

International Monetary Fund

[São Tomé and Príncipe](#) and the IMF

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

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May 18, 2016

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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.

Letter of Intent

São Tomé, May 18, 2016

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

Dear Ms. Lagarde:

1. The Democratic Republic of São Tomé and Príncipe has made progress in implementing its economic reform program, supported by an IMF arrangement under the Extended Credit Facility (ECF) since July 2015. Despite the country's fragility and an uncertain environment, the government's efforts to strengthen macroeconomic stability, foster sustainable and inclusive growth, and reduce poverty in the context of the second National Poverty Reduction Strategy Paper (PRSP-II) have begun to bear fruit. In general, macroeconomic stability improved, economic growth stabilized, and inflation declined further. However, the economy continues to face significant challenges in terms of rising debt and weak competitiveness, undermining the job creation and poverty reduction efforts. We have stepped-up our engagement with creditors and donors toward reaching a cooperative and meaningful solution for the country's large infrastructural needs. Our ambitious structural reform agenda—primarily aimed at addressing bottlenecks to higher, sustained, and inclusive growth and strengthening the financial sector—is also being implemented with technical and financial assistance from our international partners.

2. The government believes that measures and policies described in the July 2015 Memorandum of Economic and Financial Policies (MEFP attachment I) remain appropriate for attaining the objectives of our program. The attached supplement to the MEFP discusses performance under the program thus far and updates policies toward meeting these objectives. Our key focus going forward will be to: align fiscal policy to anchor medium-term debt reduction; address the liquidity overhang to enhance monetary management; improve competitiveness; and safeguard financial sector stability to support growth.

3. Recently, the government concluded discussions on the first review under the ECF-supported program with an IMF staff mission, with focus on program implementation through end-December 2015, as well as on measures to be implemented during 2016. Performance under the ECF-supported program has been satisfactory. Although budget execution was challenged due to tax revenue underperformance, all but one of the end-December 2015 performance criteria (PCs) were met. The PC on domestic primary deficit was missed by about 0.3 percent of GDP. The indicative targets on tax revenue (a floor), pro-poor spending (floor), and dobra money (ceiling) were also missed. On the other hand, all of the structural benchmarks were implemented. The government has since introduced corrective

measures to address the revenue shortfall and believes these are well-entrenched to prevent future occurrence.

4. The attached MEFP describes government policies for 2016 that would support achieving program objectives under the ECF arrangement. We remain fully committed to achieve the objectives of the program and will take any additional measures necessary to that end. We will consult with the IMF on the adoption of such measures prior to any revision of the policies indicated in the MEFP.

5. In light of the progress in implementing the program, we request the IMF Executive Board to approve the waiver for non-observance of domestic primary deficit performance criteria with test date at end-December 2015, modification of performance criteria on domestic primary deficit and net international reserves, and request for the completion of the first review as well as the second disbursement of SDR 634,285 under this arrangement. Without prejudice to the original intent, we request that the two continuous performance criteria on non-concessional external borrowing be combined into one that establishes a ceiling on the contracting or guaranteeing of new external debt of any maturity (including overdraft positions but excluding normal import credits) by the government and/or the BCSTP.

6. The government will continue to provide Fund staff with all relevant information mentioned in the Technical Memorandum of Understanding (TMU), concerning further progress made under the program. During the program period, the government will not introduce or strengthen any exchange controls, multiple exchange rate practices, or import restrictions for balance of payments purposes, nor will it conclude any bilateral payment agreements in violation of Article VIII of the Fund's Articles of Agreement.

7. The government agrees to make public this Letter of Intent, along with the attached MEFP and TMU, the debt sustainability analysis (DSA) performed by the IMF and World Bank staff, as well as the entire IMF staff report on the first review and Article IV consultation. We hereby authorize their publication and posting on the IMF website, once the IMF Executive Board approves the completion of the Article IV consultation and the first review under the three-year arrangement under the ECF.

Sincerely yours,

/s/

Mr. Américo d'Oliveira Ramos,
Minister of Finance and Public Administration

/s/

Ms. Maria do Carmo Trovoada Silveira,
Governor of the Central Bank of São Tomé
and Príncipe

Attachments:

1. Memorandum of Economic and Financial Policies.
2. Technical Memorandum of Understanding.

Memorandum of Economic and Financial Policies for 2016–18

This Memorandum of Economic and Financial Policies (MEFP) updates the one outlined in the ECF-supported program approved by the IMF Executive Board on July 13, 2015. It describes recent macroeconomic developments, implementation of the ECF-supported program, the economic outlook and risks, and macroeconomic policies.

RECENT ECONOMIC DEVELOPMENTS

- São Tomé and Príncipe continued to make progress towards macroeconomic stability but delayed approval of the 2015 budget slowed down the pace of consolidation.** GDP growth for 2015, estimated at 4 percent, fell short of the projected 5 percent due to delayed implementation of public investment projects and poor rains that affected cocoa production. Inflation, on the other hand, was at 4 percent at the end of 2015 (the lowest in the past two decades), reflecting the slowdown in economic activity.
- The government's fiscal operations yielded mixed results.** Fiscal consolidation efforts have been hampered by tax revenue underperformance. Tax revenue is estimated to have fallen short of the end of year target by about 0.8 percent of GDP, in part due to a lower collection effort of tax arrears and delayed inclusion of the 15,000 new taxpayers registered during the operation tax inclusion project. In addition, ENCO (the oil importing company) continued to accumulate new tax arrears in 2015. While the government made modest offsetting cuts in expenditure, these were insufficient, resulting in a domestic primary deficit of about 3.0 percent of GDP, higher than the program target of 2.7 percent of GDP.
- Growth in monetary aggregates also decelerated in line with the slowdown in economic activity.** Broad money (M3) grew by 13.1 percent at the end of 2015, down from 16.8 percent at the end of the previous year. Similarly, the rate of growth in net foreign assets more than halved to 13.3 percent from 35.3 percent. Net domestic assets increased by 11.7 percent after declining by 45.2 percent in 2014; the turnaround mirrored a small rebound in credit to the economy, largely to households.
- The financial sector continues to face challenges.** The banking system's capital adequacy ratio (measured as capital to assets ratio) declined from 20.3 percent in December 2014 to 15.5 percent at the end of 2015, while the capital to risk-weighted assets ratio increased to 24.1 percent from 22.6 percent. Non-performing loans (NPLs) also increased to 29.8 percent, following the reclassification of overdue overdrafts in Banco Equador's books as bad loans and a downgrade in a sizeable share of the largest bank's loan classification to loss.
- There was however, an improvement in the balance of payments helped by lower commodity prices.** The external current account deficit fell to 16.7 percent of GDP, reflecting weak economic activity and a contraction in oil and other commodity imports that more than offset the decline in exports due to lower cocoa production. The central bank's

