

# MACROECONOMIC DEVELOPMENTS AND POLICY MEASURES IN SÃO TOMÉ AND PRÍNCIPE

Presentation for Development Partners

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# Outline

- Performance of IMF-supported program
- Macroeconomic developments, outlook, and risks
- Macroeconomic policy measures
- Capacity development in macro-critical areas
- Q&A/discussion

# Performance of IMF-supported Program

# Most of Program Quantitative Targets Met

	2021				2022			
	Dec.				March			
	Performance Criteria				Indicative Target			
	Third Review	With Adjusters	Prel.	Status	Fourth Review	With Adjusters	Prel.	Status
<b>Performance Criteria:</b>								
Floor on domestic primary balance (as defined in the TMU)	-379	-405	-339	Met	-125	-155	-93	Met
Ceiling on changes in net bank financing of the central government (at program exchange rate)	354	456	307	Met	125	200	94	Met
Floor on net international reserves of the central bank (US\$ millions)	23	23	31	Met	27	23	25	Met
Ceiling on the accumulation of central government's new external payment arrears (US\$ millions)	0		0	Met	0		0.2	Not met
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the central government or the BCSTP (in nominal value, US\$ millions)	0		0	Met	0		0	Met
Not to: (i) impose or intensify exchange restrictions, (ii) introduce or modify multiple currency practices, (iii) conclude bilateral payments agreements that are inconsistent with Article VIII, or (iv) impose or intensify import restrictions for balance of payments reasons				Continuous: Met				
<b>Indicative Targets:</b>								
Ceiling on change of central government's new domestic arrears	-60		-98	Met	0		-23	Met
Floor on pro-poor expenditures	600		912	Met	157		192	Met
Floor on tax revenue	1400		1325	Not met	310	310	381	Met
New concessional external debt contracted or guaranteed with original maturity of more than one year by the central government or the BCSTP (in present value term, US\$ millions)	9		0	Met	0		0	Met

# Slow Progress with Structural Benchmarks

Strengthening Public Finances	Timing	Status
Implement VAT awareness and communications public information campaign.	End-June 2022	Not met. Prior action
Continue relying on the automatic fuel price adjustment mechanism with a price smoothing and maintain retail fuel prices aligned with international markets over the medium term (continuous SB) to prevent losses to ENCO and contain fiscal risks.	Continuous	Not met (except for April).
Publishing on the Ministry of Finance (MOF) website (i) adjudication notices of public procurement contracts, as required by the Procurement Law (no. 8/2009, articles 29-2, 44-1, and 70-1); (ii) all signed public procurement contracts above the threshold for requiring prior authorization from the Court of Accounts as per the Organic Law (no. 11/2019) (including COVID-19 related); (iii) the ex-post validation of delivery of the contracts—all (i) to (iii) to be published within two weeks documents become available to COSSIL—and (iv) monthly COVID-19 related expenditure reports within a 45-day lag.	Continuous	Not met. Implemented with delays.
Enhancing Monetary Policy and Financial Stability		
Submit to the Government the revised financial institutions law, enhancing the legal framework for bank regulation and supervision, including the powers, responsibilities, and functions of the BCSTP and the prudential requirements for banks. The draft shall be prepared in consultation with IMF staff.	End-June 2022	Not met. Prior action
Facilitating Business Activities and Energy Efficiency		
Rolling out the LED program, as previously agreed with IMF Staff, to replace incandescent/fluorescent light bulbs with LED bulbs in the country, pursuant to the LED program parameters.	End-June 2022	Not met. Rescheduled to end-September 2022.

