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DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

August 2020

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR AUGMENTATION OF ACCESS, REPHASING OF ACCESS, AND FINANCING ASSURANCES REVIEW —PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

In the context of the First Review Under the Extended Credit Facility and Request for Augmentation of Access, Rephasing of Access, And Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 27, 2020, following discussions that ended on June 30, 2020, with the officials of the Democratic Republic of São Tomé and Príncipe on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on July 20, 2020.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for the Democratic Republic of São Tomé and Príncipe.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Completes the First Review of the Extended Credit Facility Arrangement for the Democratic Republic of São Tomé and Príncipe

FOR IMMEDIATE RELEASE

- Continued efforts to mitigate the heavy toll of the COVID-19 pandemic on São Tomé and Príncipe's economy remain critical.
- Program implementation was off to a good start in late 2019, and it will be critical to resume fiscal consolidation once the crisis is over.
- Stepping up structural reforms, especially for the energy sector and revenue mobilization is essential for fiscal sustainability.

Washington, DC – July 27, 2020: The Executive Board of the International Monetary Fund (IMF) today completed the first review of the Extended Credit Facility (ECF) arrangement for São Tomé and Príncipe. The Board's decision enables the immediate disbursement of SDR 1.90 million (about US$2.67 million). The Board today also approved an augmentation of the ECF arrangement by SDR 1.48 million (about US$2.08 million or 10 percent of the country's quota) to be also disbursed immediately. This brings São Tomé and Príncipe's total disbursements under the arrangement to SDR 5.29 million (about US$7.35 million).

The ECF arrangement in the amount of SDR 13.32 million (about US$18.15 million at the time or 90 percent of the country's quota) was approved on October 2, 2019 (see Press Release No. 19/363) to support the government's economic reform program for stronger and more inclusive growth.

In April 2020, the Executive Board also approved US$12 million emergency financing for São Tomé and Príncipe under the Rapid Credit Facility (RCF) and IMF debt service relief under the Catastrophe Containment and Relief Trust (CCRT) to address external financing needs arising from the COVID-19 pandemic (see Press Release No. 20/179).

At the conclusion of the Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

"Performance under the ECF-supported program was off to a good start in late 2019. However, the Covid-19 pandemic impacted São Tomé and Príncipe hard. The authorities responded by raising health spending and providing targeted and temporary support to households and the most affected sectors. This has temporarily raised the fiscal deficit.

"The authorities are committed to resuming fiscal consolidation once the crisis abates to improve internal and external balances. In this context, it is essential to keep the wage bill under control and complete the transition to the VAT by mid-2021 to increase revenue and create space for social spending and public investment. The authorities are also committed to improving public financial management by publishing public procurement contracts and a monthly COVID-19-related spending report, as well as regularizing external arrears.

"It will be important to continue financial sector reform, including implementing the recommendations of the safeguards assessment and the asset quality review. It will also be crucial to redouble efforts to reform the energy sector to reduce debt vulnerabilities, strengthen energy security, and support economic growth. Enhancing efforts to implement the recently adopted national strategy on gender equality, continuing to adapt to climate change, and developing a plan to remove the country from the EU air safety blacklist are also important."

More information

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)
https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar
https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

July 20, 2020

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR AUGMENTATION OF ACCESS, REPHASING OF ACCESS, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. The pandemic is taking a heavy toll on the fragile island nation of São Tomé and Príncipe. Tourist arrivals came to an abrupt halt in mid-March, externally financed projects are being delayed, and supply shipments are disrupted. In response to the local outbreak, emergency confinement measures have been in place since March to contain infection. The authorities began phasing out these measures in late June, aiming for a full reopening of the economy by end-July. A disbursement supported by the Rapid Credit Facility (SDR 9.028 million) was approved in April 2020. The authorities request an augmentation of the ECF program by 10 percent of quota (SDR 1.48 million).

Program performance. The ECF-supported program approved in October 2019 was off to a reasonably good start. The end-December performance criteria (PCs) were met, but further progress has been hampered by the pandemic. Most end-June targets and structural benchmarks will not be met. The country also continues to face debt vulnerability and balance of payments pressures, aggravated by systemic energy sector inefficiencies. A frontloaded augmentation is needed to fill an immediate balance of payments gap.

Focus of discussions. Discussions focused on prioritizing spending to combat the COVID-19 pandemic while maintaining medium-term fiscal consolidation and structural reforms to reduce balance of payments pressures and debt vulnerability. These include final preparations for the VAT implementation and near- and medium-term measures to reform the state-owned utility company, EMAE. Other key issues include developing monetary policy tools and safeguarding financial stability, improving the business environment, and removing the country from the EU's aviation blacklist.

Risks. Significant risks to the program include the persistence of the COVID-19 outbreak and policy slippages and delayed reforms at EMAE, which would prolong the economic slowdown and exacerbate balance of payments pressures. Limited administrative capacity could also hinder tax collection.

Recommendation. In light of the end-2019 program performance, and the authorities' strong actions going forward, staff recommends the completion of the first review and augmentation.

Approved By
David Owen (AFR) and Kevin Fletcher (SPR)

Discussions were held virtually during June 15-30, 2020. The staff team included Xiangming Li (head), Tara Iyer, Lisa Kolovich, Gabriel Srour (all AFR), and Felipe Bardella (FAD). Torsten Wezel (MCM) participated in some meetings. Vicky Pilouzoue (AFR) provided administrative support, and Weronika Synak (AFR) provided research assistance. Kelvio Carvalho da Silveira (OED) joined the mission. João Paulo Galvão, Alexandra Da Souza Costa, and André Marques Fernandes provided interpretation and translation during the mission. The mission met with Minister of Planning, Finance, and the Blue Economy Osvaldo Vaz; Minister of Foreign Affairs Elsa Pinto; Minister of Public Works and Infrastructure Osvaldo Abreu; Minister of Labor, Solidarity, Family, and Professional Training Adlander de Matos; Minister of Health Edgar Neves; Minister of Justice Ivete Correia; Minister of Agriculture Francisco Ramos; Governor of the Central Bank Américo Soares De Barros; senior government officials, representatives of the private sector, including banks, and the international donor community.

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CONTEXT

1. **The COVID-19 pandemic is taking a heavy toll on São Tomé and Príncipe**, a fragile, small, remote island state, with 67 percent of its 200,000-population living in poverty. A state of emergency declared in late March led to strict confinement measures, including a suspension of all commercial flights. The fledgling tourism sector has come to a standstill, externally financed projects are being delayed, and shipments of supplies are disrupted. By end-June, the country had 714 officially confirmed cases of COVID-19 and 13 deaths, but the number of new cases has now declined to about 1 per day and 236 had recovered with only 5 patients hospitalized. With the help of the World Health Organization, a field hospital has been set up, and a laboratory began testing in mid-June. In addition, the medical team is being reinforced, including with doctors from China, Cuba, and Portugal. The authorities ended the state of emergency on June 17 and started a phased removal of the confinement, aiming for a reopening of the economy by end-July. Measures have been established for prevention of contamination from the airport opening, and work is underway to qualify hospitality enterprises for certification of "Clean and Safe."

2. **An RCF disbursement (61 percent of quota) was approved in April 2020 to meet the urgent needs caused by the pandemic**. The priorities set out in the Letter of Intent for the RCF request are to combat the pandemic, provide assistance to the most vulnerable, enact countercyclical measures, and ensure transparency and accountability in public spending.

RECENT ECONOMIC DEVELOPMENTS

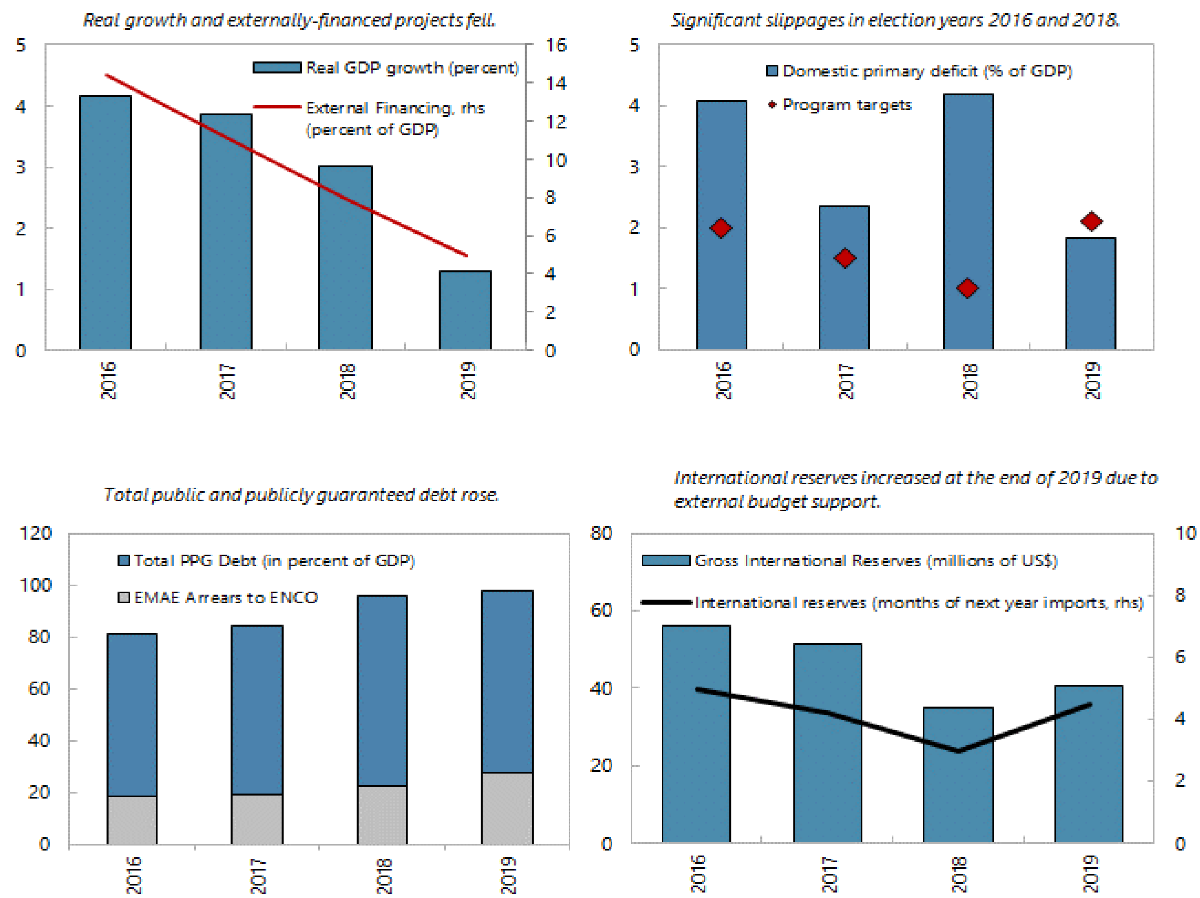
3. **Growth in 2019 was weighed down by delays in externally financed projects, power outages from dilapidated generators, and fuel shortages**. Project implementation slowed during the transition to a new government, but after long delays, strategic plans for tourism, the energy sector, revenue mobilization, and large infrastructure projects were completed with donors' support. Changes in rainfall patterns and a shortage of pesticide damaged cultivation of cocoa, a key export. Consequently, economic growth further slowed to 1.3 percent in 2019. On the positive side, tourism grew by 5 percent in 2019, inflation subsided to 7.7 percent by end-2019 from 9 percent at end-2018, and a private palm-oil producer started to export in late 2019 and accounted for 40 percent of exports in the first quarter of 2020.

4. **The balance of payments improved in 2019.** After falling sharply by about US$16 million in 2018, gross international reserves (GIR) rose by US$5 million to US$40.4 million in 2019 or 3.4 months of pre-crisis (2019) imports.[1]

[1] Excludes commercial banks' deposits in the central bank. Given the projected temporary, sharp drop in imports in 2020, reserve coverage is measured based on pre-crisis (2019) imports.

Strong fiscal consolidation as discussed below and higher budget support grants helped raise GIR. Meanwhile, the current account deficit was largely unchanged at 12.5 percent of GDP in 2019 but worsened in the first quarter of 2020 due primarily to a 30 percent fall in tourism revenues relative to the first quarter of 2019 and a 10 percent drop in remittances.

Text Figure 1. São Tomé and Príncipe: Recent Macroeconomic Developments, 2016–19



Note: Total public and publicly guaranteed debt as defined in DSA, which includes EMAE's arrears to ENCO (and excludes the government's arrears to EMAE due to consolidation).

Note: GIR excludes the National Oil Account and commercial banks' foreign currency deposits at the BCSTP in order to meet reserve requirements, for new licensing, and for meeting capital requirements.

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

5. Strong revenue and spending measures cut the domestic primary deficit (DPD) from 4.2 percent of GDP in 2018 to 1.8 percent of GDP in 2019, outperforming the target by 0.3 percent of GDP (Text Table 1). Higher oil excise and telecommunications sales taxes in advance of the introduction of the VAT, combined with cuts in tax allowances, public consumption, non-priority transfers, and capital expenditure helped achieve the strong performance. Other non-tax revenue and other current expenditure both increased relative to program projections following a more comprehensive incorporation of some autonomous entities' accounts into Treasury accounts.

Text Table 1. Fiscal Performance in 2018 and 2019
(Percent of GDP)

	2018	2019 ECF	2019 Prel.
Total revenue (ex. oil and payment to ENCO)	**13.4**	**13.7**	**15.2**
Tax revenue	12.8	12.5	12.6
Import taxes	5.6	5.4	5.1
Other taxes	7.1	7.1	7.5
Nontax revenue[1]	3.1	1.8	3.3
of which: oil revenue	2.5	0.6	0.8
Fishing royalties	0.0	0.3	0.1
Total domestic primary expenditure (ex. capitalization)	**17.6**	**15.8**	**17.0**
Current expenditure	16.7	16.1	17.5
Personnel costs	9.3	9.2	9.2
Interest due	0.4	0.6	0.7
Goods and services	3.0	2.5	2.5
Transfers	3.2	3.1	2.9
Other current expenditure[1]	0.8	0.6	2.2
Capital spending fin. by the Treasury and HIPC	1.6	0.3	0.2
Domestic primary balance[2]	**-4.2**	**-2.1**	**-1.8**
Memorandum items:			
Payment to ENCO	...	0.0	0.0

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

[1] The outturn in 2019 was higher than the programed because some autonomous entities were brought into the Treasury's accounts.

[2] Excludes oil related revenues and ENCO debt repayment, grants, interest earned, scheduled interest payments, foreign-financed capital outlays,and capitalization of regional organizations per definition in TMU.

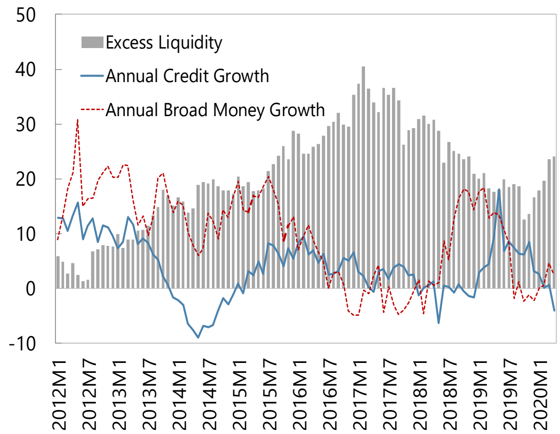
6. However, the end-March indicative DPD target was missed due to policy slippages. Overall domestic revenue continued to perform well, supported by the adoption of electronic invoicing, and notwithstanding 0.3 percent of GDP in tax arrears still owed by the oil importer, ENCO. However, personnel costs exceeded program projections by 1.1 percent of annual GDP largely due to the hiring of teachers to alleviate crowding when donor-financed new schools were completed, as well as the implementation of longstanding promotions in the health and security sectors (MEFP ¶7). As a result, the end-March DPD reached 1.2 percent of annual GDP, missing the (adjusted) ECF indicative target by 0.8 percent of annual GDP. Meanwhile, difficulties in setting up the IT system and the onset of the epidemic delayed the planned introduction of the VAT in March 2020.[2]

7. Credit to the economy continued to be anemic. While excess liquidity fell by approximately 4 percentage points in 2019, it rose by 7.4 percentage points to 24 percent by April (Text Figure 2), of which about 4 percentage points was due to the cut in the reserve requirement ratio by 4 percentage points in early April in response to anticipated liquidity pressures from COVID-19 (MEFP ¶23). System-wide financial soundness indicators changed slightly from end-2018 (Table 5), with the overall share of non-performing loans (NPL) at

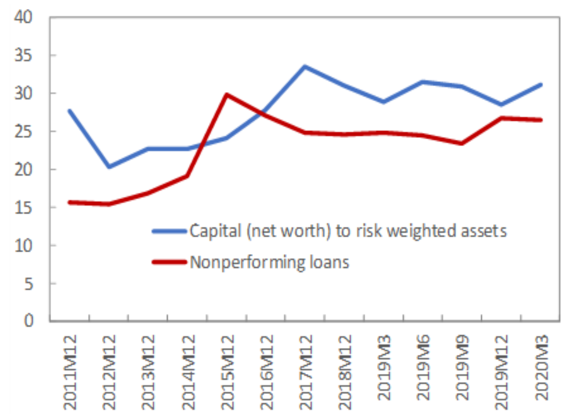
[2] In light of the delayed impact of economic activities on revenue collection (e.g. profit taxes based on past year's performance), there is insufficient data to assess the impact of COVID.

26.5 percent and the capital adequacy ratio at 31.1 percent in March 2020 (Text Figure 3). Implementation of the recommendations from an independent asset quality review (AQR) required significant reclassification and provisioning for some small banks. Meanwhile, the private owners of some of the small banks needing recapitalization have committed to do so by end-2020.

Text Figure 2. Credit Growth and Excess Liquidity
(Percent)



Text Figure 3. Non-Performing Loan and Capital Adequacy Ratios
(Percent)



PROGRAM PERFORMANCE

8. **All end-December 2019 performance criteria (PCs) were met, though progress on structural reforms was mixed (MEFP Tables 1 and 2).** Benchmarks for strengthening public finances and gender equality were met, although reform of EMAE and legal reforms of the BCSTP were delayed. The indicative target (IT) on pro-poor expenditure was missed, partly due to delayed budget support and shortfall in revenue; the IT on tax revenue was marginally missed while other ITs were met.

9. **The pandemic and policy slippages interrupted the program implementation**. The end-March 2020 indicative target for the DPD was missed due to unprogrammed increases in personnel costs, largely for education and health, while tax revenue was missed marginally due to ENCO's tax arrears. Other quantitative targets, including for NIR, were met (MEFP Table 1). Benchmarks on the issuance of certificates of deposit, the implementation of AQR recommendations, improving banking supervision, and establishing a collateral registry for March and June 2020 were not met (MEFP Table 2), in part due to the pandemic. Similarly, fiscal targets for end-June are likely missed.

ECONOMIC OUTLOOK AND RISKS

10. The pandemic is expected to cause a sharp economic contraction of 6.5 percent this year (Text Table 2). Prior to the pandemic, GDP growth was projected to recover to 3.5 percent (Table 1) in 2020. The pandemic however, abruptly halted the fledgling tourism sector (with direct contribution of about 6-7 percent to GDP) in mid-March. Conditions have also deteriorated since the RCF approval in April, as the outbreak spread and confinement measures were strengthened. A large fiscal need has emerged from an expected drop in fiscal revenue and increased health and social expenditures to mitigate the impact. Given the outlook for the pandemic globally, the tourism sector is expected to plummet by over 70 percent, and remittances are expected to decline in 2020, further depressing foreign exchange receipts. Many externally funded projects are also likely to be postponed further.

Text Table: 2. Macroeconomic Framework

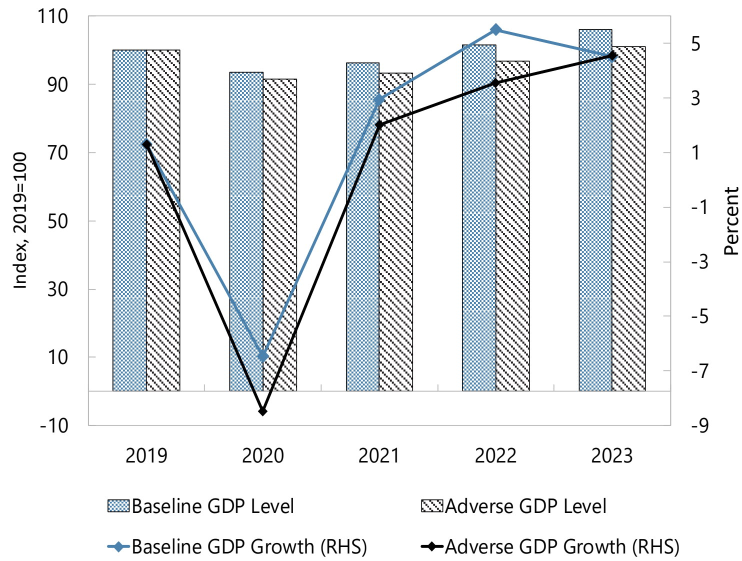
	2020			2021	2022	2023	2024
	ECF Req.	RCF	Proj.				
				Baseline			
GDP at constant prices (annual change in percent)	3.5	-6.0	-6.5	3.0	5.5	4.5	4.5
Consumer Prices (EOP, annual change in percent)	10.0	8.0	8.0	8.0	5.0	4.0	3.0
				(in percent of GDP)			
Domestic primary balance	-1.7	-5.6	-6.3	-3.9	-1.5	-0.8	-0.7
Overall balance (commitment basis) [1]	-0.3	-4.5	-4.6	-3.7	-1.5	-0.8	-0.7
include prospective WB and AFDB grants	...	...	0.5	...	...	...	...
Public Debt	93.8	103.3	105.2	105.1	100.3	95.0	90.1
Of which: EMAE's arrears to ENCO	...	32.7	32.7	34.4	34.1	33.0	31.9
Current account balance (Including official transfers)	-9.0	-11.8	-17.0	-11.9	-9.3	-8.2	-7.6
Tourism receipts (in million US$)	89.5	23.3	14.7	29.3	58.6	62.7	69.4
Net private transfers (in million US$)	16.3	14.8	8.0	13.5	14.6	15.7	16.9
Gross International reserves (in million US$)	40	44.8	54.1	58.8	65.3	67.6	71.2
in months of prospective imports	3.6	4.3	6.0	5.6	6.0	5.9	5.9
in months of 2019 imports [2]	...	...	4.6	5.0	5.5	...	...
				Alternative Scenario			
GDP at constant prices (annual change in percent)	...	...	-8.5	2.0	3.5	4.5	4.5
Consumer Prices (EOP, annual change in percent)	...	...	8.0	8.0	5.0	4.0	3.0
				(in percent of GDP)			
Domestic primary balance	...	...	-8.6	-5.7	-1.9	-1.2	-1.1
Overall balance (commitment basis) [1]	...	...	-6.7	-5.4	-1.8	-1.0	-0.9
include prospective WB and AFDB grants	...	...	-1.6	...	...	...	...
Public Debt	...	...	109.5	112.0	109.0	103.4	98.2
Of which: EMAE's arrears to ENCO	...	...	33.4	35.5	35.9	34.7	33.6
Current account balance (Including official transfers)	...	...	-17.7	-13.5	-10.6	-8.7	-8.1
Tourism receipts (in million US$)	...	...	11.3	17.0	27.2	54.4	60.4
Net private transfers (in million US$)	...	...	7.2	10.4	13.1	14.1	15.2
Gross International reserves (in million US$)	...	...	51.1	46.0	51.8	54.3	57.9
in months of prospective imports	...	...	6.2	5.3	4.9	4.9	4.9
in months of 2019 imports [2]	...	...	4.3	3.9	4.4	...	...

Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections.
[1] The prospective budget grants from the World Bank and AfDB (5.1 percent of GDP) are currently shown below-the-line as filling the financing gap rather than above-the-line, which would reduce the deficit.
[2] This indicator is provided because the sharp decline in imports caused by the crisis temporarily raises the level of reserve coverage if computed using prospective imports.

11. GDP is expected to recover partially in 2021, growing by 3 percent, and accelerate to 5.5 percent in 2022 assuming the pandemic abates. Tourism is projected to recover to about 50 percent of the pre-crisis level in 2021, and the long delayed externally financed projects, including an airport expansion, road construction, and projects in the energy and agriculture sectors, are expected to commence in 2021. Tourism is expected to return to 2019 levels in 2022, and externally financed projects will accelerate in 2022-23. Inflation is expected to pick up temporarily from the VAT implementation in 2021.

12. The outlook is subject to important risks related to the impact of COVID-19. Particularly, the impact of the pandemic could be more persistent than assumed if the development and mass distribution of an effective COVID-19 vaccine is delayed, leading to slower global recovery and lower tourist arrivals and external inflows. In addition, the impact in 2020 on the non-tourism sector could be more pronounced than assumed under the baseline. Furthermore, despite incentives, businesses may elect not to retain their employees, and the shortfall of revenue, including from consumption of fuel, income tax, and non-tax revenue, could be much larger than estimated under normal circumstances. Under this scenario, the real GDP would decline by 8.5 percent in 2020 and only recover to 2019 level in 2023 rather than in 2022 under the baseline (Text Figure 4). The domestic primary deficit in 2020 would fall to 8.5 percent of GDP instead of 6.3 percent of GDP under the baseline.

Text Figure 4. GDP Growth Under Baseline and Alternative Scenarios



13. Additional risks include policy slippages and delayed reforms at EMAE. These risks, including power supply shortages due to delayed EMAE reform, could also prolong the economic slowdown and further raise balance of payments pressures and the debt burden. Meanwhile, limited administrative capacity could hinder the collection of deferred tax payments. Weak governance, particularly in public procurement and banking supervision, could increase corruption and money laundering risks. Shifting weather patterns could damage exports and subsistence agriculture.

14. In the event of risks materializing, the authorities may need to further prioritize spending and extend solidarity taxes. They will also use domestic financing to fill remaining financing gaps to help manage banking system liquidity if warranted by the changing monetary and balance of payments conditions.

15. The country remains in debt distress due to long-standing external arrears, but public debt is deemed sustainable. While the present value (PV) of total public and publicly guaranteed (PPG) debt is currently above the high-risk benchmark, it can be deemed sustainable as it falls below the benchmark when incorporating the concessional terms of the domestic debt of EMAE and the government to the country's fuel supplier, ENCO.[3] The DSA indicates that the country is vulnerable to contingent liabilities, particularly those stemming from ENCO's large external arrears to Sonangol and a €11.5 million penalty for the improper seizure of a Maltese ship in 2013 (see DSA).

16. The country has requested participation in the DSSI from all its official bilateral creditors and does not have debt payments due to official G-20 creditors. As of July 13, 2020, none of the creditors had yet formally responded to the country's request. A large share of bilateral official debt payments during the period covered by DSSI is due to Portugal, which amounts to €1.3 million (or 0.3 percent of GDP). The DSA baseline assumes the application of DSSI terms to eligible debt from G20/Paris Club creditors and other bilateral creditors that may associate with the Paris Club Memorandum of Understanding.

POLICY DISCUSSIONS

A. Fiscal Policy

17. Fiscal targets for 2020 have been relaxed to accommodate the impact of the pandemic. The authorities have revised the end-2020 DPD projection from 1.7 percent of GDP to 6.3 percent of GDP (Text Table 3) to take into account the lower revenue from the sharp slowdown and delayed implementation of VAT, the increased wage bill, and the health and countercyclical measures introduced to combat the crisis. Specific measures include temporary deferment of some tax payments, incentives for businesses to retain workers, and support for the unemployed, while keeping retail fuel prices unchanged to generate revenue from lower international oil prices and introducing a small solidarity contribution on public and private workers' salaries who are relatively unaffected (Text Table 4). In the event of rising international fuel prices, they are committed to apply the automatic price adjustment mechanism to ensure retail fuel tariffs remain above costs (including taxes and fees) and avoid subsidies. Some COVID-19 related spending is financed by project grants, including the expanded World Bank COVID-19 and social protection programs. The higher domestic primary deficit is expected to be fully financed by the expected additional budgetary grants

[3] EMAE has been paying ENCO for past arrears

by the World Bank and AfDB equivalent to almost 5 percent of GDP, entailing an almost balanced overall fiscal deficit. [4]

Text Table 3. Central Government Domestic Revenue and Expenditure, 2019–20
(Percent of GDP)

	2019	2020		
	Prel.	ECF	RCF	Revised
Total revenue (ex. payment to ENCO and oil revenue)	15.2	13.8	14.7	15.1
Tax revenue (ex. payment to ENCO)	12.6	12.6	12.5	12.7
Import taxes (ex. payment to ENCO)	5.1	5.2	5.9	5.7
Other taxes	7.5	7.5	6.6	6.9
Nontax revenue[1]	3.3	1.8	2.2	2.4
of which: oil revenue	0.8	0.6	0.0	0.0
Total domestic primary expenditure (ex. capitalization)	17.0	15.5	20.3	21.4
Current expenditure	17.5	15.7	20.6	20.1
Personnel costs	9.2	8.8	9.8	11.0
Interest due	0.7	0.6	0.7	0.7
Goods and services	2.5	2.4	3.5	2.9
Transfers	2.9	3.3	4.1	3.6
Other current expenditure[1]	2.2	0.6	2.4	2.0
Capital spending fin. by the Treasury and HIPC-eligible	0.2	0.4	0.5	0.5
COVID-19 spending financed by the Treasury[2]	...	...	...	1.5
Domestic primary balance[3]	**-1.8**	**-1.7**	**-5.6**	**-6.3**
Memorandum items				
Grants	6.6	8.9	7.5	9.3
Payment to ENCO	0.0	0.3	0.2	0.2

[1] Some autonomous entities were brought into the Treasury's accounts in 2019, raising the outturn relative to the program request.

[2] COVID-19 spending was distributed under different functional lines in the RCF, whereas it is recorded in a separate line in the revised projections.

[3] Excludes oil related revenues and a fraction of the oil surcharge for ENCO debt repayment, grants, interest earned, scheduled interest payments, capitalization of BIRD, and foreign-financed capital outlays.

[4] The fiscal tables currently show the budget grants below-the-line as filling the financing gap (to emphasize the Fund's catalytic role) rather than above-the-line, which would reduce the deficit.

18. Over the medium term, the program will continue to target a DPD below 1 percent of GDP to reduce debt levels, reduce inflation, and support the peg. Revenue is expected to recover gradually as the economy slowly returns to normal, while COVID-19 related expenditures are phased out. The implementation of an IT system for VAT is under way, with the terms of reference and work timeline of a selected external consultant expected to be elaborated by September (SB) and the transition to the VAT regime completed by mid-2021. Over time, the VAT is expected to raise 2 percent of GDP in additional revenue, which, coupled with continued effort to improve tax administration, could help bring tax revenue to about 14.5 percent of GDP by 2024. The authorities are committed to containing expenditure, particularly by keeping the public wage bill under control and limiting new external borrowing contracts to only concessional loans and with an annual ceiling of 3 percent of GDP to reduce debt vulnerabilities. Further consolidation of about 1 percent of GDP, mainly through cuts in capital expenditure, is possible in the outer years if financing pressures arise.

Text Table 4. Estimate of COVID-19 Spending
(in percent of GDP)

	RCF	Revised
Health expenditure	0.7	1.5
Expanded social programs	0.1	0.8
Contribution to workers' salaries	0.5	0.5
Unemployment benefits in the formal sector	0.1	0.1
Support to unemployed in the informal sector	0.2	0.2
Total	**1.6**	**3.1**

19. Efforts are underway to improve public financial management (PFM) (including procurement processes) and transparency. The authorities reiterated their commitment to improve transparency by publishing on the Ministry of Finance (MOF) website (i) adjudication notices of public procurement contracts, (ii) all signed public procurement contracts exceeding a threshold, including COVID-19 related contracts, (iii) beneficiary ownership information of companies receiving these public procurement contracts, (iv) the ex-post validation of delivery of the contracts; and (v) monthly COVID-19 related expenditure reports (MEFP ¶22). Some contracts and COVID-19 spending for March, April, and May have been published. They also plan to implement the medium-term fiscal framework, strengthen cash flow projection and management, improve monetary and fiscal policy coordination, strengthen expenditure control to prevent domestic arrears, and enhance the enforcement of the procurement law.

20. The authorities have been in discussions with creditors to regularize external arrears, including with Angola, Brazil, and Equatorial Guinea (2.6 percent of GDP) and with Nigeria over a disputed loan. They are also making good faith efforts to resolve government arrears to foreign private creditors and ENCO's[5] arrears to its parent company Sonangol, partly resulting from foreign exchange restrictions.[6] The 2019 agreement on repaying EMAE's arrears to ENCO, including expected arrears, along with the existing agreement to repay the government's debt to ENCO, has significantly alleviated the debt burden in present value terms. The DSA shows that external and PPG debt are sustainable under the program, provided the country continues to contain the DPD, borrow externally only on concessional terms and at a measured pace, and implement planned EMAE reforms.

