**São Tomé and Príncipe:** Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

February 1, 2010

The following item is a Letter of Intent of the government of São Tomé and Príncipe, which describes the policies that São Tomé and Príncipe intends to implement in the context of its request for financial support from the IMF. The document, which is the property of São Tomé and Príncipe, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.
São Tomé, February 1, 2010

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

Dear Mr. Strauss-Kahn:

1. Last March, the Executive Board of the IMF approved São Tomé and Príncipe’s request for a new three-year arrangement under the Extended Credit Facility (ECF). This letter and the attached Memorandum of Economic and Financial Policies (MEFP) report on recent economic developments, performance under the program to date, and the Government’s policies in 2009 and for 2010.

2. Economic activity slowed down in 2009, driven by a decline in foreign direct investment (FDI). The drop off in FDI partly reflects the impact of the global financial and economic crisis. Inflation continued on its downward path, reflecting the decline in world food and fuel prices and a tightening of fiscal and monetary policies.

3. Most of the program’s quantitative targets for the first three quarters of 2009 were met (MEFP, Table A1). However, performance criteria on the domestic primary deficit and on net claims of the banking system on the central government were not met, due to a shortfall in tax revenue associated with lower imports. There was good progress in implementing structural reforms, although some measures took longer to implement than initially expected (MEFP, Table B1).

4. At the beginning of 2010, São Tomé and Príncipe moved from a flexible exchange rate system to a fixed regime under which the Dobra is pegged to the Euro. We expect that the stability of the Dobra against the currency of our most important trading partners will help us achieve and sustain macroeconomic stability and boost investment and growth. The Government is committed to implementing the rigorous fiscal policy required to ensure the viability of the peg, and will continue to refrain from borrowing from the BCSTP. The BCSTP has ample international reserves which were boosted by the IMF’s recent allocation of SDRs to São Tomé and Príncipe. Agreements we have negotiated with Portugal and the ECF-supported program together provide a framework for implementing the policies needed to ensure the success of the peg.

5. Key objectives in the program’s updated medium-term macroeconomic framework include: (i) boosting real GDP growth from 4 percent in 2009 to an average rate of about 6 percent a year; (ii) reducing inflation to low single digit levels; and (iii) making progress toward fiscal and external sustainability.
6. To support these objectives and the related policies spelt out in the MEFP, the Government hereby requests completion of the first review and the second disbursement under the ECF arrangement in an amount equivalent to SDR0.37 million (5 percent of quota). The Government requests waivers for the nonobservance of the two end-June 2009 fiscal performance criteria, which reflected the adverse impact of the global economic crisis on customs revenue. In the second half of the year, revenue collection increased in response to the government actions to improve the collection of domestic taxes and to recover tax arrears. We are taking further actions to make domestic revenues more resilient to shocks over the medium-term. The revised macroeconomic framework agreed with Fund staff reflects these efforts.

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

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

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

Yours truly,

/s/  /s/

Ms. Ângela Maria da Graça Viegas Santiago  Mr. Luis Fernando Moreira de Sousa
Minister of Planning and Finance  Governor of the Central Bank of São Tomé and Príncipe

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

SÃO TOMÉ AND PRÍNCIPE: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

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

I. RECENT ECONOMIC DEVELOPMENTS

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

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

4. The fiscal outturns for 2008 and 2009 were weaker than envisaged at the time the program was formulated. The domestic primary fiscal deficit in 2008 reached 7.4 percent of GDP, compared to an expected 5.8 percent under the program. This was mainly due to overruns in current spending mostly on utilities. This was financed by a budget support grant from the World Bank as well as a larger-than-programmed drawdown of government deposits at the central bank. During the first half of 2009, tax revenues were nearly 30 percent below program. Personal income and corporate tax revenues performed according to program, while taxes on imports fell short significantly, partially reflecting the slowdown in foreign direct investment. Although current expenditures were restrained, there was an accumulation of new domestic arrears, mostly with EMAE (Empresa de Agua y Electricidade), the utility company.
On a commitment basis, non-interest current expenditures were about 13 percent lower than programmed. Execution of capital expenditures neared 50 percent of the programmed level between January and July. Within this category, Treasury financed capital expenditures surpassed the level assumed in the program’s baseline by almost 20 percent, but still remained below the maximum level allowed under the program.