# All Scheduled Prior Actions Met

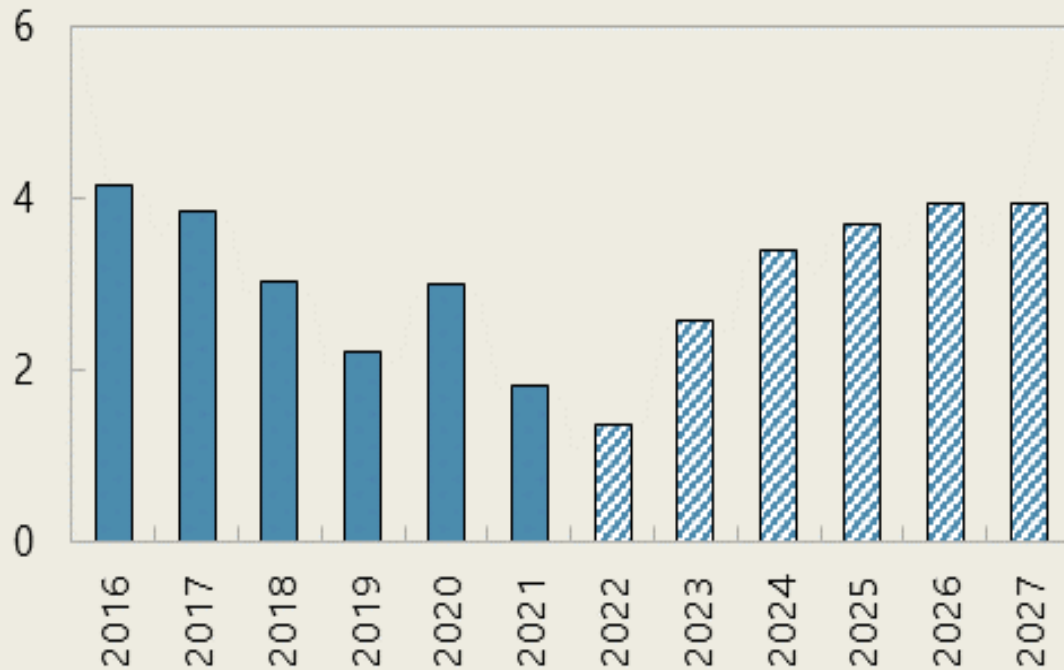
Prior Actions	Timing	Status
Submit to the Government the revised financial institutions law, enhancing the legal framework for bank regulation and supervision, including the powers, responsibilities, and functions of the BCSTP and the prudential requirements for banks. The draft shall be prepared in consultation with IMF staff.	August 2022	Met
Start to implement VAT awareness and communications public information campaign	August 2022	Met
Settle delayed debt service payments and issue ministerial order to prioritize debt service payments.	August 2022	Met
Finalize and publish the 2020 COVID-19 related spending audit report	August 2022	Met

# Macroeconomic Developments, Outlook, and Risks

# Growth and Inflation

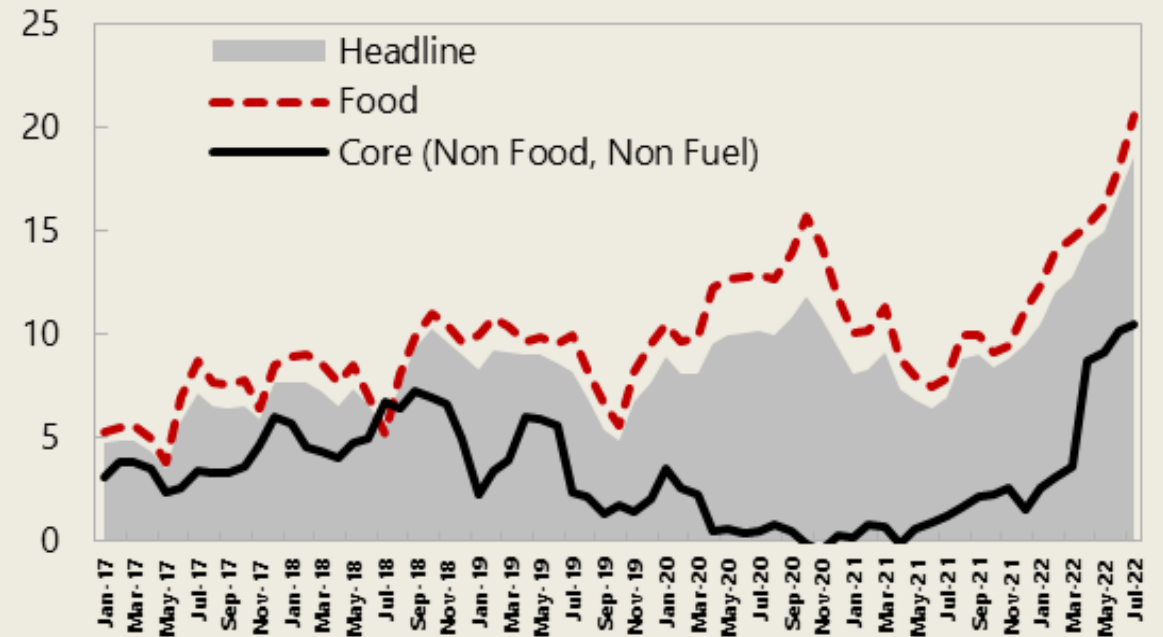
## Real GDP

(annual percentage change)



