of each month for the monthly data and within two months after the end of quarter for the quarterly data, except for data on the public investment program (PIP) which will be provided three months after the end of 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 basis (*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;
- detailed monthly data on tax and nontax revenues;
- detailed monthly data on domestically financed capital expenditure on commitment (*compromisso*) and cash basis (*caixa*);
- monthly data on domestic arrears by type and by creditor;
- monthly data on official external program support (non-project);
- quarterly data on the execution of the PIP by source of financing;
- quarterly data on the Treasury-funded capital expenditures by ministry compared to budgeted amounts; and
- quarterly pro-poor expenditure.

2) **Monetary Data.** The BCSTP will provide IMF staff the monetary data within 30 days after the end of each month, unless specified otherwise below:

- daily data on exchange rates by the end of each week;
- daily monetary data of the BCSTP by the end of each week, with the following details:

  - daily liquidity management table, including base money (in dobras) and currency in circulation (*Folha1* of daily monetary data file);
  - daily net international reserve position (*Folha1* of daily monetary data file, or *Base Monetária* of monthly file *Sao Tome and Principe Financial Corporations*);
- weekly data on parallel exchange rates by the end of each week;
- weekly data on foreign exchange inflows to the BCSTP stemming from the implementation of the export repatriation and surrender requirements;
- monthly monetary survey (file *Sao Tome and Principe Financial Corporations*), with the following details:
  - balance sheet data of the BCSTP (in IMF report form 1SR, with requested memorandum items);
  - central bank survey (1SG worksheet);
  - data on reserve position in the Fund, SDR holdings, Fund credit and loans outstanding, allocations of SDR (in worksheet *Fund Accounts* of the monthly file *Sao Tome and Principe Financial Corporations*);
  - consolidated balance sheet data of other depository corporations (in IMF report form 2SR), including data for the recently established GTI bank;
  - market value of securities of central bank (worksheets *Valoracoes/Controlo reservas*);
  - consolidated depository corporations survey (in IMF report form 3SG);
  - monetary aggregates (in IMF report form 5SR);
  - BCSTP and market interest rates (in IMF report form 6SR) and monthly central bank reference rate and average bank lending rate (in *6SR NOVO* worksheet);
  - NOA flows data (in *1SR NOVO* worksheet);
  - central bank foreign exchange balance (*ER-01R* worksheet);
- monthly actual foreign exchange cashflow data (detailed inflows and outflows);
- weekly data with program GIR and NIR calculations;
- quarterly NIR Projections table *Projecao RIL* updated for the next 12 months with *entradas programadas* and *despesas*;
- monthly data on stocks of BCSTP's FX reimbursement commitments to commercial banks and the associated repayment schedules;
- detailed data on auctions of Certificates of Deposits, T-bills, and T-bonds on the 3rd day after each auction;
- monthly data on excess reserves and required reserves on the 11th day after the end of each month (file *Reservas_EXC_DEE*);
- quarterly "bridge table" with detailed reserves data;

- quarterly data on financial soundness indicators (new standardized FSI Excel file), together with quarterly data on individual bank assets, with bank name and share of total assets in banking system, within 30 days after the end of each quarter; and
- additional set of financial soundness indicators agreed with BCSTP.

3) **Debt Data.** The Directorate of Treasury at the MEF will provide IMF staff the following information within three months after the end of each quarter:

- monthly data on amortization and interest on external debt: by creditor and classified into paid, scheduled (file *PROJEÇÃO 2024-2035*), in arrears, or subject to debt relief/rescheduled;
- monthly data on the status of all past debt payments due since December 1, 2024, and the schedule of all future debt payments due over the following three months;
- quarterly data on disbursements for foreign-financed projects and program support loans;
- quarterly data on the public debt stock, including all publicly guaranteed debt;
- annual data on future borrowing plans (file *Future Borrowing Plan*);
- monthly data on new and outstanding letters of credit contracted or guaranteed by the government (including those related to fuel purchases by EMAE), along with the agreed terms of repayment; and
- monthly data on repayments made on existing letters of credit (both principal and interest).

4) **Real sector statistics.** The following data will be provided to IMF staff:

- monthly data on consumer price index, within 20 days after the end of each month;
- annual actual gross domestic product (GDP) and annual actual GDP deflator data (provided by INE), within 3 months after the end of each year; and
- updated medium-term GDP projections by sector and medium-term GDP deflator projections (provided by the Macro Fiscal Unit in file *PIB_Taxa in Quadro Macro Economico_cenário programa*), within six weeks after the end of each semester.

5) **External sector data.** The BCSTP will provide the following data to IMF staff:

- monthly data on imports and exports of goods, within 30 days after the end of each month;
- quarterly data on tourist arrivals and total travel expenditure for BOP, within 45 days after the end of each quarter; and
- quarterly data on balance of payments and international investment position, within 2 months after the end of each quarter.

6) **Fuel data.** GAMAP will provide the following data to IMF staff:

- data on the latest petroleum price structures and submission of new pricing structures within a week of fuel shipment arrival (files *Analise da estrutura de preço_and DADOS ENCO*);

- quarterly data on implicit arrears to ENCO due to retail fuel prices not covering import costs, distribution margins, and applicable taxes (file *DADOS ENCO*), within 20 days after the end of each quarter;
- quarterly data from ENCO on flows and stocks of debt and payments to and from the government and EMAE, as well as on EMAE's arrears to ENCO (file *DADOS FMI*), within 20 days after the end of each quarter; and
- Data and documentation on the financing of fuel imports by the government, within a month of the transactions.

7) **Electricity and water data**. EMAE will provide the following data to IMF staff:

- monthly data on volumes and values of electricity and water consumption by type of entities (file *Dados de consumo.Energia.1ºT*), within 30 days after the end of each quarter.

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

December 5, 2025

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, EXTENSION AND AUGMENTATION OF THE ARRANGEMENT, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

Approved By
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Prepared by the staff of the International Monetary Fund and the International Development Association.

São Tomé and Príncipe: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*In debt distress*
Overall risk of debt distress	*In debt distress*
Granularity in the risk rating	*Sustainable*
Application of judgement	*No*

São Tomé and Príncipe (STP) remains in debt distress, due to prolonged unsettled external arrears of around 1.3 percent of GDP at end-2024. Nevertheless, staff assesses that the country has the capacity to repay the external arrears over time. Recovery of exports and fiscal consolidation will help lower debt vulnerabilities. At the same time, the country remains highly vulnerable to shocks and changing macroeconomic conditions. Two external debt indicators temporarily breach their respective thresholds under the baseline.
The present value (PV) of the debt-to-exports ratio and the debt service-to-exports ratio both breach the threshold from 2025 to 2028. The PV of total public and publicly guaranteed (PPG) debt breaches the benchmark (35 percent of GDP) from 2025 to 2030 but after accounting for the concessional terms of utility company EMAE's and central government's debt and arrears to the country's fuel supplier ENCO, it breaches the threshold in 2025 but remains within the benchmark through the remaining projection

horizon.[1] *Public debt sustainability is preserved, even if the authorities go forward with contracting a non-concessional loan, currently under discussion, for about 2 percent of GDP to finance a socially sensitive hospital project. Public debt remains on a downward trajectory, supported by the authorities' commitment to reform EMAE, borrow externally at a measured pace and primarily on concessional terms, and implement fiscal consolidation and energy sector reforms. However, it is subject to large risks, particularly due to the elevated likelihood of contingent liabilities materializing, as already highlighted in the most recent DSA.*

[1] The thresholds are determined by the Composite Indicator (CI). São Tomé and Príncipe's CI score based on the April 2025 World Economic Outlook (WEO) and the 2024 World Bank Country Policy Institutional Assessment (CPIA) data is 2.464, corresponding to a *weak* debt-carrying capacity.

PUBLIC DEBT COVERAGE

1. **For the purposes of the DSA for São Tomé and Príncipe (STP), PPG debt includes the central government, the central bank, and EMAE's debts.**[2,3] Public sector debt coverage is comprehensive albeit not yet complete (Text Table 1).[4] EMAE (*Empresa de Agua e Electricidade*, the state-owned utility company) has been accumulating arrears over the years to its fuel supplier ENCO (*Empresa Nacional de Combustíveis e Óleos*), totaling 23.1 percent of GDP at end-2024, which are included in PPG debt for DSA purposes.[5] Contingent liabilities associated with the other three state-owned enterprises (SOEs)—ENAPORT, ENASA, and *Correios*—are estimated at 2 percent as of end-2023, based on the findings of a recent TA mission. The DSA applies the residency-based definition of external debt. Using the currency criterion would yield significantly different results, as EMAE's debt and arrears to ENCO, though denominated in USD, are classified as domestic debt.

Text Table 1. São Tomé and Príncipe: Public Debt Coverage Under the Baseline Scenario[1,2]

	Subsectors of the Public Sector	Subsectors Covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

Sources: IMF and World Bank staff.
[1] Includes EMAE.
[2] The recent IMF STA technical assistance mission confirmed that the social security fund and extra budgetary funds are not covered in the debt stock reporting. The authorities are working to improve the coverage.

2. **Contingent liabilities are captured in the contingent liabilities stress test (Text Table 2).** Contingent liabilities from financial markets are set at their default value of 5 percent of GDP. In addition, the contingent liabilities stress test includes disputed debt of US$30 million (3.6 percent of GDP at end-2024) owed to Nigeria. The authorities maintain that its repayment was conditional on oil revenues, which have no near-term prospect of materializing. Estimated fines of US$12.4 million (1.5 percent of GDP) imposed by the Permanent Court of Arbitration after its ruling on STP's seizure of a Maltese ship in 2013 are also included in the shock. The PV of EMAE's estimated annual

[2] The DSA includes the concessional terms of the restructuring of EMAE's debt to the country's fuel supplier ENCO. EMAE and ENCO restructured debt worth US$104.4 million in 2019, with fixed annual payments, no interest, and a grant element of over 80 percent. ENCO is a private company owned by Sonangol, an Angolan state-owned oil company, which holds 77.6 percent of its capital, and by the STP government, which holds about 16 percent of its capital. ENCO, although majority-owned by an Angolan SOE, is registered domestically.

[3] Consistent with the previous DSA, pre-HIPC initiative arrears to Italy (US$24.3 million) are excluded.

[4] State and local governments cannot borrow.

[5] These arrears have created serious liquidity constraints for ENCO, which in turn has been accumulating significant arrears to Sonangol, until recently the main provider of fuel imports for ENCO. Sonangol stopped supplying fuel on credit in early 2023. ENCO's debt and arrears to Sonangol are private external debt, treated as a contingent liability in the DSA (see Text Table 2). See "Assessing Fiscal Risks and its Implications for the Energy Sector and Climate Considerations" (a 2022 Selected Issues Paper) for a more detailed analysis.

availability payments under phase one of the power purchase agreement with a foreign company (15.5 percent of GDP) has been removed from the stock of contingent liabilities, following the company's departure from the country in August 2025. The arrears to the foreign power company of US$3.1 million or 0.3 percent of GDP have been reclassified as PPG debt for 2023-25.[6] Planned solar projects supported by IFC and IDA are also likely to involve annual availability payments, and the estimated PV of those payments was included in the contingent liabilities as well. Pre-HIPC arrears are excluded. Finally, the two versions of the contingent liabilities shock also include different assumptions on a potential government takeover of ENCO's external debt and arrears to Sonangol, which were estimated at US$256.7 million (31.0 percent of GDP) in 2024.

Text Table 2. São Tomé and Príncipe: Coverage of the Contingent Liabilities' Stress Test

1	**The country's coverage of public debt**	Central government, central bank, and government-guaranteed debt.			
		Default		**Used for the Analysis**	**Reasons for Deviations from the Default Settings**
2	**Other elements of the general government not captured in 1.**	0	percent of GDP	39.7 for the external and public DSA; 13.6 for a customized shock for public DSA	To be prudent, the combined contingent liabilities shock for the public and external DSA includes the loan under dispute from Nigeria (3.6 percent of 2024 GDP), the Permanent Court of Arbitration fine (1.5 percent of GDP), ENCO's complete debt and arrears to Sonangol (31.0 percent of GDP), 2/ and for the solar projects supported by IFC and IDA (3.5 percent of 2024 GDP). The customized contingent liabilities shock for the public DSA differs in assuming that the government will take over only its share (16 percent) of ENCO's debt and arrears (5.0 percent of GDP). 3/
3	**SOE's debt (guaranteed and not guaranteed by the government) 1/**	2	percent of GDP	2	
4	**PPP**	35	percent of PPP stock	0	The PPP project is pre-HIPC and is excluded from the DSA analysis.
5	**Financial market (the default value of 5 percent of GDP is the minimum value)**	5	percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)	46.7 percent of GDP for the external DSA and public DSA; alternative shock of 20.6 percent of GDP for the public DSA.			