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

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

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

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

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1 Six auctions of foreign exchange were conducted between March and October 2009, involving the use of US$7.4 million.
significantly compared to 2008—mainly reflecting the completion of a large tourism-related project. However, the decline in FDI has been partially offset by an increase in the level of official grants and loans compared to 2008. The international reserves have increased steadily in preparation for the launch of the Euro peg. The exchange rate of dobra to the Euro remained steady during the first half the year, but depreciated in the second half.

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

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

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

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

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

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

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

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

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

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

18. **External debt.** The Government is fully aware of the importance of ensuring debt sustainability after HIPC and MDRI debt relief. We will refrain from new external borrowing.

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\(^2\) This is a US$500 million project of which about US$100 million (equivalent to 50 percent of GDP) is expected to be spent in 2010. The government’s main contribution to this project is a road from the airport to the site of the new port.
on commercial terms, and redouble our efforts to seek full delivery of HIPC debt relief from
the remaining official creditors. We have initiated discussions on debt cancellation with
Angola and will try to conclude this agreement as soon as possible. We plan to introduce the
Framework Law for Public Debt. A first draft prepared by government officials is being
reviewed with assistance from Debt Relief International and the World Bank.

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

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

### III. **POLICIES FOR 2010**

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

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

22. **Uncertain revenue prospects may require some adjustment to discretionary
expenditures.** We need to make provision to cover the costs—about US$3 million in total—
of organizing the local government and parliamentary elections slated for the first quarter of
2010. We are actively seeking donor assistance to cover the costs of the elections, but may
have to postpone some approved expenditures if donor funding is not forthcoming.

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

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

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

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

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

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

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

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

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

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

33. The BCSTP will enhance its communication with banks and the general public. In addition to regular meetings with the banking community and the media, the BCSTP will continue posting data on monetary and macroeconomic aggregates on its website. The BCSTP will also continue to post yearly its audited financial statements. Aggregate quarterly data of commercial banks will also be available on the BCSTP website. The audited 2008 accounts have been published on the BCSTP website.

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

C. Other Structural Reforms

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

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

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

D. Capacity Building

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

E. Program Monitoring

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

1. Floor on domestic primary balance (as defined in the TMU) \(^2\)  
   -26  -84  -107  -120  -110  -141  -171  -143

2. Ceiling on changes in net bank financing of the government (at program exchange rate) \(^3,4,5\)  
   28  89  44  48  118  153  188  146

3. Ceiling on changes in net domestic assets of the central bank (at program exchange rate) \(^2,3,4,5\)  
   62  88  43  40  144  155  -6  162

4. Floor on changes in the net usable international reserves of the central bank (in US$ millions) \(^4,5\)  
   -7  -7.4  -7.0  -2  -8  -10  -9  -10

5. Ceiling on central government’s outstanding external payment arrears (stock, in US$ millions) \(^6\)  
   0.00  0.00  0.00  0.00  0.00  0.00  0.00  0.00

6. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the central government or the BCSTP (in US$ millions) \(^6,7,8\)  
   0.00  0.00  0.00  0.00  0.00  0.00  0.00  0.00

7. Ceiling on the outstanding stock of external debt with original maturity of up to and including one year owed or guaranteed by the central government or the BCSTP (stock, in US$ millions) \(^6,8,9\)  
   0.00  0.00  0.00  0.00  0.00  0.00  0.00  0.00

Indicative targets:

Ceiling on dobra base money (stock, in billion dobras) \(^{10}\)  
269  258  258  252  291  291  279  314

Memorandum items:

- Privatisation account - stock (US $ million)  
  ...  ...  ...  ...  ...  ...  ...  17
- Transfer from NOA to the budget (in US$ millions)  
  0.0  2.4  2.4  2.4  2.4  2.4
- Net external debt service payments (in US$ millions)  
  0.3  0.5  1.4  0.8  1.9  1.1
- Official external program support (in US$ millions) \(^{11}\)  
  8  15  0.8  23  1.2  31
- Treasury-funded capital expenditure (in billion dobras)  
  23  46  54  68  95  91