B. Monetary and Exchange Rate Policy

21. Monetary policy continues to be anchored by the peg to the euro, which has helped lower inflation. In response to the pandemic, the BCSTP lowered the minimum reserve requirement by four percentage points and liquidity ratios by 2.5 percentage points (MEFP ¶23). While all preparation was completed by late March, the issuance of certificates of deposit (SB-March 2020) was delayed as a result of heightened risks that bank liquidity might tighten in response to the onset of the pandemic and the associated six-month moratorium on credit repayments (MEFP ¶24). With IMF technical assistance, the BCSTP has improved its liquidity forecasting framework to three months out from only one month.

22. The authorities will continue to carefully monitor system-wide liquidity, balancing liquidity needs and appropriately tight monetary policy to protect the peg. They will adjust reserve requirements as needed and prepare to conduct certificates of deposit (CD) auctions in line with IMF TA recommendations should liquidity become excessive. They will also coordinate closely with the Treasury and develop a joint schedule of Treasury bill issuance (MEFP ¶25).

C. Financial Sector

23. The financial sector provided very limited support to the economy prior to the pandemic. With the pandemic, credit is expected to contract further. The government has required banks to grant a moratorium of six months to assist borrowers who are unable to make loan payments (MEFP ¶29), which will have an impact on banks' revenue and liquidity. The BCSTP has also recommended that banks reduce fees and commissions for transactions, which will further impact profitability in the banking sector. The authorities are also considering introducing a credit line (around US$6 million with equal risk assumed by the state and banks, with the state's share expected to be funded by external partners, such as

[5] Majority (77.56 percent) owned by Sonangol, an Angolan state-owned company. The government has a 16 percent share, and remaining shares are held by private owners.

[6] The authorities were granted a one-year extension on the temporary approval for the retention of measures resulting in exchange restrictions and a multiple currency practice subject to IMF jurisdiction under Article VIII, Sections 2(a) and 3 when the program was approved in October 2019.

the AfDB) for enterprises; however, there has been little progress over the last three months on establishing this program.

24. Adverse macro-financial linkages between the fiscal and banking sectors remain. Government arrears and a sluggish economy have contributed to high NPLs and low bank profitability, constraining credit.

25. The authorities are committed to strengthening financial supervision to safeguard financial stability. They will closely monitor the impact of the loan payment moratorium on bank profitability and enforce necessary prudential regulations. With the assistance of World Bank and IMF staff, the BCSTP is verifying the status of the AQR reclassification recommendations; moreover, the BCSTP will require that, in cases where recapitalization is needed, commercial banks submit a plan by September 2020 and complete any necessary recapitalization by end-2020 (MEFP ¶30). The BCSTP is also committed to exercising heightened oversight of banks with insufficient capital. It plans to increase its capacity to conduct off-site monitoring and, when conditions permit, on-site inspections (MEFP ¶31).

26. Steps are being taken to facilitate the resolution of non-performing loans. Specifically, draft regulations for the arbitration courts are being considered by the government and are expected to be submitted to parliament for approval by September 2020. Other preparation is also underway for the court to be operational by December 2020 (MEFP ¶32).

27. Limited progress on the liquidation of the two banks has been made. The liquidator of Banco Equador completed the asset evaluation but only sold a small portion of the fixed assets due in part to the constraints from the small market size and the pandemic. The remaining fixed assets are valued at about 1 percent of GDP, and the recoverable loan portfolio is assessed at less than 0.1 percent of GDP. So far, payments to small depositors (0.3 percent of GDP) constitute the main cost of resolving the bank.[7] Banco Privado (BPSTP) lost its license due to repeated non-compliance with BCSTP directives, and the BCSTP contacted the bank owners many times regarding selling the bank to a potential interested investor. Based on pre-crisis market interest, the bank is likely to be sold to a group of investors (MEFP ¶33) once the crisis subsides.

28. Access to finance remains a challenge, while a new payments system underway could facilitate access. The authorities plan to complete the legal framework for the collateral registry, which should help increase access to bank financing, particularly for women and SMEs. The BCSTP established a bureau for financial inclusion at the end of 2019, and the bureau is tasked with completing the national financial inclusion strategy and submitting for parliamentary approval by December 2020 (MEFP ¶35). The new payments

[7] Over 97 percent of payout to small depositors occurred during in 2016-17; the remaining unclaimed amount was about 0.15 percent of GDP at end-May 2020.

system, capable of accepting international credit cards, is expected to come online in late 2020, a few months later than expected due to pandemic-related shipment interruptions. It will support business transactions, increase tourism receipts over the medium term, facilitate distribution of social support, and improve tax and utility bill collection. A second stage featuring mobile and digital financial services will be supported by the AfDB (MEFP ¶36; ¶43)**.**

29. The BCSTP has made limited progress in implementing the 2019 safeguards recommendations. Revisions of the organic and financial institutions laws (SB-end-2019) have taken longer than planned due to the need to revise the two laws jointly. However, a draft of the organic law has been submitted to the BCSTP Board, and drafts of both laws are expected to be submitted to parliament in late 2020 (revised SB-December-2020). Other recommendations however have seen limited progress. These include strengthening financial reporting transparency through implementing the International Financial Reporting Standards (IFRS), reducing credit risks on foreign exchange placements, and establishing independent oversight at the Bank. Staff continues to follow up with BCSTP on these issues. The financial institutions law, once adopted, coupled with staying current on financial contributions will help preserve the country's membership in the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) (MEFP ¶35)

D. Growth-Enhancing Structural Reforms

30. Structural reform will be prioritized to facilitate recovery. Priority reforms include (1) rehabilitating the energy sector to provide low-cost, renewable, and reliable power and reduce large contingent public liabilities, (2) improving the business environment to reduce constraints for recovery, (3) promoting gender equality, and (4) adapting to climate change.

31. Comprehensive rehabilitation of the energy sector is especially critical to promoting growth and reining in debt. The transition to the new government in 2019 and some technical difficulties slowed reform (Text Table 5). Despite some improvements in collections, EMAE accumulated close to US$18 million (4 percent of GDP) in new debt to ENCO in 2019, compared with new debt of US$16 million in 2018, raising the external arrears by ENCO to its parent company by a similar amount (about US$15 million).

32. The government pledged to step up efforts for energy sector reform. Although some short-term measures have been taken to contain losses, e.g. installation of meters and cutting off supply after two missed payments, EMAE's losses remain large. With the support of the World Bank, detailed steps are outlined for the implementation of the Least Cost Development Plan (LCDP) and Management Improvement Plan (MIP), which will help EMAE achieve cost recovery overtime (MEFP ¶44-46). The program has three main intermediate objectives: reduction of losses (commercial and technical), reduction of peak energy consumption by 10 percent, and reforming the tariff structure. A biannual steering committee meeting chaired by the Prime Minister and with participation of the World Bank and IMF will be convened to assess progress and coordinate reforms.

Text Table 5. Implementation of Key EMAE Reforms		
Actions to be taken	**Target Date**	**Status**
Sign contract with EMAE CEO and establish a dedicated team	September 2019	Delayed Extra Time needed to procure a consultant.
Approve a decree to adjust tariffs	October 2019	Delayed Tariff adjustment without improved service could prompt large customers to switch to on-site ("self-generation") of electricity.
Develop arrears clearance plan with customers and cut off nonpaying customers	October 2019	Partially implemented Plans agreed with private customers; lack of meters hampered progress with some public institutions.

33. The country needs to improve the business environment to facilitate recovery. The government has taken some steps recently to improve the investment code. The authorities plan to develop a plan to remove the country from the European Union's Air Safety blacklist to facilitate the recovery of the tourism sector and exports. In this regard, the World Bank is exploring the option to help with the development of the plan and is preparing TA to help the airport operator obtain EU certification to handle air cargo to EU countries.

34. Improving gender equality and adaptation to climate change will be essential for sustainable growth. The authorities completed the National Strategy on Gender Equality and Equity (NSGEE) (structural benchmark) in December 2019. Going forward, they will aim to strengthen the legal framework, introduce awareness campaigns, and improve transparency by publishing gender-disaggregated data on ministry websites**.** They are also planning to pilot a gender budgeting initiative in coordination with development partners (MEFP ¶40). The impact of climate change is primarily in rising temperature and sea level, costal erosion, and changing precipitation patterns, hurting agriculture, fisheries, and eventually tourism. A number of externally financed projects are ongoing, including the regional project (WACA) supported by the World Bank, an early warning system supported by UNDP, and a recently launched project (COMPRAN) supported by FIDA to strengthen the agricultural sector (MEFP ¶41).

PROGRAM ISSUES, SAFEGUARDS, AND RISKS

35. The authorities requested a front-loaded augmentation of SDR 1,480,000 (10 percent of quota) to fill the immediate financing gap. The worsening global outlook of the pandemic and the local outbreak have further dimmed prospects for tourism and remittances in 2020 relative to the outlook at the time of RCF approval and have raised upfront medical costs. Moreover, as some external budgetary support is not expected until late 2020, the augmentation will help alleviate liquidity constraints during the year. The augmentation will help bring reserve coverage in months of regular (2019) imports to 5.0 by end-2021, the same coverage as in 2016 before reserves were hit by various shocks and policy slippages. Such buffers will help support confidence in the stability of the peg, especially as the crisis has exposed the country's vulnerability to external shocks. With the augmentation, IMF financing represents less than half of the external financing needs caused by COVID, with the rest largely financed by other official inflows, including World Bank and AFDB budgetary grants under discussion (Text Table 6).

Text Table 6. IMF Disbursement and Official Inflows
(in millions of US dollars)

	2020
Current IMF support	**17.8**
ECF	5.2
RCF	12.3
CCRT (prospective)	0.1
CCRT (disbursed)	0.2
Proposed ECF augmentation	**2.0**
Offical external inflow	**64.3**
Grants	***57.1***
Budget support grants	12.4
AFDB	6.8
European Union (EU)	5.6
of which augmentation due to COVID	2.6
Budget support grants under discussion	20.0
World Bank	10.0
AFDB	10.0
Project grants (excluding HIPC) 1/	21.0
of which augmentation due to COVID	5.0
Multilateral HIPC interim assistance	3.7
Concessional loans	***7.2***
Oil Fund	3.6
Private sector (net)	17.5
Total financing requirements	105.1
Financing Gap Caused by COVID	42.2

1/ Including from the World Bank, African Development Bank, EU, and European Investment Bank.

36. Program targets are adjusted and updated (MEFP Table 3 and 4). The adjusters on the PC targets (the DPD, net credit to government, and net international reserves (NIR)) were revised to accommodate for potential large shortfalls to inflows. The structural benchmarks (SB) for the rest of 2020 are streamlined and recalibrated, with the overall reform agenda and 2021 benchmarks to be revisited during the next review. Three new benchmarks are proposed: (i) completing initial steps for implementing the IT system for the VAT; (ii) improving transparency on procurement contracts and COVID-19 related spending; and (iii) developing a plan to remove the country from the European Union's Air Safety blacklist.

Measures under the structural benchmark for EMAE (MEFP ¶44-46) have been revised in consultation with the World Bank. Given the COVID shock, timing for achieving previously set benchmarks for a bank rating model (end-June 2020) and establishment of a real estate registry (end-June 2020) will be established during the next review, once the near-term outlook for the economy is clearer. The authorities are committed to implement by end-2020 the remaining elements of the AQR recommendations (SB end-March 2020, MEFP ¶30).

37. With the augmentation, the program is financed. There are firm commitments for the next 12 months of the program and good prospects for the remainder of the program**.** Due to São Tomé and Príncipe's imposition of exchange controls, there are external payment arrears, and a financing assurances review must be completed by the Executive Board.

38. Capacity to repay the Fund remains adequate (Table 8). Nonetheless, the COVID shock has raised risks: with the RCF disbursement and the proposed access augmentation, the debt service burden now peaks during 2026-29 at close to 1 percent of GDP annually. Debt-to-GDP ratios would rise further if the peg is ever abandoned, resulting in real depreciation. Risks to the program are also significant, notably contingent liabilities from EMAE, ENCO, and commercial banks as well as potential disruptions to oil supply. Weak capacity could also constrain program implementation, which, in turn, could delay external financing. That said, important mitigating factors supporting repayment capacity include savings in the Oil Fund (4 percent of GDP) and the unused credit line with Portugal (7 percent of GDP).

STAFF APPRAISAL

39. São Tomé and Príncipe's fragile island economy has been hit hard by the pandemic and faces longer-term challenges. The pandemic has caused a local outbreak, stopped tourist arrivals, interrupted international shipping, and delayed externally supported projects. The authorities are appropriately focusing on addressing the immediate needs to tackle the crisis while preparing for a strong sustainable recovery by implementing structural reforms.

40. Performance under the program was strong overall in 2019, although progress on structural reforms was mixed, but the wage bill in early 2020 deviated from the program. All end-2019 PC targets were met, reflecting in particular almost 2½ percent of GDP in fiscal consolidation. However, salary upgrades and new hires in the education, health, and security sectors in early 2020, not directly related to the epidemic, raised the wage bill by 1.1 percent of GDP over what was programed for the first quarter of 2020.

41. The authorities have taken appropriate measures to combat the epidemic, while keeping other spending, **besides the wage bill, under control**. They worked with international development partners to boost the health services and provide social protections to vulnerable families and laid-off workers. Measures were also taken to cushion the fall of revenue, including by keeping retail fuel prices unchanged to generate revenue from lower international oil prices and collecting a small solidarity contribution from workers who have been relatively unaffected. In the event of rising international fuel prices, they are committed to applying the automatic price adjustment mechanism to ensure retail fuel tariffs remain above costs including taxes and fees. The financial needs created by the epidemic are expected to be covered by the IMF disbursements under the RCF and augmented ECF, as well budgetary grants from other partners.

42. Over the medium term, the resumption of fiscal consolidation is essential to reduce fiscal and balance of payments vulnerabilities. The DPD is targeted to decline gradually to below 1 percent of GDP over the medium term through a combination of revenue mobilization and expenditure savings and restraint, while social and domestically financed capital spending are expanded to protect the most vulnerable and build infrastructure.

43. Domestic revenue mobilization is critical to enable higher social spending and investment. It is critical to finalize by mid-2021 the regulations and IT systems to apply the VAT, which together with tax administration reforms should help broaden the tax base and raise revenue by about two percentage points over the medium term.

44. PFM needs to be strengthened to prevent arrears accumulation and increase transparency. The recent publication of signed public contracts and monthly COVID-related spending is welcome. The authorities should ensure that all contracts and monthly COVID spending are published in a timely manner and in their entirety including annexes. The government is committed to not accumulating new arrears and will issue treasury bills to cover current payments as needed and to clear previous arrears. The planned strengthening of public procurement and supervisory procedures to ensure strict enforcement of procurement laws and prevent unbudgeted commitments by autonomous public entities will also be important.

45. The reform of EMAE is critical to support growth and for public debt to be sustainable. The envisaged steering committee chaired by the Prime Minister should help expedite EMAE's reform, reduce the large loss from EMAE, and reduce the country's debt vulnerability and pressure on the foreign exchange reserves, while providing cheaper and more reliable power to support development.

46. Regularization of external arrears should remain a priority. Discussions continue to regularize outstanding external arrears. The government is also committed to contract external loans only on concessional terms and limited to less than three percent of GDP per year. Work should continue to implement recommendations under the DeMPA and finalize the medium-term debt management strategy.

47. Banking supervision needs to be strengthened, in conjunction with the revised law on financial institutions. The AQR recommendations on provisioning and recapitalization need to be implemented to strengthen banking sector soundness. Staffing and capacity at the BCSTP needs to be strengthened to ensure effective supervision and enforcement. Ongoing work to improve regulations, staff capacity on risk and asset management, and the credit registry are important.

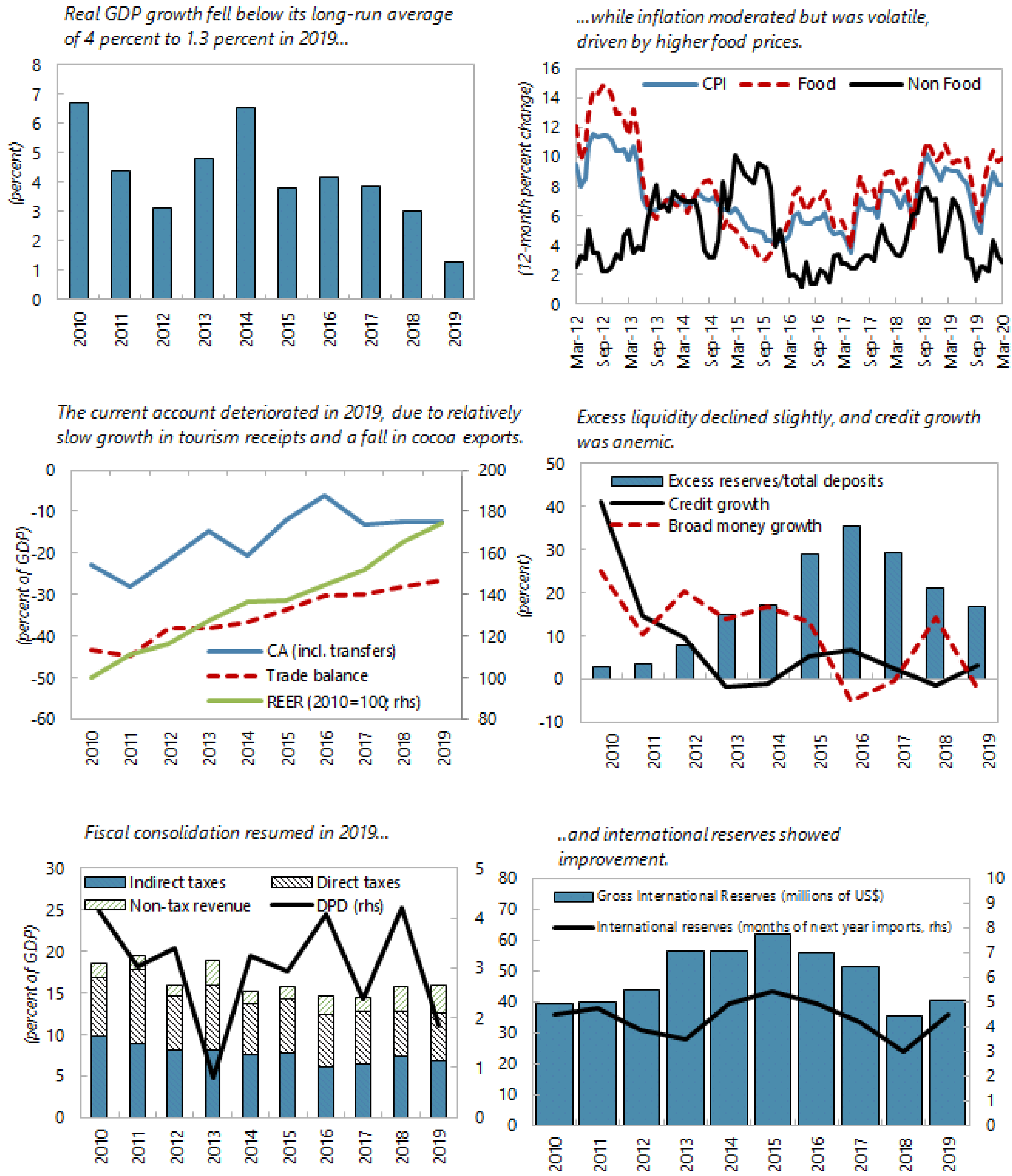
48. Further efforts are needed to reduce the high level of NPLs. The BCSTP should give guidance to banks for more rapid write-offs of defaulted loans. To assist loan recovery, concerted efforts are required to reform the legal system and increase the capacity of the courts. In this context, the progress in establishing arbitration tribunals for out-of-court settlement is encouraging and should be expedited. The recommendations of the safeguards assessment should be implemented without further delay.

49. To unleash growth potential, the country needs to improve the business environment. A codified procedure for the approval of private investments should be published to increase transparency. The nearly completed first phase of the payment system capable of processing international credit cards will not only help promote economic activities and increase tourism revenue but should also help to improve both financial inclusion and the collection of taxes and utility bills. The planned second stage of the payment system reform includes mobile and digital banking, which should further promote financial access. Developing a plan to remove the country from the EU air safety blacklist will be important to facilitate the recovery of tourism and future growth.

50. Promoting greater gender equality and adapting to climate change will also be important for medium-term growth. The recently adopted National Strategy on Gender Equality and Equity action plan to promote women's economic empowerment and financial inclusion should be implemented, including starting an awareness campaign and training on basic financial literacy this year. Climate change has caused costal erosion and changing precipitation patterns, hurting agriculture, fisheries, and eventually tourism. Work is underway to increase the country's resilience to climate change.

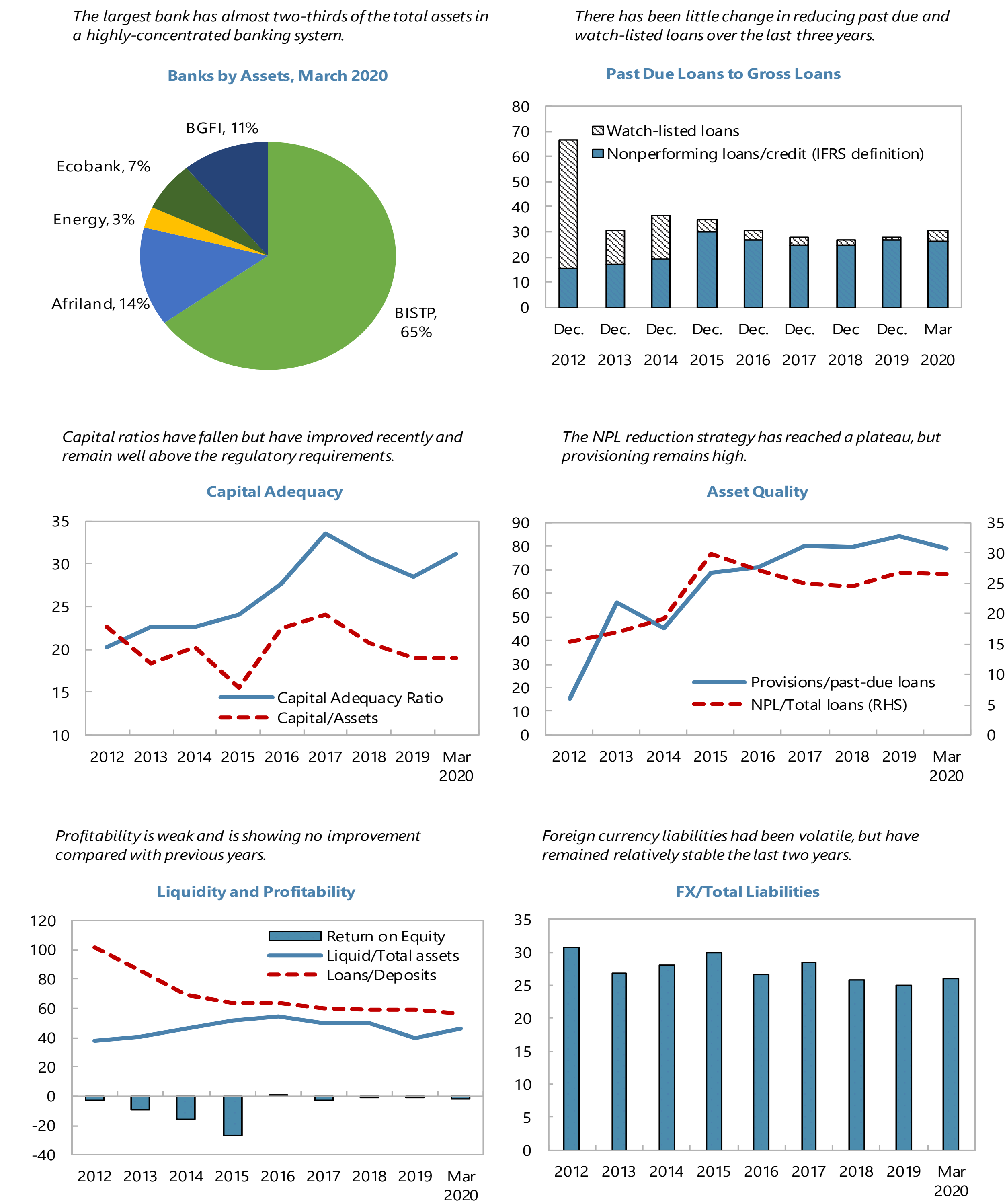
51. Staff supports the authorities' request for completion of the first review of the program under the ECF, the front-loaded augmentation of 10 percent of quota for disbursing at the completion of the first review, and rephasing of access.

Figure 1. São Tomé and Príncipe: Recent Macroeconomic Developments, 2010–19



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

Figure 2. São Tomé and Príncipe: Financial Sector Developments, 2012–20[1]



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

[1]Excluding Banco Equador (beginning December 2016) and BPSTP (beginning June 2018).

Table 1. São Tomé and Príncipe: Selected Economic Indicators, 2016–24

(Annual change in percent, unless otherwise indicated)

	2016	2017	2018	2019		2020		2021	2022	2023	2024
				ECF Req.		ECF Req.	Proj.	Proj.	Proj.	Proj.	Proj.
National income and prices											
GDP at constant prices	4.2	3.9	3.0	2.7	1.3	3.5	-6.5	3.0	5.5	4.5	4.5
GDP deflator	5.1	2.0	2.6	3.7	5.7	3.5	3.5	3.0	3.0	2.9	2.8
Consumer prices (End of period)	5.1	7.7	9.0	7.8	7.7	10.0	8.0	8.0	5.0	4.0	3.0
Consumer prices (Period average)	5.4	5.7	8.3	8.4	8.4	8.9	7.9	8.0	5.9	3.5	3.0
External trade											
Exports of goods and nonfactor services	8.9	-10.8	13.9	10.5	-1.8	11.0	-52.7	53.1	44.9	7.5	8.7
Imports of goods and nonfactor services	-0.4	5.5	4.3	1.8	-5.3	6.7	-17.9	2.2	15.1	4.4	5.9
Exchange rate (new dobras per US$; end of period) [1]	23.4	20.7	21.5	21.7	22.0	...	...	...	...	...	...
Real effective exchange rate (period average, depreciation = -)	5.7	4.9	8.7	...	5.7	...	...	...	...	...	...
Money and credit											
Base money	5.0	-9.6	0.8	-0.5	-7.4	2.6	-4.6	6.1	8.7	...	...
Broad money (M3)	-4.8	-0.4	14.3	0.0	-2.2	7.1	-0.6	6.1	8.7	...	...
Credit to the economy	6.6	2.5	-1.6	-6.7	3.2	0.6	0.1	2.7	3.6	...	...
Velocity (GDP to broad money; end of period)	2.8	3.1	3.0	3.0	3.0	3.0	3.0	3.0	3.0	...	...
Central bank reference interest rate (percent)	10.0	9.0	9.0	...	9.0	...	...	...	...	...	...
Average bank lending rate (percent)	19.6	19.6	19.9	...	19.1	...	...	...	...	...	...
Government finance (in percent of GDP)											
Total revenue, grants, and oil signature bonuses	28.2	24.9	24.1	21.0	22.5	23.6	24.6	22.7	22.8	23.4	23.2
Of which: tax revenue	12.3	12.7	12.8	12.5	12.6	13.0	12.9	13.2	13.9	14.5	14.6
Nontax revenue	2.3	1.7	3.1	1.8	3.3	1.8	2.4	2.8	2.8	2.7	2.9
Grants	13.5	10.5	8.3	6.7	6.6	8.9	9.3	6.7	6.1	6.1	5.7
Total expenditure and net lending	32.4	27.6	26.0	21.9	22.5	23.9	29.2	26.4	24.3	24.1	23.8
Personnel costs	8.9	8.3	9.3	9.2	9.2	8.8	11.0	10.3	9.8	9.6	9.6
Interest due	0.4	0.5	0.4	0.6	0.7	0.6	0.7	0.5	0.5	0.5	0.4
Nonwage noninterest current expenditure	8.0	6.9	7.0	6.3	7.6	6.3	8.4	8.2	7.7	7.5	7.5
Treasury funded capital expenditures	0.7	0.7	1.4	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.6
Donor funded capital expenditures	14.2	11.0	7.8	5.5	4.8	7.8	5.5	5.9	5.9	5.9	5.5
HIPC Initiative-related capital expenditure	0.2	0.2	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.3	0.3
COVID-19 spending	...	...	...	...	...	...	3.1	1.0	...	...	...
Domestic primary balance [2]	-4.1	-2.4	-4.2	-2.1	-1.8	-1.7	-6.3	-3.9	-1.5	-0.8	-0.7
Net domestic borrowing	2.8	1.8	3.4	0.7	-1.5	1.2	-0.9	3.1	1.2	0.4	0.8
Overall balance (commitment basis)	-4.2	-2.7	-1.9	-0.9	-0.1	-0.3	-4.6	-3.7	-1.5	-0.8	-0.7
Public Debt [3]	80.9	84.3	96.2	94.2	97.7	93.8	105.2	105.1	100.3	95.0	90.1
Of which: EMAE's debt to ENCO	16.1	19.3	23.3	23.2	26.4	...	32.7	34.4	34.1	33.0	31.9
External sector											
Current account balance (percent of GDP)											
Including official transfers	-6.1	-13.2	-12.3	-11.5	-12.5	-9.0	-17.0	-11.9	-9.3	-8.2	-7.6
Excluding official transfers	-20.0	-24.3	-21.0	-18.2	-19.0	-17.9	-26.3	-18.6	-15.4	-14.3	-13.4
PV of external debt (percent of GDP)	31.5	26.6	27.1	25.6	27.2	24.0	33.8	33.9	32.8	31.5	29.9
External debt service (percent of exports) [4]	3.3	3.8	2.6	5.1	4.5	5.3	9.5	8.8	7.9	7.3	8.9
Export of goods and non-factor services (US$ millions)	96.6	86.1	98.0	108.6	96.3	120.5	45.5	69.7	101.0	108.6	118.0
Gross international reserves [5]											
Millions of U.S. dollars	55.9	51.4	35.1	36.0	40.4	40.0	54.1	58.8	65.3	67.6	71.2
Months of imports of goods and nonfactor services [6]	4.9	4.2	3.0	3.3	4.5	3.6	6.0	5.6	6.0	5.9	5.9
In months of 2019 imports	...	...	...	...	3.4	...	4.6	5.0	5.5	...	...
National Oil Account (US$ millions)	11.5	11.3	19.5	18.5	18.8	17.8	15.2	12.4	10.1	8.2	6.7
Memorandum Item											
Gross Domestic Product											
Millions of new dobra	7,698	8,154	8,619	9,333	9,230	9,997	8,933	9,477	10,298	11,077	11,897
Millions of U.S. dollars	347.5	375.8	415.6	429.8	421.8	462.6	398.4	426.1	462.7	496.6	532.5
Per capita (in U.S. dollars)	1,738	1,842	1,989	1,999	1,980	2,111	1,828	1,911	2,038	2,141	2,247

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

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

[2] Excludes oil related revenues, grants, interest earned, scheduled interest payments, and foreign-financed capital outlay.

[3] Total public and publicly guaranteed debt as defined in DSA, which includes EMAE's debt to ENCO (and excludes the government's arrears to EMAE due to consolidation).

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

[5] Gross international reserves exclude the National Oil Account and commercial banks' foreign currency deposits at the BCSTP in order to meet reserve requirements, for new licensing, and for meeting capital requirements.