gross international reserves, estimated at US\$61 million (4.4 months of imports), remain at comfortable levels.

PERFORMANCE UNDER THE ECF-SUPPORTED PROGRAM

6. **The program performance through end-December 2015 was satisfactory.**

All continuous and quantitative performance criteria (PC) were met with the exception of the PC on domestic primary deficit. The PC on domestic primary deficit was missed by about 0.3 percent of GDP on account of lower-than-expected tax revenue following under-recovery of tax arrears and delays in including new taxpayers in the tax base. Nonetheless, the government has introduced corrective measures to aggressively collect tax arrears and to include the new taxpayers in the tax base this year. New legislative instruments to this effect will be submitted to Parliament by end-September 2016. In addition, indicative targets on tax revenue (a floor), pro-poor expenditure (floor) and on dobra money (ceiling) were also missed.

7. **Progress continues towards implementation of the structural reform agenda.**

The government began to execute the domestic arrears clearance plan, which was developed as prior action for approval of the ECF arrangement. Overall, there was a net reduction in domestic arrears to utility companies by 1.2 percent of GDP, 0.4 percent of GDP higher than budgeted, eliminating arrears to the utility company (EMAE). EMAE in turn reduced its arrears to ENCO by 2.6 percent of GDP. However EMAE arrears to ENCO in 2015 increased on net basis (by 2.2 percent of GDP), albeit, by less than initially projected. Clearance of treasury arrears to ENCO will start this year. This has been included in the 2016 budget. The National Assembly passed the bank resolution law (end-September 2015 structural benchmark). This provides the necessary legal framework for the swift and orderly resolution of Banco Equador. To make available more representative statistics for policy evaluation and design, the statistical agency (INE) began to compile the new re-weighted and expanded monthly CPI series, and to publish revised national accounts series through 2013 (both structural benchmarks for end-December 2015).

ECONOMIC OUTLOOK AND RISKS

8. **The macroeconomic outlook is favorable in the near term but challenges remain.**

GDP is projected to grow by 5 percent in 2016, based on higher and timely execution of the public sector investment program, recovery in cocoa production, and improved external conditions (and a consequent improvement in tourism and FDI).

Inflation is expected to remain stable at around 4 percent given current forecasts for international food and fuel prices, but still higher than the euro area inflation.

The government will have to continue to rely on concessional financing and grants; with difficulty in identifying new budget financing prospects, fiscal tightening will have to continue to ensure that gains from macroeconomic stability are protected.

9. **Downside risks weigh on these prospects.** Facing high risk of debt distress, the economy remains vulnerable to external shocks, which complicate the conduct of

macroeconomic policies and discourage investment with resulting adverse consequences for growth and poverty reduction. The forthcoming presidential election, slated for July 2016, with the risk of extra budgetary spending during the electoral period, and continued weakness in the banking sector pose significant short-term risks to the outlook. However, the government is fully committed to mitigating these near-term risks by maintaining the momentum of fiscal discipline in the run up to the presidential election, and enhancing supervision and oversight of banks. Additional downside risks could arise from weak demand in key advanced and emerging economies, which could dampen FDI and tourism inflows and reduce exports to those economies.

MACROECONOMIC POLICIES

A. Staying the Course on Debt Reduction while Improving the Quality of Spending

The Debt Reduction Program and 2016 Fiscal Framework

10. **As debt vulnerabilities remain high, the government reaffirms its commitment to fiscal prudence.** The 2016 fiscal program, presented in the government's budget, targets a domestic primary deficit of 2 percent of GDP, which is consistent with the program and in line with the goal of ensuring that the path of debt returns to a downward trajectory toward moderate risk of debt distress over the medium term. The fiscal program for 2016 is fully funded despite a sharp increase in capital spending which would mostly be financed by privatization proceeds from government's shares in the largest bank and the telecom company (5 percent of GDP), HIPC grants and disbursements of already contracted project loans (4.3 percent of GDP). There are also new concessional loans from Kuwait and Turkey (4.3 percent of GDP) to be used primarily for investments in rural roads and bridges, construction and rehabilitation of schools, improvement of the national health system, including maintenance and equipment of a hospital and health centers. This notwithstanding, the government is committed to frontload fiscal adjustment in 2016 to achieve the domestic primary deficit target that is consistent with the available non-debt creating financing.

The Medium-Term Fiscal Framework

11. **The government sees the need, over the medium-term, to ensure that fiscal policy walks a fine line between maintaining fiscal consolidation and creating space for growth-enhancing infrastructure spending.** To achieve the above, the government is committed to bring the domestic primary deficit further down to around 1–1½ percent of GDP by 2018 to ensure that debt remains on a downward trajectory, and at the same time create enough space for domestically-financed infrastructure spending to complement donor support. This would imply a significant step-up in domestic revenue mobilization through a combination of tax policies (introduction of VAT), customs and tax administration measures, including greater and more disciplined inspections and audits (to start immediately), integration of Príncipe's tax delegation, introduction and use of more modern computer information systems with updated taxpayer database (to be implemented by end-June 2017).