1/ The default shock of 2 percent of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1).
2/ By including the full size of ENCO's debt and arrears to its parent company Sonangol, the extreme shock of a public takeover of ENCO's total debt to Sonangol is captured.
3/ The customized contingent liabilities shock illustrates the estimated potential burden on the government finances from taking over 16 percent of ENCO's debt to Sonangol. This scenario is shown as pink dotted lines in Figure 2.
Sources: IMF and World Bank staff.

[6] Estimates for EMAE's arrears to the foreign power producer are based on the authorities' numbers. However, the foreign power producer disputes these numbers and claims significantly higher amounts (US$6.9 million).

BACKGROUND

A. Debt

3. Total PPG debt was 65.2 percent of GDP in 2024, including external debt of 34.6 percent of GDP (Text Table 3). Total PPG debt is projected to decline to around 54.0 percent of GDP in 2025, with a decrease in external debt to 29.5 percent of GDP (Table 2), mostly due to US dollar depreciation. The external debt level in 2024 reflects the consolidated historical debt amount with Angola (US$67.9 million) based on the technical agreement between the two countries which is pending finalization. PPG debt includes the debt and arrears of the state-owned utility company EMAE to its fuel supplier ENCO, which rose from US$43 million in 2015 to US$191 million in 2024 (23.1 percent of GDP or 35 percent of total PPG debt). The key drivers behind the rise in EMAE's debt to ENCO are EMAE's large losses (technical and non-technical), low bill collection rates, and electricity tariffs that remain below cost recovery levels despite the recent adjustment. Staff assesses that STP has the capacity to repay these arrears over time, if the authorities reform EMAE and continue to borrow externally on concessional terms. Domestic debt includes government-guaranteed and serviced letters of credit for fuel imports, estimated at US$13 million for 2024.

Text Table 3. São Tomé and Príncipe: Decomposition of Public Debt and Debt Service by Creditor, 2023-26[1,2,3]

	Debt Stock (end of period)						Debt Service							
	2023			2024			2023	2024	2025	2026	2023	2024	2025	2026
	(In US$ mil)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ mil)*	*(Percent total debt)*	*(Percent GDP)*	*(In US$ mil)*				*(Percent GDP)*			
Total	**509.6**	**100.0**	**73.2**	**540.3**	**100.0**	**65.2**	**7.5**	**17.2**	**23.9**	**29.9**	**1.1**	**2.1**	**2.4**	**2.6**
External	**244.5**	**48.0**	**35.1**	**286.8**	**53.1**	**34.6**	**5.4**	**13.4**	**16.4**	**20.1**	**0.8**	**1.6**	**1.7**	**1.7**
Multilateral creditors[2]	**97.2**	**19.1**	**14.0**	**103.1**	**19.1**	**12.4**	4.4	4.9	6.4	8.6	0.6	0.6	0.6	0.7
IMF	32.9	6.5	4.7	36.2	6.7	4.4	1.9	2.1	3.5	5.6	0.3	0.3	0.4	0.5
World Bank	11.0	2.2	1.6	10.8	2.0	1.3	0.3	0.4	0.5	0.4	0.0	0.0	0.0	0.0
AFDB	18.7	3.7	2.7	17.3	3.2	2.1	1.1	1.2	1.2	1.2	0.2	0.1	0.1	0.1
Other Multilaterals	34.9	6.9	5.0	37.8	7.0	4.6	1.0	1.2	1.2	1.4	0.1	0.1	0.1	0.1
o/w: BADEA	14.6	2.9	2.1	15.6	2.9	1.9	0.2	0.2	0.2	0.5	0.0	0.0	0.0	0.0
o/w : IFAD	4.6	0.9	0.7	4.2	0.8	0.5	0.4	0.4	0.4	0.4	0.1	0.1	0.0	0.0
o/w: OPEC	2.4	0.5	0.4	2.4	0.4	0.3	0.4	0.4	0.4	0.3	0.1	0.0	0.0	0.0
o/w: EIB	13.3	2.6	1.9	15.6	2.9	1.9	0.0	0.2	0.2	0.2	0.0	0.0	0.0	0.0
Bilateral Creditors	**147.3**	**28.9**	**21.2**	**183.7**	**34.0**	**22.2**	1.0	7.4	6.5	6.4	0.1	0.9	0.7	0.6
Paris Club	5.1	1.0	0.7	5.1	0.9	0.6	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Belgium	0.8	0.2	0.1	0.8	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Brazil	4.3	0.8	0.6	4.3	0.8	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Paris Club	120.4	23.6	17.3	156.9	29.0	18.9	1.0	7.3	6.4	6.4	0.1	0.9	0.7	0.5
o/w: Angola	67.9	13.3	9.8	67.9	12.6	8.2	0.0	2.0	3.4	3.4	0.0	0.2	0.3	0.3
o/w: Portugal	54.3	10.7	7.8	70.1	13.0	8.5	0.0	3.1	3.1	3.0	0.0	0.4	0.3	0.3
o/w: Other	-1.8	-0.4	-0.3	18.9	3.5	2.3								
Commercial creditors	21.8	4.3	3.1	21.8	4.0	2.6	0.0	1.0	3.5	5.1	0.0	0.1	0.4	0.4
o/w: China	10.0	2.0	1.4	10.0	1.9	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Afreximbank	11.8	2.3	1.7	11.8	2.2	1.4	0.0	1.0	3.5	5.1	0.0	0.1	0.4	0.4
Domestic	**265.1**	**52.0**	**38.1**	**253.5**	**46.9**	**30.6**	**2.1**	**3.9**	**7.5**	**9.8**	**0.3**	**0.5**	**0.8**	**0.8**
T-Bills	38.6	7.6	5.5	0.0	0.0	0.0								
Bonds	2.0	0.4	0.3	42.6	7.9	5.1								
Other debt and arrears	226.5	44.5	32.6	210.9	39.0	25.5								
o/w : EMAE to ENCO	196.7	38.6	28.3	191.1	35.4	23.1								
o/w : others	29.8	5.8	4.3	19.8	3.7	2.4								
Memo Items:														
Collateralized debt[4]	0.0		0.0	0.0		0.0								
o/w: Related	0.0		0.0	0.0		0.0								
o/w: Unrelated	0.0		0.0	0.0		0.0								
Contingent liabilities	106.5		15.3	106.5		12.9								
o/w: Public guarantees	0.0		0.0	0.0		0.0								
o/w: Other explicit contingent liabilities	0.0		0.0	0.0		0.0								
Nominal GDP	695.8			828.4			695.8	828.4	984.6	1162.7				

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.
2/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)
3/ The debt with Nigeria is disputed so it is not included in the DSA.
4/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4. STP continues to engage actively with bilateral creditors to regularize post-HIPC arrears, with the amounts remaining unchanged. In total, such arrears stood at 1.3 percent of

2024 GDP (US$10.8 million), including to Angola (US$4.8 million), Brazil (US$4.3 million), and Equatorial Guinea (US$1.7 million). An agreement with the Brazilian government has been reached and is pending ratification by the Brazilian Senate. The government has also actively sought debt rescheduling agreements with Equatorial Guinea through correspondence and high-level meetings and has made some progress with technical steps completed. Further negotiations are expected to resume soon. The negotiations with Angola are also ongoing, with most of the technical details regarding consolidation of historical debt and arrears agreed, pending final agreement between the two governments. These post-HIPC arrears are reflected in the debt stock. The government has continued its efforts to clear the stock of arrears to private suppliers as of end-2024, which is included in the debt stock and declined to US$38.3 million in 2024 (4.6 percent of GDP). Text Table 4 provides details on the situation with arrears.

Text Table 4. São Tomé and Príncipe: Arrears and Disputed Debt
(As of End-2024)

Type	Description	DSA Treatment
Pre-HIPC legacy arrears (7.3 percent of GDP)	STP has pre-HIPC legacy arrears to Italy (US$24.3 million). The consolidated debt and arrears to Angola are included based on technical agreement which is pending finalization. STP is making its best effort to reach an agreement consistent with the representative Paris Club agreement. In 2017, STP was able to secure debt relief for pre-HIPC legacy arrears to China of US$18.4 million.	Not included in the DSA on the assumption of expected forgiveness.
Post-HIPC bilateral arrears (1.3 percent of GDP)	STP has post-HIPC arrears to Angola (US$4.8 million), Brazil (US$4.3 million), and Equatorial Guinea (US$1.7 million). The negotiations with Equatorial Guinea and Angola are progressing well, with technical steps completed, pending the final signed agreements. An agreement with the Brazilian government was reached and is pending ratification by the Brazilian Senate. These arrears are the result of weak debt management, and staff assesses that STP has the capacity to repay them over time.	Included in the baseline scenario at end-2021.
Arrears to private suppliers (4.6 percent of GDP)[1/]	STP has arrears to private suppliers including the telecom company CST (US$5.2 million), fuel price differentials (US$0.8 million), and other private suppliers (mostly construction companies). In total, arrears to suppliers' amount to US$38.3 million (including US$10.4 million to external private suppliers of which US$1.7 million is to the foreign power company). The authorities are making good faith efforts to reach a collaborative agreement with private suppliers.	Included in the baseline scenario.
Disputed debt (3.6 percent of GDP)	A loan from Nigeria in the amount of US$30 million was excluded from the debt stock, as there is no signed contract with repayment conditions between the two countries. Nonetheless, the authorities acknowledged receipt of the funds which were spent, as evidenced by budget documents. This loan was extended as an advance on oil revenues in the context of the joint development zone between these two countries, but this project has stalled. According to STP's authorities, this loan is under dispute since it should only be repaid in case oil revenues materialize.	Included in the contingent liability stress tests for both the public DSA and external DSA.

[1/] This reflects the latest actual data compilations by the authorities for 2024, updating previous staff projections. Based on the latest compilations from the authorities, the stock of domestic arrears was US$48.0 million in 2022, US$37.5 million in 2023, and US$38.3 million in 2024.

5. The external borrowing plan has been updated to incorporate the possibility of the authorities' contracting a new non-concessional loan. The government is currently considering a loan agreement on non-concessional terms[7] with BADEA for a public hospital project amounting to US$18 million (1.8 percent of GDP), with disbursements assumed to be made in 2026 and 2027. A US$16 million concessional loan from the Kuwait Fund contracted in 2016 (which will be disbursed

[7] Preliminary calculations show that the grant element of this loan stands at about 28 percent.

starting 2026) will also go towards the same hospital project.[8] Overall, total disbursements assumed for this DSA, summarized in Text Table 5 below, include external borrowing of US$33.7 million in 2025 and US$28.0 million in 2026, including US$14.7 million in a concessional loan from Portugal in 2025, US$8.5 million and $8.8 million in 2025 and 2026 in concessional loans from EIB, US$0.9 million in 2025 and US$0.6 million in 2026 in concessional loans from AfDB, the ECF arrangement (US$8.2 million in 2025 and US$5.8 million in 2026), and the potential non-concessional loan from BADEA, estimated at US$9 million in 2026.[9] Remaining financing needs are expected to be covered by domestic debt financing, mainly T-bills, with a projected interest rate of 4 percent.

Text Table 5. São Tomé and Príncipe: Summary Table on Borrowing Program for Central Government

	Volume of new debt in 2025		Present value of new debt in 2025	
	USD million 1/	**Percent**	**USD million 1/**	**Percent**
Total Debt	**69.4**	**100.0**	**45.1**	**100.0**
External Debt	**33.7**	**48.6**	**21.9**	**48.6**
Concessional debt, of which	**33.7**	**48.6**	**21.9**	**48.6**
Multilateral debt	17.6	25.4	11.5	25.4
Bilateral debt	16.1	23.2	10.5	23.2
Other	0.0	0.0	0.0	0.0
Non-concessional debt, of which 2/	**0.0**	**0.0**	**0.0**	**0.0**
Commercial terms	0.0	0.0	0.0	0.0
Domestic Debt	**35.7**	**51.4**	**23.2**	**51.4**
T-bill	29.7	42.8	19.3	42.8
Bonds	6.0	8.6	3.9	8.6
Uses of external debt financing				
Infrastructure	15.2	45.0	9.9	45.0
Budget Financing	18.5	55.0	12.0	55.0
Memorandum items				
Indicative projections				
Year 2026	28.0		18.2	
Year 2027	30.4		19.8	

1/ Projection of disbursements for debts that have been effectively contracted. The current value of the debt is estimated with a grant element of 35 percent and applying a discount rate of 5 percent.