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

\(^1\) The June and December test dates are applied on all reviews.
\(^2\) The ceiling will be adjusted downward or upward according to definitions in the TMU.
\(^3\) The ceiling will be adjusted downward by the amount of accumulated domestic arrears.
\(^4\) Excluding the National Oil Account (NOA) at the Central Bank.
\(^5\) The floor on net usable international reserves will be adjusted upward or downward according to definitions in the TMU.
\(^6\) This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received.
\(^7\) With a grant element of less than 50 percent.
\(^8\) Only applies to debt with a grant element of less than 50 percent (defined as non-concessional for least developed countries).
\(^9\) Debt is defined as in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (August 24, 2000).
\(^10\) BCSTP targets the dobra component of base money, rather than total base money, since the latter includes a large, volatile foreign currency component.
\(^11\) Official external program support, as defined in the TMU, valued at the program exchange rate.
Table A2. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2010
(Billions of dobras, cumulative from beginning of year, unless otherwise specified)

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<td><strong>Indicative Target</strong></td>
<td><strong>Performance Criteria</strong></td>
<td><strong>Indicative Target</strong></td>
<td><strong>Performance Criteria</strong></td>
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<td>Floor on domestic primary balance (as defined in the TMU)</td>
<td>-24</td>
<td>-119</td>
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<td>Ceiling on changes in net bank financing of the government (at program exchange rate)</td>
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<td>Ceiling on changes in net domestic assets of the central bank (at program exchange rate)</td>
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<td>28</td>
<td>94</td>
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<td>Floor on changes in the net usable international reserves of the central bank (in US$ millions)</td>
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<td>-6</td>
<td>-7</td>
<td>-8</td>
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<td>Ceiling on central government's outstanding external payment arrears (stock, in US$ millions)</td>
<td>0.00</td>
<td>0.00</td>
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<td>0.00</td>
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<tr>
<td>Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the central government or the BCSTP (in US$ millions)</td>
<td>0.00</td>
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<td>Ceiling on the outstanding stock of external debt with original maturity of up to and including one year owed or guaranteed by the central government or the BCSTP (stock, in US$ millions)</td>
<td>0.00</td>
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<td><strong>Indicative targets:</strong></td>
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<tr>
<td>Ceiling on dobra base money (stock, in billion dobras)</td>
<td>251</td>
<td>280</td>
<td>286</td>
<td>339</td>
</tr>
</tbody>
</table>

**Memorandum items:**

- Privatisation account - stock (US $ million) | ... | ... | ... | 10.5 |
- Transfer from NOA to the budget (in US$ millions) | 0.0 | 2.0 | 2.0 | 2.0 |
- Net external debt service payments (in US$ millions) | 0.4 | 0.7 | 1.1 | 1.4 |
- Official external program support (in US$ millions) | 0.3 | 0.5 | 0.7 | 1.0 |
- Treasury-funded capital expenditure (in billion dobras) | 25 | 60 | 85 | 100 |

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

1 The June and December test dates are applied on all reviews.
2 The ceiling will be adjusted downward or upward according to definitions in the TMU.
3 The ceiling will be adjusted downward by the amount of accumulated domestic arrears.
4 Excluding the National Oil Account (NOA) at the Central Bank.
5 The floor on net usable international reserves will be adjusted upward or downward according to definitions in the TMU.
6 This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received.
7 With a grant element of less than 50 percent.
8 Only applies to debt with a grant element of less than 50 percent (defined as non-concessional for least developed countries).
9 Debt is defined as in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (August 24, 2000).
10 BCSTP targets the dobra component of base money, rather than total base money, since the latter includes a large, volatile foreign currency component.
11 Official external program support, as defined in the TMU, valued at the program exchange rate.
Table B1. São Tomé and Príncipe: Prior Actions and Structural Performance Criteria and Benchmarks for 2009

<table>
<thead>
<tr>
<th>Action</th>
<th>Performance Criteria / Benchmark</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prior actions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Approval of arrangement</strong></td>
<td></td>
<td>Met.</td>
</tr>
<tr>
<td>• Prepare the 2009 budget in line with the organic law (SAFE) and submit to National Assembly.</td>
<td></td>
<td>Met.</td>
</tr>
<tr>
<td>• Prepare a detailed list of priority treasury-funded capital projects for 2009, indicating their size in millions of dobra, a summary timetable, and the government agency responsible for execution (Table C of this MEFP).</td>
<td></td>
<td>Met.</td>
</tr>
<tr>
<td><strong>Completion of first review</strong></td>
<td></td>
<td>Met.</td>
</tr>
<tr>
<td>• Submit to parliament 2010 budget with domestic primary deficit of no more than 4.7 percent of GDP.</td>
<td></td>
<td>Met.</td>
</tr>
</tbody>
</table>