Structural Reforms to Strengthen Public Finances

12. **Fiscal policy would concentrate on efforts to enhance domestic revenue mobilization and improve the quality of spending.** On the revenue side, we would take the necessary steps to increase tax revenue collection to the levels of São Tomé and Príncipe's peer groups by 2018. Specific actions in 2016 will include:

- Start the payment of arrears to ENCO, latest by the end-June 2016, as a good-faith measure to address ENCO's nonpayment of import duties.
- Introduce more comprehensive and disciplined inspections and audits to curb fraud and tax evasion.
- Extend tax collection coverage to new taxpayers and aggressively collect tax arrears. To this effect, the government will implement a number of legislative changes, including lowering the minimum taxable income and raising the minimum presumptive levy charged to individuals and firms and transferring the execution powers for collection of tax arrears from the fiscal court judge to the tax administration (end-September 2016 structural benchmark).
- Introduce structures and measures to support the introduction of VAT to widen the tax base and enhance domestic revenue collection. In particular, the government will submit to the National Assembly a new VAT law by (end-December 2016 structural benchmark).

13. **The government is committed to the introduction of the automatic fuel price adjustment mechanism** (end-June 2016 structural benchmark). The technical team for petroleum price adjustment is currently reviewing the recommendations from the IMF TA in November 2015, to design a roadmap for implementation of the automatic fuel price adjustment. The technical team has been mandated to work on the following by end March 2016:

- Specify the pricing formula, including choosing a proper international reference price, raise the surcharge rate on fuel products to lock in an eventual positive price differential, deciding on the frequency of the price adjustment and the width of the price band. This will require the National Assembly authorizing the Minister to be able to make changes in surcharges.
- Decide on the short-run revenue target for gasoline and diesel.
- Decide on whether to maintain the pretax subsidy on kerosene, and if maintained, it has to be presented in the budget.
- An agency/secretariat has to be set up to be responsible for the implementation of the price adjustment mechanism. This agency, among other things will be responsible for monitoring the responsibilities of parties involved in the pricing mechanism and the processes for its regular and transparent application. A request will be sent to the IMF/FAD to help decide on the terms of reference for the creation of this agency.

- Select a third party to carry out a detailed study on fuel product and margin components.
- Select targeted mitigating measures that will be introduced in tandem with the new pricing mechanism.
- Design and launch a public information campaign.

14. On the spending side, strengthening public financial management and transparency will be the focal point for ensuring efficiency in public expenditure.

Specific measures will include:

- Roll out the electronic information management system (SAFEe) from the current pilot stage to cover all ministries, autonomous services, other sovereignty institutions, regional and local government to strengthen public financial oversight.
- Enhanced SAFEe's functionality to facilitate the preparation of a more comprehensive and transparent general government accounts by including features such as reconciliation of treasury bank accounts, tracking of revenue, management of fixed assets and registry of government contracts that give rise to new liabilities.
- Reactivate and ensure a fully operational macro-fiscal unit and implement needed changes in the SAFEe Law (Lei 3/2007) and budget classification decree (decreto 4/2007) by end of March 2017 to support the move towards the introduction of a medium-term fiscal and expenditure frameworks.

15. The government has identified key growth-enhancing infrastructure spending needed to increase real GDP growth to the minimum required target of 6 percent to significantly impact poverty. In particular the government is considering the extension of the airport runway in São Tomé to attract larger aircrafts to boost tourism, and also investment in alternative sources of energy (beyond thermal) to bring down the energy cost compared to its peers. In 2015, the government signed MOUs (about US\$800 million) with China Harbor Engineering Company to design a PPP with financing from the private sector to build a deepwater port in São Tomé. The government reiterates its commitment that there will be no fiscal cost and contingent liabilities to be borne by the government in this project. The government will not go ahead with this project if it is not fully financed by the private sector. The government is fully aware and is committed to relying on concessional financing and grants to support key infrastructure projects in order to ensure that debt returns to a downward trajectory over the medium term.

16. To this end, the government is committed to enhancing investment capacity to support growth-enhancing infrastructure spending. The government will introduce a centralized framework for appraising and prioritizing capital expenditure projects in addition to the introduction of a public investment management assessment (PIMA) framework (end-March 2017 structural benchmark).

17. The government is committed to implementing the debt framework law (Lei 1/2013 de 17 de Janeiro de 2013) and to strengthening debt management

capacity. In that context, the government will: (i) prepare a national debt strategy, as required by the debt framework law, that will fix a ceiling on the overall debt of the non-financial public sector as well as annual debt policies that fix annual ceilings for each public entity; (ii) update the medium-term debt management strategy; (iii) seek technical assistance to prepare a manual of procedures for debt management and to carry out a new debt management performance assessment (DeMPA) by the end of 2016; and (iv) prepare a comprehensive public private partnership (PPP) law and framework by end-September 2016 to guide the growing expressions of interests for PPPs following the London donors' conference in October 2015. In addition, the debt office will recover and update the existing debt database in the debt management system (CS-DRMS 2000+) and get the Crown Agent to validate it and provide training to new staff.

18. The government will continue to give priority to concessional financing.

Consistent with the IMF's new policy on debt limits, the government has prepared a borrowing plan (Text Table 1). Under this plan, the government is committed to a prudent borrowing target, for 2016–18, of about US\$45.4 million in nominal terms for priority projects.¹¹ This target implies an average annual PV of new external debt of 2.6 percent of GDP. All loans are expected to be on concessional terms, with the bulk to finance infrastructure projects and social spending. The government reserves the right to revise this plan during the next ECF review.