2/ This also reflects the fact that STP is subject to a zero non-concessional borrowing ceiling under the Sustainable Development Finance Policy of the World Bank.

B. Macroeconomic Forecast

6. The macroeconomic assumptions have been updated (Text Table 6):

- **Growth and inflation** (**Text Table 6):** After expanding on average by only 0.8 percent over 2021-23, weighed down by FX shortages and other shocks, real GDP was gradually recovering, growing at 1.1 percent in 2024. The economic recovery is slowing as recurrent power outages since August are weighing on activity, partly offsetting the favorable impact of stronger tourism inflows and higher exports of palm oil and cocoa. The rebound is expected to continue over the

[8] The Kuwait Fund loan was contracted on concessional terms in 2016 for the hospital project, but planned disbursements have not been made so far, excluding a small amount for a feasibility study. Disbursements are expected to be spread between 2026 and 2033.

[9] BADEA's remaining $9 million loan disbursement is included in the projections for 2027.

near and medium term, though at a more moderate pace than before due to a downward revision to population growth, following the July census. Specifically, real GDP growth has been downgraded to 2.1 percent and 3.9 percent in 2025 and 2026, respectively, and 3.3 percent over the long term (2031-45). The recovery will be supported by increased infrastructure investment, a strong rebound in the tourism sector, and a boost in the exports of palm oil and cocoa, particularly as access to fertilizers normalizes. Inflation, as measured by the GDP deflator, is anticipated to continue its downward trend but has proven to be sticker than anticipated. Inflation is projected to decline to 11.5 percent in 2025 from 17.7 in 2024, a bit higher than earlier projected. Over the long term, inflation is expected to decline thanks to continued tight fiscal and monetary policies, assuming a stabilization of global food and energy prices, and the projected average is 2.3 percent, slightly higher than the last DSA.

- **External sector:** Exports are expected to accelerate over the medium term, as a tourism strategy is implemented with World Bank support, and the sector is boosted gradually by improvements in infrastructure, a new international payment system (currently expected to be completed in about three years), and a new tourism school. Cocoa and palm oil exports are also expected to contribute to export growth given the high quality of STP-made cocoa, together with the recovery in direct exports to Europe. Annual exports growth is projected at 5.4 percent in the long term. The projected current account deficit over the long term is somewhat higher than in the last DSA, at 6.7 percent of GDP compared to 2.4 percent before. FDI inflows are expected to be slightly higher over the long run (6.3 percent in the long term compared to 5.8 percent before), reflecting revised projections for oil-related FDI. Since most FDI is concentrated in oil exploration, the FDI trajectory is not expected to have a significant impact on other sectors.

Text Table 6. São Tomé and Príncipe: Macroeconomic Assumptions

	2023	2024	2025	2026	2027	2028	2029	2030	2031-45
Real GDP growth (percent)									
August 2025 DSA 1/	0.4	1.1	2.9	4.7	3.9	3.5	3.5	3.5	3.5
This DSA	0.4	1.1	2.1	3.9	3.9	3.3	3.3	3.3	3.3
Inflation (percent average)									
August 2025 DSA 1/	23.7	17.7	9.5	6.4	5.7	5.7	5.7	5.7	2.0
This DSA	23.7	17.7	11.5	10.0	7.5	6.0	5.6	5.7	2.3
Domestic primary balance (percent of GDP) 2/									
August 2025 DSA 1/	-4.3	-1.7	1.8	2.5	3.8	3.6	3.4	3.7	-1.0
This DSA	-4.3	-1.7	0.4	0.7	1.8	3.1	2.8	3.0	-0.9
Grants (percent of GDP)									
August 2025 DSA 1/	8.0	11.4	11.1	5.1	4.9	4.7	4.3	4.2	2.0
This DSA	8.0	11.4	7.8	6.3	6.1	6.0	5.4	5.3	2.1
FDI (percent of GDP)									
August 2025 DSA 1/	9.7	7.1	7.0	6.9	6.8	6.6	6.7	6.7	5.8
This DSA	9.7	7.9	7.6	7.6	7.4	7.2	7.3	7.3	6.3
USD export growth (percent)									
August 2025 DSA 1/	17.7	21.4	15.5	8.2	9.6	9.2	8.6	9.2	5.8
This DSA	17.7	21.4	13.7	14.7	10.2	9.5	8.8	7.5	5.4
USD import growth (percent)									
August 2025 DSA 1/	4.5	-1.0	17.3	-8.7	9.1	7.3	7.1	6.9	3.9
This DSA	4.5	-0.1	11.4	12.9	6.8	5.0	9.2	7.7	4.8
Current account balance, including grants (percent of GDP)									
August 2025 DSA 1/	-12.3	-1.9	-3.4	-3.9	-4.1	-3.9	-3.9	-3.4	-2.4
This DSA	-12.3	-2.2	-4.6	-5.3	-4.5	-3.6	-4.2	-4.3	-6.7
Current account balance, excluding grants (percent of GDP)									
August 2025 DSA 1/	-20.3	-13.3	-14.6	-9.0	-9.0	-8.6	-8.2	-7.6	-4.4
This DSA	-20.3	-13.6	-12.4	-11.6	-10.7	-9.6	-9.6	-9.6	-8.8

[1] IMF Country Report No. 2025/228

[2] The domestic primary balance has an expanded coverage compared to the staff report, as it includes the fiscal balance of EMAE.

- **Fiscal sector:** The fiscal consolidation path has been recalibrated to allow the authorities additional time to achieve the fiscal consolidation objectives. This reflects the size of the targeted adjustment, weak institutional capacity, and the downward revision in growth projections (particularly for 2026). This recalibration allows an extra year to achieve the target (by 2028 rather than by 2027). While the overall adjustment magnitude remains unchanged at 3.1 percent of GDP, its composition has been revised to comprise 2.6 percent of GDP in additional revenue mobilization measures and 0.5 percent of GDP in expenditure

Box 1. São Tomé and Príncipe: EMAE Reforms and Implications for Fiscal Risks

The state-owned electricity utility EMAE remains a significant fiscal risk due to high technical and commercial losses, weak bill collections, and heavy reliance on imported fuel. Since 2023, the government has been paying for EMAE's fuel by guaranteeing the letters of credit issued on behalf of the fuel importer ENCO. In reality, these guarantees have been routinely called since their inception in 2023 and have been serviced by the Treasury. Their outstanding stock is currently around 3.9 percent of GDP and is being treated as part of PPG debt.

To address these challenges, the authorities have launched a comprehensive reform program, supported by development partners. These reforms underpin the DSA baseline assumption that EMAE's fiscal footprint will decline over time as its operational and financial performance improves.

Several key measures are already underway:

- A high-level crisis committee, chaired by the Prime Minister, is overseeing reform progress.
- Decree Law No. 18/2020, which barred service cuts to institutional non-payers, has been rescinded.
- Legal enforcement against electricity theft has begun.
- EMAE is developing arrears clearance plans for non-public clients.
- Efforts to improve efficiency and reduce losses are progressing.
- Fuel control measures already in place include diesel coloring and surveillance, while fuel meters are expected to be installed by end-2025.
- A concessionaire will be selected to run EMAE's commercial operations in 2026.
- Following the tariff increase in early 2025, another one is planned for end-2025.
- A smart metering rollout is advancing, with 20,000 pre-paid meters under an EIB-supported project (following network rehabilitation), 10,000 meters supported by the WB, and 40,000 pre-paid meters supported by the AfDB, with installation expected to begin in H2 of 2025.
- A nationwide LED distribution campaign—now completed—has helped reduce peak electricity demand by an estimated 4 MW.
- EMAE will acquire, install, and migrate to a new Information Management System by end-2026.

The energy mix is also shifting toward renewables to reduce STP's reliance on fuel imports: a 1.2 MW AfDB-supported solar plant is already online, and multiple additional projects—including an 11 MW IFC-supported solar plant expected by end-2026—are in the pipeline.

rationalization. The medium-term fiscal consolidation will be supported by the implementation of a recently adopted comprehensive domestic revenue mobilization strategy. This strategy outlines specific tax administration, tax policy, and non-tax revenue measures projected to yield 2.6 percent of GDP over 2026-28. On the revenue administration front, efforts will focus on improving VAT administration, introducing advance VAT payments on informal sales, and strengthening enforcement and monitoring. Key tax policy measures include strengthening the environmental tax on packaging and fuel imports, reforming the import tariff structure, shifting revenue from import duties toward excises, and modernizing the urban property tax. On the non-tax side, the authorities have launched their citizenship-by-investment program, expected to generate 0.2 percent of GDP annually. The domestic primary balance (with expanded coverage to include EMAE) is expected to average -0.9 percent of GDP over the long term, a slight improvement compared to the average deficit of -1.0 percent in the last DSA. Domestic revenue mobilization is expected to largely offset the projected reduction in official development assistance and its negative impact on growth. The projected improvement in EMAE's finances drives the large fiscal adjustment over the next few years. Energy sector reforms (see Box 1), including the application of the fuel price adjustment mechanism to prevent explicit fuel subsidies, will also help contain fiscal risks. It is assumed that fiscal deficits will be financed domestically or with concessional external loans primarily.

7. The realism tool outputs compare the projections to cross-country experiences and to STP's own history (Figures 3 and 4). Drivers of debt dynamics are broadly unchanged. The decomposition of debt-creating flows indicates that the current account deficit will contribute to reducing external debt, as a result of projected improvements in current account balances over the medium term, primarily driven by energy sector reforms that reduce demand for fuel imports. For total public debt, lower primary deficits than in the past will be key drivers of public debt dynamics. The targeted fiscal adjustment is ambitious in comparison to other countries.[10] It has a relatively small impact on growth projections because the main drivers of growth in STP are the availability of FX and foreign-financed infrastructure spending, rather than fiscal policy. In addition, fiscal multipliers tend to be small in very small and very open economies like STP, due notably to the high import propensity (combined with lack of market access and debt vulnerabilities).

C. Country Classification and Determination of Scenario Stress Tests

Text Table 7. São Tomé and Príncipe: Classification of Debt Carrying Capacity

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Weak	Weak	Weak	Weak
	2.464	2.449	2.433

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

[10] The DSA uses a broader perimeter for the government's fiscal balance than our fiscal tables. The fiscal tables only focus on central government, while the DSA includes EMAE as well.

8. The country's debt carrying capacity is assessed to remain weak under the Composite Index. Based on the latest (April 2025) WEO macroeconomic indicators and the World Bank's 2024 Country Policy and Institutional Assessment (CPIA), the country's Composite Indicator (CI) score is 2.464 (Text Table 7), below the lower cut-off value of 2.69, indicating a weak debt-carrying capacity rating. The new CI score reflects macroeconomic variables, such as real GDP growth, remittances, reserves, and world growth, in addition to the CPIA. The applicable thresholds for the ratios of PV of PPG external debt relative to GDP and exports are 30 percent and 140 percent, respectively. The benchmark for the PV of total PPG debt is 35 percent of GDP. The thresholds for PPG external debt service are 10 percent of exports and 14 percent of revenue.

9. Besides the six standardized stress tests, the analysis includes two tailored stress tests. The combined contingent liabilities stress test is described in paragraph 2. As STP is vulnerable to natural disasters, a natural disaster stress test is calibrated as outlined in paragraph 15.

DEBT SUSTAINABILITY

A. External Debt Sustainability

10. STP's external debt is assessed to be in distress, with high vulnerability to shocks and changing macroeconomic assumptions, but remains sustainable even with the inclusion of the new non-concessional loan in the baseline scenario (Figure 1 and Table 1). Risks to external debt are considerable. Under the baseline, the PV of the external debt-to-GDP ratio remains under the threshold. The two export-related debt burden indicators breach the thresholds. The PV of external PPG debt-to-exports ratio is projected to exceed the 140 percent threshold till 2028, as the PV of external debt has increased with the potential BADEA loan and the concessional loan from Portugal. Risks to debt service are also protracted, as the debt-service-to-exports ratio is forecasted to breach the 10 percent threshold from 2025 to 2028. The breach is driven mainly by the projected debt service on the US$11.8 million non-concessional loan from Afreximbank, disbursed in 2023. The debt service-to-revenue ratio remains below the threshold value of 14 percent throughout the projection horizon. The improvement of the solvency and liquidity indicators over the medium term reflects fiscal consolidation, cautious external borrowing, economic growth, energy sector reforms, and sustained export growth.