**End-March 2009**

<table>
<thead>
<tr>
<th>Action</th>
<th>Performance Criteria / Benchmark</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Adopt the 2009 budget in line with the ECF-supported program.</td>
<td>Benchmark for January, 2009</td>
<td>Met in December 2008.</td>
</tr>
<tr>
<td>• Start on-site banking supervision inspections.</td>
<td>Benchmark</td>
<td>Met with delay.</td>
</tr>
</tbody>
</table>

**End-June 2009**

<table>
<thead>
<tr>
<th>Action</th>
<th>Performance Criteria / Benchmark</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Fully implement the automatic pricing mechanism for petroleum products.</td>
<td>Benchmark</td>
<td>Not met.</td>
</tr>
<tr>
<td>• Submit new labor law to the National Assembly</td>
<td>Benchmark</td>
<td>Met.</td>
</tr>
</tbody>
</table>

**End-September 2009**

<table>
<thead>
<tr>
<th>Action</th>
<th>Performance Criteria / Benchmark</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Establish a Directorate of Accounting and an IT office at the Ministry of Planning and Finance.</td>
<td>Benchmark</td>
<td>Met.</td>
</tr>
<tr>
<td>• Purchase and install IT equipment related to the SAFINHO.</td>
<td>Performance Criterion [Linked to the third disbursement]</td>
<td>Completed in November.</td>
</tr>
<tr>
<td>• Prepare a draft Framework Law for the Public Debt.</td>
<td>Benchmark</td>
<td>Met.</td>
</tr>
<tr>
<td>• Establish the one stop shop.</td>
<td>Benchmark</td>
<td>Decision on location pending.</td>
</tr>
<tr>
<td>• Submit reform of the tax laws to grant the tax authority power to accept limited debt deferrals.</td>
<td>Benchmark</td>
<td>Met.</td>
</tr>
</tbody>
</table>

**By December 2009**

<table>
<thead>
<tr>
<th>Action</th>
<th>Performance Criteria / Benchmark</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Prepare the 2010 budget in line with the organic law (SAFE) and submit to National Assembly.</td>
<td>Benchmark for end-November, 2009</td>
<td>Met.</td>
</tr>
<tr>
<td>• Prepare an action plan to address prudential issues in the banking system.</td>
<td>Benchmark for end-December, 2009</td>
<td>Met.</td>
</tr>
<tr>
<td>• Establish a bureau of credit registry.</td>
<td>Benchmark for end-December, 2009</td>
<td>Delayed; expected in 2010 Q1.</td>
</tr>
</tbody>
</table>
Table B2. São Tomé and Príncipe: Structural Benchmarks for 2010

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Macroeconomic Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>End-March 2010</strong></td>
<td></td>
</tr>
<tr>
<td>• Complete a draft new commercial code to reduce the cost and time of doing business.</td>
<td>• Facilitate investment and boost long term growth.</td>
</tr>
<tr>
<td>• Make the new Accounting Department at the Ministry of Finance operational.</td>
<td>• Improve public financial management, accountability and policy implementation.</td>
</tr>
<tr>
<td>• Establish a bureau of credit registry.</td>
<td>• Improve credit risk assessment and hence facilitate lending.</td>
</tr>
<tr>
<td><strong>End-June 2010</strong></td>
<td></td>
</tr>
<tr>
<td>• Enforce regulation on minimum capital requirements for banks.</td>
<td>• Preserve the stability of the banking system.</td>
</tr>
<tr>
<td>• Finalize the regulations for bank intervention.</td>
<td>• Maintain the health of the banking system.</td>
</tr>
<tr>
<td>• Initiate execution of action plan to implement IFRS at the BCSTP.</td>
<td>• Improve BCSTP transparency and accountability.</td>
</tr>
<tr>
<td><strong>End-September 2010</strong></td>
<td></td>
</tr>
<tr>
<td>• SAFE regulations are completed and system is fully operational.</td>
<td>• Improve public expenditure implementation and monitoring.</td>
</tr>
<tr>
<td>• Quarterly management report on taxpayer registration by category.</td>
<td>• Broaden the tax base.</td>
</tr>
<tr>
<td><strong>End-December 2010</strong></td>
<td></td>
</tr>
<tr>
<td>Submit the 2011 budget to Parliament in line with the organic law (SAFE) and with understandings reached with IMF staff, namely, that the size of the domestic primary deficit amounts to 4.7 percent of the estimated GDP.</td>
<td>• Increase transparency in economic policy implementation.</td>
</tr>
<tr>
<td>• Fully implement the BCSTP new Chart of Accounts.</td>
<td>• Improve quality of commercial banks’ balance sheet data to international standards.</td>
</tr>
<tr>
<td>• Complete first round of on-site examination of all banks.</td>
<td>• Assess the health of the banking system and for policy design purposes.</td>
</tr>
</tbody>
</table>
ATTACHMENT II