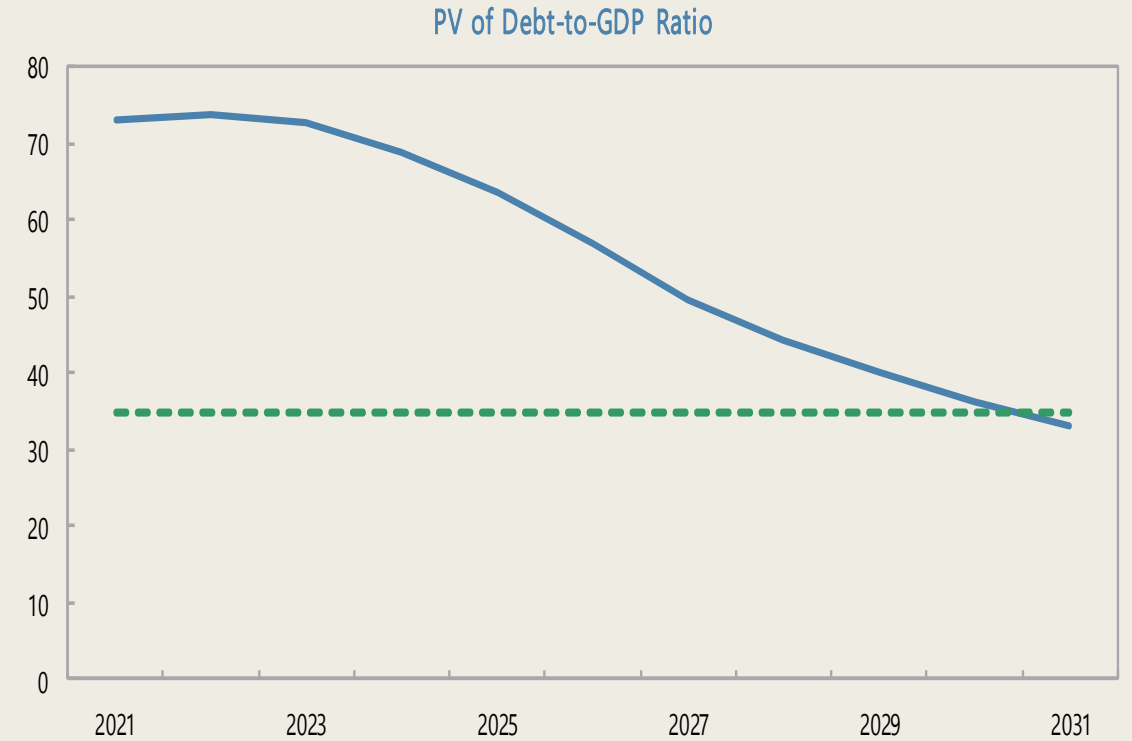
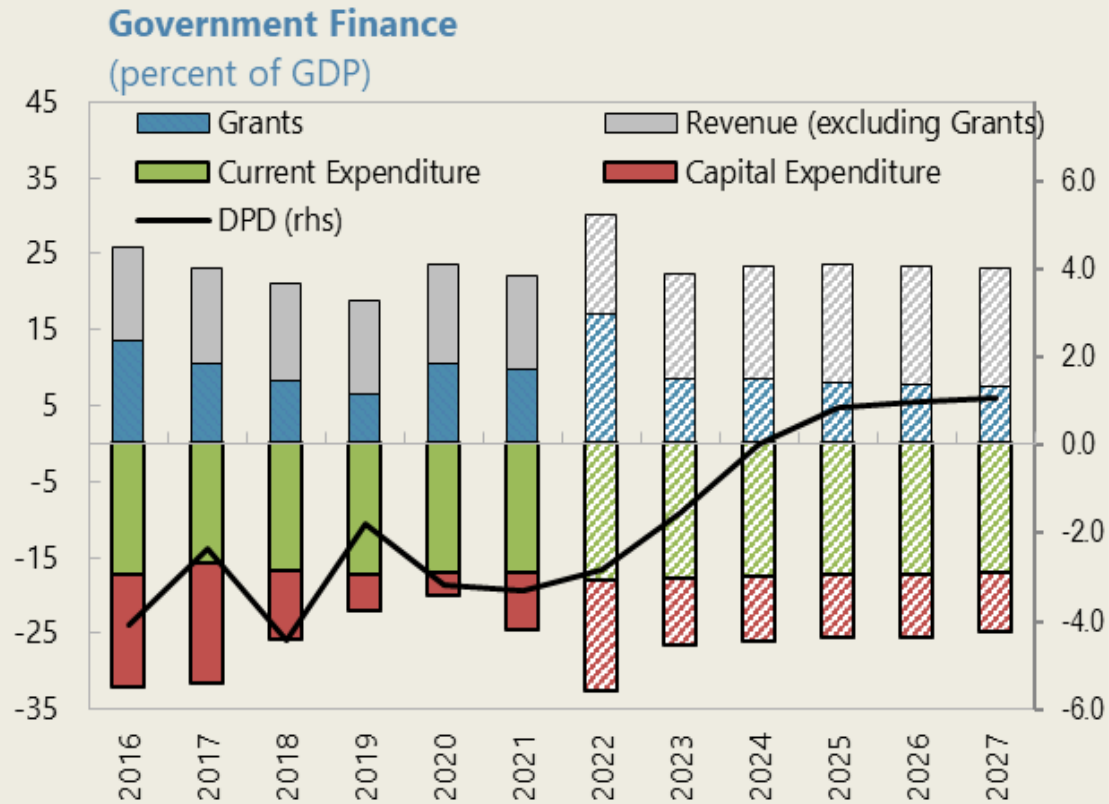
## Consumer Price Index