11. While external PPG debt is sustainable under the baseline scenario, stress tests indicate that the space to absorb shocks is limited (Figure 1 and Table 3). The solvency indicators breach their threshold values under the most extreme shocks. For the PV of the debt-to-GDP the most extreme scenario is the combined contingent liabilities shock (see Text Table 2). As the likelihood of contingent liabilities materializing is elevated, with ENCO's external arrears to Sonangol representing the main risk, it is important that the authorities develop plans to deal with contingent liabilities and arrears. Commodity prices, especially fuel prices, are a significant risk factor driving contingent liabilities—energy sector reforms remain a critical mitigating policy. The most extreme shock for the PV of debt-to-exports and debt service-to-exports ratios is an export shock, which leads to breaches of the respective thresholds through the entire projection horizon (though declining over time). This underscores the importance of promoting exports.

B. Public Debt Sustainability

12. Under the baseline scenario, total PPG debt is deemed sustainable after discounting EMAE's and the central government's debt and arrears to ENCO and accounting for essential fiscal and energy sector reforms (Figure 2 and Table 2). Under the baseline scenario, the PV of PPG debt is projected to be on a downward trajectory but will remain above the 35 percent sustainability threshold through 2030. The baseline scenario includes the government-guaranteed and serviced letters of credit for fuel imports, estimated at US$37.2 million for 2025. Taking into account the concessional terms of EMAE's and the central government's debt to ENCO based on the 2019 repayment agreement (shown as black dashed line in Figure 2), the PV of PPG debt breached the DSA sustainability threshold of 35 percent in 2025 due to the inclusion of letters of credit for fuel imports and the concessional loan from Portugal. The ratio is projected to fall just below the threshold in 2026 before gradually declining to around 27 percent of GDP by 2035. Like the solvency indicators, liquidity ratios also improve over time, reflecting higher exports and revenues. Public debt is sustainable but subject to large risks, as public debt remains on a downward trajectory, predicated on the authorities' commitment to continue fiscal consolidation, implement energy sector reforms, and borrow externally primarily on concessional terms and at a measured pace. It is also key to develop an ambitious plan to gradually strengthen STP's debt-carrying capacity.

13. All three ratios for total PPG debt are most vulnerable to a combined contingent liabilities shock (Figure 2 and Table 4). Under such a shock, the three ratios would rise in the near term before declining gradually in the medium to long term. The high public debt service-to-revenue ratio under the combined contingent liabilities shock indicates substantial liquidity risks. The customized combined contingent liabilities shock (see Text Table 2, shown as dotted pink lines in Figure 2) is a smaller shock than the combined contingent liabilities shock by design, though it is also a more likely event. It also implies that the debt level would rise above its benchmark. Given that EMAE's arrears to ENCO are denominated in foreign currency, STP's public debt is also subject to currency risk (these arrears are treated as domestic debt given the residency-based definition). The stress tests on public debt highlight the importance of managing contingent liabilities and implementing energy sector reforms to mitigate risks.[11]

14. Reflecting EMAE's debt and arrears owed to ENCO, domestic debt risks are projected to remain elevated in the medium term (Text Figure 1). Both the solvency and liquidity indicators for domestic debt are above their median values across peers, driven by the substantial amount of EMAE's debt to ENCO. EMAE should continue implementing the 2019 repayment agreement for legacy claims with ENCO and clearing arrears to mitigate risks associated with domestic debt. The projected decline in domestic debt is driven by economic recovery and fiscal consolidation, both of which are expected to reduce financing needs over the medium term. Inflation has been sticky but is expected to decline gradually from current elevated levels, while the government continues to be able to borrow at contained nominal rates. The implied real interest rate is negative, which also helps ease the burden of domestic debt in the near term. The sharp decrease in domestic debt

[11] The risk of additional contingent liabilities accumulating and/or materializing in the future is relatively contained. Most contingent liabilities are related to the energy sector, and the current DSA has already included substantial provisions for those. If anything, the risks here are on the downside—that is, the stock of contingent liabilities could be lower—given the energy sector reforms planned under the program.

service in 2025 is due to the government's decision to start issuing medium-term bonds in 2024, while they had previously relied only on short-term T-bills. Furthermore, a domestic debt restructuring was concluded in September 2024, involving 96 percent (STN 781 million) of the central government's domestic public debt, helping to reduce domestic debt service levels and improve the overall liquidity position. The numbers in Text Figure 1 have deteriorated since the first review under the ECF arrangement due to the inclusion of the letters of credit for fuel imports in short-term domestic debt, as well as the projected repayment of arrears to the foreign power company through T-bonds, both of which add to domestic debt in the medium term.

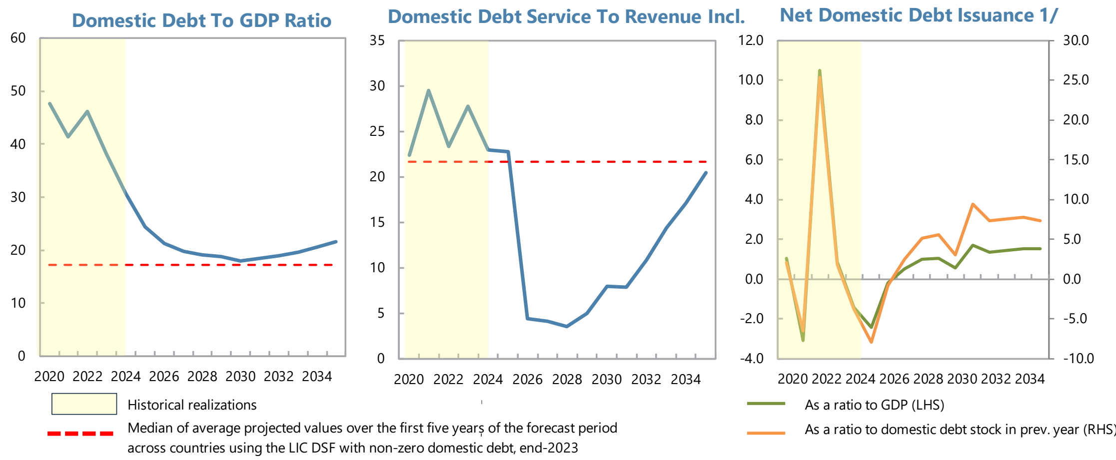
15. The DSA incorporates the costs and risks of natural disasters in the tailored natural disaster stress test. STP is vulnerable to natural disasters driven by climatic factors. Floods frequently affect the island nation with heavy rainfalls, which could cause soil erosion and landslides, increase the risk of waterborne diseases, and decrease crop production. The tailored stress test assumes a one-off natural disaster shock of 10 percent of GDP to the external PPG debt-to-GDP ratio in the second year of the projection period, with an associated real GDP growth shock of 1.5 percent of GDP and an associated export growth shock of 3.5 percent of GDP. The results of the analysis (Tables 3-4) indicate that by the end of 2027 a natural disaster shock may increase the PV of public debt to GDP from 43 percent of GDP under the baseline scenario to 46 percent of GDP under the stress test scenario. The PV of external debt to GDP will increase from 23 percent of GDP in 2027 under the baseline scenario to 27 percent of GDP under the stress test scenario.

DEBT DISTRESS QUALIFICATION AND CONCLUSIONS

16. São Tomé and Príncipe remains in debt distress, as in the previous DSA. This is due to the unresolved regularization of STP's post-HIPC arrears to Angola, Brazil and Equatorial Guinea, which total approximately 1.3 percent of GDP. Additionally, EMAE's significant arrears to its suppliers reflect large losses, low bill collection rates, and electricity tariffs that remain below cost recovery levels despite the recent adjustment. The high level of external debt and debt service obligations also adds to those burdens. STP continues to actively seek rescheduling agreements with its creditors and to explore more concessional loans or grants from other countries or institutions.

Text Figure 1. São Tomé and Príncipe: Indicators of Domestic Public Debt, 2020–35

(Percent)



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	60%
Short-term	40%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	0.1%
Avg. maturity (incl. grace period)	3
Avg. grace period	2
Domestic short-term debt	
Avg. real interest rate	-1.0%

Sources: Country authorities; and staff estimates and projections.
1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

17. While São Tomé and Príncipe is assessed to be in debt distress for both external and overall public debt, its debt remains sustainable. However, risks to debt sustainability have increased. The weak debt-carrying capacity implies low thresholds for debt burden indicators, with two export-related debt indicators breaching the threshold. Moreover, the PV of the PPG debt-to-GDP ratio (after accounting for the concessional terms of EMAE's and the central government's debt to ENCO) now breaches the benchmark for 2025. These breaches increase debt vulnerability and make it very sensitive to macroeconomic assumptions. Weaker-than-expected export growth and higher fuel import needs could exacerbate the already severe burden on external balances and put debt sustainability at risk. Furthermore, the projected reduction in external debt driven by the improving current account and FDI is fragile given substantial global policy uncertainty. However, the breaches are relatively small, the PV of the external debt-to-GDP ratio and the debt service-to-revenue ratio both remain below their thresholds, and the PV of public debt-to-GDP ratio (after discounting the government's debt to ENCO and EMAE's debt and arrears to ENCO) declines below its threshold starting in 2026. Therefore, STP's debt is still assessed as sustainable.

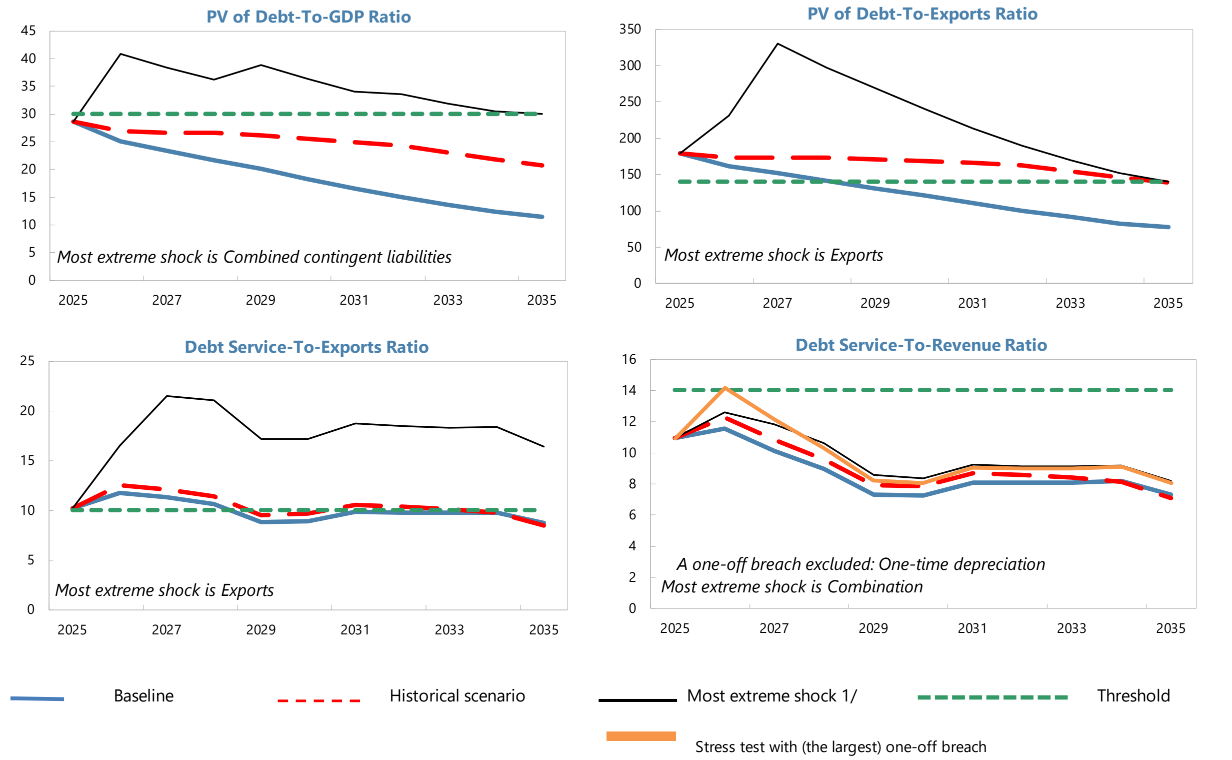
18. Risks around the baseline are substantial. Stress tests indicate that STP's debt is especially vulnerable to shocks to exports and combined contingent liabilities. A less severe but more likely customized contingent liabilities stress test also indicates significant risks as the impact on public debt indicators would be high. The economic outlook is also subject to significant downside risks, including delayed energy sector reforms, lower donor support, renewed energy shortages and commodity price volatility, as well as a global growth slowdown and deepening geopolitical fragmentation. Furthermore, the implementation of highly ambitious fiscal revenue measures over the medium term poses risks to the outlook.