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

Table 2a. São Tomé and Príncipe: Financial Operations of the Central Government, 2016–24
(Millions of new dobra)

	2016	2017	2018	2019		2020		2021	2022	2023	2024
				ECF Req.		ECF Req.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants [1]	2168	2034	2081	1956	2073	2362	2201	2153	2350	2588	2756
Total revenue	1130	1174	1365	1335	1468	1472	1369	1522	1717	1907	2076
Tax revenue	949	1036	1099	1166	1160	1297	1152	1255	1427	1603	1732
Import taxes	371	388	486	502	472	547	535	551	551	583	632
Of which: payment to ENCO	...	...	...	0	0	32	22	22	22	22	22
Other taxes	578	647	613	664	689	750	617	704	876	1020	1100
Nontax revenue [2]	181	138	266	170	308	176	217	266	290	304	344
of which: oil revenue	74	51	212	61	70	61	2	2	2	2	2
Grants	1038	860	715	621	605	889	832	631	633	681	679
Project grants	891	594	557	366	333	635	471	397	399	429	415
Nonproject grants [6]	81	198	125	182	186	182	277	160	160	172	185
HIPC Initiative-related grants	65	67	33	73	86	72	83	74	74	79	79
Total expenditure	2494	2253	2243	2042	2079	2390	2608	2502	2506	2671	2836
Of which: domestic primary expenditure	1370	1316	1536	1472	1568	1550	1910	1868	1849	1970	2133
Current expenditure	1334	1287	1436	1503	1616	1569	1798	1800	1852	1943	2082
Personnel costs	684	681	798	856	848	875	980	980	1005	1059	1137
Interest due	34	43	34	60	66	61	66	48	51	51	49
Goods and services	249	253	260	236	235	243	255	260	274	284	305
Transfers	282	234	273	290	268	325	318	318	327	347	372
Other current expenditure [2]	84	76	71	61	199	65	179	194	194	203	218
Capital expenditure	1141	952	795	522	454	799	513	583	634	697	722
Financed by the Treasury	50	58	122	13	9	20	20	26	28	46	69
Financed by external sources	1090	894	673	509	445	779	493	557	605	651	653
HIPC Initiative-related capital expenditure	19	15	12	17	9	22	22	23	20	31	32
COVID-19 spending	...	...	...	...	...	...	274	95	...	...	...
Financed by the Treasury	...	...	...	...	...	...	136	66	...	...	...
Financed by external sources	...	...	...	...	...	...	138	29	...	...	...
Domestic primary balance [3]	-314	-193	-362	-198	-170	-170	-565	-370	-157	-87	-81
Overall fiscal balance (commitment basis) [6]	-326	-219	-162	-85	-6	-28	-407	-349	-156	-84	-80
Net change in domestic arrears	0	6	76	0	-100	-66	-70	-23	-23	-23	-23
Float and statistical discrepancies	0	-53	-24	0	251	0	0	0	0	1	2
Overall fiscal balance (cash basis) [6]	-30	-215	-111	-85	145	-94	-477	-372	-179	-106	-101
Financing	30	215	111	85	-145	94	24	372	179	107	103
Net external	62	103	67	0	-20	-11	47	37	28	38	-6
Disbursements [4]	143	160	116	143	96	143	161	190	206	222	238
Program financing (loans) [5]	32	37	16	...	...	...	...	...	...	...	...
Net domestic	-32	112	44	85	-125	104	-23	335	151	69	110
Net bank credit to the government	-32	112	44	85	-125	137	-1	358	174	92	132
Banking credit (net, excluding National Oil Account) [5]	-5	103	210	61	-142	117	-83	292	121	49	97
Of which: central bank on-lending of IMF resources	...	...	...	58	59	114	394	118	0	0	0
National Oil Account	-27	9	-167	24	17	20	82	66	53	43	35
Nonbank financing	0	0	0	0	0	-32	-22	-22	-22	-22	-22
Financing gap	0	0	0	0	0	0	-453	0	0	1	2
World Bank (budget support)	...	...	...	...	...	...	224	...	...	...	...
AFDB (budget support)	...	...	...	...	...	...	229	...	...	...	...
Memorandum items											
EMAE loss	438	285	349	...	388	...	...	...	...	...	...

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

[1] Revenue is measured on a cash basis.

[2] 'Non-tax revenue' and 'other current expenditure' exhibit a hike in 2019 as some autonomous entities were brought into the Treasury's accounts.

[3] Excludes oil related revenues and a fraction of the oil surcharge for ENCO debt repayment, grants, interest earned, scheduled interest payments, foreign-financed capital outlays, and capitalization of regional organizations per definition in TMU.

[4] Includes loan from Angola in 2016 and 2017.

[5] Includes use of IMF program support.

[6] Does not include the expected budget support grants for 2020 from the WB and AfDB (equalling D224 each), which are shown as filling the financing gap.

Table 2b. São Tomé and Príncipe: Financial Operations of the Central Government, 2016–24
(In percent of GDP)

	2016	2017	2018	2019		2020		2021	2022	2023	2024
				ECF Req.		ECF Req.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants [1]	**28.2**	**24.9**	**24.1**	**21.0**	**22.5**	**23.6**	**24.6**	**22.7**	**22.8**	**23.4**	**23.2**
Total revenue	14.7	14.4	15.8	14.3	15.9	14.7	15.3	16.1	16.7	17.2	17.5
Tax revenue	12.3	12.7	12.8	12.5	12.6	13.0	12.9	13.2	13.9	14.5	14.6
Import taxes	4.8	4.8	5.6	5.4	5.1	5.5	6.0	5.8	5.4	5.3	5.3
Of which: payment to ENCO	...	...	...	0.0	0.0	0.3	0.2	0.2	0.2	0.2	0.2
Other taxes	7.5	7.9	7.1	7.1	7.5	7.5	6.9	7.4	8.5	9.2	9.2
Nontax revenue [2]	2.3	1.7	3.1	1.8	3.3	1.8	2.4	2.8	2.8	2.7	2.9
of which: oil revenue	1.0	0.6	2.5	0.6	0.8	0.6	0.0	0.0	0.0	0.0	0.0
Grants	13.5	10.5	8.3	6.7	6.6	8.9	9.3	6.7	6.1	6.1	5.7
Project grants	11.6	7.3	6.5	3.9	3.6	6.4	5.3	4.2	3.9	3.9	3.5
Nonproject grants [6]	1.1	2.4	1.5	2.0	2.0	1.8	3.1	1.7	1.6	1.6	1.6
HIPC Initiative-related grants	0.8	0.8	0.4	0.8	0.9	0.7	0.9	0.8	0.7	0.7	0.7
Total expenditure	**32.4**	**27.6**	**26.0**	**21.9**	**22.5**	**23.9**	**29.2**	**26.4**	**24.3**	**24.1**	**23.8**
Of which: Domestic primary expenditure	17.8	16.1	17.8	15.8	17.0	15.5	21.4	19.7	18.0	17.8	17.9
Current expenditure	17.3	15.8	16.7	16.1	17.5	15.7	20.1	19.0	18.0	17.5	17.5
Personnel costs	8.9	8.3	9.3	9.2	9.2	8.8	11.0	10.3	9.8	9.6	9.6
Interest due	0.4	0.5	0.4	0.6	0.7	0.6	0.7	0.5	0.5	0.5	0.4
Goods and services	3.2	3.1	3.0	2.5	2.5	2.4	2.9	2.7	2.7	2.6	2.6
Transfers	3.7	2.9	3.2	3.1	2.9	3.3	3.6	3.4	3.2	3.1	3.1
Other current expenditure [2]	1.1	0.9	0.8	0.6	2.2	0.6	2.0	2.0	1.9	1.8	1.8
Capital expenditure	14.8	11.7	9.2	5.6	4.9	8.0	5.7	6.2	6.2	6.3	6.1
Financed by the Treasury	0.7	0.7	1.4	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.6
Financed by external sources	14.2	11.0	7.8	5.5	4.8	7.8	5.5	5.9	5.9	5.9	5.5
HIPC Initiative-related capital expenditure	0.2	0.2	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.3	0.3
COVID-19 spending	...	...	...	...	...	...	3.1	1.0	...	...	...
Financed by the Treasury	...	...	...	...	...	...	1.5	0.7	...	...	...
Financed by external sources	...	...	...	...	...	...	1.5	0.3	...	...	...
Domestic primary balance [3]	-4.1	-2.4	-4.2	-2.1	-1.8	-1.7	-6.3	-3.9	-1.5	-0.8	-0.7
Overall fiscal balance (commitment basis) [6]	-4.2	-2.7	-1.9	-0.9	-0.1	-0.3	-4.6	-3.7	-1.5	-0.8	-0.7
Net change in domestic arrears	0.0	0.1	0.9	0.0	-1.1	-0.7	-0.8	-0.2	-0.2	-0.2	-0.2
Float and statistical discrepancies	0.0	-0.7	-0.3	0.0	2.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (cash basis) [6]	**-0.4**	**-2.6**	**-1.3**	**-0.9**	**1.6**	**-0.9**	**-5.3**	**-3.9**	**-1.7**	**-1.0**	**-0.9**
Financing	**0.4**	**2.6**	**1.3**	**0.9**	**-1.6**	**0.9**	**0.3**	**3.9**	**1.7**	**1.0**	**0.9**
Net external	0.8	1.3	0.8	0.0	-0.2	-0.1	0.5	0.4	0.3	0.3	-0.1
Disbursements [4]	1.9	2.0	1.3	1.5	1.0	1.4	1.8	2.0	2.0	2.0	2.0
Program financing (loans) [5]	0.4	0.5	0.2	...	...	...	...	...	...	...	...
Scheduled amortization	-1.5	-1.2	-0.8	-1.5	-1.3	-1.5	-1.3	-1.6	-1.7	-1.7	-2.1
Net domestic	-0.4	1.4	0.5	0.9	-1.4	1.0	-0.3	3.5	1.5	0.6	0.9
Net bank credit to the government	-0.4	1.4	0.5	0.9	-1.4	1.4	0.0	3.8	1.7	0.8	1.1
Banking credit (net, excluding National Oil Account) [5]	-0.1	1.3	2.4	0.7	-1.5	1.2	-0.9	3.1	1.2	0.4	0.8
Of which: central bank on-lending of IMF resources	...	...	...	0.6	0.6	1.1	4.4	1.2	0.0	0.0	0.0
National Oil Account	-0.3	0.1	-1.9	0.3	0.2	0.2	0.9	0.7	0.5	0.4	0.3
Nonbank financing	0.0	0.0	0.0	0.0	0.0	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	-5.1	0.0	0.0	0.0	0.0
World Bank (budget support)	...	...	...	...	...	...	2.5	...	...	...	...
AFDB (budget support)	...	...	...	...	...	...	2.6	...	...	...	...
Memorandum items											
EMAE loss	5.8	3.7	3.8	...	4.2	...	...	...	...	...	...
Nominal GDP (Millions of new dobra)	7,698	8,154	8,619	9,333	9,230	9,997	8,933	9,477	10,298	11,077	11,897

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

[1] Revenue is measured on a cash basis.

[2] 'Non-tax revenue' and 'other current expenditure' exhibit a hike in 2019 as some autonomous entities were brought into the Treasury's accounts.

[3] Excludes oil related revenues and a fraction of the oil surcharge for ENCO debt repayment, grants, interest earned, scheduled interest payments, foreign-financed capital outlays, and capitalization of regional organizations per definition in TMU.

[4] Includes loan from Angola in 2016 and 2017.

[5] Includes use of IMF program support.

[6] Does not include the expected budget support grants for 2020 from the WB and AfDB (equalling 5 percent of GDP), which are shown as filling the financing gap.

Table 3. São Tomé and Príncipe: Summary Accounts of the Central Bank, 2016–21
(Millions of new dobra)

	2016	2017	2018	2019		2020		2021
				ECF Req.		ECF Req.	Proj.	
Net foreign assets	**1,775**	**1,474**	**1,416**	**1,448**	**1,502**	**1,469**	**1,524**	**1,589**
Claims on nonresidents	2,144	1,840	1,798	1,851	1,939	1,861	2,393	2,559
Official foreign reserves	1,752	1,442	1,352	1,402	1,447	1,465	1,893	2,061
Other foreign assets	392	398	446	449	492	396	500	498
Liabilities to nonresidents	-368	-366	-382	-403	-437	-393	-869	-970
Short-term liabilities to nonresidents[1]	-144	-158	-169	-188	-222	-179	-651	-752
Other foreign liabilities	-224	-208	-213	-215	-215	-213	-219	-218
Net domestic assets	**-135**	**9**	**80**	**41**	**-117**	**58**	**-202**	**-187**
Net domestic credit	259	172	133	54	-90	187	431	606
Claims on other depository corporations	198	195	195	145	190	145	190	190
Net claims on central government	-69	-157	-201	-125	-418	9	106	273
Claims on central government	446	260	310	370	305	484	729	823
Of which: use of SDRs/PRGF	*180*	*211*	*260*	*205*	*255*	*315*	*596*	*625*
Liabilities to central government	-515	-417	-511	-494	-723	-475	-622	-550
Ordinary deposits of central government	-33	-41	-20	-20	-41	-20	-41	-41
Counterpart funds	-82	-60	-65	-65	-96	-65	-96	-96
Foreign currency deposits	-400	-316	-426	-409	-586	-390	-485	-413
Of which: National oil account	*-271*	*-234*	*-419*	*-402*	*-414*	*-383*	*-340*	*-275*
Claims on other sectors	131	135	139	33	138	33	135	143
Other items (net)	-394	-163	-53	-13	-27	-129	-633	-793
Base money (M0)	**1,640**	**1,484**	**1,496**	**1,488**	**1,385**	**1,527**	**1,321**	**1,402**
Currency issued	309	324	393	461	411	504	436	463
Bank reserves	1,332	1,160	1,103	1,027	974	1,023	885	939
Of which: domestic currency	1,183	1,013	947	867	843	863	755	800
Of which: foreign currency	149	147	157	160	131	160	131	139
Memorandum items:								
Gross international reserves (US$ millions) [2]	55.9	51.4	35.1	36.0	40.4	40.0	54.1	58.8
Months of imports of goods and nonfactor services [3]	4.9	4.2	3.0	3.3	4.5	3.6	6.0	5.6
in months of 2019 imports	...	...	...	...	3.4	...	4.6	5.0
Gross international reserves (US$ millions) inc. commercial banks reserves	62.3	58.5	42.4	43.4	46.4	...	60.0	65.1
Months of imports of goods and nonfactor services [3]	5.5	4.8	3.6	4.0	5.1	...	6.6	6.2
Net international reserves (US$ millions) [4]	49.7	43.8	27.2	27.4	30.4	31.6	25.0	25.0
Months of imports of goods and nonfactor services [3]	4.4	3.6	2.3	2.5	3.4	2.8	2.8	2.4
National Oil Account (US$ millions)	11.5	11.3	19.5	18.5	18.8	17.8	15.2	12.4
Commercial banks reserves in foreign currency (US$ millions)	6.3	7.1	7.3	7.4	5.9	7.4	5.9	6.2
Guaranteed deposits (US$ millions)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Base money (annual percent change)	5.0	-9.6	0.8	-0.5	-7.4	2.6	-4.6	6.1

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

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

[2] Gross international reserves exclude the National Oil Account and commercial banks' foreign currency deposits at the BCSTP in order to meet reserve requirements, for new licensing, and for meeting capital requirements.

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

[4] Net international reserves exclude the National Oil Account and commercial banks' foreign currency deposits at the BCSTP in order to meet reserve requirements, for new licensing, and for meeting capital requirements.

Table 4. São Tomé and Príncipe: Monetary Survey, 2016–21

(Millions of new dobra)

	2016	2017	2018	2019		2020		2021
				ECF Req.	Prel.	ECF Req.	Proj.	
Net foreign assets	**2,105**	**1,582**	**1,636**	**1,615**	**1,760**	**1,639**	**1,773**	**1,841**
Net foreign assets of the BCSTP	1,775	1,474	1,416	1,448	1,502	1,469	1,524	1,589
Net foreign assets of other depository corporations	330	108	220	220	258	171	249	252
Net domestic assets	**586**	**1,099**	**1,429**	**1,450**	**1,238**	**1,644**	**1,207**	**1,321**
Net domestic credit	1,779	1,972	2,228	2,165	2,158	2,316	2,197	2,603
Net claims on central government	-336	-196	94	175	-43	314	-8	339
Claims on central government	483	687	977	1,041	1,213	1,161	1,148	1,423
Liabilities to central government	-819	-883	-883	-866	-1,256	-847	-1,155	-1,083
Budgetary deposits	-33	-41	-20	-20	-41	-20	-41	-41
Counterpart funds	-82	-60	-65	-65	-96	-65	-96	-96
Foreign currency deposits	-704	-782	-798	-781	-1,119	-762	-1,018	-946
Of which: National Oil Account	-271	-234	-419	-402	-414	-383	-340	-275
Claims on other sectors	2,115	2,168	2,134	1,990	2,202	2,003	2,205	2,263
Of which: claims in foreign currency	515	442	395	388	371	390	373	382
(Millions of $US)	22	21	18	18	17	18	17	17
Other items (net)	-1,193	-873	-799	-715	-921	-672	-989	-1,281
Broad money (M3)	**2,691**	**2,681**	**3,066**	**3,065**	**2,998**	**3,283**	**2,981**	**3,162**
Local currency liabilities included in broad money (M2)	1,898	1,966	2,325	2,325	2,293	2,490	2,280	2,419
Money (M1)	1,522	1,578	1,849	1,849	1,907	1,981	1,897	2,012
Currency outside depository corporations	259	295	314	296	315	317	313	332
Transferable deposits in dobra	1,264	1,283	1,535	1,553	1,592	1,664	1,583	1,680
Other deposits in dobra	375	388	476	476	386	509	384	407
Foreign currency deposits	794	716	741	740	704	793	700	743
Memorandum items:								
Velocity (ratio of GDP to M3; end of period)	2.8	3.1	3.0	3.0	3.0	3.0	3.0	3.0
Money multiplier (M3/M0)	1.6	1.8	2.0	2.1	2.2	2.2	2.3	2.3
Base money (12-month growth rate)	5.0	-9.6	0.8	-0.5	-7.4	2.6	-4.6	6.1
Claims on other resident sectors (12-month growth rate)	6.6	2.5	-1.6	-6.7	3.2	0.6	0.1	2.7
M3 (12-month growth rate)	-4.8	-0.4	14.3	0.0	-2.2	7.1	-0.6	6.1
Eurorization ratio	32.3	27.1	26.2	23.9	25.6	23.7	26.2	26.2

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

Table 5. São Tomé and Príncipe: Financial Soundness Indicators, 2016–19[1]

(Percent)

	2016 Dec.	2017 Dec.	2018 Dec.	2019 Mar.	2019 June	2019 Sep.	2019 Dec.
Capital Adequacy							
Regulatory capital to risk-weighted assets	27.8	33.6	30.7	28.9	31.5	30.9	28.5
Percentage of banks (out of total number) with regulatory capital to risk-weighted assets							
... greater or equal to 10 percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0
... between 6 and 10 percent	0.0	0.0	0.0	0.0	0.0	0.0	0.0
... below 6 percent minimum	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital (net worth) to assets	22.5	24.0	20.8	20.5	19.5	19.5	18.9
Deposits with banks below 6 percent capital to assets							
... (in millions of dobras)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
... (percent of deposits)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
... (percent of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Asset quality							
Foreign exchange loans to total loans	27.5	17.2	9.7	9.4	8.8	8.7	8.4
Past-due loans to gross loans	30.7	27.6	26.9	29.4	26.8	25.5	28.1
Non-performing loans/total credit							
Nonperforming loans/credit (IFRS definition)	27.0	24.9	24.6	24.9	24.5	23.5	26.7
Watch-listed loans	3.7	2.8	2.3	4.5	2.3	2.1	1.4
Provision as percent of past-due loans	71.2	80.0	79.7	75.8	83.9	85.2	83.8
Earnings and profitability							
Return on assets	0.0	-0.6	-0.1	0.2	0.4	0.8	-0.2
Return on equity	0.2	-3.0	-0.8	0.9	2.0	4.2	-1.4
Expense (w/ amortization & provisions)/income	108.6	112.8	106.7	98.6	97.6	92.1	108.0
Liquidity							
Liquid assets/total assets	54.0	49.7	50.1	41.9	43.7	44.0	40.1
Liquid assets/short term liabilities	84.6	69.1	66.3	55.5	56.8	57.0	51.6
Loan/total liabilities	47.0	53.1	51.6	51.6	50.8	51.3	51.3
Foreign exchange liabilities/total liabilities	26.6	28.6	25.8	25.2	24.3	25.0	25.5
Loan/deposits	63.5	59.7	59.1	59.1	58.1	58.4	59.5
Sensitivity to market risk							
Foreign exchange liabilities to shareholders funds	91.5	90.5	98.2	98.0	100.2	103.3	109.0

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

[1]Excluding Banco Equador (beginning December 2016) and BPSTP (beginning June 2018).

Table 6a. São Tomé and Príncipe: Balance of Payments, 2016–24
(Millions of U.S. dollars)

	2016	2017	2018	2019		2020		2021	2022	2023	2024
				ECF Req.	Est.	ECF Req.	Proj.	Proj.	Proj.	Proj.	Proj.
Trade balance	**-105.5**	**-112.1**	**-116.8**	**-119.0**	**-112.3**	**-125.1**	**-82.6**	**-97.2**	**-106.2**	**-109.6**	**-116.4**
Exports, f.o.b.	13.6	15.6	16.0	16.2	14.1	19.7	14.7	20.3	21.2	23.4	25.0
Cocoa	8.6	8.6	8.2	8.0	6.9	11.0	7.0	11.4	11.4	11.9	12.4
Re-export	3.2	4.7	6.8	5.5	3.4	5.3	3.4	3.2	3.4	4.6	5.1
Imports, f.o.b.	-119.1	-127.7	-132.9	-135.2	-126.4	-144.7	-97.2	-117.5	-127.4	-133.0	-141.4
Food	-36.1	-31.6	-31.1	-32.6	-31.3	-34.3	-29.3	-30.2	-31.8	-33.3	-34.8
Petroleum products	-21.7	-27.6	-33.6	-30.6	-34.2	-29.1	-18.8	-20.1	-23.1	-25.8	-28.4
Non-oil investment goods	-31.2	-33.5	-31.3	-33.5	-23.5	-41.0	-27.1	-28.7	-30.7	-33.1	-34.3
Oil sector related investment goods	-12.7	-21.2	-19.6	-36.6	-22.9	-40.4	-19.8	-22.5	-25.9	-27.9	-30.0
Other	-17.4	-13.8	-17.2	-1.9	-14.6	-0.1	-2.2	-16.0	-15.8	-13.1	-14.0
Services and income (net)	**19.9**	**3.9**	**13.5**	**25.0**	**16.1**	**26.2**	**-30.2**	**4.5**	**20.2**	**22.8**	**28.4**
Exports of nonfactor services	82.9	70.5	82.0	92.4	82.2	100.9	30.9	49.4	79.8	85.1	93.0
Of which : travel and tourism	68.8	59.9	68.0	81.6	66.6	89.5	14.7	29.3	58.6	62.7	69.4
Imports of nonfactor services	-63.9	-65.5	-68.6	-66.1	-64.4	-70.1	-59.5	-42.8	-57.1	-59.5	-62.5
Factor services (net)	1.0	-1.1	0.1	-1.2	-1.7	-4.6	-1.6	-2.1	-2.5	-2.8	-2.2
Of which: oil related	0.0	-1.1	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Private transfers (net)	**15.9**	**16.7**	**16.3**	**15.8**	**15.9**	**16.3**	**8.0**	**13.5**	**14.6**	**15.7**	**16.9**
Official transfers (net)	**48.5**	**41.7**	**36.0**	**28.6**	**27.6**	**41.2**	**37.1**	**28.4**	**28.4**	**30.5**	**30.4**
Of which : project grants (excluding HIPC grants)	40.2	27.4	26.9	16.8	15.2	29.4	21.0	17.8	17.9	19.3	18.6
HIPC Initiative-related grants	2.9	3.1	1.6	3.4	3.9	3.4	3.7	3.3	3.3	3.5	3.5
Current account balance											
Including official transfers	-21.1	-49.7	-51.1	-49.5	-52.7	-41.5	-67.8	-50.9	-42.9	-40.6	-40.7
Excluding official transfers	-69.6	-91.5	-87.1	-78.1	-80.3	-82.6	-104.9	-79.3	-71.4	-71.1	-71.1
Capital and financial account balance	**-9.8**	**74.9**	**-3.7**	**47.1**	**42.3**	**41.1**	**19.3**	**37.7**	**38.1**	**42.5**	**44.2**
Capital transfer	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-9.8	74.9	-3.7	47.1	42.3	41.1	19.3	37.7	38.1	42.5	44.2
Foreign Direct Investment	22.3	33.0	21.1	38.5	27.2	43.2	22.9	26.9	30.8	33.1	36.6
Petroleum related investment	19.3	32.1	20.6	0.0	24.1	42.5	20.8	23.7	27.3	29.3	31.5
Portfolio Investment (net)	0.2	0.6	-21.7	2.8	-7.6	0.0	0.0	0.0	0.0	0.0	0.0
Oil signature bonuses	3.3	2.3	10.2	5.1	3.2	2.8	0.1	0.1	0.1	0.1	0.1
Other investment (net)	-35.7	39.0	-13.4	0.7	19.6	-4.9	-3.7	10.8	7.2	9.3	7.5
Assets	-19.5	2.2	-9.5	0.4	-8.5	-9.9	-8.5	-8.6	-8.8	-8.9	-9.0
Public sector (net)	2.4	2.9	2.6	-12.4	1.6	-0.5	1.8	1.7	1.2	1.7	-0.3
Project loans	6.4	7.4	5.6	0.0	4.4	6.6	7.2	8.5	9.3	9.9	10.7
Program loans	0.0	0.0	0.0	-6.2	2.7	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-4.0	-4.4	-3.0	-6.2	-5.5	-7.1	-5.4	-6.9	-8.0	-8.2	-10.9
Of which : HIPC Initiative-related grants	-2.5	-2.6	-1.4	-2.9	-3.4	-2.9	-3.3	-2.9	-2.9	-3.2	-3.2
Private sector (net)	-18.6	33.9	-6.5	12.7	26.5	5.5	3.1	17.7	14.8	16.5	16.9
Commercial banks	13.8	8.8	-5.0	2.5	-1.5	-0.2	0.6	-0.2	0.1	-0.8	0.0
Short-term private capital	-32.3	25.0	-1.5	10.2	28.0	5.7	2.5	17.9	14.7	17.3	16.9
Errors and omissions	23.5	-32.2	46.8	0.0	10.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-4.6**	**-10.4**	**-8.0**	**-2.4**	**0.1**	**-0.4**	**-48.5**	**-13.2**	**-4.8**	**1.9**	**3.5**
Financing	4.6	10.4	8.2	2.4	-0.1	0.9	26.4	7.5	4.7	-2.0	-3.5
Change in official reserves, excl. NOA (increase= -)	6.8	6.7	15.8	-0.8	-3.1	-5.3	5.4	0.0	-2.0	-3.3	-4.5
Use of Fund resources (net)	0.9	2.6	0.5	2.3	2.3	5.5	17.3	4.7	4.5	-0.6	-0.5
Purchases	1.8	2.8	0.9	2.7	2.7	5.7	17.5	5.2	5.2	0.0	0.0
Repurchases (incl. MDRI repayment)	-0.9	-0.2	-0.4	-0.4	-0.4	-0.2	-0.22	-0.6	-0.8	-0.6	-0.5
National Oil Account (increase = -)	-1.3	0.2	-8.2	0.9	0.7	0.7	3.5	2.9	2.3	1.9	1.5
Exceptional financing (IMF CCRT)	0.0	0.0	0.0	0.0	0.0	0.0	0.2	...	...	...	...
Financing Gap (+)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**22.1**	**5.6**	**0.0**	**0.1**	**0.0**
Prospective CCRT[1]	...	...	...	...	...	...	0.1	0.6	0.0	0.0	0.0
ECF augmentation	...	...	...	...	...	...	2.0	0.0	0.0	0.0	0.0
World Bank (budget support)	...	...	...	...	...	...	10.0	0.0	0.0	0.0	0.0
AFDB (budget support)	...	...	...	...	...	...	10.0	0.0	0.0	0.0	0.0
Unidentified support[5]	...	...	...	...	...	...	0.0	5.1	0.0	0.1	0.0
Memorandum items:											
Current account balance (percent of GDP)											
Including official transfers	-6.1	-13.2	-12.3	-11.5	-12.5	-9.0	-17.0	-11.9	-9.3	-8.2	-7.6
Excluding official transfers	-20.0	-24.3	-21.0	-18.2	-19.0	-17.9	-26.3	-18.6	-15.4	-14.3	-13.4
Debt service ratio (percent of exports)[2]	3.3	3.8	2.6	5.1	4.5	5.3	9.5	8.8	7.9	7.3	8.9
Gross international reserves[3]											
Millions of U.S. dollars	55.9	51.4	35.1	36.0	40.4	40.0	54.1	58.8	65.3	67.6	71.2
Months of imports of goods and nonfactor services[4]	4.9	4.2	3.0	3.3	4.5	3.6	6.0	5.6	6.0	5.9	5.9

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

[1] The grant for the debt service falling due in the 18 months from October 14, 2020 is subject to the availability of resources under the CCRT.

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

[3] Gross international reserves exclude the National Oil Account and commercial banks' foreign currency deposits at the BCSTP in order to meet reserve requirements, for new licensing, and for meeting capital requirements.

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

[5] Financing for after July 2021

Table 6b. São Tomé and Príncipe: Balance of Payments, 2016–24

(In percent of GDP)

	2016	2017	2018	2019		2020		2021	2022	2023	2024
				ECF Req.	Est.	ECF Req.	Proj.	Proj.	Proj.	Proj.	Proj.
Trade balance	**-30.3**	**-29.8**	**-28.1**	**-27.7**	**-26.6**	**-27.0**	**-20.7**	**-22.8**	**-23.0**	**-22.1**	**-21.9**
Exports, f.o.b.	3.9	4.1	3.9	3.8	3.3	4.3	3.7	4.8	4.6	4.7	4.7
Cocoa	2.5	2.3	2.0	1.9	1.6	2.4	1.8	2.7	2.5	2.4	2.3
Re-export	0.9	1.3	1.6	1.3	0.8	1.2	0.9	0.8	0.7	0.9	1.0
Imports, f.o.b.	-34.3	-34.0	-32.0	-31.4	-30.0	-31.3	-24.4	-27.6	-27.5	-26.8	-26.5
Food	-10.4	-8.4	-7.5	-7.6	-7.4	-7.4	-7.4	-7.1	-6.9	-6.7	-6.5
Petroleum products	-6.2	-7.3	-8.1	-7.1	-8.1	-6.3	-4.7	-4.7	-5.0	-5.2	-5.3
Non-oil investment goods	-9.0	-8.9	-7.5	-7.8	-5.6	-8.9	-6.8	-6.7	-6.6	-6.7	-6.4
Oil sector related investment goods	-3.7	-5.6	-4.7	-8.5	-5.4	-8.7	-5.0	-5.3	-5.6	-5.6	-5.6
Other	-5.0	-3.7	-4.1	-0.4	-3.5	0.0	-0.6	-3.7	-3.4	-2.6	-2.6
Services and income (net)	**5.7**	**1.0**	**3.2**	**5.8**	**3.8**	**5.7**	**-7.6**	**1.0**	**4.4**	**4.6**	**5.3**
Exports of nonfactor services	23.9	18.8	19.7	21.5	19.5	21.8	7.7	11.6	17.2	17.1	17.5
Of which : travel and tourism	19.8	15.9	16.4	19.0	15.8	19.3	3.7	6.9	12.7	12.6	13.0
Imports of nonfactor services	-18.4	-17.4	-16.5	-15.4	-15.3	-15.2	-14.9	-10.0	-12.3	-12.0	-11.7
Factor services (net)	0.3	-0.3	0.0	-0.3	-0.4	-1.0	-0.4	-0.5	-0.5	-0.6	-0.4
Of which: oil related	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private transfers (net)	**4.6**	**4.4**	**3.9**	**3.7**	**3.8**	**3.5**	**2.0**	**3.2**	**3.2**	**3.2**	**3.2**
Official transfers (net)	**14.0**	**11.1**	**8.7**	**6.7**	**6.6**	**8.9**	**9.3**	**6.7**	**6.1**	**6.1**	**5.7**
Of which : project grants (excluding HIPC grants)	11.6	7.3	6.5	3.9	3.6	6.4	5.3	4.2	3.9	3.9	3.5
HIPC Initiative-related grants	0.8	0.8	0.4	0.8	0.9	0.7	0.9	0.8	0.7	0.7	0.7
Current account balance											
Including official transfers	-6.1	-13.2	-12.3	-11.5	-12.5	-9.0	-17.0	-11.9	-9.3	-8.2	-7.6
Excluding official transfers	-20.0	-24.3	-21.0	-18.2	-19.0	-17.9	-26.3	-18.6	-15.4	-14.3	-13.4
Capital and financial account balance	**-2.8**	**19.9**	**-0.9**	**10.9**	**10.0**	**8.9**	**4.8**	**8.9**	**8.2**	**8.6**	**8.3**
Capital transfer	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-2.8	19.9	-0.9	10.9	10.0	8.9	4.8	8.9	8.2	8.6	8.3
Foreign Direct Investment	6.4	8.8	5.1	9.1	6.4	9.3	5.7	6.3	6.7	6.7	6.9
Recovery of oil capital expense	-5.6	-8.5	-5.0	...	-5.7	...	-5.2	-5.6	-5.9	-5.9	-5.9
Portfolio Investment (net)	0.1	0.2	-5.2	0.0	-1.8	0.0	0.0	0.0	0.0	0.0	0.0
Oil signature bonuses	1.0	0.6	2.5	0.6	0.8	0.6	0.0	0.0	0.0	0.0	0.0
Other investment (net)	-10.3	10.4	-3.2	1.2	4.6	-1.1	-0.9	2.5	1.6	1.9	1.4
Assets	-5.6	0.6	-2.3	-2.3	-2.0	-2.1	-2.1	-2.0	-1.9	-1.8	-1.7
Public sector (net)	0.7	0.8	0.6	0.1	0.4	-0.1	0.4	0.4	0.3	0.3	-0.1
Project loans	1.9	2.0	1.3	1.5	1.0	1.4	1.8	2.0	2.0	2.0	2.0
Program loans	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.1	-1.2	-0.7	-1.5	-1.3	-1.5	-1.4	-1.6	-1.7	-1.7	-2.1
Of which : HIPC Initiative-related grants	-0.7	-0.7	-0.3	0.0	-0.8	-0.7	-0.8	-0.7	-0.6	-0.6	-0.6
Private sector (net)	-5.3	9.0	-1.6	3.3	6.3	1.1	0.8	4.2	3.2	3.3	3.2
Commercial banks	4.0	2.3	-1.2	0.6	-0.4	-0.1	0.1	0.0	0.0	-0.2	0.0
Short-term private capital	-9.3	6.7	-0.4	2.8	6.6	1.2	0.6	4.2	3.2	3.5	3.2
Errors and omissions	**6.8**	**-8.6**	**11.3**	**0.0**	**2.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-1.3**	**-2.8**	**-1.9**	**-0.6**	**0.0**	**-0.1**	**-12.2**	**-3.1**	**-1.0**	**0.4**	**0.7**
Financing	1.3	2.8	2.0	0.6	0.0	0.2	6.6	1.8	1.0	-0.4	-0.7
Change in official reserves, excl. NOA (increase= -)	2.0	1.8	3.8	-0.2	-0.7	-1.1	1.3	0.0	-0.4	-0.7	-0.8
Use of Fund resources (net)	0.3	0.7	0.1	0.5	0.6	1.2	4.3	1.1	1.0	-0.1	-0.1
Purchases	0.5	0.7	0.2	0.6	0.6	1.2	4.4	1.2	1.1	0.0	0.0
National Oil Account (increase = -)	-0.4	0.1	-2.0	0.2	0.2	0.2	0.9	0.7	0.5	0.4	0.3
Exceptional financing (IMF CCRT)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	...	...	...
Financing Gap (+)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**5.5**	**1.3**	**0.0**	**0.0**	**0.0**
Prospective CCRT[1]	...	...	...	...	...	...	0.0	0.1	0.0	0.0	0.0
ECF augmentation	...	...	...	...	...	...	0.5	0.0	0.0	0.0	0.0
World Bank (budget support)	...	...	...	...	...	...	2.5	0.0	0.0	0.0	0.0
AFDB (budget support)	...	...	...	...	...	...	2.5	0.0	0.0	0.0	0.0
Unidentified support [5]	...	...	...	...	...	...	0.0	1.2	0.0	0.0	0.0
Memorandum items:											
Debt service ratio (percent of exports) [2]	3.3	3.8	2.6	5.1	4.5	5.3	9.5	8.8	7.9	7.3	8.9
Gross international reserves [3]											
Millions of U.S. dollars	55.9	51.4	35.1	36.0	40.4	40.0	54.1	58.8	65.3	67.6	71.2
Months of imports of goods and nonfactor services [4]	4.9	4.2	3.0	3.3	4.5	3.6	6.0	5.6	6.0	5.9	5.9

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

[1] The grant for the debt service falling due in the 18 months from October 14, 2020 is subject to the availability of resources under the CCRT

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

[3] Gross international reserves exclude the National Oil Account and commercial banks' foreign currency deposits at the BCSTP in order to meet reserve requirements, for new licensing, and for meeting capital requirements.