Text Table 1. Summary Table of Projected External Borrowing Program

PPG external debt	Volume of new debt in 2016		PV of new debt in 2016 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	28.8	100	18.1	100
Concessional debt, of which	27.0	94	16.9	93
Multilateral debt	0.0	0	0.0	0
Bilateral debt	27.0	94	16.9	93
Other	0.0	0	0.0	0
Non-concessional debt, of which	1.8	6	1.2	7
Semi-concessional	1.8	6	1.2	7
Commercial terms	0.0	0	0.0	0
By Creditor Type	28.8	100	18.1	100
Multilateral	1.8	6	1.2	7
Bilateral - Paris Club	0.0	0	0.0	0
Bilateral - Non-Paris Club	27.0	94	16.9	93
Other	0.0	0	0.0	0
Uses of debt financing	28.8	100	18.1	100
Infrastructure	10.0	35	6.3	35
Social Spending	17.0	59	10.7	59
Budget Financing	0.0	0	0.0	0
Other	1.8	6.1	1.2	6.7
Memo Items				
Indicative projections				
Year 2	11.8		7.5	
Year 3	4.8		3.1	

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

¹¹This excludes financing for key infrastructure projects like the extension of the airport runway and selected energy related projects which will be considered separately.

B. Addressing the Liquidity Overhang to Enhance Monetary Management

19. **Slowdown in credit growth since 2013 as a result of rising NPLs and lack of bankable projects has resulted in a build-up of excess liquidity in the banking system which is complicating liquidity management.** At the moment, it is estimated that the excess liquidity in the banking system topped 5 percent of GDP at the end of 2015. The central bank of São Tomé and Príncipe (BCSTP) has introduced some tools to help with liquidity management. In 2015, the BCSTP introduced an interbank market but unfortunately, this has not taken off due to perceived stigma banks associate to participating in the interbank market. However, we expect it is only temporary given the recent developments in the domestic financial market. The BCSTP is working with the banks to address this challenge. In addition, the government introduced treasury bills which have been well-received by banks and participation has increased with the second issue of the 9-month treasury bills oversubscribed. The BCSTP is working towards developing a treasury bonds market, creating the conditions for longer-term liquidity management, as well as developing the secondary market.

20. **Work on developing BCSTP's monetary liquidity management framework continues.** The existing liquidity forecasting tool allows for improved information gathering and more accurate analysis of the autonomous factors that drive liquidity. In 2015 the central bank implemented a new payment methodology for the commercial banks; such that payment orders issued by the Treasury to commercial banks in the period t are now paid in the period $t+1$ thus enabling the BCSTP to include them in its liquidity forecasting, considerably reducing forecasting errors.

C. Improving Competitiveness and Setting the Stage for Sustainable and Inclusive Growth

21. **The government plans to promote private sector-led growth to set the stage for higher sustainable growth and distribute its benefits more widely.** The broad outlines of the government's *2030 Transformation Agenda* identify the priorities for medium to long-term growth, social cohesion and external credibility, including diversifying the economy, broadening the production base, and modernizing the economic and social infrastructure. The government is seeking to create conditions conducive to support the traditional sectors, such as agriculture, fisheries, and tourism to boost job creation and reduce poverty.

22. **The untapped tourism potential of São Tomé and Príncipe offers much promise.** Medium-term structural reforms will focus on high-yielding tourism activities, broader diversification of source markets, and more open, competitive air transport connections. Specific policy initiatives in 2016 will include:

- Introducing targeted reforms to address the poor performing indicators in the World Bank's Doing Business survey.
- Diversifying tourism source markets and supporting open, competitive air transport policy, including allowing direct links to the sub region, Europe, and Brazil.

- Developing a national export diversification strategy (end-December 2016 structural benchmark).

D. Macro-Financial Linkages and Financial Sector Stability

23. **São Tomé and Príncipe’s highly-concentrated banking system is not only challenged with excess liquidity but also low profitability.** The largest bank accounts for about half of the system’s deposits and loans, and the remaining six small banks account for the other half. NPLs have almost since 2013 and reached 30 percent of total credit in 2015. Indicators of profitability suggest pervasive weakness, with only the largest bank profitable while other banks face negative (some highly) returns on assets. Return on equity has also been deteriorating and was reported as -27 percent in 2015. Corrective measures by BCSTP are beginning to yield results. As a result of supervision actions, three out of seven banks increased their capital in the last quarter of 2015, to meet the minimum requirement. BCSTP is at the early stage of building adequate crisis management and bank resolution frameworks to deal with risks in the financial system. The new banking resolution law provides the legal framework for a swift and orderly resolution of banks, including Banco Equador. A transition bank is being created with quality assets and liabilities of Banco Equador, and steps are being taken to identify potential buyers and conclude the process within 1 year from the establishment of the transition bank. If a potential buyer is not identified within one year of the establishment of the transition bank, the BCSTP will proceed with the final liquidation of Banco Equador.

24. **The BCSTP is putting together a comprehensive strategy to address the large stock of NPLs** (end-June 2016 structural benchmark). This would involve stocktaking, provisioning and recapitalizing specific banks if needed. In addition, the BCSTP will conduct detailed asset quality reviews for all banks to reduce the uncertainty surrounding bank assets, and where necessary demand recapitalization of affected banks, bearing in mind an additional objective of consolidation in the banking system.

25. **To further safeguard financial stability, the BSCTP will strengthen on-site and off-site banking supervision by increasing the number of direct inspections.** This will ensure stricter direct follow-up. A cycle of bank inspections, which began in 2015, was completed, and another cycle commenced in 2016.

26. **The BCSTP welcomes São Tomé and Príncipe’s selection as a pilot country for mainstreaming macro-financial linkages as part of the Article IV consultation.**

BCSTP shares the recommendations of the exercise and is looking forward to implementing the key recommendations. In particular, BCSTP will take the necessary steps to:

- Implement necessary measures to tackle the large stock and growing NPLs which are beginning to have negative spillback on growth.
- Strengthen financial sector stability by: requiring that banks with below minimum capital ratios increase their capital base, and conducting regular asset quality reviews to identify problem banks that will require swift corrective measures.