(y/y percentage change)



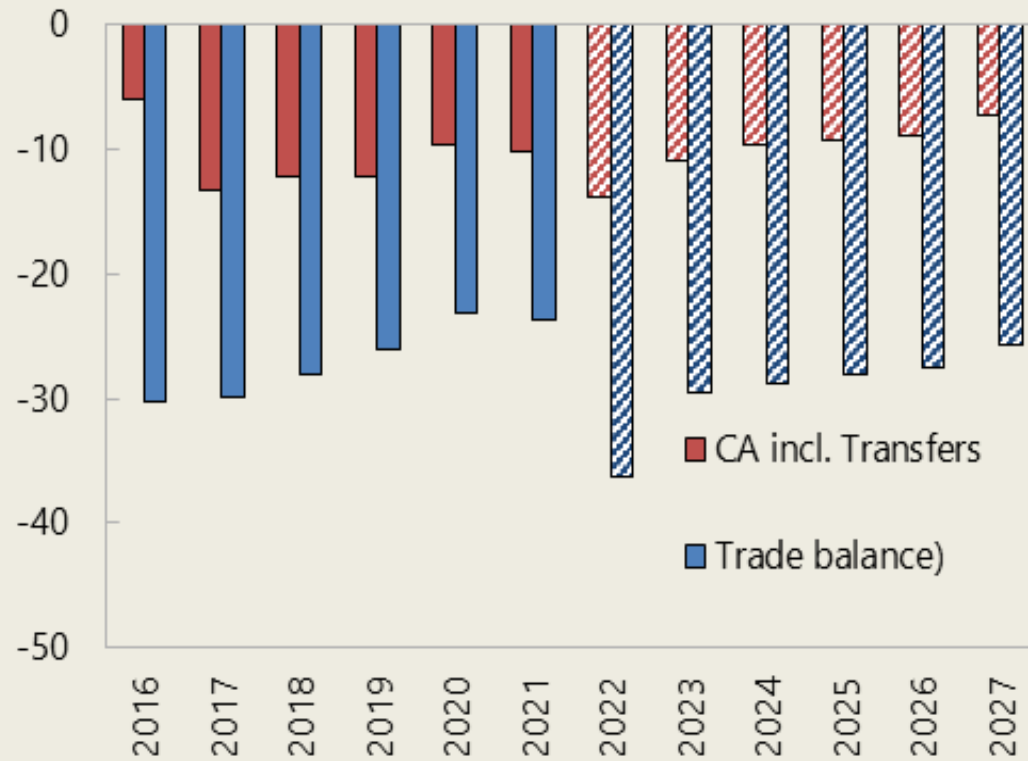


# Fiscal and Debt



# Current Account and Reserves

**Current Account Balance**  
(Percent of GDP)

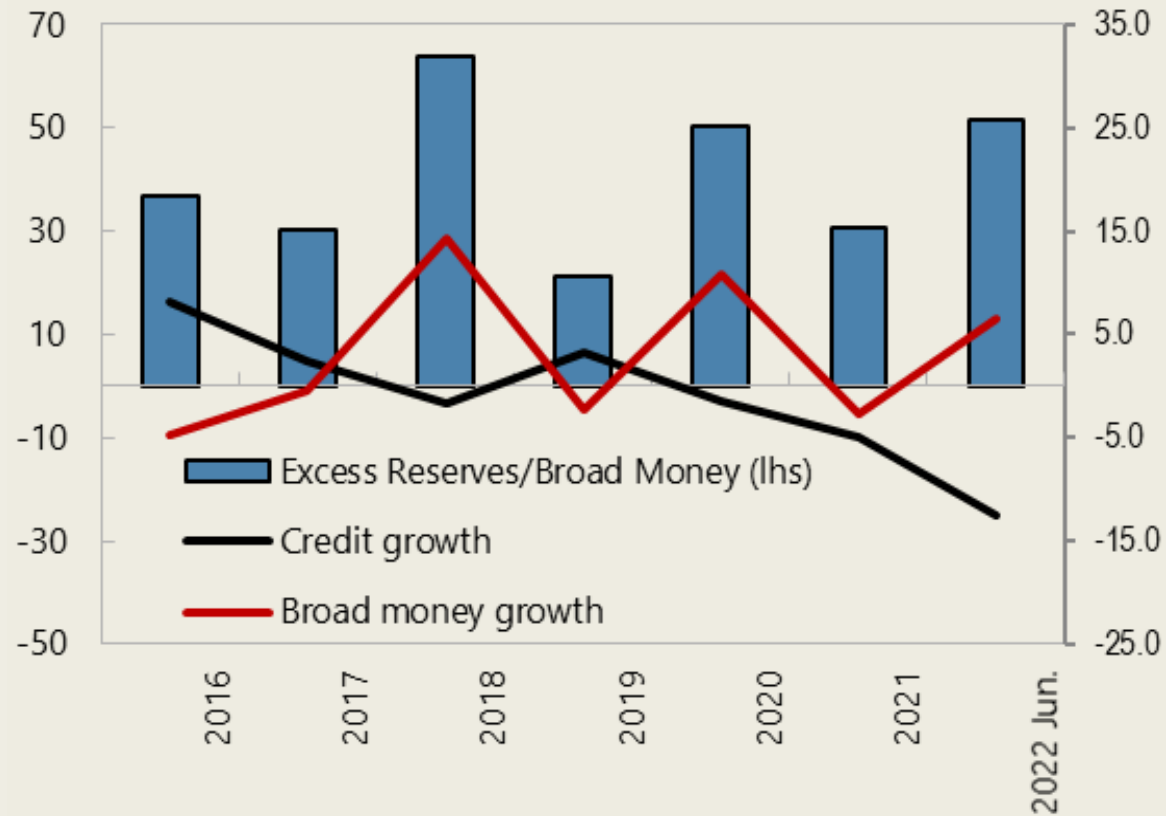


**International Reserves**  
(as indicated)

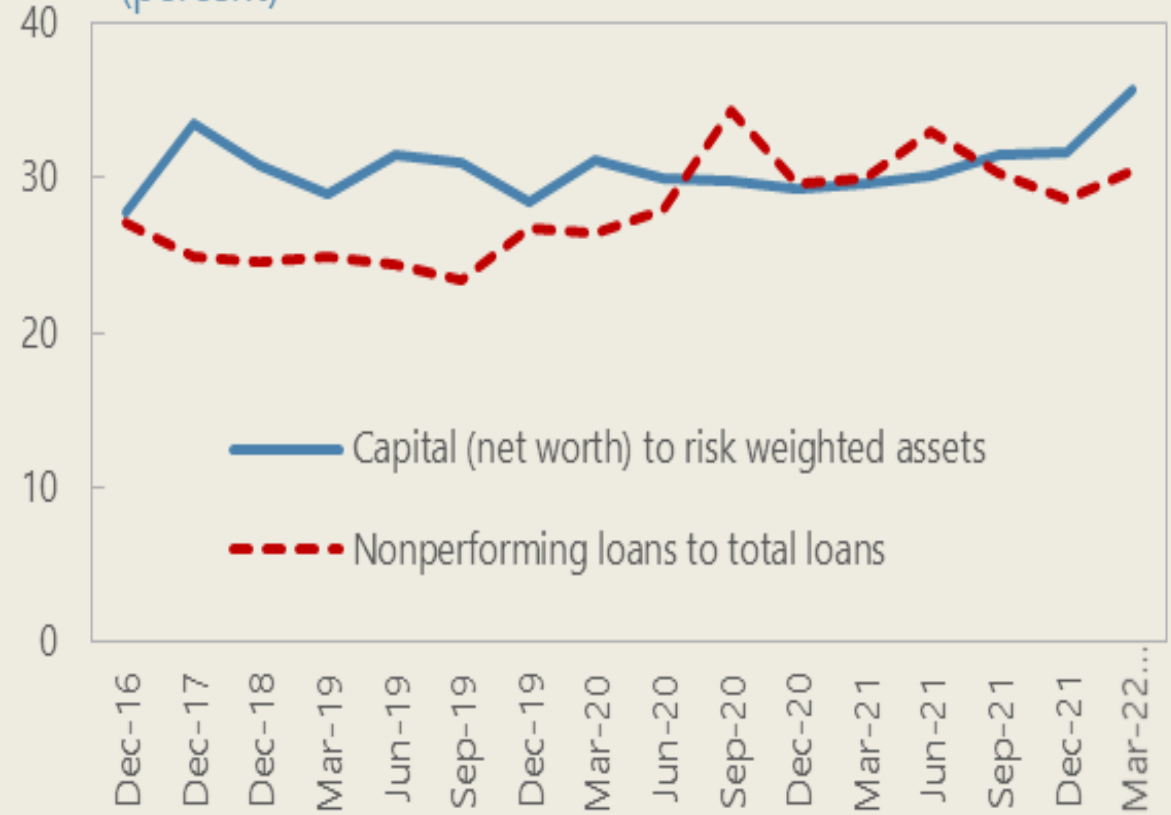


# Monetary and Financial

**Liquidity, Credit and Broad Money**  
(percent)



**Capital Adequacy and NPLs**  
(percent)



# Significant Uncertainty and Downside Risks

## ■ **Downside risks**

- COVID-19
- High international food and fuel prices
- Extended global supply chain disruptions
- Delays in revenue reforms
- Lower-than-expected grant support or delayed donors' disbursements
- Rising wage bill
- Delay in EMAE reforms
- Delay in legislative reforms and additional pressure on spending
- Natural disasters and/or a prolonged recovery from the recent floods

## ■ **Upside risks**

- Key infrastructure projects

# Macroeconomic Policy Measures

# Enhancing Fiscal Space and Safeguarding Debt Sustainability

## ■ Revenue

- VAT
  - VAT refund regulations approved
  - VAT IT system for taxpayers' registration validated
  - Applicability of the VAT law at customs agreed
  - VAT awareness and public information campaign started
- Collection of tax arrears
- Airport tax
- Additional personal income tax bracket (30%)
- Minimum monthly stamp duty amount of 100 dobras for small taxpayers
- Consumption tax for alcoholic drinks