[4] Imports of goods and nonfactor services excluding imports of investment goods and technical assista

[5] Financing for after July 2021

Table 7. São Tomé and Príncipe: External Financing Requirements and Sources, 2016–24
(Millions of U.S. dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Gross financing requirements	**-66.8**	**-92.0**	**-74.8**	**-89.3**	**-105.1**	**-86.7**	**-82.2**	**-83.2**	**-87.1**
Current account, excluding official transfers	-69.6	-91.5	-87.1	-80.3	-104.9	-79.3	-71.4	-71.1	-71.1
Exports, f.o.b.	13.6	15.6	16.0	14.1	14.7	20.3	21.2	23.4	25.0
Imports, f.o.b.	-119.1	-127.7	-132.9	-126.4	-97.2	-117.5	-127.4	-133.0	-141.4
Services and income (net)	19.9	3.9	13.5	16.1	-30.2	4.5	20.2	22.8	28.4
Private transfers	15.9	16.7	16.3	15.9	8.0	13.5	14.6	15.7	16.9
Financial account	-3.9	-7.2	-3.4	-5.9	-5.6	-7.4	-8.8	-8.9	-11.5
Scheduled amortization	-4.0	-4.4	-3.0	-5.5	-5.4	-6.9	-8.0	-8.2	-10.9
IMF repayments	-0.9	-0.2	-0.4	-0.4	-0.2	-0.6	-0.8	-0.6	-0.5
Change in external reserves (-ve = increase)	6.8	6.7	15.8	-3.1	5.4	0.0	-2.0	-3.3	-4.5
Available funding	**66.8**	**91.9**	**74.8**	**89.3**	**83.0**	**81.1**	**82.1**	**83.1**	**87.0**
National Oil Fund (net)	2.1	2.6	2.1	3.9	3.6	2.9	2.4	1.9	1.6
Oil signature bonuses	3.3	2.3	10.2	3.2	0.1	0.1	0.1	0.1	0.1
Saving (-ve = accumulation of oil reserve fund)	-1.3	0.2	-8.2	0.7	3.5	2.9	2.3	1.9	1.5
Expected disbursements	54.9	49.1	41.6	34.7	44.3	36.9	37.7	40.4	41.0
Multilateral HIPC interim assistance	2.9	3.1	1.6	3.9	3.7	3.3	3.3	3.5	3.5
Grants	45.6	38.6	34.4	23.7	33.4	25.0	25.1	27.0	26.9
Concessional loans	6.4	7.4	5.6	7.1	7.2	8.5	9.3	9.9	10.7
Project loans	6.4	7.4	5.6	4.4	7.2	8.5	9.3	9.9	10.7
Program loans	0.0	0.0	0.0	2.7	0.0	0.0	0.0	0.0	0.0
Private sector (net)	8.0	37.4	30.2	48.0	17.5	36.0	36.8	40.7	44.4
IMF ECF	1.8	2.8	0.9	2.7	5.2	5.2	5.2	0.0	0.0
IMF CCRT	…	…	…	…	0.2	…	…	…	…
IMF RCF	…	…	…	…	12.3	…	…	…	…
Financing Gap	**0.0**	**0.0**	**0.0**	**0.0**	**22.1**	**5.6**	**0.0**	**0.1**	**0.0**
IMF Prospective CCRT	…	…	…	…	0.1	0.6	0.0	0.0	0.0
ECF augmentation	…	…	…	…	2.0	0.0	0.0	0.0	0.0
World Bank	…	…	…	…	10.0	0.0	0.0	0.0	0.0
AfDB	…	…	…	…	10.0	0.0	0.0	0.1	0.0
Unidentified	…	…	…	…	0.0	5.1	0.0	0.0	0.0

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

Table 8. São Tomé and Príncipe: Indicators of Capacity to Repay the Fund, 2020–34
(as of July 9, 2020)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Fund obligations based on existing credit (millions of SDRs)															
Principal	0.07	0.41	0.60	0.75	0.76	2.04	2.76	2.57	2.31	2.19	0.90	0.00	0.00	0.00	0.00
Charges and interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fund obligations based on existing and prospective credit (millions of SDRs)															
Principal	0.07	0.41	0.60	0.75	0.76	2.04	4.00	4.58	4.89	4.77	3.48	1.33	0.57	0.00	0.00
Charges and interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total obligations based on existing and prospective credit															
Millions of SDRs	0.07	0.41	0.60	0.75	0.76	2.04	4.00	4.58	4.89	4.77	3.48	1.33	0.57	0.00	0.00
Millions of U.S. dollars	0.10	0.57	0.84	1.05	1.07	2.87	5.63	6.44	6.88	6.71	4.90	1.87	0.80	0.00	0.00
Percent of exports of goods and services	0.21	0.82	0.83	0.97	0.90	2.28	4.22	4.57	4.61	4.25	2.93	1.06	0.43	0.00	0.00
Percent of debt service [1]	2.24	9.25	10.46	13.30	10.15	28.66	53.86	62.94	68.95	67.95	47.54	18.35	7.97	0.00	0.00
Percent of quota	0.47	2.77	4.05	5.07	5.14	13.78	27.03	30.95	33.04	32.23	23.51	8.99	3.85	0.00	0.00
Percent of gross international reserves [2]	0.18	0.97	1.28	1.55	1.50	3.83	7.55	8.71	9.38	9.22	6.80	2.63	1.14	0.00	0.00
Percent of GDP	0.02	0.13	0.18	0.21	0.20	0.50	0.92	0.98	0.97	0.88	0.60	0.21	0.09	0.00	0.00
Outstanding Fund credit															
Millions of SDRs	20.6	24.0	27.2	26.4	25.7	23.6	19.6	15.0	10.2	5.4	1.9	0.6	0.0	0.0	0.0
Millions of U.S. dollars	28.5	33.3	37.9	36.9	36.0	33.2	27.6	21.2	14.3	7.6	2.7	0.8	0.0	0.0	0.0
Percent of exports of goods and services	62.6	47.8	37.5	34.0	30.5	26.4	20.7	15.0	9.6	4.8	1.6	0.5	0.0	0.0	0.0
Percent of debt service [1]	659.0	540.6	473.6	468.6	342.7	331.8	264.2	206.7	143.1	76.8	26.0	7.9	0.0	0.0	0.0
Percent of quota	139.1	162.0	183.6	178.6	173.4	159.6	132.6	101.6	68.6	36.4	12.8	3.9	0.0	0.0	0.0
Percent of gross international reserves [2]	52.6	56.6	58.0	54.6	50.6	44.4	37.1	28.6	19.5	10.4	3.7	1.1	0.0	0.0	0.0
Percent of GDP	7.2	7.8	8.2	7.4	6.8	5.8	4.5	3.2	2.0	1.0	0.3	0.1	0.0	0.0	0.0
Net Use of Fund Credit (millions of SDRs)	14.3	3.4	3.2	-0.8	-0.8	-2.0	-4.0	-4.6	-4.9	-4.8	-3.5	-1.3	-0.6	0.0	0.0
Disbursements	14.3	3.8	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.1	0.4	0.6	0.8	0.8	2.0	4.0	4.6	4.9	4.8	3.5	1.3	0.6	0.0	0.0
Memorandum items:															
Exports of goods and services (millions of U.S. dollars)	45.5	69.7	101.0	108.6	118.0	126.0	133.4	141.1	149.4	158.1	167.3	177.1	187.5	198.5	210.2
Debt service (millions of U.S. dollars)	4.3	6.2	8.0	7.9	10.5	10.0	10.5	10.2	10.0	9.9	10.3	10.2	10.1	10.0	9.9
Quota (millions of SDRs)	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8
Gross international reserves [2]	54.1	58.8	65.3	67.6	71.2	74.9	74.5	74.0	73.4	72.8	72.0	71.2	70.4	69.6	68.7
GDP (millions of U.S. dollars)	398	426	463	497	533	572	615	661	711	764	822	884	942	1004	1070

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

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

[2] Gross international reserves excludes the National Oil Account and commercial banks' foreign currency deposits at the BCSTP in order to meet reserve requirements, for new licensing, and for meeting capital requirements.

Table 9. Sao Tomé and Príncipe: Proposed Schedule of Disbursements Under ECF Arrangement, 2019–22

Availability Date[1]	Disbursement conditions	SDR Amount	Percent of Quota[2]
10/02/19	Board approval of arrangement.	1,902,857	12.86
03/15/20	Observance of continuous and end-December 2019 PCs and completion of the first review.	3,382,857	22.86
11/15/20	Observance of continuous and end-June 2020 PCs and completion of the second review.	1,902,857	12.86
05/15/21	Observance of continuous and end-December 2020 PCs and completion of the third review.	1,902,857	12.86
09/15/21	Observance of continuous and end-June 2021 PCs and completion of the fourth review.	1,902,857	12.86
04/15/22	Observance of continuous and end-December 2021 PCs and completion of the fifth review.	1,902,857	12.86
10/15/22	Observance of continuous and end-June 2022 PCs and completion of the sixth review.	1,902,857	12.86
	Total	14,800,000	100.0

Source: International Monetary Fund.

[1] Based on Board approval upon completion of each review. An RCF disbursement of SDR9.028 million was approved in April 2020.

[2] Percent of quota has been increased by the augmentation of 10 percent.

Annex I. Reforms at EMAE and the Energy Sector

1. **EMAE has been registering large losses and accumulating arrears with suppliers.** After an expansion of the electricity network, the loss surged to about 4 percent of GDP annually during 2016-19, compared to an average of 1.5 percent of GDP in sub-Saharan Africa (SSA). The losses mainly reflect very high technical and commercial losses (totaling 33 percent of the energy injected to the grid in 2019). Meanwhile, the collection rate (85 percent in 2019 and 73 percent in first half of 2020), including from public institutions, is suboptimal. The losses, which reached about 26 percent of GDP at end-2019, have been predominantly financed by accumulating arrears to the domestic oil company ENCO[1].

Annex I. Table 1. Sao Tomé and Príncipe: Energy Sector Selected Indicators

Parameter	EMAE 2019 figures	Comparator
Electricity access rate (%)	59	43[1]
Electricity customers	48,511	
Installed capacity	29.9 MW with only 20 MW guaranteed	
Energy mix (%)	93.5 diesel, remaining hydroelectric	
Average cost of service	$0.27/kWh	$0.21/kWh[2]
Average tariff	$0.23/kWh	$0.15/kWh[2]
Average transmission and distribution losses (%)	33 (22 being commercial losses)	15[3]
Bill collection rate (%)	85	93[2]

Notes:

[1] Weighted average across SSA.

[2] Median value across 39 SSA countries.

[3] Weighted average value across 39 SSA countries.

Sources: Tracking SDG7: The Energy Progress Report https://trackingsdg7.esmap.org/results. World Bank, Washington, DC.; Kojima, Masami; Trimble, Chris. 2016. Making Power Affordable for Africa and Viable for Its Utilities. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/25091 License: CC BY 3.0 IGO.

2. **The World Bank Power Sector Recovery Project supports a long-term structural improvement of EMAE and the whole energy sector in São Tomé and Príncipe.** The project has four main components covering the energy supply chain from generation to distribution: (i) improving the physical infrastructure, including rehabilitating and expanding the main hydropower plant, rehabilitating the electricity grid, and installing meters; (ii) developing sectoral planning, particularly the Least Cost Development Plan (LCDP); (iii) establishing regulatory frameworks and strengthening the capacity of the regulator AGER, including a tariff study; and (iv) implementing a Management Improvement Plan (MIP) of EMAE. The goal is to achieve cost recovery over the medium term by reducing production costs and distribution losses, as well as by protecting revenue through adapted tariff

[1] Majority owned by Sonangol, an Angolan state-owned company.

structure, improving billing and collection, and reducing commercial losses. In addition, the project is proposing an updated tariff structure in accordance with a new production cost structure and set in place the regulatory framework to align the tariff to the cost of services, every 4 years. Addressing operational inefficiencies (mainly non-technical losses) could reduce losses to below one percent of GDP.

3. The project is expected to yield the following medium-term results:

- Rehabilitating and expanding the capacity of the only operating hydropower plant on the island, Contador HPP, by June 2022 to 3.2 MW to reduce overall generation cost.

- Focusing on identifying resources for the timely development of the recently approved Least Cost Development Plan that identified as a priority the development of 8.8 MW of dual-fueled thermal units heavy fuel oil (HFO) or liquified natural gas (LNG) and about 2MW of a photovoltaic solar plant, while mobilizing partnerships to study and develop existing hydropower potential.

- Improving collections, particularly from large consumers through installing advanced metering infrastructure, adopting modern billing practices, procuring and installing a state-of-the-art management information system (MIS), and linking cost of services to payment through tariff reform.

- Improving EMAE's operational efficiency by implementing a new organizational structure in the Commercial Directorate and redefining the functions of the Finance Directorate and Management support units. This would include the selection of personnel according to the competences of each position in the new organizational structure, with the support of a consultant and a specialized human resource firm, both already contracted.

- Reducing commercial losses by establishing a fully equipped and dedicated loss-reduction unit within the company with explicit annual performance targets, holding key managers responsible for achieving annual loss reduction targets.

- Implementing a new tariff structure based on an actual estimate of the cost of services for each customer tranche, reducing disproportionate cross subsidies while preserving a social tranche to protect the most vulnerable.

- Implementing demand-side management (DSM) measures to suppress peak electricity demand and lower overall electricity consumption, including (i) a program to "swap" incandescent light bulbs for LED light bulbs for residential consumers and (ii) a National Energy Efficiency Program within Public Administration to reduce energy consumption.

- Continuing to implement the communication campaign to ensure social acceptance of the reform and behavioral change of customers to strengthen payment discipline and reduce electricity theft.

4. More specifically, the following targets can be achieved, with a strong government commitment:

Annex I. Table 2. Sao Tomé and Príncipe: Medium-Term Targets

Year	2019	2021	2022	2023
Commercial Losses (percent)	22	19	13	10
Conditions	Baseline	MIP[1] and sensitization campaign	MIP and sensitization and RPP[2]	MIP plus sensitization and RPP plus network reinforcement
Technical Losses (percent)	11	10	10	10
Conditions	Baseline	Upgrade work started	Upgrade completed	Improved planning/operation of network
Revenue Collection (percent)	85	93	95	95
Conditions	MIP implemented, new organization and public sensitization.	Management performance objective	Management performance objective	Management performance objective

[1]MIP: Management Improvement Plan.
[2]RPP: Revenue Protection Program.

5. A study on the tariff structure has been completed, and a new tariff grid has been recommended to reach cost-recovery within a regulatory period of 4 years. The draft legal documentation has been prepared and is pending government approval. This World Bank-financed study confirmed that the current tariff structure has two interrelated deficiencies: (i) the system's average tariffs are low when compared with costs of service and when compared with other insular systems, and (ii) the tariff structure is inefficient—there are high cross-subsidies across customer groups. Over time, the new tariff structure for non-individual consumer categories is aligned with the cost of supply and indexed to the cost of fuel. Cross-category subsidies have been carefully crafted to maintain a social tariff to the poorest customers. For individual customers, tariffs have been benchmarked to the willingness-to-pay and affordability assessment from a household energy survey that was completed in 2018. A tariff adjustment, foreseen over the regulatory period 2020-2024, will also need to be aligned with improvements in quality of service to avoid an increase in theft and nonpayment or loss of clients to self-generation. The current average tariff in São Tomé and Príncipe is already higher than the average tariff in SSA. The implementation of the tariff reform in 2020 is expected to bring around $2 million of additional revenues from electricity generation in the current context.

6. The impact of the Bank's project on EMAE's balance is estimated in the table below:

Annex I. Table 3. Sao Tomé and Príncipe: Energy Sector Operations, Baseline 2017–24

		Actual			Projection				
		2017	2018	2019	2020*	2021	2022	2023	2024
Customers	**u.**	**43,642**	**44,535**	**48,511**	**49,718**	**52,156**	**54,594**	**57,033**	**59,471**
Production	**GWh**	**109**	**108**	**109**	**113**	**144**	**172**	**184**	**201**
Thermal	GWh	104.03	102.93	103.69	107.85	124.49	142.09	141.40	128.04
Hydro	GWh	5.05	5.13	5.46	5.68	16.89	27.03	39.66	70.10
Solar	GWh	0.00	0.00	0	0	2.80	2.80	2.80	2.80
Losses at plant	GWh	4.18	3.53	6.82	6.56	4.24	5.07	5.43	5.94
Energy injected in the grid	**GWh**	**104.9**	**104.5**	**102.3**	**107.0**	**139.9**	**166.9**	**178.4**	**195.0**
Total system losses	%	34%	37%	33%	31%	33%	33%	33%	33%
Technical losses	%	11%	12%	11%	11%	11%	11%	11%	11%
Commercial losses	%	23%	25%	22%	20%	22%	22%	22%	22%
Collection rate	%	89%	91%	91%	91%	91%	91%	91%	91%
Invoiced	**GWh**	**68.7**	**65.4**	**68.7**	**74.3**	**93.9**	**112.0**	**119.7**	**130.9**
Revenues	**GWh**	**61.2**	**59.5**	**62.5**	**67.6**	**85.5**	**101.9**	**109.0**	**119.0**
Total electricity revenues	**M.USD**	**12.9**	**12.7**	**12.9**	**14.2**	**18.1**	**22.7**	**24.5**	**27.2**
EMAE costs and charges for electricity	**M.USD**	**26.9**	**27.1**	**27.2**	**27.4**	**27.5**	**27.7**	**27.8**	**28.0**
Average cost of energy produced	**USD per kWh**	**0.25**	**0.25**	**0.25**	**0.24**	**0.19**	**0.16**	**0.15**	**0.14**
Gross Result	**M.USD**	**-14.0**	**-14.4**	**-13.9**	**-12.6**	**-8.9**	**-4.4**	**-2.7**	**-0.1**
Amortization	**M.USD**	**2.3**	**2.4**	**2.5**	**3.2**	**4.2**	**4.9**	**5.8**	**7.7**
Net Result	**M.USD**	**-16.3**	**-16.7**	**-16.3**	**-15.8**	**-13.1**	**-9.3**	**-8.6**	**-7.8**

**Note that the 2020 figures for energy injected into the grid and system losses are projected based on the first three months of the year and do not fully account for COVID-19 impacts.*

As can be seen in this model, without a drastic change of cost of production or an in-depth tariff revision (or a combination thereof), EMAE losses will continue to accumulate in the short to medium term. Immediate actions are therefore needed to reduce the fiscal burden from the energy sector.

Priority Measures for Turnaround:

- Accelerating the implementation of the Management Improvement Plan (MIP) to reduce non-technical losses and improve payment. This should include measures to prevent the leakage and theft of diesel for power generation.

- Urgently implement DSM measures to suppress peak electricity demand and lower overall electricity consumption. To the extent peak demand can be reliably reduced, a DSM program can provide "Nega-Watts" that function as a type of negative-capacity. According to the demand study, 68 percent of the evening demand peak load is related to residential consumption, for which lighting requirements are about 70 percent of consumption. Currently, lighting requirements are now mainly met by inefficient incandescent lighting (74 percent of households use incandescent bulbs) or moderately efficient CFL bulbs (29 percent of households). If EMAE or the government were to undertake a DSM program that "swapped" incandescent light bulbs for LED light bulbs for residential consumers (around three bulbs per account), a significant reduction in peak electricity demand as well as overall demand may be achieved. The estimated reduction in peak load capacity is about 8 MW and an overall annual energy generation reduction by 15 percent. This campaign would also reduce individual customers' bills and the risk of arrears from residential customers. This approach should be coupled with a prohibition (or tax) on incandescent bulbs. All government agencies should also be directed to ensure efficient use of energy in their offices, such as reducing the use of air conditioners and full implementation of an LED light bulbs program in the administrations.

- Switching from an expensive energy mix dominated by diesel generation to a more affordable mix, consisting of hydropower, solar energy, HFO or LNG, depending on market trends, as recommended in the Least Cost Development Plan (LCDP). The elimination of diesel would also stop its theft. At this stage the main option available would be to secure an independent power project (IPP) for an HFO/LNG dual plant (which would take up to 18 months) and a 2 MW solar photovoltaic plant.

Short Term Policy Actions Required:

Objective 1: Reduce losses (commercial and technical) by 4 (additional 6) percentage points and improve the collection rate by 8 (additional 2) percentage points by June 2021 (June 2022) to lower losses below 20 percent and raise the collection rate to 95 percent by June 2022. This will be achieved by:

a. Acceleration of MIP implementation. The consultant in charge of supporting EMAE in implementation of the MIP is fully mobilized and is collaborating with EMAE CEO on implementing key decisions to show results in the medium term. This includes:
(i) Preparation of bidding documents for procuring management information systems (MIS) (CMS, ERP, IRMS) – August 2020; (ii) HR consultant assignment: proposal of organizational restructuring, job description for Directors and Managers reporting to

Directors (first 2 levels), selection process for each position ending in shortlist of candidates – August 2020 for level 1 directors and October 2020 for level 2 directors; (iii) Appointment of Project Director for (MIP) – August 2020 (iv) Appointment of Project Manager for Loss Reduction Plan (LRP) – August 2020 and (v) Selection of management consultancy firm to support EMAE in implementation of MIP – October 2020 – the firm should be on board when the new director team is recruited.

b. Reducing theft of diesel to ensure losses below five percent of the volume supplied for energy generation by June 2021.

c. Arrears clearance plans are agreed with large private consumers, small and medium enterprises, as well as residential consumers. Government defines essential (non-disconnectable) and non-essential (disconnectable) consumption facilities. Services are cut off due to non-payment. New and appropriate timelines are to be discussed with stakeholders due to the impact of COVID-19 in São Tomé and Príncipe. In the meantime, a communication package is to be launched in the second half of 2020 to explain that collective action is needed to improve electricity services.

d. Modernizing billing and install prepaid and smart meters. EMAE installs 1200 prepaid meters to all facilities categorized as disconnectable by the government by June-2021. Continue to disconnect non-essential consumption for nonpayment.

e. Government establishes a mechanism with EMAE to cap consumption and ensure timely bills payment by public entities, including by cutting EMAE's services to non-essential facilities, deducting from budget allocation, and transferring directly from Treasury to pay EMAE.

Objective 2: Reduce overall energy consumption by 15 percent (Reduce peak energy consumption by 10 percent) within 12 months and facilitate the phase-out of incandescent bulbs within two years. This will lead to a net reduction in demand given annual growth is currently seven percent per annum. This is achieved through:

a. Government will roll out a program to replace incandescent/fluorescent with LED lightbulbs, which can be implemented within nine months, to be completed by March 2021. Financing for this program has been approved by the World Bank.
b. Government will pass a law that bans the importation of incandescent/fluorescent lamps by June 2022. Conduct outreach to stakeholders such as light importers, raising awareness and helping them access LED suppliers. An individual consultant has been engaged to draft this policy before end-September 2020.

Objective 3: Reform tariffs through (i) establishing a mechanism and (ii) implementing the first tariff reform once the prepaid meters are in place for the large consumers (planned within 12 months).

a. The tariff analysis has been completed and identified the need for an in-depth tariff reform to be led by the regulator AGER. In order to gradually achieve a cost-reflective tariff structure by 2024, the government needs to immediately enforce through a decree the proposed adjustments regarding (i) tariff structure definition, (ii) customer category definition, (iii) social tariffs adjustments, and (iv) agreed upon conditions and a broad timeline to achieve full cost-recovery structure. A draft decree is being reviewed in consultation with the World Bank and will be submitted to the government by end March 2021 and approved by government within a month.
b. The first tariff increase is to be implemented once meters in place by December 2021 for large consumers.

In sum below are the short-term targets and actions:

		Target	
	Baseline	June 2021	June 2022
Reducing loss (commercial + technical) to	33 percent	29 percent	23 percent
Raising bill collection rate	85 percent	93 percent*	95 percent
Reduce diesel loss	6.3 percent	5 percent	

**Target difficult to predict given COVID-19 impacts*

	Actions to be taken	**Target date**
1	Develop terms of reference of the new executive management team of EMAE for implementing reform measures	Sep-2020
2	EMAE's loss-reduction office in collaboration with the Communications team design a campaign program	Sep-2020
3	Ministry of Finance identifies and categorizes public facilities as essential (non-disconnectable) and non-essential (disconnectable)	Oct-2020
4	Government establishes a mechanism with EMAE to cap consumption and ensure timely bills payment by public entities	Nov 16, 2020
5	Complete the LED program	March-2021
6	Continue to develop arrears clearance plan with non-public customers	To continue after crisis subsides
7	Implement the meter program supported by EIB and World Bank, including complete the installation of 1200 prepaid meters.	June-2021
8	Stop importing incandescent and fluorescent lights	End-2022

**Note that ban for import will be in place 18 months after delivery but decree can be issued in December.*

7. These measures would have the following impact on EMAE's accounts, assuming that the cost of production is reduced from $0.25 per kWh in 2017 to $0.14 per kWh in 2024 as per the results of the LCDP:

Annex I. Table 4. Sao Tomé and Príncipe: Energy Sector Operations

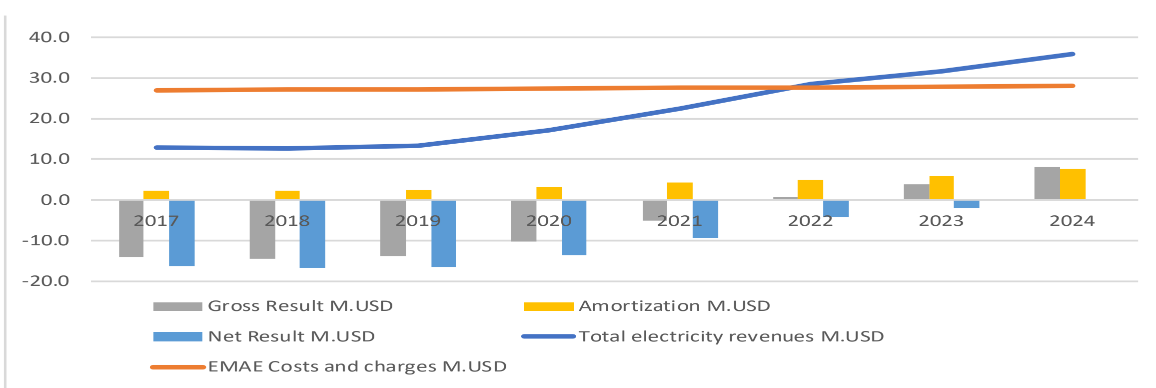
		Actual			Projection				
		2017	2018	2019	2020*	2021	2022	2023	2024
Customers	**u.**	**43,642**	**44,535**	**48,511**	**49,718**	**52,156**	**54,594**	**57,033**	**59,471**
Production	**GWh**	**109**	**108**	**109**	**113**	**144**	**172**	**184**	**201**
Thermal	GWh	104.03	102.93	103.69	107.85	124.49	142.09	141.4	128.04
Hydro	GWh	5.05	5.13	5.46	5.68	16.89	27.03	39.66	70.1
Solar	GWh	0	0	0	0	0	2.8	2.8	2.8
Losses at plant	GWh	4.18	3.53	6.82	6.56	4.24	5.07	5.43	5.94
Energy Injected in the grid	**GWh**	**104.9**	**104.5**	**102.3**	**107**	**139.9**	**166.9**	**178.4**	**195**
Total system losses	%	34%	37%	33%	29%	27%	25%	25%	25%
Technical losses	%	11%	12%	11%	10%	10%	10%	10%	10%
Commercial losses	%	23%	25%	22%	19%	17%	15%	15%	15%
Collection rate	%	89%	91%	91%	95%	93%	95%	95%	95%
Invoiced	**GWh**	**68.7**	**65.4**	**68.7**	**75.9**	**102.2**	**125.1**	**133.8**	**146.2**
Total electricity revenues	**M.USD**	**12.9**	**12.7**	**12.9**	**17.1**	**22.5**	**28.5**	**31.6**	**36.0**
EMAE Costs and charges for electricity	**M.USD**	**26.9**	**27.1**	**27.2**	**27.4**	**27.5**	**27.7**	**27.8**	**28.0**
Average cost of energy produced	**USD per kWh**	**0.25**	**0.25**	**0.25**	**0.24**	**0.19**	**0.16**	**0.15**	**0.14**
Gross Result	**M.USD**	**-14.0**	**-14.4**	**-13.9**	**-10.3**	**-5.0**	**0.8**	**3.8**	**8.0**
Amortization	**M.USD**	**2.3**	**2.4**	**2.5**	**3.2**	**4.2**	**4.9**	**5.8**	**7.7**
Net Result	**M.USD**	**-16.3**	**-16.7**	**-16.3**	**-13.5**	**-9.3**	**-4.1**	**-2**	**0.3**

▪ Notes: this simulation comprises (i) the timely implementation of the LCDP, (ii) a drastic reduction in commercial losses and increase in collection rate and (iii) the implementation of the proposed tariff reform in 2020)

**Note that energy production for 2020 is projected based on the first three months of the year and does not fully account for COVID-19 impacts*

Reform Agenda Implementation

(Millions of US dollars)



The arrears structure by customers reflected in EMAE annual accounts in 2018 is as follows, and a corresponding schedule of arrears could be agreed with the largest customers to improve EMAE's financials in the next three years.