19. Overall, the DSA highlights the importance of continuing fiscal reforms and maintaining strong policies to reduce debt-related risks and ensure debt sustainability. To enhance debt sustainability, STP should continue its fiscal consolidation efforts and implement energy sector reforms. Considering long-term climate risks, quantifying additional fiscal expenditure needs for climate-related investments and their potential consequences would be advisable. Promoting economic growth to support debt sustainability is crucial, including efforts to diversify the economy, enhance export potential, improve the business climate to attract FDI, and promote tourism and private sector-led growth. It is also important to continue strengthening public financial management and avoid the accumulation of new domestic arrears, including measures to improve macro-fiscal forecasting and strengthen cash management and expenditure controls. In addition, STP should rebuild foreign reserve buffers, clear existing arrears, and find new financing sources. External borrowing needs to be carefully planned to balance debt sustainability concerns against STP's large development needs, which should be financed mostly with non-debt generating sources, such as grants.

AUTHORITIES' VIEWS

20. The authorities broadly agreed with the assessment. They remain committed to regularizing the long-standing external arrears. To prevent recurrence of external arrears, they pointed to the adoption of the domestic revenue mobilization strategy, with several measures included in the 2026 budget, and ongoing work to develop a quarterly fiscal cashflow plan, with IMF technical support. With support from the World Bank, the authorities are developing a debt database that has recently completed the first phase of implementation. They also recognized the significant risk to debt sustainability from the large and persistent losses by EMAE, which have translated into large arrears to ENCO, and are committed to restructuring and reforming EMAE to achieve debt sustainability. The authorities remain committed to borrowing only on concessional terms and at a measured pace to reduce debt vulnerabilities over time. Nevertheless, they consider the hospital project to be of crucial social importance.

Figure 1. São Tomé and Príncipe: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2025–35



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	No	No
Commodity Prices 2/	n.a.	n.a.
Market Financing	n.a.	n.a.

"Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

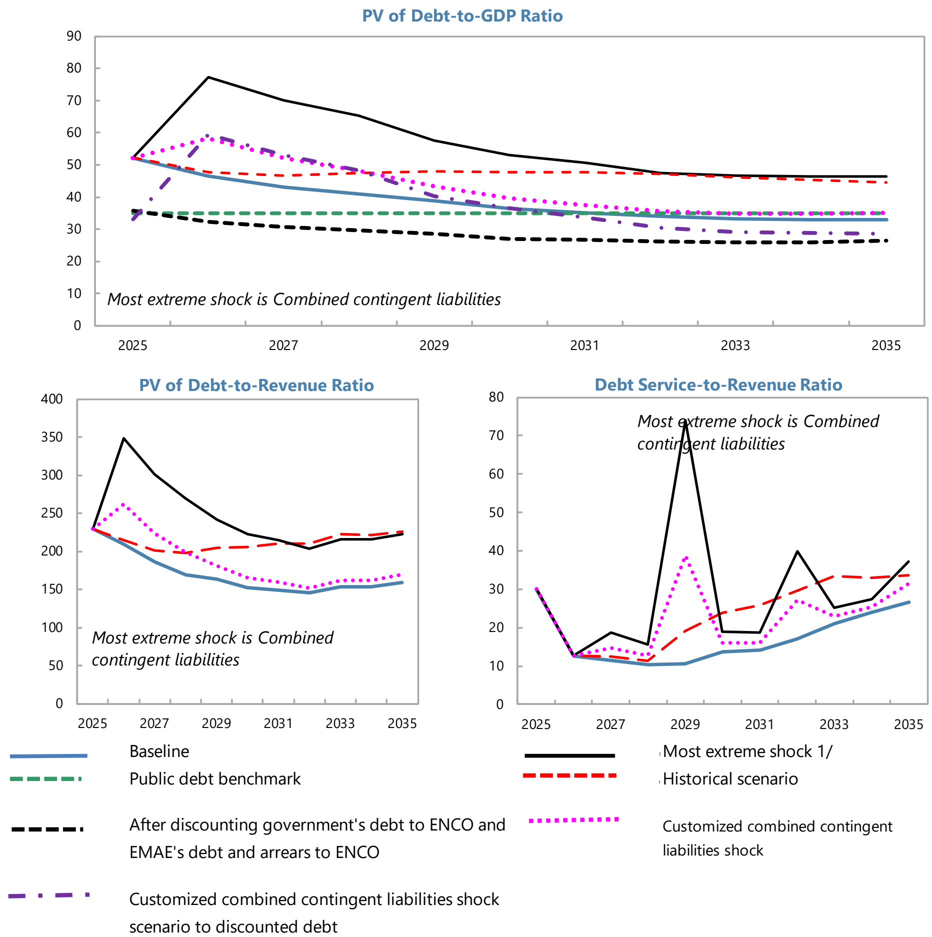
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1%	1%
USD Discount rate	5%	5%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	9	9

* All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.
2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. São Tomé and Príncipe: Indicators of Public Debt Under Alternative Scenarios, 2025–35



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	34%	60%
Domestic medium and long-term	40%	40%
Domestic short-term	27%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
Avg. maturity (incl. grace period)	29	29
Avg. grace period	9	9
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.1%	0.1%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	-1.0%	-1.0%

* The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

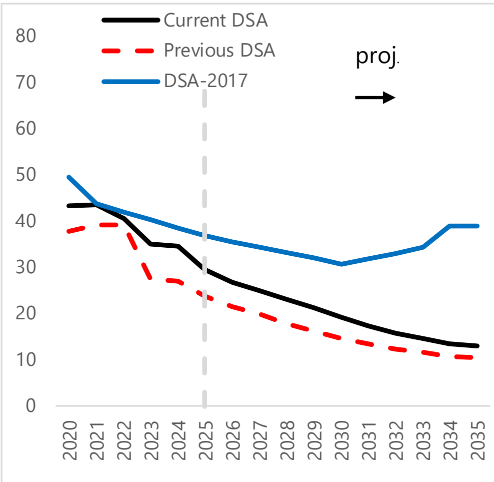
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

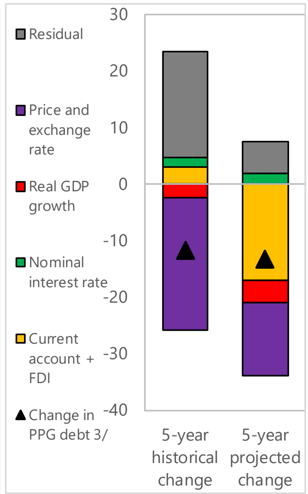
Figure 3. São Tomé and Príncipe: Drivers of Debt Dynamics – Baseline Scenario

External Debt

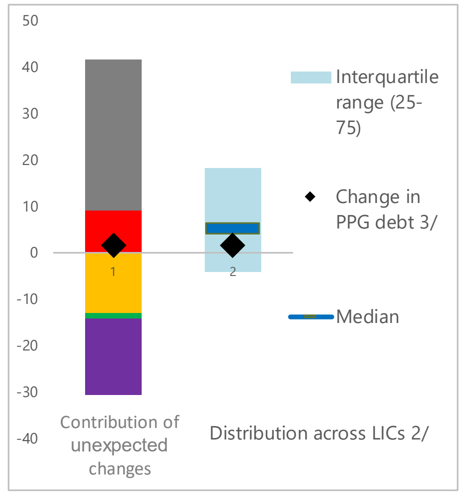
Gross Nominal PPG External Debt
(In Percent of GDP; DSA Vintages)



Debt-Creating Flows
(Percent of GDP)

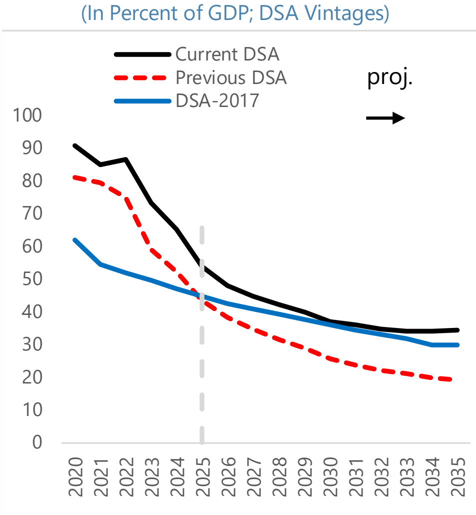


Unexpected Changes in Debt 1/
(Past 5 Years, Percent of GDP)

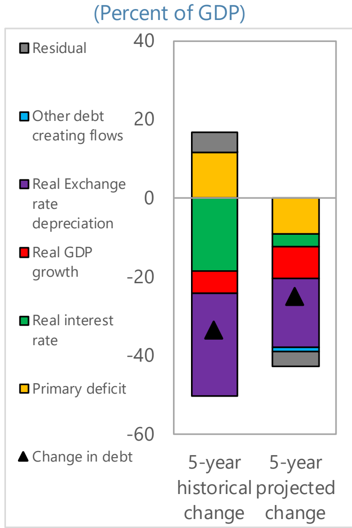


Public Debt

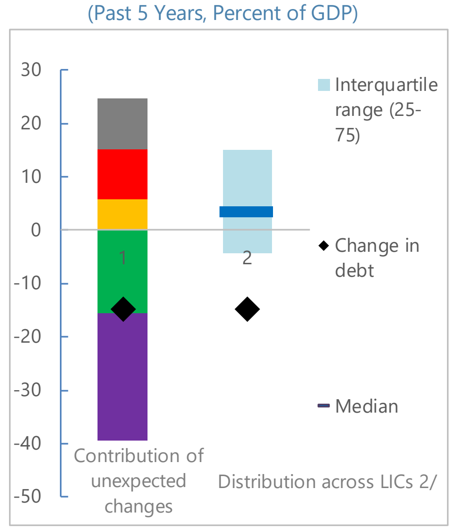
Gross Nominal Public Debt
(In Percent of GDP; DSA Vintages)



Debt-Creating Flows
(Percent of GDP)



Unexpected Changes in Debt 1/
(Past 5 Years, Percent of GDP)



1/ Difference between anticipated and actual contributions on debt ratios.

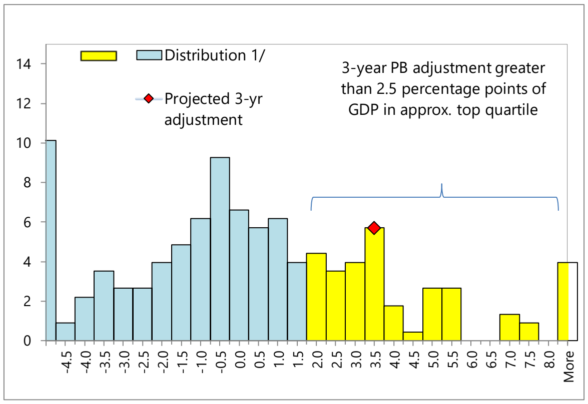
2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Sources: Country authorities; and staff estimates and projections.