- Further develop the treasury bills market, while ensuring its consistency with the fiscal sector.

27. **While measures of financial inclusion in São Tomé and Príncipe compare well with its regional peers, the impact on poverty reduction and private sector development is unclear.** Low financial, documentation and barriers to entry contribute to relatively high access levels. Bank branches are relatively evenly dispersed and minimum requirements are comparatively low, and the number of adults with savings accounts is larger than the regional average. However, important challenges remain in terms of achieving universal inclusion. Specific actions in 2016 include:

- Improving the coverage and effectiveness of the credit reference bureaus.
- Streamlining procedures to ensure collateral enforcement, including reforms to the judiciary.
- Capacity building of SMEs in basic accounting, financial management, and preparation of bankable projects.

OTHER PROGRAM ISSUES

28. **Initiatives to strengthen safeguards and improve transparency have been introduced since 2015.** A safeguards assessment mission was conducted by the IMF's Finance Department in September 2015, which recommended independent oversight of the audit mechanisms, internal controls, and financial reporting. Given capacity constraints, it was also recognized that external audits done by a reputable audit firm continued to serve as a critical safeguard. In order to further strengthen internal controls, several measures were adopted including the restructuring of the internal audit committee and the appointment of a new Director with recognized competences. Furthermore BCSTP is in the process of acquiring new equipments that automatically sort and destroy mutilated bills and thus reduce human intervention in the process. With respect to financial reporting, the BCSTP has sought TA from Brazil and the IMF to migrate statements of accounts to the International Financial Reporting Standards (IFRS), and the work on the revising the organic central bank law is ongoing. In 2016, the BCSTP plans to:

- Update the Internal Audit Charter and establish a database to monitor and prioritize audit recommendations by end-June 2016.
- Establish an Audit Board policy (end-December 2016 structural benchmark), similar to an Audit Committee Charter, that specifies roles and responsibilities similar to that of a conventional Audit Committee, which would include oversight of the internal and external audit mechanism.
- Conduct risk-based audits of high-risk areas, including foreign reserves, currency and vault operations, and banking operations by end-December 2016.

- Submit the draft central bank law to the National Assembly by end-September 2016 (structural benchmark) to align its legal framework with leading practices for central banks.

PROGRAM MONITORING

29. **The PCs, ITs, and structural benchmarks for 2016 are presented in Tables 3 and 4.** The definitions of quantitative PCs and ITs are provided in the attached Technical Memorandum of Understanding (TMU), which also defines the scope and frequency of data to be reported for program monitoring purposes. The second review is expected to be completed by December 2016, the third review by June 2017, and the fourth review by December 2017.

Table 1. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2015
(Billions of Dobra, cumulative from beginning of year, unless otherwise specified)

	2015						Status
	September			December			
	Indicative Target	Indicative Target	Actual	Performance Criteria ¹	Performance Criteria ²	Preliminary	
	w/ adjustments			w/ adjustments			
	30-Sep-15				31-Dec-15		
Performance criteria:							
Floor on domestic primary balance (as defined in the TMU) ^{2,12}	-153	-153	-174	-190	-190	-207	Not met
Ceiling on changes in net bank financing of the central government (at program exchange rate) ^{3,4,5}	0	61	-238	0	61	-43	Met
Floor on net international reserves of the central bank (US\$ millions) ^{2,4}	50	47	62	50	47	57	Met
Ceiling on central government's outstanding external payment arrears (stock, US\$ millions) ^{5,6,7,8}	0	...	0	0	...	0	Met
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 (US\$ millions) ^{5,6,7,8,9}	0	...	0	0	...	0	Met
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, US\$ millions) ^{5,7,8,9}	0	...	0	0	...	0	Met
Indicative targets:							
Ceiling on change of central government's new domestic arrears	0	...	-70	0	...	-82	Met
Ceiling on dobra base money (stock)	990	...	1,111	1,113	...	1,296	Not met
Floor on pro-poor expenditures	357	...	307	447	...	440	Not met
Floor on tax revenue	732	...	722	1,073	...	1,006	Not met
Memorandum items:							
New concessional external debt contracted or guaranteed with original maturity of more than one year by the central government or the BCSTP (US\$ millions) ^{5,7,8,10,12}	19	...	30	35	...	30	
Transfer from NOA to the budget (US\$ millions)	2.0	...	2.0	2.0	...	2.0	
Net external debt service payments ¹¹	106	...	208	143	...	239	
Official external program support ¹¹	192	...	0	220	...	61	
Treasury-funded capital expenditure	48	...	34	63	...	46	

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

¹ Performance at the December 2015 test date is assessed on the first review.

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

³ The ceiling will be adjusted downward or upward according to definitions in the TMU.

⁴ Excluding the National Oil Account (NOA) at the Central Bank.

⁵ The term "central government" is defined as in ¶ 5 of the TMU, which excludes the operations of state-owned enterprises.

⁶ This criterion will be assessed as a continuous performance criterion.

⁷ The term "external" is defined in accordance with the residency of the creditor as indicated in point 2 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).

⁸ This performance criterion or memo item 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. For further details on the definition of debt and external arrears refer to the TMU, ¶ 6 and 13.

⁹ Only applies to debt with a grant element of less than 35 percent as defined in point 8 g (i) 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 October 11, 2013). For further details on the definition of concessionality refer to the TMU, ¶ 12.

¹⁰ Only applies to debt with a grant element of at least 35 percent.

¹¹ As defined in the TMU, valued at the program exchange rate.

¹² Cumulative from December 2014.