Annex I. Table 5. Sao Tomé and Príncipe : Arrears Owed to EMAE in New Dobras

Description	12/31/2018	% of total
Central government	37,261,754	12.6%
Autonomous state institution	28,814,671	9.8%
District government	71,090,079	24.1%
Regional administration	6,401,508	2.2%
ENASA (airport authorities)	21,075,607	7.2%
Other public enterprises	2,405,789	0.8%
Industrial clients	6,662,196	2.3%
Commercial clients	23,361,742	7.9%
Individual clients	88,855,714	30.2%
Diplomatic missions	957,942	0.3%
Telecommunication sector	2,571,267	0.9%
Financial Sector	2,689,400	0.9%
Airlines	190,912	0.1%
Private organization	2,102,141	0.7%
EMAE workers	147,380	0.1%
Other entities	0	0.0%
Clients creditors	-10,928	0.0%
TOTAL	**294,577,174**	

Type of Client	12/31/2018	% of total
Private Clients, including individual	127,391,314	57%
Public Clients	167,185,860	43%
Private companies excluding individual	38,535,600	27%
Individual customers	88,855,714	30%

Appendix I. Letter of Intent

São Tomé, July 17, 2020

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

Dear Managing Director Georgieva:

The government of the Democratic Republic of São Tomé and Príncipe requests the IMF Executive Board to complete the first review of the program supported by the Extended Credit Facility (ECF) arrangement, approve the disbursement of the second tranche of the loan based on implementation of end-December 2019 performance criteria (PC), and support the augmentation of the program.

This review occurs at a critical time, when the COVID-19 pandemic is taking a heavy toll on our country**.** Our tourism sector has come to a standstill, externally financed projects are being delayed, and shipments of supplies are disrupted. Since the local outbreak was detected in late April, the virus had officially infected 714 citizens and caused 13 deaths by the end of June. To protect the population, emergency measures have been implemented since late March, and they will be extended to end-July 2020. These measures include a suspension of all commercial flights, a general stay-at-home order, and the mandatory use of masks. As a result, the local outbreak is under control, with the number of daily new cases declining to about 1 and active patients in hospital to 5 by end-June.

The confinement measures are being phased out in three stages, and we expect most activities will restart by end-July, including international flights. While the stay-at-home order is essential to control the infection, it slows economic activities significantly.

In this context, our current policy priorities would be addressing the immediate needs to tackle the crisis while prepare for a strong sustainable recovery. In particular, we will prioritize and create room for spending to combat COVID-19 while keeping other spending, including the public sector wage bill, under control. We will continue structural reforms supported by the program to lay the groundwork for recovery. These include finalizing the regulations and tools needed for implementing the VAT to increase revenue post crisis, continue reforming the energy sector and state-owned utility company, EMAE, to provide reliable and low cost energy while reducing debt vulnerability overtime, and develop a plan to remove the country from the EU air safety blacklist to facilitate the recovery of tourism.

To strengthen governance, we plan to publish adjudication notices of public procurement contracts, signed public contracts, beneficial ownership information of companies receiving these contracts, and monthly COVID-19-related spending and implement the recommendations of the last safeguards assessment to strengthen central bank management. The central bank will actively manage system-wide liquidity, carefully balancing liquidity needs and appropriately tight monetary policy to protect the peg.

The government remains steadfast in achieving the overall policy objectives of the program over the medium term: fiscal consolidation coupled with enhanced monetary policy tools to support the peg; reforming state-owned enterprises to contain fiscal risks and improve the business environment; promoting greater transparency and accountability; and strengthening efforts aimed at climate change adaption and gender equality. These actions are all critical for sustainable and more inclusive growth to create jobs and improve the living standards.

To support our immediate efforts during the pandemic, jointly with the completion of the first review of the Extended Credit Facility, we request an augmentation in the amount of SDR 1,480,000 (10 percent of quota), to be distributed with the second tranche. We have secured appropriate financing assurances for the program through end-June 2021.

The support of the IMF continues to be important as we tackle tremendous challenges in developing our country. We believe that the policies contained in the September 2019 MEFP, along with the attached supplementary MEFP are adequate to achieve the objectives of the program but will take further measures that may become appropriate for this purpose.

We will consult the IMF in advance on the adoption of these measures and revisions to the policies contained in the MEFP, in accordance with IMF policies on such consultations. We will also consult in advance with IMF staff on the terms of possible external borrowing to ensure that such borrowing does not jeopardize debt sustainability and is in line with the IMF's debt limits policy. Furthermore, we are committed to not (i) introducing or intensifying any exchange restrictions (ii) introducing or imposing import restrictions, (iii) introducing or modifying multiple currency practices, or (iv) concluding bilateral payment agreements in violation of Article VIII of the Articles of Agreements, which are continuous performance criteria under the ECF arrangement.

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

Sincerely yours,

/s/	/s/
Mr. Osvaldo Vaz, Minister of Finance, Commerce and the Blue Economy	Mr. Américo Soares De Barros, Governor of the Central Bank of São Tomé and Príncipe

Attachments

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

Attachment I. Supplementary Memorandum of Economic and Financial Policies for 2020-22

INTRODUCTION

1. **This supplementary Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and performance under the ECF-supported program and updates the MEFP approved by the IMF Executive Board on October 2, 2019.** It also provides an assessment of the economic outlook and risks and macroeconomic policies for 2020 and beyond, keeping in mind the limitations on implementing new policy measures during the current pandemic.

2. **We have achieved notable progress since the start of the program.** With implementation of reforms under the program, including both revenue and expenditure measures, we have achieved all end-December performance criteria targets.

3. **While the COVID-19 pandemic has posed significant health, social, and economic challenges, the staunch support of the IMF has been essential for us to meet the challenges**. In particular, a Rapid Credit Facility (RCF) disbursement of about $12.3 million approved in April has helped us to manage the immediate financial needs in the face of the outbreak, and the discussion with the IMF helped us design our social and economic program. The Pandemic has led to a sharp deterioration in economic growth and additional fiscal and balance of payments pressures. Looking ahead, for the rest of 2020, our priorities will focus on combatting both the economic and health consequences of the pandemic, including by providing assistance to the most vulnerable, enacting countercyclical measures, and ensuring transparency and accountability in public spending.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

4. **Economic growth slowed in 2019, largely due to delayed external inflows and adverse weather**. During 2019, project grants were only about ⅔ of the average amount of the preceding three years. Meanwhile, changes in rainfall patterns combined with a shortage of pesticide caused the production of cocoa, a key export, to fall. The value-added generated by the construction sector declined by 2.5 percent in real terms, the agriculture and fishery sector contracted by close to 1 percent, and the real economic growth slowed to 1.3 percent. On the positive side, tourist arrival increased by close to 7 percent, inflation subsided to 7.7 percent by end-2019 from 9 percent at end-2018. In addition, a private palm-oil producer started to export in late 2019, and production is expected to rise in 2020. During the first quarter of 2020, palm oil exports account for close to 40 percent of total exports. Anecdotal evidence suggested that tourism continued to grow robustly during the first two months of 2020.

5. **The pressure on the foreign exchange market lessened.** After falling sharply by about US$16 million in 2018, gross international reserves (GIR) rose by US$5 million to US$40.4 million in

2019 or 3.4 months of pre-crisis (2019) imports.[1] Strong fiscal consolidation and higher budget support grants helped raise GIR. Meanwhile, the current account deficit remained broadly unchanged at 12.5 percent of GDP in 2019, as lower imports of (non-oil related) investment goods were offset by lower exports and official transfers.

6. **The government implemented strong fiscal measures, reducing the domestic primary deficit (DPD) from 4.2 percent of GDP in 2018 to 1.8 percent of GDP in 2019, outperforming the target by 0.3 percent of GDP**. In particular, higher oil excise (including the price differential) and telecommunications sales taxes in advance of the introduction of the VAT helped stem shortfalls in tax revenue earlier in the year, while cuts in tax allowances, public consumption, non-priority transfers and capital expenditure generated savings of over 2½ percent of GDP. To increase transparency and control extra-budgetary spending, we also consolidated previously autonomous entities into Treasury accounts.

7. **While revenues continued to perform relative well, spending pressures raised public spending substantially during the first quarter of 2020.** Overall domestic revenue, supported by the adoption of electronic invoicing and centralized accounts, continued to perform well. However, spending rose faster than expected. In particular, as donors offered to build new schools, we hired new teachers and upgraded the salaries of teachers who completed training provided by the World Bank to relieve acutely crowded classrooms and improve the quality of education. Also, the epidemic and the increased needs for health services and security enforcement, led us to implement long-overdue promotions in the health sector as well as hire new staff, and to validate promotions in the military that were approved by the previous government. As a result, the end-March DPD reached 1.2 percent of GDP, missing the ECF indicative target by 0.8 percent of GDP. In addition, spending for containment and treatment of COVID-19 and associated social protection rose sharply since late March. Meanwhile, difficulties in setting up the IT system and the onset of the epidemic delayed the planned introduction of the VAT in March 2020.

8. **Credit to the economy remains anemic, while excess liquidity fell by approximately 4 percentage points in 2019**. System-wide financial soundness indicators remain broadly unchanged, with non-performing loans (NPL) ratio at 25 percent and the capital adequacy ratio at 29 percent in March 2020. In consultation with commercial banks, BCSTP developed a plan to implement recommendations from an independent asset quality review (AQR), which involves loan reclassification and additional provisioning. For some banks, recapitalization will be needed, and the private owners of these banks have committed to funding the recapitalization.

9. **Our public and publicly guaranteed (PPG) debt have reached a very high level, at over 97 percent of GDP at end-2019**. This includes debt from EMAE, borrowing by public entities (such as parliament and courts), and government arrears to suppliers**.** In particular. EMAE's arrears rose from 14 percent of GDP in 2015 to 26 percent of GDP in 2019, or by US$67 million. In addition, a comprehensive review by the Ministry of Finance identified additional government arrears to domestic suppliers other than EMAE and the telecommunication company (CST) of about US$22

[1] Excludes commercial banks' deposits in the central bank. Given the projected temporary, sharp drop in imports in 2020, the reserve coverage is measured based on pre-crisis (2019) imports.

million (over 5 percent of GDP) accumulated in recent years as project grants and loans fell below projection.

10. The country remains in debt distress due to long-standing external arrears. We have been in discussions with creditors to restructure the external arrears, including with Angola, Brazil, and Equatorial Guinea (2.6 percent of GDP) and with Nigeria over a disputed loan. We are also making efforts to resolve government arrears to foreign private creditors and ENCO's[2] arrears to its parent company Sonangol, partly resulting from foreign exchange restrictions. The 2019 agreement on EMAE's plan to pay back arrears to ENCO, including expected arrears, along with the existing agreement for the government to repay debt to ENCO, has significantly alleviated the debt burden in present value terms. Our external and PPG debt can be deemed sustainable, provided that we remain committed to borrowing externally only on concessional terms and at a measured pace and implementing planned EMAE reforms.

11. We foresee a very challenging 2020 as the pandemic is expected to cause a sharp economic contraction of -6.5 percent this year. Prior to the pandemic, GDP growth was projected to recover to 3.5 percent in 2020. The pandemic however, abruptly halted the fledgling tourism sector (with direct contribution of about 6-7 percent to GDP) in mid-March, causing the sector to plummet by over 70 percent in 2020, further depressing foreign exchange receipts. Many externally funded projects are also likely to be postponed further. Since the RCF approval in April, we have seen an increase in the number of our citizens infected with the virus, and in response, we have strengthened confinement measures and maintained a state of emergency. As a result, a large fiscal need has emerged from an expected drop in fiscal revenue and increased health and social expenditures to mitigate the impact.

12. As we remain committed to implementing the reforms under the ECF program, we anticipate that the outlook will improve over the medium term. GDP is expected to recover partially in 2021, growing by 3 percent, and accelerate to 5.5 percent in 2022 when vaccines could become available and the tourism sector could pick up again. The long delayed externally financed projects, including an airport expansion, road construction, and projects in the energy and agriculture sectors, are expected to commence in 2021. Over the medium-term, we expect growth to stabilize around 4.5 percent. Inflation is expected to pick up temporarily in 2021 from the VAT implementation, which, however, is expected to raise annual fiscal revenue by 2 percent of GDP eventually.

13. The risk to this outlook is high. For instance, the impact of the pandemic may have a larger impact on sectors not directly related to tourism, and the economy could contract further in 2020. In addition, slower than expected available of vaccines could continue to deter tourist and impede economic activities, delaying the economic recovery in 2021-22. This positive outlook also hinges on continued fiscal consolidation after the crisis, particularly by keeping wage bill under control to ensure fiscal sustainability. Furthermore, the reform of EMAE will be critical to ensure the

[2] Majority (77.56 percent) owned by Sonangol, an Angolan state-owned company. The government has a 16 percent share, and remaining shares are held by private owners.

country's energy security, provide reliable and lower-cost electricity to power development, and reduce debt vulnerability.

PROGRAM PERFORMANCE

14. We have made notable progress in 2019 under the ECF program. Despite challenges, we have met all end-December 2019 performance criteria and achieved progress on structural reforms, albeit with delays. Benchmarks for strengthening public finances and gender equality were met. While the implementation of the safeguards recommendations on submitting the BCSTP organic law to parliament for approval in September 2020 is delayed, the BCSTP is working with IMF technical assistance to revise the BCSTP organic law, as well as the financial institutions law. We have completed the preparation for issuing central bank certificate of deposits, for which the targeted issuance in March 2020 was delayed due to the onset of the crisis. Similarly, the pandemic also delayed the full implementation of AQR recommendations, initially targeted for March 2020, but many aspects have been implemented. The pandemic also delayed the implementation of bank rating model and the establishment of collateral registry, two benchmarks for end-June 2020. Because of capacity constraints in coordinating the large reform program on EMAE and extra time required to hire consultants, the benchmark on reforming EMAE was not met.

POLICY OBJECTIVES FOR 2020–2022

We will prioritize spending to combat the COVID-19 pandemic in the short term, while accelerating energy sector reform and striving for medium-term fiscal consolidation, including implementation of the VAT, to reduce balance of payment pressures and debt vulnerability. We are committed to transparency and accountability on all public spending, including COVID-related. To achieve macroeconomic stability and unlock growth potential, we will also develop monetary policy tools, safeguard financial stability, achieve EU's air safety standard to support tourism, improve the business environment, adapt to climate change, and promote gender equality.

E. Fiscal Policy

15. We have acted swiftly to mitigate the economic fallout from the pandemic. Besides allowing the automatic stabilizers to apply, specific measures include expanded social programs to protect the most vulnerable, temporary deferment of some tax payments, incentives for businesses to retain workers, and support for the unemployed, while keeping retail fuel prices unchanged to generate revenue from lower international oil prices and introducing a small solidarity contribution on public and private workers' salaries who are relatively unaffected

16. As a result, we have revised the end-2020 DPD target from 1.7 percent of GDP to 6.3 percent of GDP to take into account the lower revenue from the sharp slowdown, the delayed implementation of VAT, the higher personnel costs, and the aforementioned measures adopted to combat the pandemic. We will maintain the current retail fuel prices and will apply the automatic price adjustment mechanism to prevent these prices to fall below costs. The gain from the fuel price differential and strong measures introduced late last year will help cushion the revenue. The additional project grants such as the expanded World Bank COVID-19 and social protection programs, as well as expected budgetary grants of about 5 percent of GDP by the World Bank and AfDB, will help to meet the increased financing needs. Once these grants are incorporated, the overall budget deficit is expected to be broadly balance.

17. Over the medium term, we will redouble our efforts on revenue mobilization and expenditure rationalization to adhere to the essential tenets of the ECF program. We will target a DPD of below 1 percent of GDP to reduce debt levels and inflation. Continued revenue mobilization and spending containment, after COVID-19 related expenditures are phased out, will help safeguard the peg and reduce the debt burden. The introduction of the VAT, which is expected to raise 2 percent of GDP in additional revenue, and improved tax administration would help bring tax revenue to about 14.5 percent of GDP by 2024, while expenditure will be contained, keeping public wage bills under control and allowing only for judicious increases in pro-poor and capital spending. External borrowing would be capped and restricted to concessional loans to reduce debt vulnerabilities. Further consolidation of about 1 percent of GDP, mainly through cuts in capital expenditure, is possible in the outer years if financing pressures arise.

18. On the expenditure side, specific measures include:

- Containing personnel costs over the medium term by keeping wage bill constant in nominal terms next year and limiting new hiring and using attrition to mitigate the additional personnel costs incurred this year, which over the medium term is expected to improve public services and revenue collection. The wage bill will further be reduced through rationalizing and reforming public administration.

- Reducing electricity and water consumption at public institutions, particularly by setting ceilings and instructing EMAE to cut off supply to entities exceeding their allocation.

- Keeping the transfers constant in nominal terms next year and containing the increase to less than 10 percent cumulatively over the next three years, while reducing consigned (*despesas consignadas (dos servicos de cobrança*)) expenditures. In this regard, the government will not approve borrowing by public entities to offset lower transfers from Treasury.

- Executing domestic primary expenditure cautiously to match available resources and limit it to D1910 million, of which D136 million is COVID-related spending. More specifically, the government will be guided by the following breakdown:

	2020 (millions of new dobras)
Total domestic primary expenditure	1910
Total primary current expenditure	1732
Personnel costs	980
Goods and services	255
Transfers	318
Other	179
Treasury-financed capital expenditure	20
HIPC-related social expenditure	22
Treasury-financed COVID-related spending	136

19. Efforts will resume to implement IMF recommendations on strengthening tax administration, including: (i) reorganization of the *Direção dos Impostos* to improve management and strategic planning focused on tax compliance; (ii) adoption of modern compliance risk management practices, including audit programs that exploit information from third parties; and (iii) overhaul of current performance monitoring framework including key performance indicators and rewards program. The 25 individuals selected last year were hired and their training will continue to modernize our tax administration.

20. Furthermore, tax collection, especially that of large taxpayers, will be closely monitored to ensure timely tax payments. Monthly reports on tax payments and outstanding tax arrears will be prepared and shared with the IMF mission. The authorities will stand ready to apply legal and administrative procedures to ensure payments are made.

21. Final preparations are under way to introduce the VAT by mid-2021. The VAT law was approved last October, and other preparations, including adoption of related regulations, such as to harmonize the VAT with other taxes; continued education campaign; providing adequate space and equipment to new staff; setting up four taxpayer centers; training local tax administrators including those from Principe; agreements with banks to receive VAT payments, are being finalized. The main issue left is the installation of an IT system with the support of the World bank. Tenders have been issued and work on the IT system should start by the end of August and end in the second quarter of 2021.

22. The government is committed to continuing public financial management reforms and reducing government arrears. Specific reforms include:

1) Improve the macro-fiscal framework projections (revenues and expenditures), particularly by making realistic revenue forecasts. We will adopt a monthly budget allocation plan for the remainder of this year to strengthen fiscal discipline. We will also prepare medium-term fiscal

framework (MTFF) projections for a three-year period and include it as an annex to the 2021 budget documents.

2) Strengthen cash management and internal capacities at the Treasury Department. For this purpose, we will develop and update regularly in coordination with BCSTP a monthly financing plan to guide the issuance of new treasury bills, consistent with the annual budget and financing plan.

3) Strengthen expenditure control, prevent the accumulation of arrears and update the arrears clearance plan to cover all domestic arrears. Meticulous work recently undertaken by Treasury has shown that significant amounts of arrears are outstanding to private suppliers for projects contracted by the government over the last several years. To prevent this from recurring, more work will be carried out on identifying the causes, nature, and timing of these arrears.[3] Going forward, Treasury will be the sole public entity in the central government allowed to contract loans. The government is committed to not accumulating new arrears and will use treasury bill issuances to cover payments if needed. We will also introduce procurement plans, commitment plans, and cash plans to pilot ministries by end-2021 to strengthen expenditure control procedures, as discussed during an IMF technical assistance mission in February 2020. This approach will be gradually expanded to all line ministries and spending agencies. Furthermore, it will dedicate all additional resources available to pay down domestic arrears.

4) Enhance fiscal reporting and improve consistency of fiscal data from above and below the line. The Treasury will reconcile the financing data with the BCSTP on a monthly basis. Monthly TOFE will be provided to the IMF by the 21th of the following month.

5) Enhance the enforcement of the procurement laws to improve the efficiency of public expenditure and reduce vulnerabilities to corruption. The procurement law was adopted in 2009 and is broadly in line with the World Bank's recommendations. It is being updated with the support of the World Bank to address sustainability and e-procurement, environmental, social, and hygiene issues, framework contracts, and the complaint mechanism.

6) Implement measures to ensure transparency of public spending, including pandemic-related expenses. We are committed to publishing on the website of the Ministry of Finance (MOF) (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

[3] Arrears were accumulated in recent years as project grants and loans fell below projection, and these arrears were not accounted for in the budget execution and financial statements by the time they were incurred.

(no. 11/2019),[4, 5] (iii) beneficial ownership information of companies receiving procurement contracts, and (iv) the ex-post validation of delivery of the contracts—all (i) to (iv) to be published within two weeks documents become available—and (iv) monthly COVID-19 related expenditure reports within a 45-day lag (structural benchmarks for end-August and end-November). In this context, it is important to elaborate monthly budget allocations and quarterly commitment ceilings and reconcile fiscal and financing data monthly. Currently we have no integrated system, and all documents are collected manually. In this context, we are working with the World Bank to build a procurement system that will integrate the ministries, the procurement agency COSSIL, the Court of Accounts and the Budget Directorate in order to modernize the procurement process. Once this medium-term project is completed, the management and transparency of public contracts will be strengthened.

F. Monetary Policy and Foreign Exchange Reserves

23. The BCSTP responded agilely to changing monetary conditions caused by the pandemic, lowering the minimum currency reserve requirements for domestic currency from 18 to 14 percent and for foreign currency from 21 to 17 percent and minimum liquidity ratios from 11 to 9.5 percent in early April. We will actively manage system-wide liquidity, adjusting reserve requirements as needed.

24. We continue to build the monetary framework to support the peg. With IMF technical assistance, we have upgraded our liquidity forecasting framework to three months from only one month. Moreover, in early March, the monetary policy committee of the BCSTP approved an issuance of three-month certificates of deposit, totaling 100 million dobras, which was a structural benchmark under the ECF program. However, the pandemic delayed the initial auction scheduled for end-March due to heightened demand for liquidity. For the first time in recent years, the T-bill auction in March was not fully subscribed. Nevertheless, we stand ready to conduct certificates of deposit (CD) auctions in line with IMF TA recommendations should liquidity become excessive.

25. More efforts are planned for strengthening monetary policy management and coordination of monetary and fiscal policies. These include improving the liquidity forecast framework, holding regular meetings of the Committee for Public Debt to support the development of a joint schedule of Treasury bill issuances that is aligned with the government's cash flow and borrowing plan, and conducting monthly reconciliation of monetary and treasury data on fiscal financing. We will establish a policy rate that is in line with our recent efforts on open market operations and develop adequate operational instruments and formulate an operational strategy to deal with changing liquidity conditions.

[4] These include contracts on public work of over dobras 100,000.00 (US$4,500); on acquisition of supply of goods of over dobras 75,000.00; on consultancy services of over dobras 50,000.00; loan contracts of over dobras 1,500,000.00; concession and other contracts with a value greater than dobras 150,000.00.

[5] The COVID-19 related contracts will also be published according to the same rule even though Court of Accounts' Resolution no. 1/2020 establishes that COVID-19 related contracts can be signed by government without prior authorization from the Court, but subject to appreciation by the Court of Accounts within 30 days of signature.

26. Fiscal consolidation over the medium term and continued structural reform will underpin our peg to Euro. Continued fiscal consolidation complemented by appropriately tight monetary policy will contain demand for imports and encourage more dobra savings. In addition, the energy sector reforms to lower the costs and reduce the loss of electricity provision will significantly reduce the pressure on foreign exchange reserves. Other reforms aimed at expanding the economic base (centered around tourism, agriculture, and fisheries) by increasing domestic supply and exports will also improve the balance of payments. These actions will also help support the removal of exchange restrictions.

27. As noted in the Letter of Intent, we will not introduce regulations and practices that could lead to the introduction of new and intensification/modification of existing exchange restrictions/multiple current practice. Therefore, we will consult the IMF when revising relevant regulations or laws.

28. The Central Bank is committed to sound governance and transparency. As noted in the subsequent section, we will implement the recommendations of safeguards assessment to strengthen the governance and operation of the Central Bank. To further increase transparency on public debt management and financial market information, we will publish regularly and frequently statistics and reports such as the annual schedule of treasury bill forecasts and treasury bill issuances on the BCSTP website.

G. Financial Sector Policy

29. Financial sector policies will seek to strike an appropriate balance between safeguarding financial stability and supporting economic activity. As a part of the response to the pandemic, a moratorium of eight months was recommended on bank dividend payouts to safeguard capital positions, which may in turn support lending. Banks have also been advised to be flexible in renegotiating debt payments and are required to offer a six-month moratorium on repayment for non-delinquent borrowers experiencing distress. Nevertheless, to safeguard financial stability, loan reporting, classification, and provisioning standards will be maintained; restructured loans will be classified accordingly to avoid compromising the information on loan quality; and any loan forbearance measures will be limited to the crisis period. The BCSTP will closely monitor bank revenue and enforce all regulations beyond those forborne.

30. We have worked with commercial banks to implement the AQR recommendations. Guidelines on loan reclassification and additional provisioning requirements, and recapitalization were issued in September 2019 and were enforced by March 2020, but the recapitalization is delayed to after the period of moratorium in November of this year. Compliance with AQR recommendations was investigated through monthly reports from the commercial banks to BCSTP. Banks will be required to send BCSTP a report with specifics including details on the status of all loans identified in the AQR as in need of reclassification and the amount of collateral that should be seized. The BCSTP will conduct careful analysis to verify that reclassification and provisioning have been completed. Banks with inadequate capital will need to submit a plan by September for full recapitalization by December, although this date may need to be adjusted in response to evolving conditions of the pandemic and its impact on foreign investors. The total recapitalization amounts shall be informed by a BCSTP stress test that will aim to project crisis-related losses and thus additional capital coming on top of already-known recapitalization amounts. We will share the data, assessment report on reclassification, stress test methodology and results, and bank recapitalization plans with IMF and WB staff when they become available.

31. We need to build additional capacity to intensify off-site monitoring and on-site inspections to identify risks and non-compliance early-on. With IMF technical assistance, we are implementing a bank rating model for on- and off-site supervision, upgrading banking regulations, and training staff. We have completed an initial draft of an operational manual for rating credit institutions, targeting the finalization of the manual and a new prudential regulation on risk management by March 2021. Steps have been taken to improve the existing credit registry, including implementing a new platform collecting additional loan and debtor information. In this context, we will continue to seek technical assistance regarding the software needed to analyze trends in credit quality as recorded in the credit registry so that we can spot emerging loan deterioration in real time and take prompt corrective action.

32. The resolution of legacy NPLs needs be accelerated. Banks remain unwilling to write off even long-defaulted but fully provisioned loans. A draft regulation for banks on more rapid write-offs will be prepared by September 2020 and sent to the IMF for comments. After receiving comments from the IMF, the NAP will be finalized within one month. Banks will subsequently be required to comply within three months. Still-needed reforms include improving the efficiency of the judicial loan enforcement process and reinvigorating the project to establish arbitration tribunals for out-of-court settlement, particularly as the formal judicial system faces severe capacity constraints. In this regard, the Ministry of Justice has sent to the Council of Ministers the draft regulations for the arbitration court on 1) an ethics code for judges, 2) selecting and appointing judges and 3) the costs and preparations for the court. We expect to submit these regulations to parliament for approval by September 2020. We will also work on appointing arbitration referees, finalizing the code of ethics, securing a location for the court, and refreshing the training of the referees and administrative staff, including through virtual trainings. It will also be necessary to secure funding for this start-up phase, including providing the needed equipment. We expect arbitration courts to be operational by December 2020.

33. We continue to make every effort to facilitate the swift liquidation of the two banks whose licenses have been revoked, however, a tiny market and a malfunctioning court system continue hamper our efforts. Banco Equador is under liquidation due to insolvency. Some moveable assets were sold, and the 2019 activity report of the liquidator was sent to BCSTP in March 2020. So far, the liquidation cost of Banco Equador stands at 0.3 percent of GDP, most of which is related to payment to small depositors (see table below). If the remaining assets can be recovered with minimal costs (moveable and real estate assets estimated at Dobra 92 million and fully recoverable loan portfolio assessed at Dobra 9 million), the proceeds should more than cover these costs. However, should the recovery rate for loan exposure prove to be far lower and the sale of real estate assets face further pandemic-related risks, the total costs of the liquidation may not be fully covered. Therefore, we plan to take concrete measures to conclude the liquidation by end-2020 (Box

1). BCSTP will calculate its exposure to the liquidation and making appropriate provision by September. Banco Privado (BPSTP) lost its license due to repeated non-compliance with BCSTP directives and not insolvency; payments to the small depositors were covered by the liquid assets of BPSTP, and BCSTP has no exposure to resolution of this bank. After the license was canceled, the BCSTP initiated several contacts with the former shareholders of BPSTP to claim its assets. Meanwhile, potential investors expressed interest in buying the bank. Based on pre-crisis market interest, the bank is likely to be sold to a group of investors after the crisis. However, if the sale of the BPSTP is not concluded by the end of 2020, BCSTP will turn the estate over to the courts. Since the net asset value of BPSTP was positive at the time of intervention, we do not expect to incur any losses in the resolution process.

Box 1. Measures for Accelerating the Liquidation of Banco Equador

First a multisectoral team will be established by mid-July to oversee and support the liquidation.

Second, the liquidator will launch the tender for the sale of all real estate assets and other fixed assets by end-July.

Third, the liquidation commission will make a public announcement on media by July 17, 2020 for all remaining small depositors to claim their deposits by end-August or forfeit their claims, closing this process that started in 2016.

Fourth, the liquidation commission will prepare a plan by July 25 to sell the remaining assets, including a schedule for progressive discounts for unsold loan assets at offerings with specified dates. Debtors will be offered the similar discount for paying off their debt. It is expected that by end-August such a plan will be agreed upon for implementation with creditors, who cannot interfere in the implementation of the plan. The liquidation of the loan assets will commence by end-August 2020.

Fifth, the liquidator will provide BCSTP a monthly activity report, which will be shared with the IMF and published on the BCSTP website two weeks from the period ending after redacting sensitive or confidential information. The first report will cover activities in July and will be published in mid-August.

34. Access to finance by SMEs, and financial inclusion more generally, is difficult but several remedial projects have been initiated. Banks are often unwilling to lend to small firms for lack of collateral and other safeguards. With World Bank assistance, we are creating the legal framework for a collateral registry. The registry would allow SMEs to pledge real estate and movable collateral and thus attain access to bank financing more easily. We aim to submit the draft law to parliament by end-December 2020 and work is underway to develop the software for registry. A bureau for financial inclusion was established at the BCSTP, which will lead the efforts on reducing gender gaps and increasing access to digital financial technologies and improving consumer protection and literacy, key issues identified in a recent survey. We will issue a decree law by September 2020 to establish the bureau's legal mandate.

Cash Flows of Banco Equador Liquidation

(in millions of dobras)	As of April 2020
Proceeds	**3.6**
Assests sale proceeds	2.0
Customer debt repayment	1.6
Operation costs of liquidator	**4.1**
Salaries	2.3
Wages for technical experts (legal, liquidator, etc.)	1.4
Wages for security staff	0.9
Utilities	0.6
Arrears payment	1.2
Other services	0.1
Deposit accounts below 100,000	
Cumulative pay out	28.4
Remaining amount	13.2
Net cash flow	-29.0
In percent of GDP	-0.3
2019 GDP	9,230

35. We are taking steps to implement the remaining recommendations from the last safeguards assessment. We have completed several of these recommendations. Implementation of the following are underway:

- Adopting an IFRS implementation plan. A first workshop was completed, but the second one was canceled due to the pandemic.

- Amending the BCSTP organic law to strengthen autonomy and governance of BCSTP. A draft has been shared with the IMF for comments and is expected to be sent by the BCSTP Board to the government by end-September 2020 and submitted to parliament by end-2020 (structural benchmark).

- Finalizing the revised financial institutions law. A draft has been shared with the IMF for feedback as part of the ongoing technical assistance and is expected to be sent by the BCSTP Board to the government by end-September 2020 and submitted to parliament by end-November 2020 (structural benchmark). The law will ensure compliance with international standards (e.g. Basel Core Principles and the Financial Action Task Force (FATF) standards) and best practices regarding regulation and supervision of financial institutions. Moreover, it will preserve country's membership in Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) by staying current on contributions to prevent public listing by FATF, which will cause reputational damage and potential loss of correspondent banking relationships.

- Providing quarterly reports on general compliance and audit activity to the BCSTP Board.

At the end of June, we provided the IMF with an updated implementation timeline that accounts for the impact of COVID-19 for the remaining safeguards recommendations. These include enhancing regulations and procedures to require perforation of currency notes immediately after they are earmarked for destruction, depositing foreign exchange reserves only in investment-grade banks when possible, and avoiding conflicts of interest.

36. Other medium-term financial sector reforms underway include expediting the implementation of a new payments system, in line with our Financial Sector Development Implementation Plan (FSDIP). Jointly with commercial banks, we are upgrading the payments system to allow for international credit cards. This will not only improve the security of payments but also boost tourism and buttress foreign exchange reserves once the pandemic is under control. There will be a slight delay of a few months from the original timeline of June 2020 due to pandemic-related delays in shipments of equipment.