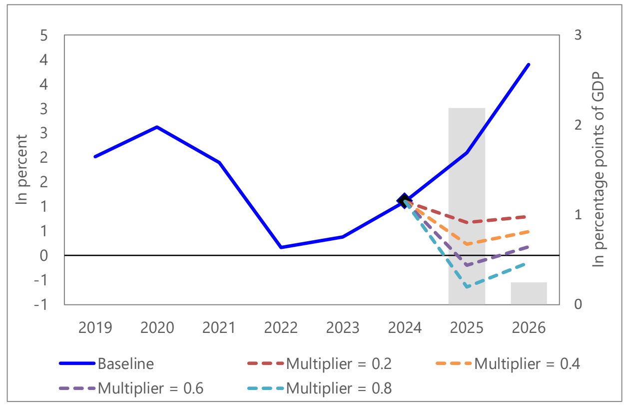
Figure 4. São Tomé and Príncipe: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage Points of GDP)



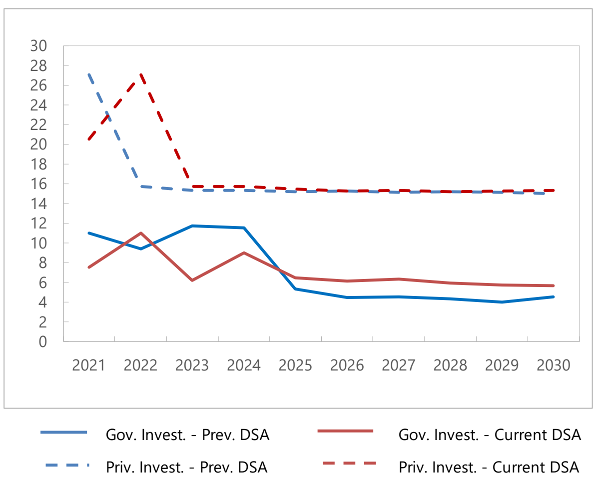
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

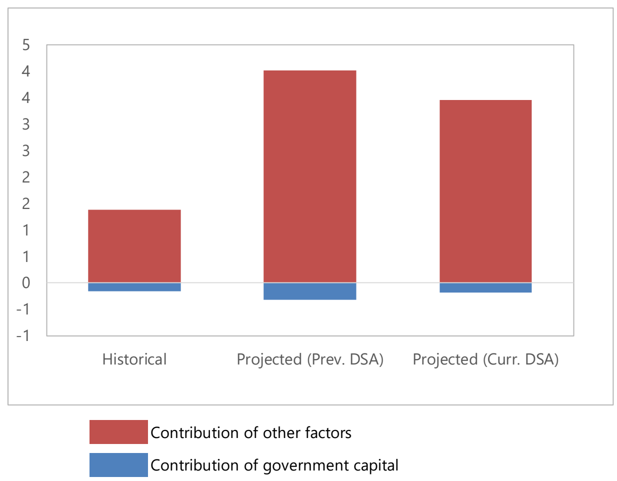


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP Growth
(Percent, 5-Year Average)

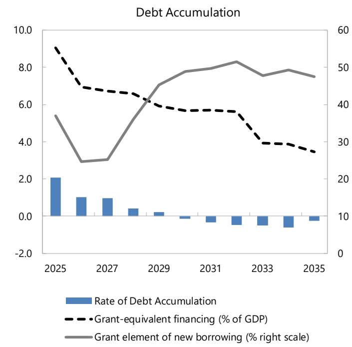


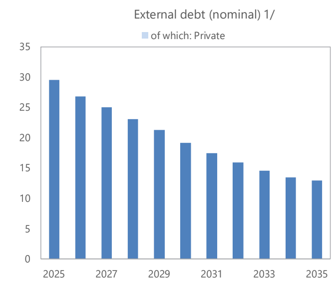
Sources: Country authorities; and staff estimates and projections.

Table 1. São Tomé and Príncipe: External Debt Sustainability Framework, Baseline Scenario, 2023–45
(In percent of GDP, unless otherwise indicated)

	Actual		Projections								Average 8/	
	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
External debt (nominal) 1/	**35.1**	**34.6**	**29.5**	**26.8**	**25.0**	**23.0**	**21.2**	**19.1**	**12.9**	**15.8**	**47.8**	**19.9**
of which: public and publicly guaranteed (PPG)	**35.1**	**34.6**	**29.5**	**26.8**	**25.0**	**23.0**	**21.2**	**19.1**	**12.9**	**15.8**	**47.8**	**19.9**
Change in external debt	-5.4	-0.5	-5.1	-2.7	-1.8	-2.0	-1.8	-2.1	-0.5	1.2		
Identified net debt-creating flows	**-6.2**	**-11.3**	**-3.6**	**-3.3**	**-3.9**	**-4.4**	**-3.8**	**-3.7**	**-0.8**	**0.8**	**-2.7**	**-3.0**
Non-interest current account deficit	**12.1**	**1.4**	**4.2**	**4.9**	**4.1**	**3.2**	**3.9**	**4.0**	**6.1**	**6.5**	**11.2**	**4.5**
Deficit in balance of goods and services	22.5	16.0	14.6	13.8	12.7	11.5	11.6	11.5	11.0	9.1	**26.6**	**12.0**
Exports	16.4	16.7	16.0	15.5	15.3	15.3	15.3	15.1	14.9	14.6		
Imports	38.9	32.7	30.6	29.3	28.0	26.9	26.9	26.6	25.9	23.7		
Net current transfers (negative = inflow)	-9.3	-12.9	-9.4	-7.9	-7.7	-7.6	-7.1	-7.0	-4.6	-2.5	**-14.5**	**-6.9**
of which: official	-8.0	-11.4	-7.8	-6.3	-6.1	-6.0	-5.4	-5.3	-3.0	-1.1		
Other current account flows (negative = net inflow)	-1.2	-1.7	-1.1	-1.0	-0.9	-0.7	-0.7	-0.5	-0.4	-0.2	**-0.8**	**-0.6**
Net FDI (negative = inflow)		**-7.9**	**-7.6**	**-7.6**	**-7.4**	**-7.2**	**-7.3**	**-7.3**	**-6.7**	**-5.4**	**-10.0**	**-7.2**
Endogenous debt dynamics 2/	**-8.5**	**-4.8**	**-0.2**	**-0.5**	**-0.5**	**-0.3**	**-0.4**	**-0.3**	**-0.2**	**-0.3**		
Contribution from nominal interest rate	0.2	0.8	0.4	0.4	0.4	0.4	0.3	0.3	0.2	0.2		
Contribution from real GDP growth	-0.1	-0.3	-0.6	-1.0	-0.9	-0.7	-0.7	-0.6	-0.4	-0.5		
Contribution from price and exchange rate changes	-8.6	-5.3	...	...	...	...	...	...	...	...		
Residual 3/	**0.8**	**10.8**	**-1.5**	**0.7**	**2.1**	**2.4**	**2.0**	**1.6**	**0.2**	**0.3**	**0.1**	**0.9**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators												
PV of PPG external debt-to-GDP ratio	**...**	**32.0**	**28.6**	**25.1**	**23.3**	**21.7**	**20.1**	**18.3**	**11.5**	**10.2**		
PV of PPG external debt-to-exports ratio	**...**	**191.0**	**179.0**	**161.7**	**152.2**	**141.5**	**131.3**	**121.3**	**77.4**	**70.2**		
PPG debt service-to-exports ratio	**4.7**	**7.7**	**10.2**	**11.8**	**11.3**	**10.7**	**8.8**	**8.9**	**8.8**	**3.5**		
PPG debt service-to-revenue ratio	**5.1**	**9.0**	**10.9**	**11.5**	**10.1**	**9.0**	**7.3**	**7.2**	**7.3**	**3.0**		
Gross external financing need (Million of U.S. dollars)	21.6	-43.0	-18.0	-10.8	-20.6	-34.6	-32.1	-33.7	16.8	62.0		
Key macroeconomic assumptions												
Real GDP growth (in percent)	0.4	1.1	2.1	3.9	3.9	3.3	3.3	3.3	3.3	3.3	**2.3**	**3.3**
GDP deflator in US dollar terms (change in percent)	27.0	17.7	16.4	13.7	7.5	6.0	5.6	5.7	1.9	1.9	**8.8**	**6.4**
Effective interest rate (percent) 4/	0.7	2.7	1.5	1.7	1.7	1.7	1.6	1.6	1.8	1.3	**0.9**	**1.7**
Growth of exports of G&S (US dollar terms, in percent)	17.7	21.4	13.7	14.7	10.2	9.5	8.8	7.5	4.9	5.0	**8.1**	**8.7**
Growth of imports of G&S (US dollar terms, in percent)	4.5	-0.1	11.4	12.9	6.8	5.0	9.2	7.7	4.6	4.4	**2.6**	**7.5**
Grant element of new public sector borrowing (in percent)	...	...	36.9	24.6	25.2	35.9	45.3	48.8	47.4	35.0	**...**	**42.0**
Government revenues (excluding grants, in percent of GDP)	15.2	14.3	15.0	15.9	17.1	18.2	18.4	18.5	17.8	17.2	**18.2**	**17.6**
Aid flows (in Million of US dollars) 5/	80.3	119.1	101.0	83.5	100.4	107.5	101.4	101.9	92.2	116.4		
Grant-equivalent financing (in percent of GDP) 6/	...	...	9.1	6.9	6.7	6.6	5.9	5.7	3.5	1.7	**...**	**5.8**
Grant-equivalent financing (in percent of external financing) 6/	...	...	80.8	79.3	79.3	86.4	90.6	93.9	86.8	56.9	**...**	**88.2**
Nominal GDP (Million of US dollars)	696	828	985	1,163	1,298	1,421	1,549	1,691	2,317	3,852		
Nominal dollar GDP growth	27.5	19.0	18.9	18.1	11.7	9.4	9.0	9.2	5.2	5.2	**11.3**	**9.9**
Memorandum items:												
PV of external debt 7/	...	32.0	28.6	25.1	23.3	21.7	20.1	18.3	11.5	10.2		
In percent of exports	...	191.0	179.0	161.7	152.2	141.5	131.3	121.3	77.4	70.2		
Total external debt service-to-exports ratio	4.7	7.7	10.2	11.8	11.3	10.7	8.8	8.9	8.8	3.5		
PV of PPG external debt (in Million of US dollars)		264.7	281.8	292.0	303.1	308.5	311.4	309.3	266.8	394.5		
(PVt-PVt-1)/GDPt-1 (in percent)			2.1	1.0	1.0	0.4	0.2	-0.1	-0.3	1.3		
Non-interest current account deficit that stabilizes debt ratio	17.5	1.9	9.3	7.5	5.9	5.2	5.6	6.1	6.6	5.3		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections it includes price and exchange rate changes.
4/ Current-year interest payments divided by previous period debt stock.
5/ Defined as grants, concessional loans, and debt relief.
6/ 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).
7/ Assumes that PV of private sector debt is equivalent to its face value.
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

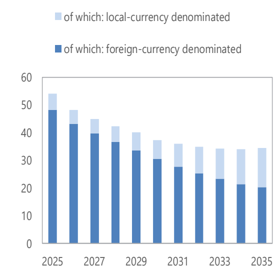
Table 2. São Tomé and Príncipe: Public Sector Debt Sustainability Framework, Baseline Scenario, 2023–45

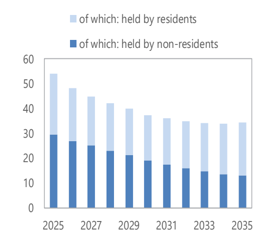
(In percent of GDP, unless otherwise indicated)

	Actual		Projections								Average 7/	
	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
Public sector debt 1/	**73.2**	**65.2**	**54.0**	**48.2**	**44.8**	**42.2**	**40.1**	**37.2**	**34.5**	**45.4**	**89.4**	**40.0**
of which: external debt	**35.1**	**34.6**	**29.5**	**26.8**	**25.0**	**23.0**	**21.2**	**19.1**	**12.9**	**15.8**	**47.8**	**19.9**
Change in public sector debt	-13.5	-8.0	-11.3	-5.8	-3.4	-2.6	-2.2	-2.9	0.5	1.2		
Identified debt-creating flows	**-12.7**	**-6.5**	**-3.5**	**-3.7**	**-4.3**	**-5.1**	**-4.8**	**-4.8**	**-0.1**	**0.3**	**-4.2**	**-3.0**
Primary deficit	**4.3**	**1.7**	**-0.4**	**-0.7**	**-1.8**	**-3.1**	**-2.8**	**-3.0**	**1.1**	**0.9**	**5.2**	**-1.1**
Revenue and grants	23.2	25.7	22.8	22.2	23.2	24.2	23.8	23.9	20.8	18.2	**29.0**	**22.8**
of which: grants	8.0	11.4	7.8	6.3	6.1	6.0	5.4	5.3	3.0	1.0		
Primary (noninterest) expenditure	27.6	27.5	22.3	21.5	21.4	21.1	21.0	20.9	21.8	19.1	**34.2**	**21.7**
Automatic debt dynamics	**-18.2**	**-8.1**	**-2.7**	**-2.7**	**-2.3**	**-1.8**	**-1.8**	**-1.7**	**-1.1**	**-1.0**		
Contribution from interest rate/growth differential	-4.9	-2.1	-2.7	-2.7	-2.3	-1.8	-1.8	-1.7	-1.1	-1.0		
of which: contribution from average real interest rate	-4.6	-1.3	-1.4	-0.7	-0.5	-0.4	-0.4	-0.4	0.0	0.4		
of which: contribution from real GDP growth	-0.3	-0.8	-1.3	-2.0	-1.8	-1.4	-1.3	-1.3	-1.1	-1.4		
Contribution from real exchange rate depreciation	-13.3	-5.9	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**1.2**	**-0.2**	**-0.3**	**-0.3**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.1**	**0.4**	**-0.5**	**-0.2**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	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)	-0.5	-0.2	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.1	0.4		
Other debt creating or reducing flow	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual 2/	**-0.8**	**-1.5**	**-7.8**	**-2.1**	**0.9**	**2.5**	**2.6**	**1.9**	**0.6**	**0.9**	**1.5**	**0.1**
Sustainability indicators												
PV of public debt-to-GDP ratio 3/	**...**	**63.6**	**52.2**	**46.5**	**43.1**	**40.9**	**39.0**	**36.3**	**33.1**	**39.9**		
PV of public debt-to-revenue and grants ratio	**...**	**247.4**	**229.4**	**209.2**	**185.6**	**169.0**	**163.6**	**152.4**	**159.1**	**219.4**		
Debt service-to-revenue and grants ratio 4/	**...**	**...**	**30.0**	**12.6**	**11.6**	**10.3**	**10.6**	**13.6**	**26.7**	**166.3**		
Gross financing need 5/	11.4	8.9	6.1	1.9	0.7	-0.8	-0.5	0.1	6.5	11.7		
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	0.4	1.1	2.1	3.9	3.9	3.3	3.3	3.3	3.3	3.3	**2.3**	**3.3**
Average nominal interest rate on external debt (in percent)	0.7	2.7	1.5	1.7	1.7	1.7	1.6	1.6	1.8	1.3	**0.9**	**1.7**
Average real interest rate on domestic debt (in percent)	-19.2	-15.0	-10.2	-8.6	-6.4	-5.0	-4.4	-4.3	0.6	2.1	**-9.4**	**-4.1**
Real exchange rate depreciation (in percent, + indicates depreciation)	-18.7	-9.5	...	...	...	...	...	...	...	...	**-5.4**	**...**
Inflation rate (GDP deflator, in percent)	23.7	17.7	11.5	10.0	7.5	6.0	5.6	5.7	1.9	1.9	**10.7**	**5.6**
Growth of real primary spending (deflated by GDP deflator, in percent)	-13.8	0.7	-17.0	0.3	3.3	1.8	2.5	2.8	2.0	3.1	**0.8**	**1.4**
Primary deficit that stabilizes the debt-to-GDP ratio 6/	17.9	9.8	10.8	5.1	1.5	-0.5	-0.7	-0.1	0.6	-0.3	**10.2**	**1.7**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Memorandum Item												
Primary deficit with HIPC grants and without EMAE loss	1.5	-1.0	-0.8	-1.0	-2.0	-3.3	-3.0	-3.1	0.9	1.3	**0.8**	**-1.3**
EMAE loss	2.3	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**3.8**	**0.0**