# Enhancing Fiscal Space and Safeguarding Debt Sustainability (cont.)

## ■ **Expenditure**

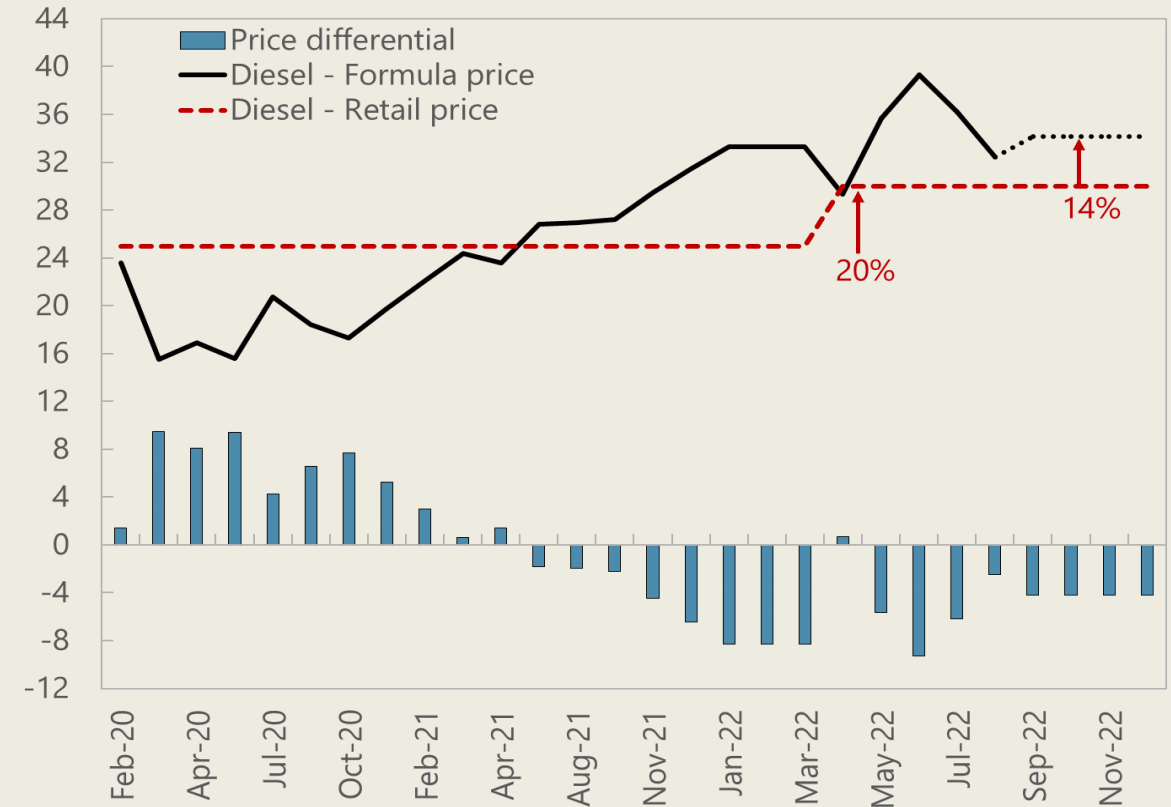
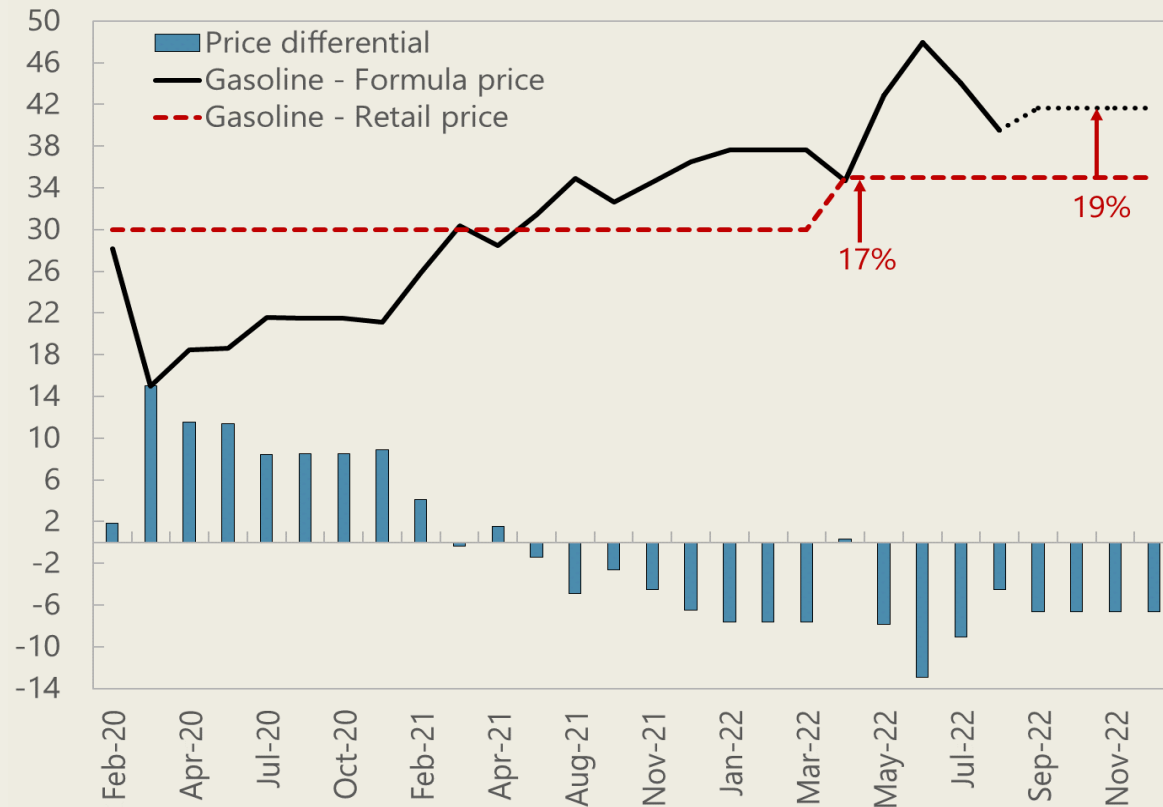
- Wage bill
  - Supplements to the lowest paid category of civil servants introduced
  - Wage negotiations for 2023 and 2024 ongoing, but the authorities are committed to keep the public wage bill within 10% of GDP
  - Strengthening wage bill management, monitoring, and workforce planning
    - Freezing new hiring of civil servants (approved in February 2022)
- Maintaining pro-poor spending and expanding targeted social protection programs
- Curtailing non-essential administrative spending
- Strictly monitoring overtime spending of line ministries
- Contingency measures: further cutting administrative costs