H. External Sector Policies

Exchange Restrictions

37. The IMF Executive Board granted temporary approval of exchange restrictions and a multiple currency practice.[6] The one-year approval expires in October 2020. Given the current balance of payment issues, we will request extending the approval for another year. Efforts to boost reserves noted above will also support the removal of the restricting measures.

[6] These exchange measures include: (i) an exchange restriction arising under Articles 3(g) and 18 of the Investment Code of 2016 due to limitations on the transferability of net income from investments; and (ii) an exchange restriction arising from limitations on the availability of foreign exchange for payments of current international transactions, due to the rationing of foreign exchange by BCSTP. The latter exchange restriction also gives rise to a multiple currency practice as it has resulted in the channeling of transactions to the parallel market where the exchange rate is at a spread of more than two percent from the exchange rate in the formal market. These measures were approved by the IMF Board in October 2019 for twelve months because they are temporary, non-discriminatory and needed for balance of payments reasons.

External Debt

38. Given the high debt level, we will continue to borrow cautiously. We will borrow only at concessional terms. Continued EMAE reform (see ¶43-45) will reduce fiscal liabilities. All these measures will ensure the present value debt ratio to GDP falls below the high-risk debt distress threshold by 2024 (Borrowing Plan). Contracting of new loans will be limited to 3 percent of GDP. We also strive to keep external debt disbursements below 2 percent of GDP. These parameters will be adjusted according to the development of debt vulnerability and can be eased once debt vulnerability decreases. We will also continue to engage actively with bilateral creditors to regularize post-HIPC arrears.

Borrowing Plan 2020-21
(For Investment, Millions of U.S. dollars)

	2020	
New public debt contracted or guaranteed	Volume [1]	Present Value [1]
Sources of debt financing	12.0	7.8
Concessional debt of which [2]	12.0	7.8
Non-concessional debt of which [3]	0.0	0.0
Semi-concessional debt [3]	0.0	0.0
Commercial terms [4]	0.0	0.0
Uses of debt financing	12.0	7.8
Memorandum items		
Indicative projections		
2020	12.8	8.3
2021	13.9	9.0

[1] Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.
[2] Debt with a grant element that exceeds a minimum threshold of 35 percent.
[3] Debt with a positive grant element below the minimum grant element.
[4] Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.

39. The government is implementing measures to strengthen debt management. Some main recommendations of the Debt Management Performance Assessment (DeMPA), which was completed with the support of the World Bank in November 2016 are being implemented, including a draft medium-term debt management strategy. With the help of the World Bank, a debt database is being established, which is critical for improving debt service projections, conducting risk analyses, and reporting more detailed information on the debt stock. We will also seek assistance in training of officials on debt management, including T-Bill issuance and risk management, as well as developing and publishing an annual schedule of T-Bill issuance that aligns with cash flow forecasts and borrowing plans.

I. The Implementation of Other Structural Reforms

Development Planning

40. While we have relatively progressive legislation on gender equality, there is still a long way to go in terms of enforcing existing legislation and enacting additional legislation and

positive discrimination measures to accelerate progress on gender equality. We will review our legislation to address gender disparities, including, for example, a mandatory quota on female representation in parliament. The implementation of the National Strategy for Gender Equality and Equity (NSGEE) 2019 – 2026 constitutes an essential action. As part of the plan's implementation, we will launch awareness campaigns on gender equality, including incorporating it in the school curriculum to inform all citizens of their legal rights and opportunities. In an effort to promote transparency and set an example for the private sector, the Ministry of Finance will coordinate with other ministries to submit to the Gender Institute data on average annual wages by gender and the share of managerial-level positions held by women for compilation and publication on governmental website, such as the Ministry of Finance or Prime Minister's website. The Gender Institute will coordinate with large development partners such as EU and World Bank to ensure large projects, particularly those impact woman and families directly, such as water and sanitation projects, incorporate women's views and include gender-based analysis to monitor and evaluate outcomes. As part of the BCTSP's implementation of the Financial Inclusion Strategy for Women, the BCSTP, through its Bureau of Financial Inclusion, will develop program to promote financial literacy, particularly among women, using programs that have been successful in other developing countries. BCSTP will seek innovative ways to delivery financial literacy information through social media or online programs. We will also explore, in conjunction with IMF, UN Women, and AFRITAC expertise, introducing gender budgeting in one or two pilot ministries.

41. While we expect the country to remain a sink for greenhouse gases over the foreseeable future, we will nonetheless seek to reduce local emissions and strengthen the country's resilience to climate change. The impact of climate change is primarily in rising temperatures and sea level, costal erosion, and changing precipitation patterns, hurting agriculture, fisheries, and eventually tourism. A number of externally-financed projects are ongoing to address weaknesses in these areas, including the regional project (WACA) supported by the World Bank to increase resilience of Western African coast, the installation of an early warning system supported by UNDP, and a recently launched project (COMPRAN) supported by FIDA to strengthen the agricultural sector. At the same time, we will continue to improve our local capacity to address climate change, through training and better remuneration of our staff, and public awareness campaigns and education.

Business Climate to Promote Tourism

42. We need to improve the business environment to facilitate recovery and promote sustainable growth. Specific actions include:

- Publish a clearly codified procedure, including access to land, for the approval of investment to facilitate investment in tourism by December 2020.
- Integrate tourism licensing requests in the GUEnet portal (online portal for starting a business) to facilitate registration. With support from the World Bank, the platform has been developed, and the validation will be completed by December 2020 to increase transparency on tourism licensing procedures.

- Develop and implement a plan for removing the country from the European Union's Air Safety blacklist to facilitate the recovery of the tourism sector and exports (a Structural Benchmark)

- Revise the labor law to encourage investment while providing adequate protection to workers

- Reform the National Tourism Administration to insulate relevant decisions from political influence. To enhance coordination and planning efforts, we have established a commission on tourism that includes members from relevant ministries, the Principe government, and private sector stakeholders. As part of the COVID-19 recovery plan, the commission is working to introduce measures such as “clean and safe” certificates for hotels, wider testing for the population, and training for tourism sector workers.

- Reform the judicial system improves to protect creditor rights granted under the law to support private investment.

- Improve training of workers in the tourism sector, including establishing a school with support from the World Bank.

- Publish quarterly tourist arrival data, which will be agreed upon by relevant agencies (e.g. Border Control, BCSTP, Tourism, INE), within two months the period ending by September 2020

- Expand the annual BCSTP tourist survey on expenses to include information about overall visit and experience satisfaction, possible cover both high season and low season. This will be completed with the cooperation among BCSTP, Directorate of Tourism, and INE. Given the pandemic, we will likely not be able to collect substantial data in 2020; however, we will complete the design of the survey by September 2020 and will begin surveying tourists when regular flight schedules resume. We will publish a summary report within three months of collecting all data.

43. Other near-term actions are underway to improve the payments system and reduce transportation costs. As noted previously, the development of a payments system with the capability of processing international credit cards will be completed in late 2020. Supported by AfDB, the tender for the second phase of the project was launched at end-June. The project, with mobile financial services and digital banking capability, is expected to complete in about 2 years and to facilitate financial access**.** In addition, we will aim to improve the port of Principe, which will help reduce the cost of imports (currently on average 20 percent higher than in São Tomé) and ensure a steady supply of goods.

Energy Sector Reform

44. We are committed to implement the Least Cost Development Plan (LCDP) and Management Improvement Plan (MIP) to help EMAE achieve cost recovery overtime. EMAE has been unable to pay most of its bills for fuel supply, making the country vulnerable to fuel shortages. Stable, low cost, and increased power supply are key to robust growth, and progress has been made. EMAE installed more than 6000 meters and reduced the criteria for supply cut-off from three missed payments to two missed payments. It is also negotiating with banks for on-line bill payment and plans to open collection centers in other districts. We have also staffed the loss reduction office; however, it is still to be equipped. We also worked on a contingency plan to deal with the COVID-19 crisis and maintain and inspect aging equipment.

45. Given the important of energy sector reform, we also plan to hold biannual steering committee meetings to review progress in the implementation of LCDP and MIP. It will be chaired by the Prime Minister and include other important external partners such as the World Bank and the IMF.

46. Concrete reform measures and the specified timeframes are listed below.

Objective 1: Reduce losses (commercial and technical) by 4 (additional 6) percentage points and improve the collection rate by 8 (additional 2) percentage points by June 2021 (June 2022) to lower losses below 20 percent and raise the collection rate to 95 percent by June 2022. This will be achieved by:

Implementing the Management Improvement Plan

Improving operational efficiency of EMAE by implementing a new organizational structure in the Commercial Directorate and redefining the functions of the Finance Directorate and Management support units. This would include the selection of personnel according to the competences of each position in the new organizational structure, with the support of a consultant and a specialized human resource firm, both already contracted. Specific actions include:

i. Prepare bidding documents for procuring management information systems (MIS) (CMS, ERP, IRMS) – August 2020.
ii. Work with HR consultant on proposal of organizational restructuring, job description for Directors and Managers reporting to Directors (first 2 levels). The consultant has already started to work on the selection process, with shortlisted candidates expected in August 2020 for level 1 directors and in October 2020 for level 2 directors.
iii. Appoint Project Director for MIP by August 2020;
iv. Appoint Project Manager for Loss Reduction Plan (LRP) by August 2020.
v. Select management consultancy firm to support EMAE in implementation of MIP by October 2020, when the new director team is recruited.
vi. Adopt modern billing practices, procure and install a state-of-the-art MIS and link cost of services to payment through tariff reform.
vii. Once the pandemic is under control, continue to develop arrears clearance plans with consumers. Continue to disconnect non-paying customers. In cases where disconnection is not appropriate, we will use other enforcement tools such as seizing the bank account of the offending company.

With the following tangible results:

i. Continue to reduce diesel losses to 5 percent by June 2021 and commercial and technical electricity losses to 29 percent by June 2021 and 23 percent by June 2022; raise collection rate to 95 percent by June 2022.

ii. Government defines essential (non-disconnectable) and non-essential (disconnectable) consumption facilities by October 2020.

iii. Government establishes a mechanism with EMAE to cap consumption and ensure timely bill payment by public entities, including by cutting EMAE's services to non-essential facilities, deducting from budget allocation, and transferring directly from Treasury to pay EMAE to be implemented by November 16, 2020.

iv. The loss-reduction office in collaboration with the Communications team design a campaign program by September 2020 and implement subsequently the campaign to ensure social acceptance of the reforms and behavioral change of customers to strengthen payment discipline and reduce electricity theft.

v. Improve collections, particularly from large consumers through the installation of advanced metering infrastructure, including 1200 prepaid meters to improve EMAE's cash flow by June 2021.

Implementing the Least Cost Production Plan:

- Rehabilitating and expanding the capacity of the only operating hydropower plant on the island, Contador HPP, by June 2022 to 3.2 MW to reduce overall generation cost.
- Focusing on identifying resources for the timely development of the recently approved Least Cost Development Plan that identified as a priority the development of 8.8 MW of dual-fueled thermal units heavy fuel oil (HFO) or liquified natural gas (LNG) and about 2MW of a photovoltaic solar plant.
- Mobilizing partnerships to study and develop existing hydropower potential.

Objective 2: Reduce peak energy consumption by 10 percent within 12 months by a LED program:

a. Government will roll out a program to replace incandescent/fluorescent with LED program within nine months, with $2 million in funding from the World Bank, to be completed by end March 2021. Tender is expected to be launched in July 2020.

b. Government will pass a law that bans the importation of incandescent/fluorescent lamps by June 2022. An individual consultant has been engaged to draft this policy before end September 2020. Government will conduct outreach to stakeholders such as light importers, raising awareness and helping them access LED suppliers.

Objective 3: reform tariffs through (i) establishing a mechanism and (ii) implementing the first tariff reform once the prepaid meters are in place for the large consumers.

c. The tariff analysis identified the need for an in-depth tariff reform to be led by the regulator AGER. In order to gradually achieve cost-effective tariff structure by 2024, the government needs to immediately enforce through a decree the proposed adjustments regarding (i) tariff structure definition, (ii) customer category definition, (iii) social tariffs adjustments, and (iv) agreed conditions and a broad timeline to achieve full cost-recovery structure. A draft decree is being reviewed in consultation with the World Bank and will be submitted to the government by end March 2021 for approval within a month.

d. The first tariff increase is to be implemented once meters are in place by December 2021 for large consumers.

In sum below are the short-term targets and actions (*structural benchmarks*)

(in percent)		Target	
	Baseline end-2019	June 2021	June 2022
Reducing loss (commercial + technical) to	33	29	23
Raising bill collection rate	85	93	95
Reducing diesel loss	6.3	5	5

	Actions to be taken	Target date
1	Develop terms of reference of the new executive management team of EMAE for implementing reform measures	Sep-2020
2	EMAE's loss-reduction office in collaboration with the Communications team design a campaign program	Sep-2020
3	Ministry of Finance identifies and categorizes public facilities as essential (non-disconnectable) and non-essential (disconnectable)	Oct-2020
4	Government establishes a mechanism with EMAE to cap consumption and ensure timely bills payment by public entities	Nov 16, 2020
5	Complete the LED program	March-2021
6	Continue to develop arrears clearance plan with non-public customers	To continue after crisis subsides
7	Implement the meter program supported by EIB and World Bank, including complete the installation of 1200 prepaid meters.	June-2021
8	Stop importing incandescent and fluorescent lights	End-2022

Improve Economic Statistics

47. We are continuing to improve economic data. An IMF mission in March 2019 helped us to implement the enhanced General Data Dissemination System (e-GDDS) to foster greater data accessibility and identify priority areas for data quality improvements. We began submitting data essential for surveillance through a National Summary Data Page (NSDP) on May 7, 2019 using Statistical Data and Metadata Exchange (SDMX) for machine-to-machine data transfer. We will redouble our efforts to ensure that we adhere to our schedule of publication commitments (outlined here). We also plan to improve our balance of payment statistics, including recording imports related to petroleum exploration FDI and refining estimation of tourist receipts.

Capacity Development

48. Continued hands-on technical assistance is essential to build capacity. Given limited staff capacity, on-the-job training has been particularly important. Therefore. we will seek to complement short-term technical assistance with that provided by long-term or peripatetic experts, who not only produces the diagnosis of the problems but also supports the implementation of the recommendations. In addition, we will also request Portuguese speaking experts to facilitate interactions, expedite the identification of the core of the problems, and help the transfer of knowledge. We will also update IMF staff regarding our most pressing needs under the medium-term capacity development strategy, which include revenue administration—notably implementing VAT, PFM to improve budget preparation and execution, banking regulation and supervision, and strengthen the accuracy of balance of payment statistics.

PROGRAM MONITORING

49. The program will be monitored on a semi-annual basis, through quantitative and/or continuous performance criteria and indicative targets (Table 3) and structural benchmarks (Table 4). Quantitative targets are set for end-2020 and end-June 2021, while those for end-September 2020 and end-March 2021 are indicative targets. The second review should be completed on or after November 15, 2020, the third review should be completed on or after May 15, 2021, and the fourth review should be completed on or after September 15, 2021.

Table 1. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2019

(Millions of new dobras, cumulative from beginning of year, unless otherwise specified)

	2019			
	December Performance Criteria [1]			
	Program	w/ adjusts	Prel.	Status
Performance Criteria:				
Floor on domestic primary balance (as defined in the TMU) [2]	-198	-198	170	Met
Ceiling on changes in net bank financing of the central government (at program exchange rate) [3, 4, 5]	61	57	52	Met
Floor on net international reserves of the central bank (US$ millions) [2, 4]	27	27	31	Met
Ceiling on the accumulation of central government's new external payment arrears (US$ millions) [5, 6, 7, 8]	0	...	0	Met
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	Met
Not to (i) introduce or intensify any exchange restrictions (ii) introduce or impose import restrictions, (iii) introduce or modify multiple currency practices, or (iv) conclude bilateral payment agreements in violation of Article VIII of the Articles of Agreements		Continuous		Met
Indicative Targets:				
Ceiling on change of central government's new domestic arrears	0		-100	Met
Floor on pro-poor expenditures	584		487	Not met
Floor on tax revenue	1,166		1,160	Not met
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]	13		0	Met
Memorandum items:				
Ceiling on dobra base money (stock)	1,488		1,385	
Transfer from NOA to the budget (US$ millions)	3.9		3.9	
Net external debt service payments [11]	116		94	
Official external program support [11]	237		238	
IMF program disbursement	56		56	
Budget support grants	182		182	
Domestic arrears clearance (-, exclude debt payment to ENCO)	0		-100	
Treasury-funded capital expenditure	13		9	

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

[1] Performance at the December 2019 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 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 and 17.

[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, excludes HIPC-related amortization.

Table 2. São Tomé and Príncipe: Structural Benchmarks for 2019

Policy Objectives and Measures	Timing	Macro Rationale	TA involved	Status
Strengthening Public Finances				
Adopt a VAT law in line with the IMF recommendation (MEFP ¶22)	October 15, 2019	To support the introduction of VAT	FAD/LEG	Met
Implement key measures of Management Improvement Plan and Least Cost Development Plan for EMAE (MEFP ¶44)	Continuous	To contain fiscal risk	With World Bank support	Not met
Raise fuel prices in line with the costs, consistent with the automatic fuel price adjustment mechanism.	Continuous	To enhance revenue	No TA involved	Met
Start to implement the communication plan to explain the VAT to the public as recommended by the IMF	End-September 2019	To support the introduction of VAT	With IMF support	Met
Enhancing Monetary Policy and Financial Stability				
Submit to Parliament an amended BCSTP Law to strengthen autonomy and governance of BCSTP and a revised financial institutions law, in consultation with IMF staff (MEFP ¶35)	End-December 2019	To strengthen financial supervision and improve governance and oversight	MCM/LEG	Not met
Tighten monetary policy by issuing central bank certificate of deposits of at least D50 million to maintain stock of reserves (MEFP ¶25)	End-March 2020	Support the peg	MCM	Not Met. Disrupted by pandemic
Implement recommendations of the Asset Quality Review of banks including asset reclassification and provisioning; require banks that have inadequate captial as a result to recapitalize (MEFP ¶30)	End-March 2020	To support financial sector stability and growth	No TA involved	Not Met. Disrupted by pandemic
Implement a bank rating model to support effective on- and off- site supervision; upgrade banking regulation to align with effective on- and off-site supervsions as recommended by IMF TA and train staff on its effective enforcement (MEFP ¶32)	End-June 2020	To better detect infractions of prudential regulation and enforce remedial measures	IMF Afritac Central	Not Met. Disrupted by pandemic
Establish registry of real estate and moveable collateral (MEFP ¶34)	End-June 2020	To better facilitate access to finance, particularly for small- and medium-sized businesses.	With World Bank support	Not Met. Disrupted by pandemic
Facilitating Business Activities				
Submit to the IMF the national strategy on women's economic empowerment and financial inclusion (MEFP ¶40) [1]	End-December 2019	To promote economic participation and gender equality	No TA involved	Met

[1] The completed strategy was titled the "National Strategy on Gender Equality and Equity 2019 - 2026."

Table 3. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2020–21

(Millions of new dobras, cumulative from beginning of year, unless otherwise specified)

	2020						2021	
	March Indicative Target		June Perform. Criteria [1]	September Indicative Target		December Perform. Criteria	March Ind. Target	June Perform. Criteria
	Prog. Req.	Prel.	Prog. Req.	Prog. Req.	Rev.	Prop.	Prop.	Prop.
Performance Criteria:								
Floor on domestic primary balance (as defined in the TMU) [2]	-38	-104	-76	-130	-500	-565	-125	-200
Ceiling on changes in net bank financing of the central government (at program exchange rate) [3, 4, 5]	20	...	40	140	-100	-65	60	165
Floor on net international reserves of the central bank (US$ millions)	28	49	30	31	20	25	25	25
Ceiling on the accumulation of central government's new external payment arrears (US$ millions) [5, 6, 7, 8]	0	0	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)	0	0	0	0	0	0	0	0
Not to (i) introduce or intensify any exchange restrictions (ii) introduce or impose import restrictions, (iii) introduce or modify multiple currency practices, or (iv) conclude bilateral payment agreements in violation of Article VIII of the Articles of Agreements				Continous				
Indicative Targets:								
Ceiling on change of central government's new domestic arrears	0	-19	0	0	-30	-60	0	0
Floor on pro-poor expenditures	155	202	310	525	550	700	150	300
Floor on tax revenue	327	315	654	973	750	1,152	314	628
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]	3	...	6	9	9	12	3	6
Memorandum items:								
Ceiling on dobra base money (stock)	1,369	161	1,337	1,380	1,329	1,321	1,342	1,362
Transfer from NOA to the budget (US$ millions)	3.8	2.9	3.8	3.7	3.8	3.8	3.0	3.0
Net external debt service payments [11]	33	20	46	100	68	91	33	65
Official external program support [11]	0	153	129	129	1,023	1,144	49	105
IMF program disbursement	0	0	56	56	365	421	0	56
Budget support grants	0	153	74	74	658	723	49	49
Domestic arrears clearance (-, exclude debt payment to ENCO)	-17	-19	-33	-50	-53	-70	0	0
Treasury-funded capital expenditure	4	3	8	15	15	20	7	13

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

[1] Performance at the June 2020 test date is assessed on the second 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 and 17.

[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, excludes HIPC-related amortization.

Table 4. São Tomé and Príncipe: Structural Benchmarks 2020

Policy Objectives and Measures	Timing	Macro Rationale	TA involved	Status
Strengthening Public Finances				
Implement key measures of Management Improvement Plan and Least Cost Development Plan for EMAE (MEFP ¶46)	Continuous	To contain fiscal risk	With World Bank support	
Issue the terms of reference and work timeline of the contracted consultant for implementing the IT system needed for introducing the VAT (newly proposed)	End-Sepember 2020	To enhance revenue	With World Bank support	
Maintain the current fuel retail prices as long as costs (including taxes and fees) remain below prices, and raise the prices if costs increase, consistent with the automatic fuel price adjustment mechanism, to prevent fuel subsidies.	Continuous	To enhance revenue	No TA involved	
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— and (iv) monthly COVID-19 related expenditure reports within a 45-day lag (MEFP ¶22) (newly proposed).	End-August 2020	To increase transparency and accountability	No TA involved	
Publishing on the Ministry of Finance (MOF) website beneficial ownership information of companies receiving public procurement contracts (same contracts as above)	November 15, 2020	To increase transparency and accountability	No TA involved	
Enhancing Monetary Policy and Financial Stability				
Submit the amended BCSTP Law to strengthen autonomy and governance of BCSTP and a revised financial institutions law, in consultation with IMF staff, to Parliament (MEFP ¶35) (proposed new date)	End-2020	To strengthen financial supervision and improve governance and oversight	MCM/LEG	
Facilitating Business Activities				
Develop a plan to remove the country from the European Union's Air Safety blacklist (newly proposed)	End-2020	To facilitate the recovery of the tourism	With World Bank support	

Attachment II. Technical Memorandum of Understanding, June 2020

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 2019-23. 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 TMU[1] will be the rates at end-2018, specifically 21.6925 new dobras per U.S. dollar, 24.5 new dobras per euro, 29.17221 new dobras per SDR, and 30.1865 new dobras per UA.

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** (¶26) 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, specifically (i) the floor on domestic primary balance; (ii) the ceiling on changes in net bank financing of the central government; (iii) the floor on net international reserves of the central bank; (iv) the ceiling on central government's outstanding external payments arrears; and (v) the ceiling on the contracting or guaranteeing of new non-concessional external debt 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 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.

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

[1]Data refer to the mid-point exchange rates published on the BCSTP's webpage for the last day of 2018.

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 (including oil tax surcharge and 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, Commerce and the Blue Economy (MOF).

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 project grants, (2) the cost assumed by the budget to pay off small depositors following the liquidation of Banco Equador, and (3) 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 MOF. All capital expenditures financed by budget support grants (including EU's) are treated as part of domestic primary spending, with no exception.

Official External Program Support

	2020 H1	2020	2021 H1	Currency Unit
Projected budgetary support grants				
World Bank	0.00	10.00	0	million US dollars
European Union	3.00	5.25	2	million euros
African Development Bank	0.00	12.50	0	million UA
IMF ECF program	1.90	5.29	1.9	million SDR
IMF RCF	9.03	9.03	0.0	million SDR

PERFORMANCE CRITERIA

9. Performance criterion on the floor on domestic primary balance. This performance criterion refers to the difference between government domestic revenue (including oil tax surcharge and excluding oil revenue) and domestic primary expenditure. Planned payment of (price differential) debt to ENCO (¶22) are deducted from the oil surcharge revenue. To control spending, MoF will not approve borrowing by any public entity in the central government other than Treasury (MEFP ¶14, 17). Accordingly, for the purpose of program monitoring, borrowing by any public entity other than Treasury recorded in the monetary survey as loans to the central government will be added as additional expenditure to the DPD. For reference, the domestic primary balance for end 2019 based on ***hypothetical outturns*** would be -173.7 million new dobras, broken down as follows:

Domestic Primary Balance
(2019, millions of new dobras)

I.	**Total revenue and grants (=1+2+3)**	2154.4
I.A	**of which domestic revenue (=I-2.1-3=1+2-2.1)**	1270.3
1.	Tax revenue	1187.8
1.1	*of which:* oil surcharge	50.0
2.	Nontax revenue	134.6
2.1	*of which:* oil revenue	52.0
3.	Grants	832.1
II.	**Total expenditure (=4+5+6)**	2157.3
II.A	**of which: domestic primary expenditure (=4-4.2+5.1+6)**	1384.0
4.	Current expenditure	1398.6
4.1	Personnel costs	752.6
4.2	Interest due	50.3
4.3	Goods and services	243.0
4.4	Transfers	279.5
4.5	Other current expenditure	73.1
5.	Capital expenditure	737.0
5.1	Financed by the Treasury	13.8
5.2	Financed by external sources	723.1
6.	HIPC Initiative-related social expenditure	21.8
III.	**Domestic primary balance (= I.A-II.A+IV-V)**	-173.7
Memorandum items		
IV.	**Planned payment to ENCO (reduction = -)**	-10.0
V.	**Borrowing by other entities**	50.0

10. Performance criterion on the ceiling on changes in net bank financing of the central government (NCG). This performance criterion refers to the increase (decrease) of net bank financing of the central government, which equals the stock of all outstanding claims on the central government held by the BCSTP and by other depository corporations (ODCs), less the stock of all deposits held by the central government with the BCSTP and with ODCs, plus the increase, if any (with the approval of the ministry of finance) of ODC's credit to the public entities. The balance of the National Oil Account (NOA), deposits from project grants and project loans, contingent liabilities, and social security operations are not included in NCG. All foreign exchange-denominated accounts will be converted to new dobras at the program exchange rate. The relevant data are reported monthly by the BCSTP to the IMF staff. For reference, at end-2018, outstanding net bank financing of the central government (excluding NOA) was 436 million new dobras, and change in net bank financing was 102 million new dobras as illustrated below.

Net Bank Financing
(millions of new dobras)

		2017	2018
I	***Net credit to government by the BCSTP (=I.1-I.2)***	**93**	**231**
I.1	BCSTP credit, including use of IMF resources:	260	310
I.2	Government deposits with the BCSTP (excluding NOA)	167	79
	Treasury dobra-denominated accounts	23	7
	Treasury foreign currency-denominated accounts	84	7
	Counterpart deposits	60	65
II	***Net credit to government by ODCs***	**427**	**667**
II.1	ODC's credit to the government	427	667
II.2	Central government deposits with ODCs[1]	0	0
III	***Net bank financing of the government (excluding NOA) (=I-II)***	**334**	**436**
IV	**Changes during 2018 in net bank financing of the central government (NCG)**		**102**

Note: [1] No deposits in ODCs that were under the central government (Treasury) control in 2017 and 2018.

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, as well as all 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-2019 NIR was 684 million new dobras (or $31 million, using the exchange rate of 21.6925 new dobras per U.S. dollar), calculated as follows:

International Reserves
(millions of new dobras)

		Dec-19
I	***Gross international reserves*** [1]	**1034**
	Cash	**23**
	Demand deposits	**695**
	Term deposits (excl. National Oil Account)	**77**
	Securities other than shares	**219**
	US Treasury Bill I	109
	US Treasury Bill II	110
	Accrued interest on securities	**2**
	Reserve position in the Fund	0
	SDR holdings	**18**
II	***Foreign exchange liability***	**350**
	Short-term bilateral liabilities	22
	Liabilities to the IMF	197
	Banks' reserves denominated in foreign currency	131
	Banks' guaranteed deposits denominated in foreign currency	0
III	**Net international reserves (NIR) (=I - II)**	**684**
IV	***Net other foreign assets***	**277**
	Other foreign assets	492
	Medium and long-term liabilities (including SDR allocation)	215
V	***Net foreign assets (III+IV)***	**960**
	Memorandum item: National Oil Account (NOA)	**412**

[1] *For program monitoring, banks' deposits are excluded.*

12. Performance criterion on the ceiling on the contracting or guaranteeing of new nonconcessional external debt by the central government or the BCSTP. This continuous performance criterion covers the contracting or guaranteeing of new external debt of any maturity (including overdraft positions but excluding short-term import-related and supplier credits) by the central government 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 debt 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 stream of debt service payments at the time of the contracting. The discount rate used for this purpose is 5 percent. For program purposes, a debt is considered contracted on the signature date of the contract, unless it is specified in the contract that it becomes effective upon ratification by the parliament. In the latter case, the debt is considered contracted upon ratification by parliament. This performance criterion does not apply to IMF resources. Debt being rescheduled or restructured is excluded from this ceiling to the extent that such non-concessional debt is used for debt management operations that improve the overall public debt profile. Medium- and long-term debt will be reported by the Debt Management Department of the MOF (as appropriate), measured in U.S. dollars at the prevailing exchange rates published by the BCSTP. The government should consult with IMF staff before contracting or guaranteeing new debt obligations.

13. Performance criterion on the ceiling on the accumulation of central government's new external payment arrears. This is a continuous performance criterion. New 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 signed by the debtor and creditor before the relevant payment comes due or for which the government has sought rescheduling or restructuring as of March 2019.

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

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

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.

16. 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.

17. New concessional external debt contracted or guaranteed by the central government or the BCSTP measures such debt with a grant element of at least 35 percent, and the limits on this debt are cumulative from the end of the previous calendar year.

MEMORANDUM ITEMS

18. 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.

19. Official external program support is defined as budget support grants and budget support loans, including disbursements from the IMF under the ECF and RCF arrangement, and other exceptional financing provided by foreign official entities and incorporated into the budget. **Budget support grants** include in-kind aid when the products are sold by the government and the receipts are used to finance a budgeted spending item.

20. Treasury-funded capital expenditure is part of domestic primary expenditure and covers public investment projects that are not directly financed by project grants and concessional project loans. It includes government's co-financing of capital projects financed mainly by project grants and loans. 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.

21. Ceiling on base money is set on the sum of currency issued—which consists of currency outside depository corporations and cash in vaults—and bank reserves denominated in new dobras. Bank reserves refer to reserves of commercial banks (in new dobras) held with the central bank and include reserves in excess of the reserve requirements.

22. Planned payment of debt to ENCO is the targeted amount to be deducted from the oil surcharge to pay back debt to ENCO during the year as discussed in paragraph 9. Higher than planned payments are not excluded from the revenue and will be included in domestic debt service. The planned annual payment is D0, D32 million in 2019 and 2020, respectively, half of which will be paid during the first semester.

23. Arrear clearance is measured as changes in the stock of government arrears to domestic suppliers as defined in paragraph 15.

USE OF ADJUSTERS

24. The performance criterion on the domestic primary balance will have one adjuster. The floor on the domestic primary balance will be adjusted upward for the shortfall of budgetary grants and downward if the government receives more than projected budget support grants and privatization receipts in 2020 and 2021; the adjustment down will be capped at 25 million new dobras (a little over ¼ percent of 2019 GDP) for 2020 and 25 million new dobras for the first semester of 2021.[2] The adjustment upward will be capped at 50 million new dobras in 2020. For program purpose, the projected privatization proceeds are 0 in 2020 and 2021.

25. The performance criteria on net bank financing of the central government and net international reserves of the central bank will be subject to the following adjusters based on deviations calculated cumulatively from end-December 2018 or end-December 2019, as appropriate (MEFP Attachment I, Table 3):

- ***Adjusters on ceilings on changes in net bank financing of the central government (NCG)***: Quarterly differences between actual and projected receipts of budget transfers from the NOA, budgetary support grant, net external debt service payments, and domestic arrears will be converted to new dobras at the program exchange rate and aggregated from end-December 2019 or end-December 2020, as appropriate, to the test date. The ceilings will be adjusted:
    - (i) downward (upward) by cumulative deviations downward (upward) of actual from projected net external debt service payments (exclude HPIC),
    - (ii) downward (upward) by deviation upward (downward) in budget transfers from the NOA,
    - (iii) downward by deviation upward of budgetary support grants in excess of 25 and 25 million new dobras in 2020 and the first semester of 2021 respectively; upward by deviation downward of budgetary support grants in excess of at 50 million new dobras.
    - (iv) downward (upward) by deviation upward (downward) of domestic arrears.