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections it includes real exchange rate depreciation.

3/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

5/ 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 and other debt creating/reducing flows.

6/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilize the debt ratio only in the year in question.

7/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. São Tomé and Príncipe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2025–35

(In percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of Debt-To-GDP Ratio											
Baseline	29	25	23	22	20	18	17	15	14	12	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	29	27	27	27	26	25	25	24	23	22	21
B. Bound Tests											
B1. Real GDP growth	29	24	23	20	18	15	13	11	9	8	7
B2. Primary balance	29	28	**30**	28	28	27	25	23	22	21	20
B3. Exports	29	26	28	25	23	20	18	16	14	12	11
B4. Other flows 3/	29	28	30	27	24	22	19	17	16	14	13
B5. One-time 30 percent nominal depreciation	29	28	23	20	17	15	12	10	8	7	6
B6. Combination of B1-B5	29	**30**	**30**	27	24	22	19	17	15	13	12
C. Tailored Tests											
C1. Combined contingent liabilities	29	**41**	**38**	**36**	**39**	**36**	**34**	**34**	**32**	**30**	30
C2. Natural disaster	29	29	27	25	25	23	21	20	19	17	17
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of Debt-To-Exports Ratio											
Baseline	**179**	**162**	**152**	**141**	131	121	110	100	91	83	77
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	**179**	**173**	**173**	**173**	**171**	**169**	**166**	**162**	**154**	**146**	139
B. Bound Tests											
B1. Real GDP growth	**179**	**149**	133	118	105	91	78	66	56	47	41
B2. Primary balance	**179**	**183**	**197**	**185**	**181**	**178**	**165**	**156**	**149**	**140**	135
B3. Exports	**179**	**231**	**330**	**298**	**269**	**241**	**214**	**190**	**170**	**152**	140
B4. Other flows 3/	**179**	**180**	**194**	**176**	**160**	**145**	129	116	105	96	89
B5. One-time 30 percent nominal depreciation	**179**	**149**	120	105	92	79	67	55	45	36	30
B6. Combination of B1-B5	**179**	**214**	**173**	**219**	**198**	**177**	**157**	139	124	111	102
C. Tailored Tests											
C1. Combined contingent liabilities	**179**	**262**	**250**	**236**	**254**	**241**	**227**	**224**	**213**	**204**	**201**
C2. Natural disaster	**179**	**189**	**179**	**168**	**164**	**154**	**143**	135	126	118	114
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt Service-To-Exports Ratio											
Baseline	**10**	**12**	**11**	**11**	9	9	10	10	10	10	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	**10**	**13**	**12**	**11**	10	10	**11**	**10**	**10**	10	9
B. Bound Tests											
B1. Real GDP growth	**10**	**12**	**11**	**10**	8	8	9	9	9	9	8
B2. Primary balance	**10**	**12**	**12**	**12**	10	10	**11**	**11**	**11**	**11**	10
B3. Exports	**10**	**17**	**21**	**21**	**17**	**17**	**19**	**18**	**18**	**18**	**16**
B4. Other flows 3/	**10**	**12**	**12**	**12**	10	9	**10**	**10**	**10**	**10**	9
B5. One-time 30 percent nominal depreciation	**10**	**12**	**11**	10	8	8	9	9	9	9	8
B6. Combination of B1-B5	**10**	**14**	**16**	**16**	**13**	**13**	**14**	**14**	**14**	**14**	**12**
C. Tailored Tests											
C1. Combined contingent liabilities	**10**	**12**	**13**	**13**	**11**	**11**	**12**	**12**	**12**	**12**	**11**
C2. Natural disaster	**10**	**12**	**12**	**11**	10	10	**11**	**11**	**11**	**11**	10
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt Service-To-Revenue Ratio											
Baseline	11	12	10	9	7	7	8	8	8	8	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	11	12	11	10	8	8	9	9	8	8	7
B. Bound Tests											
B1. Real GDP growth	11	12	11	10	8	7	8	8	8	8	7
B2. Primary balance	11	12	11	10	8	8	9	9	9	9	8
B3. Exports	11	12	11	10	8	8	8	8	8	8	8
B4. Other flows 3/	11	12	10	10	8	8	8	8	8	8	7
B5. One-time 30 percent nominal depreciation	11	**14**	12	10	8	8	9	9	9	9	8
B6. Combination of B1-B5	11	13	12	11	9	8	9	9	9	9	8
C. Tailored Tests											
C1. Combined contingent liabilities	11	12	12	11	9	9	10	10	10	10	9
C2. Natural disaster	11	12	11	9	8	8	9	9	9	9	8
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

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

3/ Includes official and private transfers and FDI.

Table 4. São Tomé and Príncipe: Sensitivity Analysis for Key Indicators of Public Debt, 2025–45

	Projections 1/																				
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
PV of Debt-to-GDP Ratio																					
Baseline	**52**	**46**	**43**	**41**	**39**	**36**	**35**	34	33	33	33	34	34	35	**35**	**37**	**37**	**38**	**39**	**39**	**40**
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2035 2/	**52**	**48**	**47**	**48**	**48**	**48**	**48**	**47**	**46**	**45**	**45**	**44**	**44**	**43**	**43**	**43**	**43**	**42**	**42**	**42**	**40**
B. Bound Tests																					
B1. Real GDP growth	**52**	**46**	**44**	**41**	**40**	**37**	**37**	**36**	**37**	**38**	**40**	**42**	**44**	**46**	**48**	**50**	**52**	**54**	**56**	**58**	**54**
B2. Primary balance	**52**	**50**	**53**	**49**	**45**	**40**	**38**	**37**	**36**		**36**	**37**	**37**	**38**	**39**	**40**	**41**	**42**	**43**	**43**	**39**
B3. Exports	**52**	**47**	**47**	**43**	**41**	**37**	**36**	34	33	33	33	33	33	33	34	**35**	**36**	**36**	**37**	**37**	**38**
B4. Other flows 3/	**52**	**49**	**50**	**46**	**43**	**40**	**38**	**36**	**35**	35	35	**35**	**35**	**35**	**36**	**37**	**37**	**37**	**38**	**38**	**39**
B5. One-time 30 percent nominal depreciation	**52**	**49**	**42**	**37**	34	29	27	25	24	23	23	23	22	22	23	23	23	23	24	24	17
B6. Combination of B1-B5	**52**	**50**	**50**	**41**	**38**	33	30	29	28	27	28	28	29	30	31	33	34	34	**36**	**36**	**37**
C. Tailored Tests																					
C1. Combined contingent liabilities	**52**	**77**	**70**	**65**	**58**	**53**	**51**	**48**	**47**	**46**	**46**	**47**	**48**	**48**	**49**	**51**	**51**	**52**	**53**	**54**	**49**
C2. Natural disaster	**52**	**51**	**46**	**42**	**39**	**35**	34	32	32	32	33	34	35	**36**	**37**	**39**	**40**	**41**	**42**	**43**	**39**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio																					
Baseline	229	209	186	169	164	152	149	145	154	153	159	175	183	186	191	198	203	207	212	215	219
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2035 2/	229	214	201	198	205	205	210	210	222	221	226	237	239	239	240	240	240	239	239	238	229
B. Bound Tests																					
B1. Real GDP growth	229	203	183	167	163	153	152	152	168	174	188	215	232	243	256	271	283	293	306	314	293
B2. Primary balance	229	226	227	202	189	169	163	156	165	166	173	191	200	204	211	218	224	228	234	237	213
B3. Exports	229	212	200	179	171	156	151	145	153	151	157	171	178	180	184	190	194	197	202	204	208
B4. Other flows 3/	229	222	213	191	182	167	161	155	163	162	168	183	188	189	193	198	202	204	209	210	213
B5. One-time 30 percent nominal depreciation	229	224	184	157	144	126	116	109	112	110	111	118	121	120	122	125	127	128	132	134	95
B6. Combination of B1-B5	229	227	216	171	161	140	127	122	128	126	133	148	156	161	168	176	183	188	196	200	206
C. Tailored Tests																					
C1. Combined contingent liabilities	229	348	301	270	242	223	215	203	215	216	223	245	255	259	266	274	280	285	292	295	271
C2. Natural disaster	229	229	196	173	161	147	142	137	147	148	156	175	185	191	199	209	216	222	230	235	212
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio																					
Baseline	30	13	12	10	11	14	14	17	21	24	27	32	35	39	42	45	48	51	53	56	166
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2025-2035 2/	30	13	12	11	19	24	26	30	33	33	34	35	36	36	36	36	37	36	36	37	71
B. Bound Tests																					
B1. Real GDP growth	30	13	13	11	13	18	19	22	28	31	35	42	46	50	54	57	61	65	68	71	193
B2. Primary balance	30	13	13	14	26	31	17	23	28	26	30	36	39	42	46	49	52	55	58	60	171
B3. Exports	30	13	12	11	11	14	14	17	21	24	27	32	36	39	42	45	48	50	53	55	166
B4. Other flows 3/	30	13	12	11	11	14	14	17	21	24	27	33	37	40	43	45	48	51	54	56	166
B5. One-time 30 percent nominal depreciation	30	14	14	12	11	14	14	17	20	23	27	32	34	37	40	42	44	46	49	50	153
B6. Combination of B1-B5	30	12	13	12	23	27	16	22	26	25	29	35	36	40	43	45	49	52	54	57	168
C. Tailored Tests																					
C1. Combined contingent liabilities	30	13	19	16	74	19	19	40	25	27	37	36	39	44	45	48	51	53	56	59	169
C2. Natural disaster	30	13	13	12	25	15	16	23	23	26	30	34	37	41	44	47	50	53	56	58	170
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Statement by the IMF Staff Representative
December 19, 2025

This statement provides information that has become available since the issuance of the staff report to the Executive Board on December 8, related to the implementation of one prior action for this review. This information does not alter the thrust of the staff appraisal.

1. The authorities completed the final remaining prior action on December 17, 2025. They have cleared all external payment arrears of the central government accumulated since completing the First Review under the ECF arrangement (**PA4)**. Total external payment arrears accumulated since the completion of the First Review added up to around $6.6 million, or 0.7 percent GDP. This amount is the sum of several payments due to multiple creditors, most of which were made shortly after their due dates.