## ■ **Grant and concessional project financing**

# Containing Fiscal Risks

## ■ Fuel price adjustment mechanism

- Retail prices increased for gasoline and diesel (by 17 and 20 percent) in April 2022
- Gasoline and diesel tax surcharges reduced
- ENCO losses at fuel price of US\$86 per barrel offset
- Additional price adjustment needed





# Addressing Energy Insecurity

## ■ **Multi-pronged reform strategy**

- Overcome operational and economic inefficiencies of loss-making SOEs
  - Implement short-term measures to contain EMAE's losses
    - installing new meters
    - improving payment discipline
    - rolling out an LED bulbs program
  - Continue relying on the fuel price adjustment mechanism to contain ENCO's losses
- Shift the electricity generation mix towards renewable and eco-friendly sources
- Strengthen targeted social transfer programs for the most vulnerable, supported by development partners

# Strengthening Fiscal Framework

## ■ PFM reforms

- Strengthening macro-fiscal forecasting
  - MTEF projections for a three-year period incorporated in 2022 budget
- Strengthening cash management and expenditure control
- Conducting PIMA

## ■ Transparency and governance

- 2020 COVID-19-related spending audit report published (Auditor General)
- A revised draft of the new Procurement Law with beneficial ownership information collection and publication requirements under review
- Public procurement contracts and monthly COVID-19 spending reports being published (MOF)

# Addressing Rising Inflation and Supporting the Peg

## ■ **BSCTP adopted several tightening measures**

- Raising the reserve requirements on local currency deposits from 18 to 28%
- Raising the reference rate from 9 to 10%
- Raising the interest rate of the BCSTP liquidity facility from 9.5 to 10.5%
- Resuming the issuance of CDs

## ■ **Credit line from Portugal under peg agreement**

- NFA below 3 months of imports
- Request for activation of the credit line up to EUR 15 million
  - Ceiling is EUR 25 million
  - Disbursements of up to EUR 2 million annually or more frequently

## ■ **Stronger efforts to work with development partners**

- Avoiding delays in the agreed financing
- Mobilizing external grant financing

# Strengthening BCSTP and Financial System

## ■ **BSCTP**

- Organic Law approved by Parliament
- 2020 external audit of financial statements completed
- Work to strengthen internal audit ongoing

## ■ **Financial system**

- New draft Financial Institutions Law submitted to government
- IFRS implementation ongoing
- Work to complete the liquidation of three banks ongoing

# Setting the Stage for Job-Rich and Blue Growth

## ■ Infrastructure

- Upgrading the airport infrastructure

## ■ Energy

- Implementing a comprehensive energy sector reform agenda

## ■ Transportation links

- Finalizing the plan to remove STP from the European Union's Air Safety blacklist
  - Preparing a project agreement with the international air safety regulator (ICAO) to support regulatory reforms

# Capacity Development in Macro-Critical Areas

# Capacity Development

## ■ **Recent CD well integrated with the program priorities**

- Strengthening revenue administration and tax policy reforms
- Enhancing PFM systems
- Improving banking regulations, resolution, and supervision
- Reforming central bank governance and operations
- Creating stronger macroeconomic statistics

## ■ **Further CD to focus on macro-critical reform objectives**

- Supporting public wage management
- Improving PIM
- Developing climate adaptation policies
- Strengthening oversight of SOEs
- Improving debt recording
- Implementing IFRS

# Q&A/Discussion