The combined application of all adjusters at any test date is capped at the equivalent of US$5 million 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, budgetary grants and loans, net external debt service payments, and domestic arrears in new dobras, will be converted to U.S. dollars at the program exchange rate and aggregated from end-

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

December 2018 or end-December 2019, as appropriate, to the test date. The floor will be adjusted upward (downward):

- (i) by the cumulative deviation downward (upward) of actual from projected net external debt service payments of the central government;
- (ii) by deviations upward (downward) for budget transfers from the NOA, and
- (iii) by deviations upward (downward) of budgetary grants and loans. Budget support loans in 2019 and 2020 are projected to be 0.

The combined application of all adjusters at any test date is capped at the equivalent of US$10 million at the program exchange rate.

DATA REPORTING

26. 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 MOF will provide the following information to IMF staff, within three 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;
- Quarterly information on the latest outstanding petroleum price structures and submission of new pricing structures (within a week of becoming available).
- Quarterly pro-poor expenditure.

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 website;
- Daily data on interest rates, to be posted on the central bank's website;
- Daily liquidity management table, including base money (in new dobras) and currency in circulation, to be posted on the central bank's website;
- Daily net international reserve position, to be posted on the central bank's website;
- 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 monetary aggregates (in IMF report form 5SR);
- Monthly BCSTP and market interest rates (in IMF report form 6SR);
- Monthly NOA flows data;
- 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 MOF 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, in arrears, 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 MOF, 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.

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

July 20, 2020

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR AUGMENTATION OF ACCESS, REPHASING OF ACCESS, AND FINANCING ASSURANCES REVIEW — INFORMATIONAL ANNEX

Prepared By	The African Department (in consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of June 30, 2020)

I. Membership Status: Joined: September 30, 1977; Article XIV

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	14.80	100.00
IMF's Holdings of Currency (Holdings Rate)	14.80	100.02
Reserve Tranche Position	0.00	0.00
III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	7.10	100.00
Holdings	0.42	5.87
IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF Loans	9.03	61.00
ECF Arrangements	6.34	42.82

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Oct 02, 2019	Feb 01, 2023	13.32	1.90
ECF	Jul 13, 2015	Dec 31, 2018	4.44	3.81
ECF	Jul 20, 2012	Jul 13, 2015	2.59	1.11

VI. Overdue Obligations and Projected Payments to Fund [1/]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2020	2021	2022	2023	2024
Principal	0.07	0.41	0.60	0.75	0.76
Charges/Interest	0.00	0.01	0.01	0.01	0.01
Total	0.08	0.42	0.61	0.75	0.77

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Dec 2000
Assistance committed	
by all creditors (US$ Million) [1/]	124.30
Of which: IMF assistance (US$ million)	1.24
(SDR equivalent in millions)	0.82

Completion point date	Mar 2007
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	0.82
Interim assistance	--
Completion point balance	0.82
Additional disbursement of interest income [2/]	0.04
Total disbursements	0.87

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[2/] Under the enhanced framework, an additional disbursement is made corresponding to interest income earned on the amount of HIPC assistance committed but not disbursed.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[1/]	1.43
Financed by: MDRI Trust	1.05
Remaining HIPC resources	0.38

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGT**	**Total**
December 2007	N/A	0.38	0.38
March 2007	N/A	1.05	1.05

[1/] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

IX. Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
N/A	Apr 13, 2020	0.11	0.11

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Safeguards Assessments:

Safeguards assessments were conducted in 2009, 2013, 2015, and 2019. Limited progress has been made on strengthening safeguards at the Central Bank of Sao Tome and Principe (BCSTP). While external audits continue to be conducted by reputable audit firms, capacity constraints have contributed limited progress in strengthening the safeguards framework at the BCSTP. An updated central bank law, which will improve the autonomy and independence of the BCSTP, has been submitted to the BCSTP Board but still needs to be passed by parliament. The financial position is weak, and the implementation of international financial reporting standards remains work in progress. The internal audit function continues to face capacity constraints and independent oversight of daily operations continues to be lacking. Technical assistance is necessary to advance the needed reforms in the areas of financial reporting and internal audit.

Exchange Arrangements:

The *de jure* and *de facto* exchange rate arrangement is a conventional peg against the euro. São Tomé and Príncipe has pegged the dobra to the euro since January 2010, initially at a rate of dobra 24,500 per euro; however, it redenominated the currency by removing three zeros in January 2018. The organic law of the BCSTP authorizes it to make decisions regarding exchange rate policy. The commission on foreign exchange sales by banks cannot be higher than 2 percent for the euro, while the spread for other currencies cannot exceed 4 percent. Purchases of euro by banks must be done at the rate published by the BCSTP and no commissions are allowed. The BCSTP finances current international transactions at the official exchange rate and only after verification of the documentation establishing the bona fide nature of the bank's request. Access to foreign exchange is limited to banks having a net open position in the transaction currency of less than 12 percent of qualified capital, a net open position in total foreign currency less than 25 percent of qualified capital, and which are in compliance with the solvency and liquidity ratios set by the central bank, as well as minimum capital requirement. Banks are allowed to have a direct access to the central bank's facilities regardless of the above conditions if the foreign exchange is to be used for importation of goods in periods of crisis or for the importation of fuel. The central bank charges 1.5 percent commission on sales of euro and a 0.5 percent commission on purchases of euro. The buying rate is mainly indicative because the BCSTP rarely makes purchases.

São Tomé and Príncipe continues to avail itself of the transitional arrangements under Article XIV, but it does not maintain restrictions under Article XIV. However, it maintains restrictions subject to Fund approval under Article VIII. One exchange restriction regarding limitations on the transferability of net income from investment arises from Article 3(g) and Article 18 of the Investment Code (Law No. 19/2016). This restriction results from the requirement that taxes and other obligations to the government have to be paid/fulfilled as a condition for transfer, to the extent the requirement includes the payment of taxes and the fulfillment of obligations unrelated to the net income to be transferred. The second exchange restriction arises from limitations on the availability of foreign exchange through rationing of foreign exchange by BCSTP. This exchange restriction also gives rise to a multiple currency practice as the rationing has channeled bona fide current transactions to the parallel market where the exchange rate is at a spread of more than 2 percent from the exchange rate in the formal market.

Article IV Consultation:

São Tomé and Príncipe is currently under a 24-month consultation cycle. The Executive Board concluded the last Article IV consultation on July 23, 2018.

Financial Sector Assessment Program (FSAP), Reports on Observance of Standards and Codes (ROSCs), and Offshore Financial Center (OFC) Assessments:

None.

Resident Representative:

The Fund has not had a Resident Representative office in São Tomé and Príncipe since October 2006.

Technical Assistance 2016–20:

Date of Delivery	Department/Purpose
June-20	STX remote mission on customs administration
June-20	AFRITAC remote mission on commitment plans
June-20	AFRITAC remote mission on macro-fiscal forecasts
June-20	AFRITAC remote mission on national accounts
February-20	AFRITAC mission on budget execution and controls
January-20	LEG mission on financial institutions law
January-20	STX mission tax administration
January-20	AFRITAC mission on macro-fiscal framework
December-19	LEG mission on BCSTP organic law
November-19	MCM mission on monetary operations
November-19	FAD mission on budget execution and controls
November-19	STX mission on VAT and Excise implementation
November-19	AFRITAC mission on national account statistics
September-19	STX mission on government finance statistics
September-19	AFRITAC Customs revenue mobilization
September-19	STX mission tax administration
August-19	MCM mission on open market operations
July-19	STX mission tax administration
June-19	STX mission revenue administration
May-19	AFRITAC mission on banking reg. and supervision
May-19	STX mission on revenue administration
May-19	FAD mission on revenue administration

Date of Delivery	Department/Purpose
April 2019	AFRITAC mission on national accounts statistics
March 2019	AFRITAC mission on government finance statistics
December 2018	AFRITAC mission on government finance statistics
December 2018	AFRITAC mission on banking reg. and supervision
October 2018	AFRITAC mission on government finance statistics
October 2018	AFRITAC mission on debt management
September 2018	AFRITAC mission on government finance statistics
August 2018	STX mission on tax policy
August 2018	FAD mission on revenue administration
August 2018	FAD mission on PFM

Date of Delivery	Department/Purpose
June 2018	AFRITAC mission on national accounts statistics
June 2018	FAD mission on preparation for VAT
May 2018	FAD mission on customs administration
May 2018	AFRITAC training workshop on debt management
May 2018	AFRITAC mission on banking reg. and supervision
April 2018	AFRITAC mission on GFS
February 2018	AFRITAC mission on customs administration
February 2018	STA mission on BoP statistics
January-April 2018	FAD Peripatetic expert on preparation for VAT
January 2018	STA mission on price statistics
January 2018	AFRITAC mission on national accounts statistics
January 2018	AFRITAC mission on customs administration
December 2017	AFRITAC mission on banking reg. and supervision
December 2017	AFRITAC mission on public debt management
November 2017	MCM mission on bank resolution and liquidation
November 2017	LEG follow-up mission on VAT tax law
August 2017	AFRITAC mission on government finance statistics
July 2017	FAD mission on budget execution and control
March 2017	FAD mission on revenue administration
March 2017	FAD mission on arrears management
March 2017	STA mission on national accounts statistics
February 2017	MCM mission on banking supervision and regulation
November 2016	MCM mission on bank resolution and liquidation
August 2016	MCM mission on banking supervision and regulation

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank

http://www.worldbank.org/en/country/saotome

African Development Bank

https://www.afdb.org/en/countries/southern-africa/sao-tome-and-principe/

STATISTICAL ISSUES

(As of July 7, 2020)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, particularly in terms of timeliness of data, although it is broadly adequate for surveillance. More effort is needed to enhance macroeconomic statistics collection, particularly for leading indicators of economic activity and tourism data. Financial capacity and technological resource constraints have delayed efforts to strengthen the statistical system. Key shortcomings are in the national accounts and fiscal sector.
National Accounts: The Instituto Nacional de Estatística (INE) compiles and publishes annual GDP series, using an outdated base year (2008) and insufficient source data. The GDP time series contain several shortcomings, including use of ratios of intermediate consumption to output fixed over time at current prices, and GDP estimates by the expenditure approach with household final consumption expenditure estimated as a residual. The INE continues to work on improvements to source data. The latest estimate of GDP is for calendar year 2018, which is still subject to revision. Quarterly estimates of GDP are not compiled, but AFRITAC Central has started to provide technical assistance for their development.
Consumer Price Statistics: INE began to disseminate an updated CPI series (base: 2014 = 100) from January 2016. With the assistance of AFRISTAT, the product basket was changed and the weights were updated, using the results of the household expenditure survey (HES) conducted in 2010. Due to financial constraints, the CPI only covers the capital city. An STA technical assistance mission in fiscal year 2018 reviewed the re-referenced index, performed diagnostics on the entire series, linked the pre- and post-rebased series to produce an analytical series for the IMF database and statistical purposes. The mission also considered INE's plans for further updates to the CPI upon completion of the new HES, which is underway with World Bank support.
Government Finance Statistics: Detailed revenue and expenditure data are compiled and reported to AFR. The main areas that need to be strengthened are: (i) monitoring of expenditures on projects financed by donors; and (ii) financing operations. All project loans (financed by donors) are programmed in the budget, but some are executed independently. The government has requested development partners to help in recording all external financing in the budget. The recording of financing operations and stocks is expected to improve with the expected improvement of debt data management capacity. The 2010–16 government accounts have been finalized and submitted to the Court of Audit. The authorities are working on the 2017 government account. STP joined the AFRITAC Central project in 2017 with plans to develop GFS. TA missions completed in 2017 and 2018 focused on: i) identifying the priorities in terms of the GFS compilation and suggested to the authorities a migration path towards the full adoption of the Government Finance Statistics Manual 2014 (GFSM 2014) principles; and ii) assisting the Ministry of Finance to compile GFS for the budgetary central government for one fiscal year in accordance with the

GFSM 2014. A TA mission in March 2019 supported the authorities in the ongoing capacity development program aimed at improving fiscal data compilation (implementing the framework of the Government Finance Statistics Manual 2014 (GFSM 2014). An AFRITAC Central workshop in 2019 focused on the i) selection of data sources for compiling the TOFE; ii) procedures and mechanisms for producing GFS from government entities trial balances and financial statements; and iii) transmission of GFS and public sector debt statistics to STA.
Monetary and Financial Statistics: STA missions provided technical assistance on monetary statistics in December 2004, April/May 2006, June 2007 and September 2010. As a result, the accuracy and timeliness of monetary data reported in the standardized report forms (SRF) for the central bank and the other depository corporations' data improved significantly. The BCSTP reports monthly data to STA for the central bank and other depository corporations (ODCs) on a regular basis, although with some delays for ODCs. The BCSTP monthly trial balance sheet is broadly adequate to compile monetary statistics in line with the *Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)*. The central bank has begun to collect data from insurance companies that opened in the past few years. The asset sizes of insurance companies remain small enough not to warrant inclusion in monetary statistics at this time. The central bank produces a quarterly FSI table. MCM TA missions on banking supervision have helped expand the coverage of the table and improved the data quality. TA missions in December 2018, May 2019, and November 2019, led by the Central Africa Regional Technical Assistance Center (AFRITAC Central, AFC), focused on supporting the BCSTP in implementing risk-based banking supervision. AFC plans to fund two banking regulation and supervision missions to BCSTP each fiscal year to support the authorities with operational and hands-on technical assistance. BCSTP reports some data and indicators to the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
External Sector Statistics (ESS): The BCSTP compiles quarterly balance of payments and international investment position (IIP) statistics consistent with the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*. Data submission to STA is regular, although timeliness should be improved (lags exceed two quarters) and further work is needed to improve coverage, reliability, and level of detail. Response rates to surveys of the nonfinancial sector are low and the net errors and omissions remains very large; the BCSTP is evaluating other data collection methods to be relied on until the survey response rate is deemed adequate. Direct access by compilers to oil trade data is essential to improve the quality of ESS. Procedures for compiling consistent travel data need to be improved, as well as data on direct investment related to oil exploration in Sao Tome and Prince

territory. Further work is also needed improve the compilation and consistency of financial transactions and IIP statistics. The most recent technical assistance mission (February 2018) found challenges related to the low response rate to surveys, limited granularity and coverage of the goods account, and constrained staff resources.
II. Data Standards and Quality
São Tomé and Príncipe is a participant in the Fund's enhanced General Data Dissemination System (eGDDS) and has successfully published critical economic data for surveillance on the National Summary Data Page since May 2019.

Democratic Republic of São Tomé and Príncipe: Table of Common Indicators Required for Surveillance

(As of June 28, 2020)

	Date of Last Actual Observation	Date Received	Frequency of Data[6]	Frequency of Reporting	Frequency of Publication
Exchange rates	April 2020	May 2020	M	M	M
International reserve assets and reserve liabilities of the monetary authorities[1]	April 2020	May 2020	M	M	M
International investment position	Q3 2019	Jan 2020	Q	Q	Q
Reserve/base money	April 2020	May 2020	M	M	M
Broad money	April 2020	May 2020	M	M	M
Central bank balance sheet	April 2020	May 2020	M	M	M
Consolidated balance sheet of the banking system	April 2020	May 2020	M	M	M
Interest rates[2]	April 2020	May 2020	M	M	M
Consumer Price Index	March 2020	April 2020	M	M	M
Revenue, expenditure, balance and composition of financing[3] – general government[4]	May 2020	June 2020	M	M	M
Revenue, expenditure, balance and composition of financing[3] – central government	May 2020	June 2020	M	M	M
Stocks of central government and central government-guaranteed debt[5]	Q12020	May 2020	M	Q	Q
External current account balance	Q1 2020	Jun 2020	Q	Q	Q
Exports and imports of goods	Q1 2020	June 2020	Q	Q	Q
GDP/GNP[6]	2019	Mar 2020	A	A	A
Gross external debt	Q1 2020	May 2020	M	Q	Q

[1] Includes reserve asset pledged or otherwise encumbered as well as net derivative positions.
[2] Central bank's reference rate.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); not available (NA).

July 20, 2020

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR AUGMENTATION OF ACCESS, REPHASING OF ACCESS, AND FINANCING ASSURANCES REVIEW —DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
David Owen and Kevin Fletcher (IMF) and Marcello Estevão (IDA)

Prepared by the staffs of the International Monetary Fund and International Development Association.

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

The country remains in debt distress due to prolonged unsettled external arrears. *In addition, the significant domestic arrears of the large loss-making state-owned utility company (EMAE) reflect the severe liquidity constraints of the public sector. Staff assesses that the country has the capacity to repay the external arrears over time, as indicated by the external debt ratios. While the present value (PV) of external public and publicly guaranteed (PPG) debt-to-exports ratio breaches its threshold in 2020 due to the COVID-19 shock, all other external PPG debt burden indicators remain well below their thresholds throughout the projection horizon in the baseline scenario.[2, 3] While the PV of total PPG debt is currently above the high-risk benchmark, it can be deemed sustainable since the PV of PPG debt falls below the benchmark when accounting for the terms of*

[1] The DSA follows the IMF and World Bank Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework (DSF) for Low-Income Countries (LICs) (February 2018). The country's Composite Indicator score is 2.685, which is based on the October 2019 WEO and the 2018 CPIA, and its debt carrying capacity is assessed to be medium.

[2] World Bank staff simulated a scenario assuming full disbursement of annual IDA allocations under credit terms, which did not affect the risk of external debt distress rating.

[3] São Tomé and Príncipe has requested participation in the DSSI from all its official bilateral creditors. As of July 13, 2020, none of the creditors had yet formally responded to this request. The DSA baseline assumes the application of DSSI terms to eligible debt from G20/Paris Club creditors and other bilateral creditors that may associate with the Paris Club Memorandum of Understanding. Pending confirmation, DSSI terms are not applied to eligible debt from other bilateral creditors (Equatorial Guinea and Angola).

formalized concessional debt of EMAE and the government to the country's fuel supplier, ENCO. Furthermore, the country is committed to implement EMAE's planned reforms and borrow externally only on concessional terms at a measured pace. The likelihood of contingent liabilities materializing, particularly ENCO's arrears to its parent company Sonangol (a state-owned company of Angola), remains relatively low

PUBLIC DEBT COVERAGE

1. **In the DSA framework for São Tomé and Príncipe, PPG debt coverage includes the central government and EMAE, a state-owned enterprise (SOE) providing utility.**[4 5] EMAE has been accumulating arrears over the years to its fuel supplier, ENCO, totaling over 26 percent of GDP at end-2019.[6 7] Three SOEs besides EMAE— ENAPORT, ENASA, and Correios—are not included in the analysis due to lack of reliable data. Nevertheless, the potential liabilities from these SOEs are modeled by using the default value of 2 percent of GDP. Contingent liabilities from financial markets are also set at their default value of 5 percent of GDP. In addition, the contingent liability stress test further includes disputed debt of $30 million from Nigeria. The authorities maintain that its repayment was conditional on oil revenues, which have no near-term prospect for materialization. Finally, for the external DSA, the contingent liability shock also includes ENCO's external arrears to Sonangol, which reached an estimated $205 million (around 51 percent of GDP) in end-2019 as well as an estimated fine of $12.4 million (around 3 percent of GDP) imposed by the Permanent Court of Arbitration regarding country's improper seizure of a Maltese ship in 2013.

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

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

Sources: IMF and World Bank staff.

[1] Include the large loss-making utility company EMAE.

[4] The country's debt stocks are zero for some new elements covered under the revised DSA framework, including the social security fund and central bank debt borrowed on behalf of the government. There is no other government guaranteed debt that is excluded from this DSA.

[5] Consistent with the previous DSA, pre-HIPC initiative arrears (13.5 percent of GDP) are excluded, on the assumption of debt forgiveness. One pre-HIPC PPP debt of 11.2 percent of GDP is excluded, consistent with the treatment of other pre-HIPC debt. Details about this loan are presented in Text Table 4.

[6] ENCO registers domestically in São Tomé and Príncipe, with 77.6 percent of its shares owned by Sonangol (an Angolan SOE) and 16.0 percent owned by São Tomé and Príncipe's government. The government's arrears to ENCO were regularized in 2016, and EMAE's arrears of $111 million as of end-2019 were regularized in August 2019.

[7] As the DSA uses the residency-based assumption on debt, the dollar-denominated EMAE arrears are classified as domestic since ENCO, majority-owned by an Angolan SOE, registers domestically.

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

1	**The country's coverage of public debt**	The central government, central bank, and government-guaranteed debt. There is no debt by social security or borrowing by extra budgetary entities.			
			Default	**Used for the analysis**	**Reasons for deviations from the default settings**
2	**Other elements of the general government not captured in 1.**	0	percent of GDP	Inclusion of the disputed Nigeria loan (7.1) for both public and external DSA, and ENCO's arrears to Sonangol (51.4) and Permanent Court of Arbitration fine (3.1) in external DSA. 2/	These are potential risks.
3	**SoE's debt (guaranteed and not guaranteed by the government) 1/**	2	percent of GDP	2	
4	**PPP**	35	percent of PPP stock	0	The PPP project is pre-HIPC and is excluded from the DSA analysis.
5	**Financial market (the default value of 5 percent of GDP is the minimum value)**	5	percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)			14.1 for public DSA, and 68.7 for external DSA.	

1/ The default shock of 2 percent of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.).

2/ The ENCO to Sonangol arrears shock is not applied to the public DSA because ENCO's claims on the government and EMAE are already included in the domestic PPG debt.

Sources: IMF and World Bank staff.

BACKGROUND

A. Debt

2. **Total PPG debt increased by around 14 percentage points of GDP in 2019 relative to 2015 to around 98 percent, while Central government debt increased by close to 2.5 percentage points over the same time period.** PPG debt includes the arrears of the state-owned utility company, EMAE, to its fuel supplier ENCO, which rose to around $111 million in 2019 from $43 million in 2015. The expansion of the electricity distribution network and the associated large losses are key drivers for the rise in PPG debt.

3. **The country continues to engage actively with bilateral creditors to regularize post-HIPC arrears, with the amount remaining unchanged.** The arrears add up to $10.7 million, or 2.3 percent of 2019 GDP, and are owed to Angola (US$4.8 million), Brazil (US$4.3 million), and Equatorial Guinea (US$1.7 million). An agreement with the Brazilian government was reached,

pending ratification by the Brazilian Senate. The government has also actively sought debt rescheduling agreements with Angola and Equatorial Guinea. These post-HIPC arrears are reflected in the debt stock.

Text Table 3. São Tomé and Príncipe: PPG Debt Stock

(As of end 2019)	Million USD		Share of GDP (%)	
	End 2015	End 2019	End 2015	End 2019
Total PPG debt (incl. EMAE's arrears to ENCO, but excl. gov's arrears to EMAE)	**262.8**	**408.9**	**83.8%**	**97.7%**
Central government direct and guaranteed debt (excl. EMAE's arrears to ENCO, but incl. gov's arrears to EMAE)	**219.5**	**303.3**	**70.0%**	**72.4%**
Total PPG external debt	**167.2**	**191.2**	**53.3%**	**45.7%**
Multilateral Creditors	**44.6**	**54.2**	**14.2%**	**13.0%**
IDA	13.8	11.6	4.4%	2.8%
BADEA	9.4	11.8	3.0%	2.8%
FIDA	6.7	5.0	2.1%	1.2%
AfDB	5.2	15.4	1.7%	3.7%
IMF	6.7	9.0	2.1%	2.2%
OPEC	2.8	1.4	0.9%	0.3%
Bilateral Creditors	**115.7**	**125.1**	**36.9%**	**29.9%**
Portugal	54.5	55.9	17.4%	13.3%
Angola[1]	44.4	52.5	14.2%	12.5%
China	10.0	10.0	3.2%	2.4%
Brazil	4.3	4.3	1.4%	1.0%
Equatorial Guinea	1.6	1.7	0.5%	0.4%
Belgium	0.8	0.8	0.3%	0.2%
Government's arrears to external suppliers	**6.9**	**11.6**	**2.2%**	**2.8%**
Domestic debt	**52.3**	**112.1**	**16.7%**	**26.8%**
ENCO (oil importing company; regularized arrears)	**48.4**	**37.4**	**15.4%**	**8.9%**
Government's arrears to domestic suppliers[2]	**3.5**	**33.6**	**1.1%**	**8.0%**
CST (telecom)	3.5	6.6	1.1%	1.6%
EMAE (water and electricity)	0.0	5.0	0.0%	1.2%
Other suppliers	0.0	22.0	0.0%	5.3%
Central Government T-bills	**0.0**	**29.6**	0.0%	7.1%
Credit of ODC to Central Government (excl. T-bills)	**0.4**	**11.4**	**0.1%**	**2.7%**
Arrears from EMAE to ENCO[3]	**43.4**	**110.5**	**13.8%**	**26.4%**
Memorandum items:				
Pre-HIPC legacy arrears	**46.3**	**54.9**	**14.8%**	**13.1%**
Italy[4]	24.3	24.3	**7.8%**	**5.8%**
Angola	22.0	30.6	**7.0%**	**7.3%**
Nigeria Loan	**30.0**	**30.0**	**9.6%**	**7.2%**

Sources: Country authorities, EMAE, ENCO, and IMF staff estimates

[1] Including the 4.8 million USD debt with Angola contracted after the 2007 HIPC debt relief.

[2] Commitment-based, and these suppliers reside domestically in the country.

[3] Including the arrears from HidroEquador S.A. to ENCO.

[4] Commercial debt guaranteed by the government.

Text Table 4. São Tomé and Príncipe: Arrears and Disputed Debt
(As of end-2019)

Type	Description	DSA Treatment
Pre-HIPC legacy arrears (13 percent of GDP)	São Tomé and Príncipe has pre-HIPC legacy arrears to Angola ($30.6 million) and Italy ($24.3 million), in total $54.9 million. São Tomé and Príncipe is making best efforts to reach an agreement consistent with the representative Paris Club agreement. In 2017 São Tomé and Príncipe was able to secure relief from pre-HIPC legacy arrears to China of $18.4 million.	Not included in the DSA on the assumption of expected forgiveness.
Post-HIPC bilateral arrears (2.5 percent of GDP)	São Tomé and Príncipe has post-HIPC arrears to Angola ($4.8 million), Brazil ($4.3 million), and Equatorial Guinea ($1.7 million), in total $10.7 million.[1] The government has actively sought debt rescheduling agreements with Angola and Equatorial Guinea through correspondence and high-level meetings. However, responses are pending from these two countries on continuing the negotiations. These arrears are the result of weak debt management, and staff assesses that São Tomé and Príncipe has the capacity to repay them over time.	Included in the DSA.
Domestic arrears (9.1 percent of GDP)	São Tomé and Príncipe has domestic arrears to the telecom company CST ($6.6 million), the water and electricity company EMAE ($5 million), and other private suppliers ($25.2 million, mostly construction companies). In total, the domestic arrears amount to $36.8 million.	Included in the DSA.
Disputed debt (7.1 percent of GDP)	A loan from Nigeria in the amount of $30 million was excluded from the debt stock, as there is no signed contract with repayment conditions between the two countries. Nonetheless, the authorities acknowledged the receipt of the funds, which were spent as evidenced by budget documents. This loan was extended as advances on oil revenues in the context of the joint development zone between these two countries, but this project has stalled. According to São Tomé and Príncipe authorities, this loan is under dispute since it should only be repaid in case revenues from oil materialize.	Included in the contingent liability stress tests for both the public DSA and external DSA.

1/These amounts remained unchanged as of end-June 2019.

B. Macroeconomic Forecast

4. The COVID-19 shock is causing a contraction of the economy in 2020 with the recovery expected over a few years. GDP in 2020 is projected to decline by 6.5 percent, compared with pre-crisis projections of a 3.5 percent increase. Average real growth and inflation are both revised down to 4 percent and 3.1 percent, respectively (compared with 4.3 percent and 4 percent in the September 2019 DSA), throughout the 2020-40 projection horizon. Export and import growth have also been revised slightly downward throughout the projection horizon. The domestic primary budget deficit now averages 1.3 percent of GDP through the projection horizon compared with 0.9 percent in the previous DSA. The larger financing needs in 2020 are expected to be covered by the RCF disbursement and other external grants.[8] The economy is expected to recover in 2022 to close to 2019 levels with the implementation of long- delayed construction projects and a recovery in tourism and global demand.

Text Table 5. Macroeconomic Assumptions

	Historical			Forecasts	
	2018 DSA	2019 DSA[1]	Last 4 years	2019 DSA[1]	This DSA
	2008-17	2009-18	2016-19	2018-38	2020-40
Real GDP growth (percent)	4.8	4.3	3.1	4.3	4.0
Inflation (percent average)	11.9	9.5	6.9	4.0	3.1
GDP deflator (percent)	5.8	4.1	4.1	2.8	2.4
Domestic primary balance (percent of GDP)	-3.9	-3.7	-3.1	-0.9	-1.2
Grants (percent of GDP)	16.7	15.9	10.1	5.2	4.4
New borrowing (percent of GDP)	7.5	7.4	2.0	1.4	2.0
FDI (percent of GDP)	13	8.9	6.7	11.8	6.8
USD export growth (percent)	24.6	20.8	2.5	8.3	7.4
USD import growth (percent)	10.3	7.1	1.0	5.9	4.9
Current account balance, excluding grants (percent of GDP)	-36.3	-33.6	-21.1	-11.8	-13.1
Current account balance, including grants (percent of GDP)	-19.6	-17.7	-11.0	-6.8	-8.7

[1] IMF Country Report No. 19/325

C. Country Classification

5. **The country's debt carrying capacity is assessed to be medium under the new Composite Index.** The debt-carrying capacity in the DSA is captured by a Composite Index (CI), introduced in 2019, that reflects macroeconomic variables, such as real GDP growth, remittances, reserves, and world growth in addition to the previously used CPIA. The CI classifies São Tomé and Príncipe as a medium debt-carrying capacity country (Text table 6). The applicable thresholds for the ratios of the present value (PV) of PPG external debt relative to GDP and exports are 40 percent and 180 percent, compared with 30 and 100 percent respectively in the 2018 DSF that assessed the country as having a weak debt-carrying capacity. The threshold for the PV of total PPG debt is now 55 percent of GDP (compared to the lower value of 38 percent in 2018). The thresholds for PPG external debt service to exports and revenue remain unchanged.

[8] The World Bank is providing additional support through a $2.5 million emergency response project focused on strengthening the health system, accelerating disbursement of existing projects (including on social protection), and increasing in the expected budget support grant in 2020 (from $5 million to $10 million). Budget support grants from the World Bank and African Development Bank in 2020 are expected to amount to around $20 million.

Text Table 6. São Tomé and Príncipe: Classification of Debt Carrying Capacity

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Weak	Medium	Medium
	2.685	2.705	2.780

DEBT SUSTAINABILITY

A. External Debt Sustainability

6. The DSA indicates that total external PPG debt is sustainable under the program (Figure 1). Under the baseline scenario, the external PPG debt stock and debt service ratios remain below their threshold values throughout the projection horizon, except for a one-time breach of the debt-to-exports ratio. The PV of PPG external debt-to-GDP ratio remains 7-18 percentage points below its threshold of 40 percent. The PV of PPG external debt-to-exports ratio remains 40-70 percentage points below its threshold of 180 percent of GDP apart from 2020 and 2021 when the threshold is breached due to an estimated fall in GDP growth caused by the pandemic. Moreover, these solvency indicators improve over time due to fiscal consolidation, cautious external borrowing, economic growth, and an improved current account balance. The liquidity indicators remain well below their threshold values of 15 and 18 percent for the debt service-to-exports and debt service-to-revenue ratios respectively. Like the solvency indicators, the liquidity ratios also improve over time reflecting higher exports and revenues.

7. While the baseline scenario is sustainable, the solvency of external debt is of concern in the presence of extreme shocks. The solvency indicators breach their threshold values under the most extreme shock scenario, while the liquidity indicators remain below the threshold. The shocks in this scenario are an exports shock and a combined contingent liability shock. The latter includes the potential repayment of the Nigeria loan (7.1 percent of GDP), payment of Permanent Court of Arbitration fine (3.1 percent of GDP), ENCO's arrears to Sonangol (51.4 percent of GDP) which may ultimately fall on the government, as well as the standard assumption of a financial market bailout. The PV of debt-to-GDP ratio and PV of debt-to-exports ratio breach their respective thresholds throughout either all or most of the projection horizon but decline over time. As Text Table 2 indicates, ENCO's external arrears to Sonangol (51.4 out of 68.7 percent of GDP) represent the primary contingent liability in this extreme shock scenario.[9] These results highlight the importance of developing a clearance plan for EMAE's arrears to ENCO, as well as promoting strong export growth.