Table 2. São Tomé and Príncipe: Structural Benchmarks, 2015

Policy Objectives and Measures	Timing	Macro Rationale	TA involved	Status
Strengthening Public Finances				
Prepare, in consultation with ENCO and EMAE, and submit to the Fund, a comprehensive plan with a clear timeline to regularize all arrears outstanding and prevent the accumulation of new ones.	Prior action for approval of arrangement	To restore timely financial flows between all parties concerned, in particular the timely payment of all applicable taxes.	Team worked with authorities.	Met.
Enhancing Monetary Policy and Financial Stability				
Submit to the National Assembly a new Bank Resolution Law.	End-September 2015	To improve soundness of financial system	MCM TA	Met.
Improving National Statistics				
Start monthly compilation of the new reweighted and expanded CPI series.	End-December 2015	To make available more representative statistics for policy evaluation and design.	AfDB and AFRITAC TAs	Met.
Publish revised national accounts series through 2013.	End-December 2015		STA TA	Met.

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

Table 3. São Tomé and Príncipe: Proposed Performance Criteria and Indicative Targets for 2016–17
(Billions of Dobra, cumulative from beginning of year, unless otherwise specified)

	2016				2017	
	March	June	September	December	March	June
	Indicative Target	Performance Criteria ¹	Indicative Target	Performance Criteria ¹	Indicative Target	Performance Criteria ¹
	31-Mar-16	30-Jun-16	30-Sep-16	31-Dec-16	31-Mar-17	30-Jun-17
Performance criteria:						
Floor on domestic primary balance (as defined in the TMU) ^{2,12}	-23	-54	-100	-155	-27	-70
Ceiling on changes in net bank financing of the central government (at program exchange rate) ^{3,4,5}	0	0	0	0	0	0
Floor on net international reserves of the central bank (US\$ millions) ^{2,4}	62	62	53	53	55	55
Ceiling on central government's outstanding external payment arrears (stock, US\$ millions) ^{5,6,7,8}	0	0	0	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the central government or the BCSTP (US\$ millions) ^{5,6,7,8,9}	0	0	0	0	0	0
Indicative targets:						
Ceiling on change of central government's new domestic arrears	0	0	0	0	0	0
Ceiling on dobra base money (stock)	1,062	1,085	1,102	1,465	1,187	1,137
Floor on pro-poor expenditures	168	289	359	448	171	301
Floor on tax revenue	181	422	783	1,170	186	455
Memorandum items:						
New concessional external debt contracted or guaranteed with original maturity of more than one year by the central government or the BCSTP (US\$ millions) ^{5,7,8,10,12}	14	14	14	14	26	26
Transfer from NOA to the budget (US\$ millions)	1.6	1.6	1.6	1.6	1.3	1.3
Net external debt service payments ¹¹	18	43	107	233	23	50
Official external program support ¹¹	20	47	88	205	22	50
Treasury-funded capital expenditure	12	28	50	101	15	31

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

¹ Performance at the June and December 2016 test dates are assessed on the second and third reviews respectively and performance at the June 2017 is assessed on the fourth review.

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

³ The ceiling will be adjusted downward or upward according to definitions in the TMU.

⁴ Excluding the National Oil Account (NOA) at the Central Bank.

⁵ The term "central government" is defined as in ¶ 5 of the TMU, which excludes the operations of state-owned enterprises.

⁶ This criterion will be assessed as a continuous performance criterion.

⁷ The term "external" is defined on the basis of the residency of the creditor per paragraph 5 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 15688 of the Executive Board (Dec. 5, 2014).

⁸ This performance criterion or memorandum item applies not only to debt as defined in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 15688 of the Executive Board (Dec. 5, 2014), but also to commitments contracted or guaranteed for which value has not been received. For further details on the definition of debt and external arrears refer to the TMU, ¶¶ 6 and 13.

⁹ Only applies to debt with a grant element of less than 35 percent. For further details refer to the TMU, ¶ 12.

¹⁰ Only applies to debt with a grant element of at least 35 percent.

¹¹ As defined in the TMU, valued at the program exchange rate.

¹² Cumulative from December 2015 and December 2016 respectively.

Table 4. São Tomé and Príncipe: Structural Benchmarks, 2016

Policy Objectives and Measures	Timing	Macro Rationale	TA involved
Strengthening Public Finances			
Adopt an automatic fuel price adjustment mechanism that allows timely pass-through of import costs with a view to its gradual introduction in 2016.	End-June 2016	To remove implicit fuel price subsidies and loss of fiscal revenues	FAD TA on design of automatic price adjustment mechanism
Adopt a plan to reform EMAE (state-owned electricity and water utilities company) to ensure full cost-recovery.	End-December 2016	To support arrears clearance plan	With World Bank and EU support
Introduce legislation to transfer the execution for collection of tax arrears from fiscal court judge to the tax administration. ¹	End-June 2016	To boost tax arrears collection	No TA involved
Submit to the National Assembly a new VAT law. ²	End-December 2016	To support the introduction of VAT	Forthcoming FAD/LEG TA
Complete a public investment management assessment (PIMA) and submit to staff a reform plan to strengthen public investment management practices. ³	End-December 2016	To enhance capacity for efficient public investment decision-making	With World Bank support
Enhancing Monetary Policy and Financial Stability			
Prepare and submit to staff a comprehensive strategy to help banks deal with high NPLs on their balance sheets.	End-June 2016	To support financial sector stability and growth	Forthcoming MCM TA
Establish an Audit Board policy for BCSTP that specifies a role similar to a conventional audit committee, with responsibilities for oversight of internal and external audit mechanisms, and financial reporting. ⁴	End-December 2016	To enhance independent oversight of the audit and control mechanisms	
Complete detailed assessment of compliance with Basel Core Principles.	End-December 2016	To improve soundness of financial system	Forthcoming MCM TA
Facilitating Business Activities			
Develop and submit to the National Assembly a National Export Diversification Strategy document.	End-December 2016	To promote economic diversification and employment opportunities	TA yet to be identified by authorities

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

^{1, 2, 3, 4} Newly-proposed structural benchmarks.