Statement by Mr. Regis N'Sonde, Executive Director for the Democratic Republic of São Tomé and Príncipe, and Mr. Kelvio Carvalho da Silveira, Advisor to the Executive Director
December 19, 2025

Introduction

1. On behalf of our São Toméan authorities, we extend our appreciation to the Executive Board, Management, and staff for their continued support and constructive engagement. The authorities value the candid policy dialogue during the recent mission and the comprehensive set of staff reports, which provide valuable input to inform policy discussions at this critical juncture.

2. Since the completion of the first review, the economic environment has become more challenging. Long-standing socio-economic vulnerabilities have been compounded by accelerating emigration and the ongoing energy crisis, weighing on activity and inflation. Despite these headwinds, the authorities remain firmly committed to the objectives of the ECF-supported program and to advancing their reform agenda.

3. In this context, and recognizing the difficulties encountered during implementation, the authorities have taken decisive steps to maintain the program's momentum, including the completion of five prior actions ahead of the Board discussion. Based on these actions and their continued commitment to the program, they request the Executive Board's approval of the Second Review, the proposed extension and augmentation of the arrangement, and the associated decisions. They also request an exception to the zero ceiling on non-concessional external borrowing to allow the financing of a critical hospital project should grants or concessional resources not materialize. They view the Fund's continued support as essential to navigate current shocks and strengthen resilience.

Performance under the ECF

4. Against the backdrop of a challenging domestic and external environment, program performance at end-June 2025 was broadly satisfactory and supportive of the program's objectives. Most quantitative performance criteria (QPCs) and indicative targets (ITs) were met, including the QPCs on net international reserves and central bank credit to the government, as well as the ITs on domestic arrears clearance, pro-poor spending, and external borrowing. The QPC on the domestic primary balance and the continuous QPC on the accumulation of new external payment arrears were missed by small margins, reflecting revenue underperformance, liquidity pressures, and exceptional energy-related emergency spending to avert power outages. The authorities have taken strong corrective measures, including the adoption of a domestic revenue mobilization strategy, the incorporation of key

revenue measures in the 2026 budget, and the clearance of accumulated external payment arrears ahead of the Board discussion.

5. Progress on structural reforms continued, albeit unevenly, amid severe capacity constraints and the impact of the ongoing energy crisis. Of the structural benchmarks assessed, several were met on time or ahead of schedule, while others were implemented with delays, converted into prior actions, or proposed for resetting. Some benchmarks are no longer deemed relevant. Key advances include the submission of the new Financial Institutions Law to Parliament, the preparation of a revised restructuring plan for the electricity utility EMAE, and strengthened actions to reduce excess liquidity and support the monetary policy stance. Delays in the audit of the government's 2023 financial statements and the enactment of the new public procurement law mainly reflect data reconciliation needs and the restart of the legislative process following the formation of a new government. The authorities remain focused on completing these reforms and sustaining implementation momentum going forward.

Recent Economic Developments and Outlook

6. The macroeconomic recovery remains fragile amid persistent structural constraints and renewed shocks. Economic activity in 2025 has been weighed down by recurrent power outages and adverse demographic trends, including rising emigration pressures, prompting a downward revision of real GDP growth to 2.1 percent. Inflation has re-accelerated to around 12 percent in recent months, reflecting mainly supply-side constraints, including labor shortages linked to emigration, alongside some demand pressures. At the same time, external buffers have strengthened markedly. Sustained by budget support disbursements and the implementation of export proceed repatriation and surrender requirements, gross and net international reserves increased significantly in 2025, exceeding earlier expectations. Fiscal developments through mid-2025 reflected stronger tax revenue performance and under-execution of capital spending, contributing to an improvement in the domestic primary balance. The banking system remains well capitalized and liquid despite persistent concentration risks.

7. The authorities broadly share staff's outlook for the STP economy. The current account deficit is projected to widen to about 4.6 percent of GDP in 2025, reflecting lower project grants. However, strong export performance—particularly cocoa benefiting from higher production and favorable prices—and a continued recovery in tourism and lower fuel imports should help contain external pressures, with the current account deficit stabilizing over the medium term. Growth is expected to strengthen from 2026 onward, supported by public investment, reforms in the energy sector, rising tourism and remittances, and higher exports of cocoa and palm oil, while inflation is projected to decline gradually as supply disruptions ease and policies remain appropriately tight. Risks to the outlook remain tilted to the downside, including delays in external financing, prolonged power outages, SOE-related fiscal pressures, climate-related shocks, and continued emigration. Higher cocoa prices and lower global oil prices could provide some upside.

Policy Priorities for 2025 and Beyond

Fiscal Policy

8. The authorities remain firmly committed to fiscal consolidation, while adapting policies to a more challenging macroeconomic environment. New fiscal pressures emerged in 2025, largely reflecting the adverse impact of recurrent power outages on economic activity and revenue collection, as well as delays in the implementation of some fiscal measures. As a result, the domestic primary surplus target for 2025 has been recalibrated to about 0.5 percent of GDP, compared to the initial objective of 1 percent of GDP. This adjustment reflects the unexpected nature of the energy shock and the limited scope for further corrective measures late in the fiscal year, while preserving the underlying consolidation effort achieved in recent years. To safeguard the program objectives, the authorities have taken decisive corrective actions, including strict expenditure restraint—through caps on goods and services spending and the delayed rollout of the new salary grid—while preserving priority social and investment spending.

9. Looking ahead, the authorities remain committed to a steady strengthening of the fiscal position over the medium term. In light of the downward revision to growth prospects, the fiscal consolidation path has been re-phased, with the attainment of the targeted domestic primary surplus of 2 percent of GDP postponed by one year, while the overall adjustment effort remains unchanged. This recalibration is underpinned by a comprehensive domestic revenue mobilization strategy, supported by tax policy reforms and strengthened revenue administration, including improvements in VAT compliance. Revenue diversification efforts are also underway, including through the recently launched Citizenship-by-Investment program, with all proceeds fully integrated into the budget and subject to enhanced transparency safeguards. The 2026 draft budget, submitted to Parliament, targets a domestic primary surplus of 0.5 percent of GDP, reflecting a prudent balance between consolidation and growth, while maintaining a clear and credible path toward the medium-term fiscal objective. Expenditure discipline will continue to be reinforced through wage bill containment and the rationalization of non-priority spending, alongside continued efforts to strengthen social protection.

10. The authorities are advancing an ambitious public financial management and governance reform agenda to strengthen fiscal credibility, transparency, and accountability. Priorities include improving budget planning and execution, advancing the rollout of a modern integrated financial management information system, strengthening public investment management, and reinforcing external oversight through timely audits and follow-up on recommendations. Fiscal risks stemming from state-owned enterprises, particularly in the energy sector, are being addressed through enhanced transparency, strengthened monitoring arrangements, and reforms to ensure that government support is fully reflected in the budget framework. In parallel, comprehensive energy sector reforms—covering fuel pricing, tariff adjustments, loss reduction, and governance improvements—are being implemented to reduce contingent liabilities, contain pressures on the budget and reserves, and enhance fiscal sustainability.

Debt Management Policy

11. The authorities broadly concur with staff's assessment that São Tomé and Príncipe remains in external debt distress, although public debt is assessed to be sustainable on a forward-looking basis. While the overall debt sustainability outlook remains broadly unchanged, external debt vulnerabilities have increased. The authorities remain firmly committed to preserving debt sustainability through continued fiscal consolidation, prudent borrowing policies, and decisive energy sector reforms. In this context, they have cleared all external payment arrears accumulated since the completion of the first ECF review, reinforcing program credibility and their commitment to sound debt management.

12. The authorities continue to prioritize concessional financing and limit non-concessional borrowing to exceptional, high-priority projects. They are considering a non-concessional loan from BADEA to partially finance a critical hospital project, which addresses urgent human capital and health infrastructure needs and aligns with national development priorities. The authorities are actively seeking grant resources or blended financing to enhance concessionality; however, should such financing not materialize, they request an exception to the program's zero ceiling on non-concessional external borrowing for this project, which staff have assessed as consistent with the signals-based approach and with medium-term debt sustainability. At the same time, debt management is being strengthened through improved cashflow planning, annual borrowing plans, and enhanced debt recording and monitoring, with support from development partners.

Monetary and Financial Sector Policies

13. Monetary policy remains anchored by the euro peg, which continues to provide a credible nominal anchor for São Tomé and Príncipe. To support the peg, contain inflation, and rebuild external buffers, Banco Central de Sao Tomé e Principe (BCSTP) has maintained a tight monetary policy stance and continued to actively absorb excess liquidity, primarily through the issuance of central bank certificates of deposit and, when needed, foreign exchange sales. While inflationary pressures are largely supply-driven, inflation has proven more persistent than previously anticipated, owing in part to ample liquidity, underscoring the need for continued vigilance and careful calibration of liquidity management operations. Temporary capital flow management measures, including export proceeds repatriation and surrender requirements, remain in place and are implemented in line with the IMF's Institutional View. Close coordination with the Ministry of Economy and Finance is being strengthened, including through a joint technical commission to prepare a recapitalization strategy aimed at safeguarding the BCSTP's operational autonomy and policy effectiveness.

14. Financial sector oversight continues to be strengthened to preserve stability and support inclusive growth. The BCSTP is advancing reforms to banking regulation and supervision, including the implementation of a bank rating model, regular stress testing, and upgrades to supervisory capacity. Progress is being made toward modernizing the legal framework through the forthcoming Financial Institutions Law, which will strengthen licensing, governance, and risk management standards. Work is also underway to

operationalize the Credit Risk Center with World Bank support, while bank resolution efforts are progressing, including the liquidation of insolvent institutions. In parallel, the BCSTP is pressing ahead with governance and safeguards reforms, including the publication of audited financial statements, the transition to IFRS, and enhancements to internal audit and oversight, with timely appointment of the new Board of Directors being critical to advancing these reforms. Efforts to deepen financial inclusion continue under the National Financial Inclusion Strategy, building on the results of the most recent household survey.

Structural Reforms

15. The authorities have adopted a new National Strategy for Sustainable Development (2026–2040), marking a new phase in São Tomé and Príncipe's development following its graduation from Least Developed Country status in 2024. As a small island developing state, the strategy provides a coherent long-term framework for promoting inclusive, resilient, and private-sector-led growth, anchored on four pillars—human capital development, inclusive economic growth, environmental sustainability, and state reform—and supported by a medium-term action plan for 2026–28 focused on competitiveness. Developed through broad consultations with government stakeholders, political parties, civil society, the private sector, and development partners, the strategy is closely aligned with the objectives of the ECF-supported program and provides a credible framework for poverty reduction, growth, and macroeconomic stability. Priority sectors include tourism, agriculture, fisheries, and financial services, with a stronger emphasis on mobilizing private investment and foreign direct investment and advancing bankable projects to support job creation, export diversification, and technology transfer.

16. Revitalizing the tourism sector remains a key reform priority, given its central role in job creation, export diversification, and strengthening the external position. In this regard, the authorities are advancing a strategic plan to remove São Tomé and Príncipe from the EU Air Safety blacklist by end-March 2026, supported by regulatory reforms, ICAO-led training, and targeted upgrades to airport infrastructure. These efforts are complemented by the country's positioning as a high-value eco-tourism destination, underpinned by its recent designation as a World Biosphere Reserve, and are expected to boost export receipts, enhance air connectivity, and reinforce private sector confidence.

17. The authorities are also advancing reforms to strengthen climate resilience and support a sustainable growth model. The energy transition is a central pillar of this agenda, with increased reliance on renewable energy expected to reduce dependence on imported fuel, lower production costs, and mitigate fiscal and external vulnerabilities. These efforts are complemented by ongoing climate-related reforms, including the preparation of the Fourth National Communication to the UNFCCC and the submission of updated NDCs, as well as initiatives to protect natural assets and promote women's economic empowerment through improved data, financial inclusion, and access to digital financial services. Together, these reforms aim to underpin more inclusive, sustainable, and climate-resilient growth.

Conclusion

18. Based on program performance during the period under review, the corrective actions taken, and their continued commitment to the ECF-supported program, the authorities of São Tomé and Príncipe request the Executive Board's approval of the completion of the Second Review under the arrangement. They also seek approval of the requested waivers for the nonobservance of performance criteria, the modification of performance criteria, and the 12-month extension and augmentation of the ECF arrangement. In addition, they request approval of a narrowly-tailored exception to the program's zero ceiling on non-concessional external borrowing to accommodate a critical social investment. We would greatly appreciate Executive Directors' support for these requests.