SÃO TOMÉ AND PRÍNCIPE: TECHNICAL MEMORANDUM OF UNDERSTANDING

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

I. Provision of Data to the Fund

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

II. Definitions

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

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

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

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

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

<table>
<thead>
<tr>
<th>Code</th>
<th>Description of expenditure</th>
<th>Ministry of Education</th>
<th>Ministry of Health</th>
<th>Ministry of Labour</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.00.00</td>
<td>Personnel expenses</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>02.01.05</td>
<td>Other durable goods</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>02.02.02</td>
<td>Fuel and lubricants</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>02.02.04</td>
<td>Food</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>02.02.05</td>
<td>Medicine</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>02.02.06</td>
<td>Clothing and footwear</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>02.02.09</td>
<td>Other nondurable goods</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>02.03.01</td>
<td>Water and energy</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>02.03.02</td>
<td>Custody of goods</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>02.03.06</td>
<td>Communications</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>04.02.01</td>
<td>Private institutions</td>
<td>x</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>04.03.01</td>
<td>Individuals</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>04.04.02</td>
<td>Other outward transfers</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>06.01.00</td>
<td>Education and training</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>06.04.01</td>
<td>Project costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>06.04.02</td>
<td>Miscellaneous</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

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

7. **Treasury-funded capital expenditure**: This is classified as part of domestic primary expenditure and covers projects that are not directly financed by grants and concessional loans. For 2010, the projects that comprise total potential expenditure under this category fall in two groups: (i) a group of projects worth 12 billion dobras to be financed with traditional sources of funds, and (ii) a group worth up to 78 billion dobras to be financed by drawing
down the proceeds from the privatization of ENCO. Treasury-funded capital spending will correspond to the 2010 government plan for investment on roads, bridges, schools, water, and power. It will include spending on new construction, rehabilitation, and maintenance. Expenditure on wages and salaries and the purchase of goods and services related to the projects will not be classified as capital expenditure. The government investment program will be carried out by the Ministries of Public Works, Education, Health and Natural Resources.

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

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

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

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

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

---

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

2 Deposit money banks (DMBs) refer to other depository corporations, as defined in the *Monetary and Financial Statistics Manual*. 
BCSTP credit, including use of IMF resources: 150 billion
Less: Government deposits with BCSTP:
   Of which: Balance of the National Oil Account (NOA) 162 billion
   Treasury foreign currency–denominated accounts 175 billion
   Treasury dobra–denominated accounts 55 billion
   Counterpart deposits 33 billion
Equals: Net credit to government by the BCSTP - 275 billion
Plus: DMBs credit 0 billion
Less: Government deposits with DMBs (including counterpart funds) 39 billion
Equals: Net bank financing of the government - 314 billion
Less: Balance of the National Oil Account (NOA) 162 billion
Equals: Net bank financing of the government excluding NOA - 152 billion

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

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

13. **Net usable international reserves** (usable NIR) of the BCSTP are defined for program-monitoring purposes as short-term foreign assets of the BCSTP minus short-term external liabilities including liabilities to the IMF. All short-term foreign assets that are not fully convertible external assets nor readily available to and controlled by the BCSTP (i.e., they are pledged or otherwise encumbered external assets, including but not limited to the HIPC umbrella SDR account and assets used as collateral or guarantees for third-party liabilities) will be excluded from the definition of usable NIR. The balance of the (1) NOA at the BCSTP and (2) bank reserves denominated in foreign currency are excluded. From this, usable NIR is reached. All values are to be converted to U.S. dollars at actual market exchange rates prevailing at the test date. For reference, at end-December 2009 usable NIR is estimated to be at 637 billion dobra, calculated as follows:
Gross international reserves: 1,152 billion

Less: Short-term liabilities (including guaranteed deposits by banks and liabilities to the IMF) 128 billion