Technical Memorandum of Understanding June 2016

1. This Technical Memorandum of Understanding (TMU) contains definitions and adjuster mechanisms that clarify the measurement of quantitative performance criteria and indicative targets in Table 3, which are attached to the Memorandum of Economic and Financial Policies for 2016 and 2017. 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 rate** for the purposes of this TMU¹ will be 20,299 dobra per U.S. dollar, 24,500 dobra per euro, and 29,236 dobra per SDR for both 2016 and 2017.

PROVISION OF DATA TO THE FUND

3. Data with respect to all variables subject to performance criteria and indicative targets will be provided to Fund staff on the frequency described below (paragraph 27) with a lag of no more than four weeks for data on net international reserves of the Central Bank of São Tomé and Príncipe (BCSTP) and six 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 are defined below and refer to the floor on domestic primary balance; the ceiling on changes in net bank financing of the central government; the floor on net international reserves of the central bank; the ceiling on central government's outstanding external payments arrears; the ceiling on the contracting or guaranteeing of new non-concessional external debt with original maturity of more than one year by the central government or the BCSTP; and the 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.

DEFINITIONS

4. For the purposes of this TMU, **external** and **domestic** shall be defined on a residency basis.
5. **Central 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.

¹ Data refer to the mid-point exchange rates published on the BCSTP's webpage for the last day of 2014.

6. **Debt** is defined as in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 15688 of the Executive Board (Dec. 5, 2014). 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.

7. **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 Finance and Public Administration.

8. **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 Finance and Public Administration.

PERFORMANCE CRITERIA

9. **Performance criterion on the floor on domestic primary balance.**

This performance criterion refers to the difference between government domestic revenue (excluding oil revenue) and domestic primary expenditure. For reference, this balance for end-December 2015 was -207 billion dobra, broken down as follows:

Government domestic revenue:	1,108 billion
<i>Less:</i> Government primary expenditure: (As defined in paragraph 8)	<u>1,315 billion</u>
<i>Equals:</i> Domestic primary balance:	-207 billion

10. **Performance criterion on the ceiling on changes in net bank financing of the central government (NCG).** This performance criterion measures the increase (decrease) in the stock of all outstanding claims on the central government held by the BCSTP and by other depository corporations (ODCs), less all deposits held by the central government with the BCSTP and with ODCs, 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 dobra at the program exchange rate. For reference, at end-December 2015, outstanding net bank financing of the central government (excluding NOA) was -43.2 billion dobra, broken down as follows:

	BCSTP credit, including use of IMF resources:	246.6 billion
<i>Less:</i>	Government deposits with the BCSTP (excluding NOA)	150.6 billion
	<i>Of which:</i> Treasury dobra-denominated accounts	11.4 billion
	Treasury foreign currency-denominated accounts	18.9 billion
	Counterpart deposits	<u>120.3 billion</u>
<i>Equals:</i>	Net credit to government by the BCSTP	96 billion
<i>Plus:</i>	ODC's credit to the government	8.6 billion
<i>Less:</i>	Government deposits with ODCs (including counterpart funds)	<u>147.8 billion</u>
<i>Equals:</i>	Net bank financing of the government (excluding NOA)	-43.2 billion

11. **Performance criterion on the floor on net international reserves (NIR) of the BCSTP.** The NIR of the BCSTP are defined for program-monitoring purposes as short-term (i.e., original maturities of one year or less), tradable 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 NIR. Securities whose market value on the last day of the year differs by over 20 percent from their original nominal issue price will be assessed at their market value as reported by the BCSTP's Markets Department. The balance of (1) NOA at the BCSTP, (2) banks' deposits related to capital or licensing requirements, and (3) banks' reserves denominated in foreign currency are excluded from the program definition of NIR. All values are to be converted to U.S. dollars at the actual mid-point market exchange rates prevailing at the test date. For reference, at end-December 2015 NIR was 1,267.4 billion dobra, calculated as follows:

	Gross international reserves:	1,633.9 billion
	<i>Of which:</i> Cash	23 billion
	Demand deposits	240.1 billion
	Term deposits (including banks' deposits in foreign currency)	991.8 billion
	Securities other than shares	346.3 billion
	<i>Of which:</i> Portuguese Treasury bonds	223.6 billion
	<i>Rede Ferroviaria Nacional</i> bonds	122.7 billion
	Mortgage-backed securities of CDG	0 billion
	Accrued interest on securities	23.1 billion
	Reserve position in the Fund	0 billion
	SDR holdings	9.5 billion
<i>Less:</i>	Short-term liabilities (including liabilities to the IMF)	100.3 billion
<i>Less:</i>	Banks' reserves denominated in foreign currency	266.2 billion
<i>Less:</i>	Banks' guaranteed deposits denominated in foreign currency	<u>0 billion</u>
<i>Equals:</i>	Net international reserves	1,267.4 billion
<i>Plus:</i>	Other foreign assets	379.2 billion
<i>Less:</i>	Medium and long-term liabilities (including SDR allocation)	220.7 <u>billion</u>

<i>Equals:</i> Net foreign assets	1,425.9 billion
<i>Memorandum item:</i> National Oil Account (NOA)	230.1 billion

12. **Performance criterion on the ceiling on the contracting or guaranteeing of new nonconcessional external debt by the central government or the BCSTP.** This is a continuous performance criterion that refers to the contracting or guaranteeing of new external debt of any maturity (including overdraft positions but excluding normal import and suppliers credits) by the government and/or the BCSTP. Debt is considered nonconcessional if it includes a grant element less than 35 percent. The grant element is the difference between the nominal value of the loan and its net present value, expressed as a percentage of the nominal value. The net present value of the debt at the date on which it is contracted is calculated by discounting the debt service payments at the time of the contracting of the debt. The discount rate used for this purpose is 5 percent. 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 calendar year will be excluded from this ceiling. However, outstanding balances at the end of a given calendar year will be included in the assessment of compliance with this performance criterion. This performance criterion does not apply to IMF facilities. Debt being rescheduled or restructured is excluded from this ceiling. Medium- and long-term debt will be reported by the Debt Management Department of the Ministry of Finance and Public Administration (as appropriate) by the BCSTP, measured in U.S. dollars at the prevailing exchange rates. The government should consult with IMF staff before contracting or guaranteeing new medium- or long-term debt obligations.