Equals: Net international reserves 1,024 billion

Plus: Other foreign assets 196 billion

Less: Medium and long-term liabilities 0 billion

Equals: Net foreign assets 1,220 billion

Net international reserves: 1,024 billion

Less: NOA 162 billion

Banks reserves denominated in foreign currency 225 billion

Equals: Net usable international reserves 637 billion

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

Base money: 524 billion

Less: Net foreign assets: 1,220 billion

Equals: Net domestic assets of the BCSTP: 696 billion

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

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

---

3 The term “debt” is defined as in point 9 of the IMF Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF, as amended effective December 1, 2009.
BCSTP. Debt rescheduling and restructuring are excluded from the ceilings set on nonconcessional borrowing. Medium- and long-term debt will be reported by the Debt Management Department of the Ministry of Finance and Planning and (as appropriate) by the BCSTP, measured in US dollars at the prevailing exchange rates. The government should consult with IMF staff before contracting new debt obligations.

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

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

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

III. Use of Adjusters

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

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

5 The concessionality of loans is assessed according to the reference interest rate by currency published, by the Development Assistance Committee of the Organization for Economic Cooperation and Development. For loans of terms of no less than 15 years, the 10-year average of commercial interest reference rates for the currency in which the loan is denominated will be used. For loans of shorter terms, the six-month average will apply. For least developed countries such as São Tomé and Príncipe, a loan is deemed to be on concessional terms if, on the date of initial disbursement, the ratio of the present value of the loan, calculated on the basis of the reference interest rate, to the nominal value of the loan is less than 50 percent (in other words, a grant element of at least 50 percent). For currencies with no available reference interest rates, the SDR rate will be used. This performance criterion does not apply to IMF facilities.
budget support for 2009 and 2010 in addition to that described in the MEFP; this adjuster will be capped at 15 billion dobras (0.5 percent of GDP) for the year as a whole.6

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

- **Adjustors on ceilings on changes in net bank financing of the central government (NCG) and net domestic assets (NDA) of the BCSTP:** Quarterly differences between actual and projected receipts of the budget transfer from the NOA, official external program support, net external debt service payments, and Fund’s disbursements under the ECF arrangement, in foreign exchange will be converted to dobras at the program exchange rate and aggregated from end-December 2008 to the test date. The ceilings will be adjusted downward (upward) by cumulative deviations downward (upward) of actual from projected net payments in external debt service, and by deviations upward (downward) in the budget transfers from the NOA, external program support, and the Fund’s disbursements under the ECF arrangement.

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

IV. Data Reporting

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

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6 Grants and related expenditures to cover the cost of the elections will be excluded from the measurement of the domestic primary deficit.
i. Fiscal Data: The Directorate of Budget at the Ministry of Planning and Finance will provide the following information to IMF staff, within two months after the end of each month or quarter, except for the public investment program (PIP), which will be provided three months after each quarter:

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

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

- Daily data on exchange rates, to be posted on the central bank’s web site;
- Daily data on interest rates, to be posted on the central bank’s web site;
- Daily liquidity management table, including base money and currency in circulation, to be posted on the central bank’s web site;
- Daily net usable international reserve position, to be posted on the central bank’s web site;
- Monthly balance sheet data of BCSTP (in BCSTP and IMF formats);
- Monthly balance sheet data of individual deposit money banks (in BCSTP and IMF formats);
• Monthly consolidated balance sheet data of deposit money banks (in BCSTP and IMF formats);
• Monthly consolidated monetary survey (in BCSTP and IMF formats);
• Monthly central bank foreign exchange balance (Orçamento cambial);
• Quarterly table on bank prudential ratios and financial soundness indicators;
• Quarterly data on the BCSTP’s financial position (profit and loss statement, deficit, budget execution, etc.).

iii. **External Debt Data:** The Debt Management Unit at the Ministry of Planning and Finance will provide the IMF staff, within two months after the end of each month the following information:
• Monthly data on amortization and interest on external debt by creditor: paid, scheduled, and subject to debt relief or rescheduled;
• Quarterly data on disbursements for foreign-financed projects and program support loans.

iv. **National Accounts and Trade Statistics:** The following data will be provided to IMF staff:
• Monthly consumer price index data, provided by the National Institute of Statistics within one month after the end of each month;
• Monthly data on imports (value of imports, import taxes collected, and arrears) and commodity export values, provided by the Customs Directorate at the Ministry of Planning and Finance, within two months after the end of each month;
• Monthly data on petroleum shipments and consumption (volumes and c.i.f. prices, by product), provided by the Customs Directorate.