13. **Performance criterion on the ceiling on central government's outstanding external payment arrears.** This is a continuous performance criterion. Central government external payment arrears consist of external debt service obligations (principal and interest) that have not been paid at 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 agreed or for which the government is actively seeking a rescheduling agreement.

INDICATIVE TARGETS

14. **Ceiling on change of central government's new domestic arrears** is set on the difference between expenditure on a commitment basis and cash payments (amounts past due after 40 days and unpaid).

15. **Ceiling on dobra base money** is set on the sum of currency issued—which consists of currency outside depository corporations and cash in vaults—and banks 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 2015 dobra base money was 1,295.7 billion dobra, calculated as follows:

Currency issued:		315.3 billion
<i>Of which:</i>	Cash in vaults	68.3 billion
	Currency outside depository corporations	246.9 billion
<i>Plus:</i>	Bank reserves denominated in dobra	<u>980.4 billion</u>
<i>Equals:</i>	Dobra base money	1,295.7 billion

16. Within domestic primary expenditure, **the floor on pro-poor expenditure** refers to the floor on 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 functional classifications and expenditure categories (by budget code) as described in the matrix below:

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 República de São Tomé e Príncipe No. 21 - May 7, 2008, pages 12-13.
 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.

- 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.

17. **Floor on tax revenue** is set on tax revenue that includes direct and indirect taxes as well as recovery of tax arrears and additional collection efforts.

MEMORANDUM ITEMS

18. **New concessional external debt contracted or guaranteed with original maturity of more than one year by the central government or the BCSTP** measures such debt with a grant element of at least 35 percent.
19. **Net external debt service payments by the central government** are defined as debt service due less the accumulation of any new external payment arrears, as defined under the performance criterion on the ceiling on central government's outstanding external payment arrears.
20. **Official external program support** is defined as grants and loans, including in-kind aid when the products are sold by the government and the receipts are earmarked for a budgeted spending item, and other exceptional financing provided by foreign official entities and incorporated into the budget.
21. **Treasury-funded capital expenditure** is classified as part of domestic primary expenditure and covers public investment projects that are not directly financed by project grants and concessional loans or that have to be partially co-financed with government resources. It includes 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.

USE OF ADJUSTERS

22. **The performance criterion on the domestic primary balance will have one adjuster.** The limit on the domestic primary balance will be adjusted upward if the government finds budget support and privatization receipts in 2016 and 2017 in addition to that described in the MEFP; this adjuster will be capped at 70.3 billion dobra (about 1 percent of 2015 GDP) for 2016 and 2017.²
23. **The performance criteria on net bank financing of the central government and net international reserves of the central bank** will be adjusted in line with deviations from amounts projected in the program for budget transfers 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 2015 or end-December 2016, as appropriate (MEFP attachment I, Table 3). The following is an explanation of these adjustments:
- Adjusters on ceilings on changes in net bank financing of the central government (NCG): Quarterly differences between actual and projected receipts of budget

² Grants and related expenditures to cover the cost of the elections will be excluded from the measurements of the domestic primary deficit.

- transfers from the NOA, official external program support, net external debt service payments, and domestic arrears will be converted to dobra at the program exchange rate and aggregated from end-December 2015 or end-December 2016, as appropriate, to the test date. The ceilings will be adjusted downward (upward) by cumulative deviations downward (upward) of actual from projected net external debt service payments, and by deviations upward (downward) in budget transfers from the NOA, official external program support, and domestic arrears. The combined application of all adjusters at any test date is capped at the equivalent to US\$3million at the program exchange rate.
- Adjusters for the floor on net international reserves (NIR) of the BCSTP: Quarterly differences between actual and projected receipts of budget transfers from the NOA, official external program support, net external debt service payments, and domestic arrears in dobra, will be converted to U.S. dollars at the program exchange rate and aggregated from end-December 2015 or end-December 2016, as appropriate, to the test date. The floor will be adjusted upward (downward) by the cumulative deviation downward (upward) of actual from projected net external debt service payments of the central government, and by deviations upward (downward) for budget transfers from the NOA, official external program support, and domestic arrears. The combined application of all adjusters at any test date is capped in such a way that the adjusted floor does not fall short of US\$50 million in 2016 and US\$52 million in 2017.

DATA REPORTING

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

- 1) **Fiscal Data:** The Directorate of Treasury and Directorate of Budget at the Ministry of Finance and Public Administration will provide the following information to IMF staff, within six weeks 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 and by creditor;

- Quarterly data on implicit arrears to ENCO on account of fuel retail prices eventually not covering import costs, distribution margins and applicable taxes.
 - Quarterly data on EMAE's arrears to ENCO.
 - 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;
 - 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 becoming available).
- 2) **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 the year for annual data. 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 dobra base money and currency in circulation, to be posted on the central bank's web site;
 - Daily net international reserve position, to be posted on the central bank's web site;
 - Monthly balance sheet data of BCSTP (in IMF report form 1SR, with requested memorandum items);
 - Monthly consolidated balance sheet data of other depository corporations (in IMF report form 2SR);
 - Monthly consolidated depository corporations survey (in IMF survey 3SG);
 - 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.).
- 3) **External Debt Data:** The Directorate of Treasury at the Ministry of Finance and Public Administration 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.
 - Annual data on future borrowing plans.
- 4) **National Accounts and Trade Statistics:** The following data will be provided to the 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 Finance and Public Administration, 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.