[9] The size of the Sonangol shock (51.4 percent of GDP) is calibrated to capture the maximum amount of liabilities that would be assumed by the government should the contingency materialize. The payment terms are assumed to have a grant element of about 37 percent, broadly consistent with the concessionality of PPG external debt.

B. Public Debt Sustainability

8. Total PPG debt is deemed sustainable under the baseline scenario (Figure 2). The PV of discounted PPG debt remains below the threshold of 55 percent throughout the projection horizon if the agreed repayment terms of debt owed to ENCO by EMAE and the government are taken into account (where the grant element is over 80 percent), reforms to EMAE are implemented, and the country continues to borrow externally only at concessional terms at a measured pace. The PV of discounted PPG debt is around 50 percent of GDP in 2020 and is projected to decrease over time to around 33 percent of GDP by 2030. Compared with the DSA issued on April 2020 in the context of RCF, PPG debt/ GDP has declined further due to an increase in grants of over 4 percent of GDP in financing COVID-19 related spending.

9. All the three total PPG debt ratios (PV of debt-to-GDP, PV of debt-to-revenue, and debt service-to-revenue) are most sensitive to a primary balance shock. Under such a shock, the three ratios would rise in the near term before declining in the medium-to-long term. In addition, given that EMAE's arrears to ENCO are denominated in foreign currency, the country's debt is subject to currency risk, even though such arrears are treated as domestic debt under the residency-based definition.

DEBT DISTRESS QUALIFICATION AND CONCLUSIONS

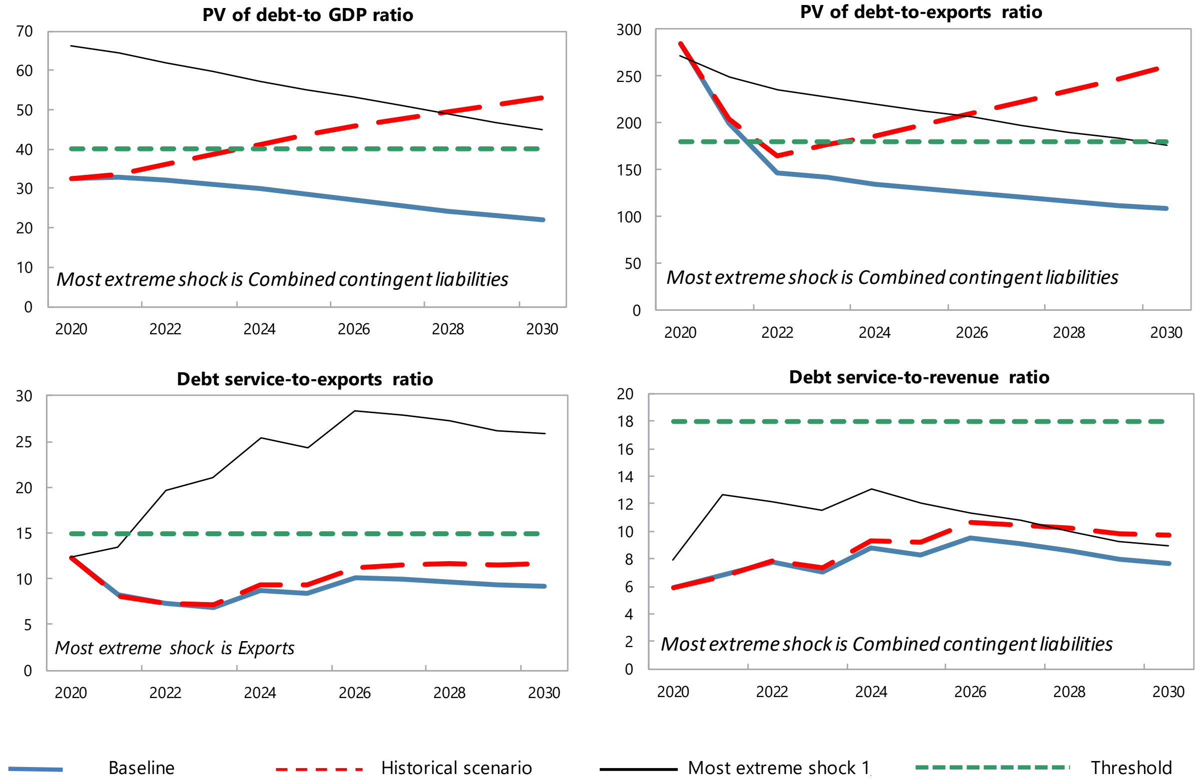
10. São Tomé and Príncipe' remains in debt distress as in the previous DSA. This is because the regularization of São Tomé and Príncipe's post-HIPC sovereign arrears (to Angola, Brazil, and Equatorial Guinea) is still ongoing. The significant arrears of EMAE to its supplier also reflect the severe liquidity constraints of the public sector. Staff assesses that São Tomé and Príncipe has the capacity to repay these arrears over time as long as the country implements reforms to the loss-making SOE, EMAE, and continues to borrow externally at concessional terms. São Tomé and Príncipe continues to actively seek rescheduling agreements with the creditors.

11. Compared with the 2019 DSA, the PPG external and total debt indicators have improved, while nominal total PPG debt has increased. The PV of discounted PPG debt remains around 5- 22 percentage points below its threshold of 55 percent throughout the projection horizon. All external PPG debt indicators also remain below their respective thresholds under the baseline scenario. However, for total PPG debt, additional government arrears to suppliers identified recently and a more comprehensive coverage of public sector liabilities, including the inclusion of EMAE's arrears, have revealed previously uncaptured debt vulnerabilities and led to a large breach of the PV of debt-to-GDP indicator benchmark. While this ratio becomes sustainable if the PV of the repayments to ENCO by the government and EMAE are taken into account, EMAE's losses and associated arrears nonetheless highlight the importance of reforming EMAE to contain fiscal risk.

12. The baseline is subject to substantial external risks. Stress tests indicate that the country's debt is especially vulnerable to shocks to exports, combined contingent liabilities, and the fiscal primary balance. A particular stress test based on an extreme scenario, which accounts for ENCO's significant external arrears to Sonangol, reveals that the associated risks could be high in the near term, even though key external debt ratios recover to below their threshold values in the medium term and the strong diplomatic tie between São Tomé and Príncipe and Angola could be a potential mitigating factor.

13. Overall, the DSA highlights the importance of continuing to reform the loss-making enterprise EMAE and progressing with other structural reforms to ensure debt sustainability. To mitigate fiscal risks, the country needs to continue with policies including deepening and prioritizing EMAE reforms, continuing fiscal consolidation and revenue mobilization, eschewing non-concessional loans, improving the business environment to attract non-debt flows, strengthening macroeconomic policies to support the exchange rate peg, and promoting tourism and private sector-led growth. In addition, non-concessional loans should be eschewed. To balance debt sustainability concerns while address the country's large investment needs, contracting of new concessional loans should be limited to 3 percent of GDP, and external debt disbursements should not exceed 2 percent of GDP. These parameters can be adjusted according to debt developments and relaxed as debt vulnerability decreases. To further aid in debt sustainability, the financing of large projects in the near- and medium-terms should be through non-debt generating means, including through grants.

Figure 1. São Tomé and Príncipe: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2020-2030



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

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

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.8%	1.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	23	23
Avg. grace period	9	9

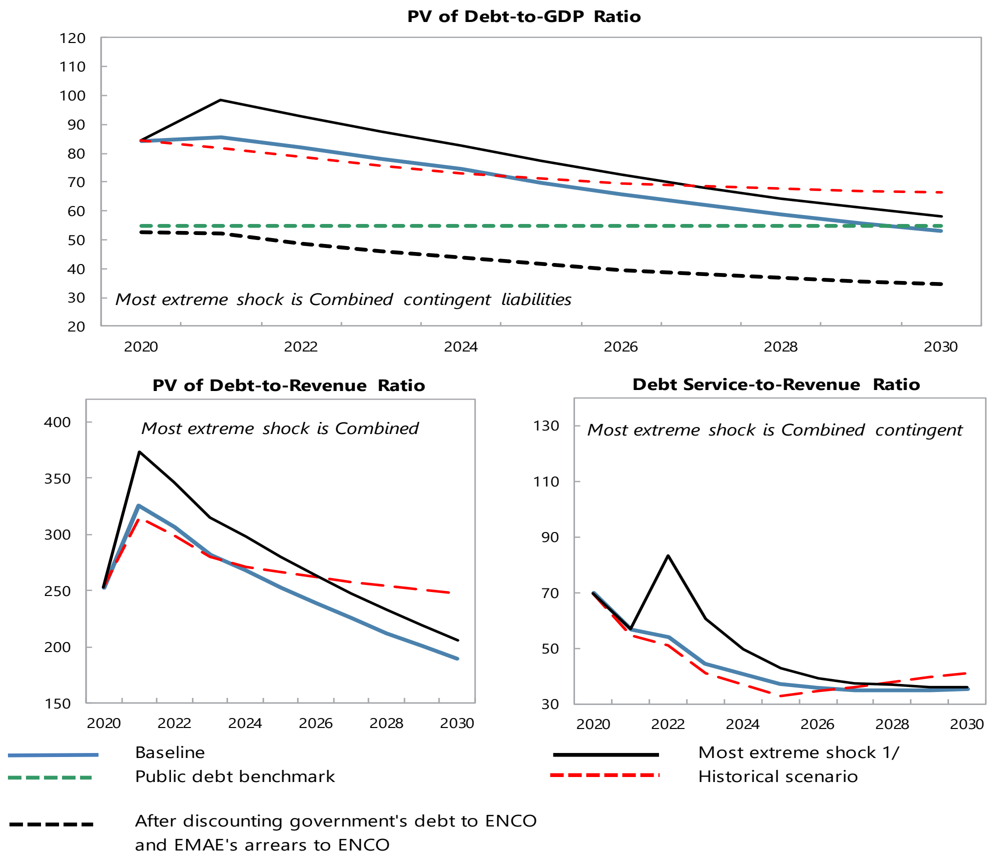
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. São Tomé and Príncipe: Indicators of Public Debt Under Alternative Scenarios, 2020-2030



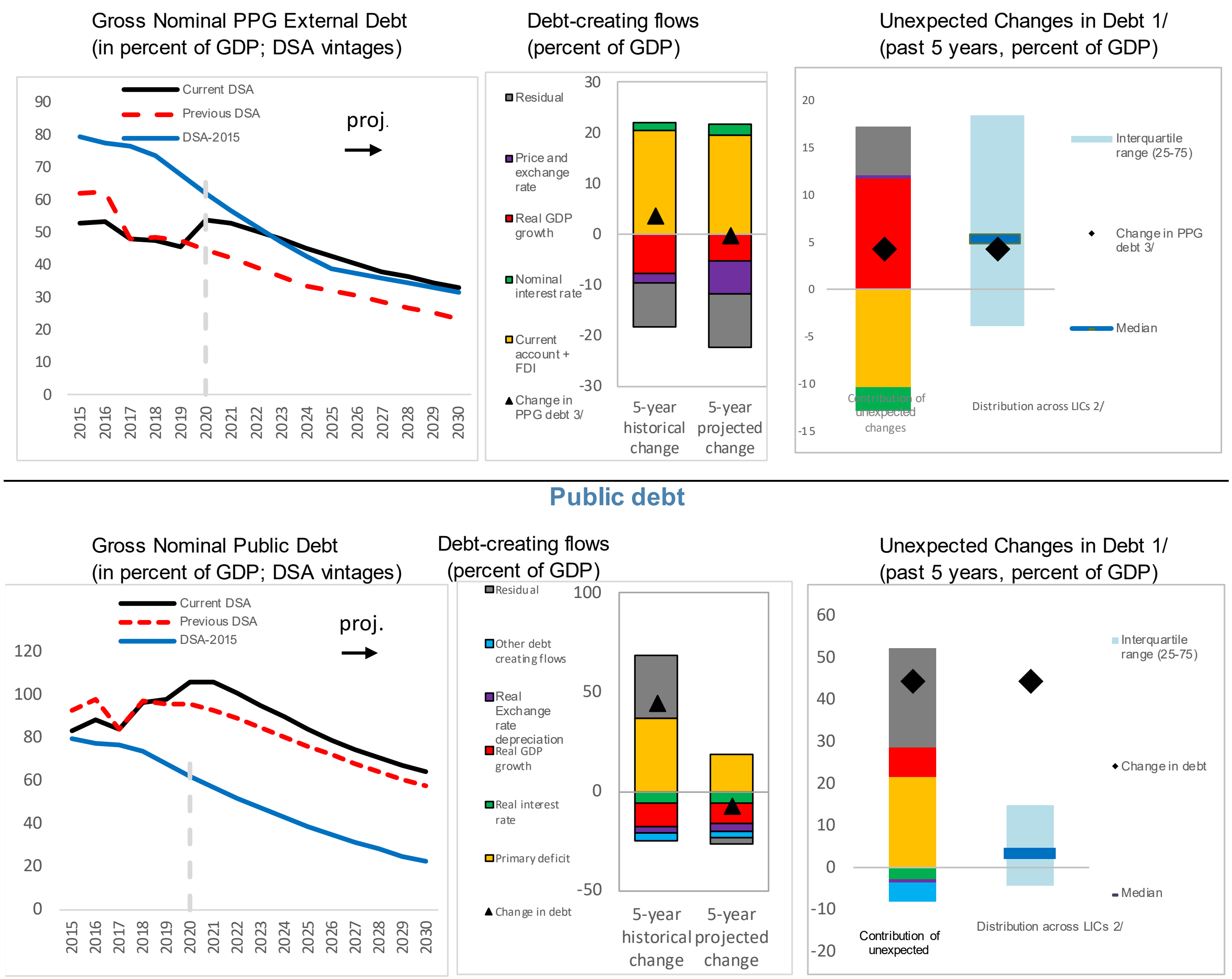
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	31%	31%
Domestic medium and long-term	10%	10%
Domestic short-term	126%	59%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.8%	1.8%
Avg. maturity (incl. grace period)	23	23
Avg. grace period	9	9
Domestic MLT debt		
Avg. real interest rate on new borrowing	-3.0%	-3.0%
Avg. maturity (incl. grace period)	100	100
Avg. grace period	99	99
Domestic short-term debt		
Avg. real interest rate	-2.0%	-2.0%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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



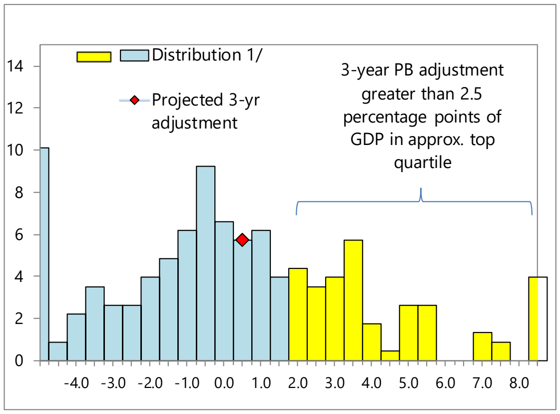
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

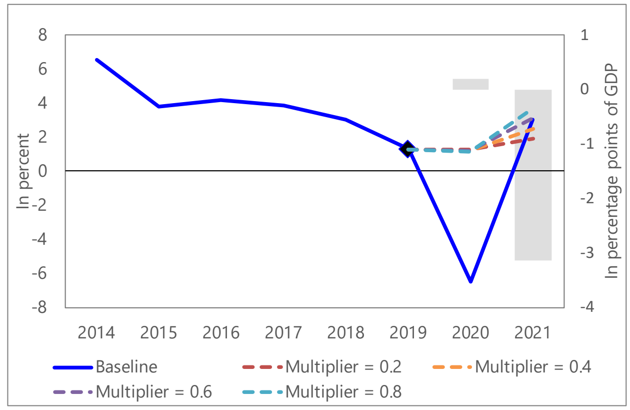
Figure 4. São Tomé and Príncipe: Realism Tools

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



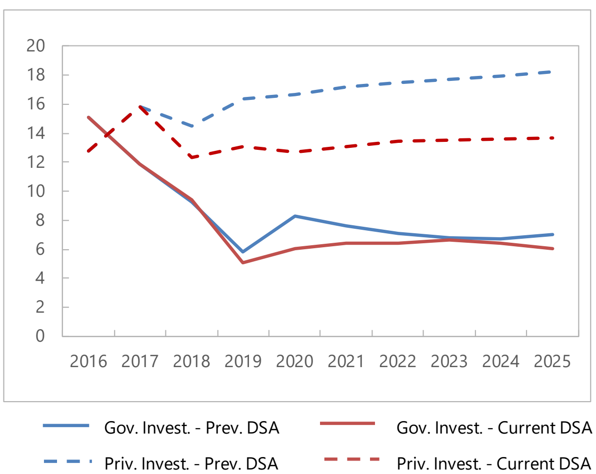
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

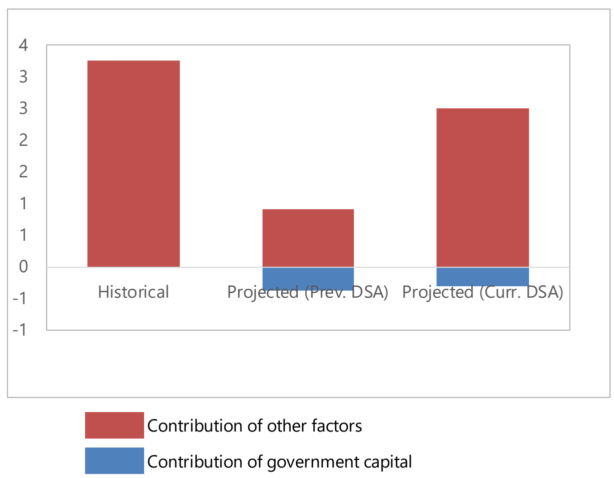


Table 1. São Tomé and Príncipe: External Debt Sustainability Framework, Baseline Scenario, 2018-2040
(In percent of GDP, unless otherwise indicated)

	Actual		Projections								Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	47.7	45.7	53.8	52.6	50.5	48.0	45.3	42.8	33.0	27.6	41.8	43.2
of which: public and publicly guaranteed (PPG)	47.7	45.7	53.8	52.6	50.5	48.0	45.3	42.8	33.0	27.6	41.8	43.2
Change in external debt	-0.5	-2.0	8.1	-1.1	-2.1	-2.5	-2.7	-2.5	-1.6	0.2		
Identified net debt-creating flows	2.6	5.3	14.4	4.1	0.0	-0.6	-1.2	-1.1	-0.3	0.1	4.8	1.2
Non-interest current account deficit	12.1	11.9	17.1	11.6	8.6	7.5	7.0	7.4	8.2	6.8	16.1	9.1
Deficit in balance of goods and services	24.9	22.4	27.9	21.3	18.0	16.9	16.1	15.7	14.8	13.2	35.2	17.4
Exports	23.6	22.8	11.4	16.4	21.8	21.9	22.2	22.0	20.4	18.6		
Imports	48.5	45.2	39.3	37.6	39.9	38.8	38.3	37.8	35.1	31.8		
Net current transfers (negative = inflow)	-12.6	-10.3	-11.3	-9.8	-9.3	-9.3	-8.9	-8.3	-6.7	-6.4	-18.8	-8.4
of which: official	-8.7	-6.6	-9.3	-6.7	-6.1	-6.1	-5.7	-5.2	-3.5	-3.2		
Other current account flows (negative = net inflow)	-0.2	-0.2	0.5	0.2	-0.1	-0.1	-0.2	0.0	0.1	0.0	-0.4	0.1
Net FDI (negative = inflow)	-5.1	-6.4	-5.7	-6.3	-6.7	-6.7	-6.9	-7.1	-7.4	-6.0	-8.7	-6.9
Endogenous debt dynamics 2/	-4.4	-0.1	3.0	-1.2	-2.0	-1.5	-1.4	-1.4	-1.0	-0.8		
Contribution from nominal interest rate	0.2	0.6	-0.1	0.3	0.7	0.7	0.6	0.5	0.4	0.4		
Contribution from real GDP growth	-1.3	-0.6	3.1	-1.5	-2.7	-2.1	-2.0	-1.9	-1.4	-1.2		
Contribution from price and exchange rate changes	-3.3	-0.1	...	...	...	...	...	...	...	...		
Residual 3/	-3.1	-7.3	-6.3	-5.2	-2.1	-1.9	-1.5	-1.4	-1.3	0.1	-3.4	-2.3
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators												
PV of PPG external debt-to-GDP ratio	...	27.0	33.2	33.4	32.5	31.4	29.9	28.7	22.0	16.8		
PV of PPG external debt-to-exports ratio	...	118.5	290.9	204.0	148.7	143.4	134.9	130.0	108.2	90.2		
PPG debt service-to-exports ratio	2.6	4.5	7.8	8.3	8.4	7.8	9.6	8.6	9.2	5.5		
PPG debt service-to-revenue ratio	3.7	5.6	3.7	6.9	8.9	7.9	9.6	8.4	7.6	3.4		
Gross external financing need (Million of U.S. dollars)	31.8	27.4	48.8	28.4	17.4	12.7	12.0	12.8	21.8	29.2		
Key macroeconomic assumptions												
Real GDP growth (in percent)	3.0	1.3	-6.5	3.0	5.5	4.5	4.5	4.5	4.5	4.5	4.2	3.5
GDP deflator in US dollar terms (change in percent)	7.3	0.2	1.0	3.8	2.9	2.7	2.6	2.7	2.9	2.0	4.4	2.8
Effective interest rate (percent) 4/	0.4	1.2	-0.2	0.6	1.4	1.4	1.4	1.2	1.2	1.6	0.9	1.1
Growth of exports of G&S (US dollar terms, in percent)	13.9	-1.8	-52.7	53.1	44.9	7.5	8.7	6.8	5.8	5.6	19.5	8.9
Growth of imports of G&S (US dollar terms, in percent)	4.3	-5.3	-17.9	2.2	15.1	4.4	5.9	6.0	6.5	4.9	7.5	4.1
Grant element of new public sector borrowing (in percent)	...	...	36.6	35.7	35.6	34.5	34.5	34.5	34.5	34.5	...	34.9
Government revenues (excluding grants, in percent of GDP)	16.8	18.5	24.1	19.7	20.6	21.6	22.1	22.5	24.6	30.1	17.7	22.7
Aid flows (in Million of US dollars) 5/	40.5	31.1	54.7	33.7	33.8	30.5	30.4	29.5	28.7	49.9		
Grant-equivalent financing (in percent of GDP) 6/	...	...	11.7	7.8	7.3	6.8	6.4	5.8	4.2	3.9	...	6.3
Grant-equivalent financing (in percent of external financing) 6/	...	...	74.1	78.9	78.2	83.9	83.0	81.7	76.2	74.7	...	79.1
Nominal GDP (Million of US dollars)	416	422	398	426	463	497	533	572	822	1,569		
Nominal dollar GDP growth	10.6	1.5	-5.5	7.0	8.6	7.3	7.2	7.4	7.5	6.6	8.7	6.3
Memorandum items:												
PV of external debt 7/	...	27.0	33.2	33.4	32.5	31.4	29.9	28.7	22.0	16.8		
In percent of exports	...	118.5	290.9	204.0	148.7	143.4	134.9	130.0	108.2	90.2		
Total external debt service-to-exports ratio	2.6	4.5	7.8	8.3	8.4	7.8	9.6	8.6	9.2	5.5		
PV of PPG external debt (in Million of US dollars)		114.1	132.4	142.2	150.2	155.7	159.2	163.8	181.0	263.5		
(PVt-PVt-1)/GDPt-1 (in percent)			4.4	2.4	1.9	1.2	0.7	0.9	0.5	1.2		
Non-interest current account deficit that stabilizes debt ratio	12.6	13.9	9.0	12.7	10.7	10.0	9.7	10.0	9.7	6.6		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

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

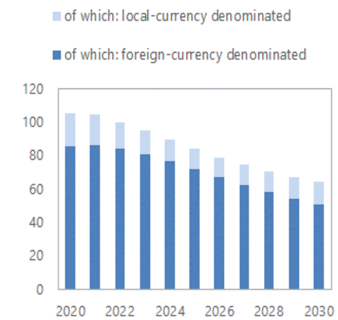
Table 2. São Tomé and Príncipe: Public Sector Debt Sustainability Framework, Baseline Scenario, 2018-2040

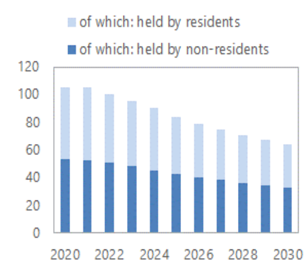
(In percent of GDP, unless otherwise indicated)

	Actual		Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	96.2	97.7	105.2	105.1	100.3	95.0	90.1	84.2	64.3	60.6	65.0	85.1
of which: external debt	47.7	45.7	53.8	52.6	50.5	48.0	45.3	42.8	33.0	27.6	41.8	43.2
Change in public sector debt	11.9	1.5	7.5	-0.1	-4.8	-5.3	-4.9	-5.9	-3.1	10.2		
Identified debt-creating flows	6.0	-0.4	7.5	0.6	-4.1	-4.6	-4.4	-5.5	-3.2	9.8	3.1	-2.8
Primary deficit	8.0	4.3	4.1	7.2	3.7	1.8	1.6	0.4	1.2	12.5	7.6	2.1
Revenue and grants	25.2	25.0	33.4	26.3	26.7	27.7	27.8	27.6	28.1	33.2	30.8	28.0
of which: grants	8.3	6.6	9.3	6.7	6.1	6.1	5.7	5.2	3.5	3.2		
Primary (noninterest) expenditure	33.2	29.3	37.5	33.5	30.4	29.5	29.4	28.0	29.3	45.7	38.4	30.1
Automatic debt dynamics	-1.7	-3.9	4.3	-5.9	-7.1	-5.8	-5.4	-5.3	-4.1	-2.6		
Contribution from interest rate/growth differential	-4.2	-2.9	5.3	-4.6	-6.5	-5.2	-4.9	-4.8	-3.6	-2.6		
of which: contribution from average real interest rate	-1.7	-1.7	-1.5	-1.5	-1.0	-0.9	-0.8	-0.9	-0.7	-0.4		
of which: contribution from real GDP growth	-2.5	-1.2	6.8	-3.1	-5.5	-4.3	-4.1	-3.9	-2.9	-2.2		
Contribution from real exchange rate depreciation	2.5	-1.0	...	...	...	...	...	...	...	...		
Denominator = 1+g	1.0	1.0	0.9	1.0	1.1	1.0	1.0	1.0	1.0	1.0		
Other identified debt-creating flows	-0.3	-0.8	-0.8	-0.7	-0.6	-0.6	-0.6	-0.6	-0.3	-0.1	-0.8	-0.5
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	-0.3	-0.8	-0.8	-0.7	-0.6	-0.6	-0.6	-0.6	-0.3	-0.1		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	5.9	1.9	-1.0	-2.0	-1.4	-1.2	-1.1	-1.0	-0.3	0.4	3.5	-0.9
Sustainability indicators												
PV of public debt-to-GDP ratio 2/	...	79.2	84.6	85.9	82.3	78.4	74.7	70.1	53.3	49.8		
PV of public debt-to-revenue and grants ratio	...	316.3	253.4	326.1	307.8	282.7	268.8	253.7	189.7	149.8		
Debt service-to-revenue and grants ratio 3/	...	...	68.2	54.9	53.4	44.6	41.3	38.0	35.7	34.7		
Gross financing need 4/	8.5	5.3	26.0	21.0	17.3	13.5	12.5	10.4	10.9	23.9		
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	3.0	1.3	-6.5	3.0	5.5	4.5	4.5	4.5	4.5	4.5	4.2	3.5
Average nominal interest rate on external debt (in percent)	0.4	1.3	-0.2	0.6	1.4	1.4	1.4	1.2	1.2	1.6	0.9	1.1
Average real interest rate on domestic debt (in percent)	-2.5	-5.4	-2.8	-2.9	-2.9	-2.9	-2.7	-2.7	-2.8	-2.0	-6.4	-2.8
Real exchange rate depreciation (in percent, + indicates depreciation)	3.8	-1.4	...	...	...	...	...	...	...	...	-2.3	...
Inflation rate (GDP deflator, in percent)	2.6	5.7	3.5	3.0	3.0	2.9	2.8	2.8	2.9	2.0	7.3	3.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.2	-10.4	19.4	-7.8	-4.4	1.4	4.1	-0.3	6.1	40.0	-0.2	3.6
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-3.9	2.8	-3.4	7.3	8.5	7.1	6.5	6.3	4.2	2.3	3.1	5.1
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Memorandum Item												
Primary deficit with HIPC grants and without EMAE loss	4.4	-0.3	-1.0	1.6	-0.7	-1.3	-0.4	-1.4	0.8	12.4	5.6	-0.1
EMAE loss	3.3	3.8	4.3	5.0	3.7	2.5	1.4	1.2	0.0	0.0	1.2	1.6

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central government plus social security and extra budgetary funds, central bank, government-guaranteed debt. Definition of external debt is Residency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. São Tomé and Príncipe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020–2030

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio											
Baseline	33	33	32	31	30	29	27	26	24	23	22
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	33	33	36	39	**41**	**44**	**46**	**48**	**49**	**51**	**53**
B. Bound Tests											
B1. Real GDP growth	33	34	34	33	31	30	28	27	26	24	23
B2. Primary balance	33	36	**40**	39	37	36	34	33	31	30	28
B3. Exports	33	37	**45**	**44**	**42**	**40**	38	37	35	33	32
B4. Other flows 3/	33	**40**	**47**	**46**	**44**	**42**	**40**	39	37	35	34
B5. One-time 30 percent nominal depreciation	33	**41**	35	34	33	32	30	28	27	25	24
B6. Combination of B1-B5	33	**43**	**45**	**44**	**42**	**40**	38	37	35	33	32
C. Tailored Tests											
C1. Combined contingent liabilities	33	**77**	**75**	**72**	**70**	**68**	**65**	**62**	**60**	**57**	**55**
C2. Natural disaster	33	40	39	38	37	36	34	33	31	30	29
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	**285**	**200**	147	142	135	130	125	120	116	112	108
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	**285**	**205**	165	177	**186**	**198**	**211**	**223**	**235**	**247**	**260**
B. Bound Tests											
B1. Real GDP growth	**285**	**200**	147	142	135	130	125	120	116	112	108
B2. Primary balance	**285**	**218**	**184**	178	169	164	158	153	148	143	139
B3. Exports	**285**	**367**	**512**	**497**	**472**	**456**	**441**	**428**	**414**	**403**	**392**
B4. Other flows 3/	**285**	**247**	**216**	**210**	**199**	**193**	**187**	**181**	176	171	166
B5. One-time 30 percent nominal depreciation	**285**	**200**	129	126	119	114	110	105	101	97	94
B6. Combination of B1-B5	**285**	**352**	**192**	**362**	**344**	**332**	**321**	**311**	**301**	**292**	**284**
C. Tailored Tests											
C1. Combined contingent liabilities	**285**	**472**	**342**	**332**	**316**	**307**	**299**	**291**	**284**	**278**	**271**
C2. Natural disaster	**285**	**246**	**181**	176	168	163	159	154	150	147	144
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	12	8	7	7	9	8	10	10	10	9	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	12	8	7	7	9	9	11	11	12	12	12
B. Bound Tests											
B1. Real GDP growth	12	8	7	7	9	8	10	10	10	9	9
B2. Primary balance	12	8	8	8	10	9	11	11	10	10	10
B3. Exports	12	13	**20**	**21**	**25**	**24**	**28**	**28**	**27**	**26**	**26**
B4. Other flows 3/	12	8	8	9	10	10	12	11	11	11	10
B5. One-time 30 percent nominal depreciation	12	8	7	6	8	8	10	10	9	9	9
B6. Combination of B1-B5	12	12	**16**	**16**	**19**	**18**	**22**	**21**	**21**	**20**	**20**
C. Tailored Tests											
C1. Combined contingent liabilities	12	8	12	12	13	13	14	14	14	13	13
C2. Natural disaster	12	8	8	8	10	9	11	11	11	10	10
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	6	7	8	7	9	8	10	9	9	8	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	6	7	8	7	9	9	11	10	10	10	10
B. Bound Tests											
B1. Real GDP growth	6	7	8	7	9	9	10	10	9	8	8
B2. Primary balance	6	7	8	8	10	9	10	10	9	9	8
B3. Exports	6	7	8	9	10	10	11	10	10	9	9
B4. Other flows 3/	6	7	9	9	10	10	11	10	10	9	9
B5. One-time 30 percent nominal depreciation	6	9	10	8	10	10	12	11	10	10	9
B6. Combination of B1-B5	6	7	9	9	11	10	11	11	10	9	9
C. Tailored Tests											
C1. Combined contingent liabilities	6	7	13	12	13	12	13	13	12	11	11
C2. Natural disaster	6	7	9	8	9	9	10	10	9	9	8
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

Table 4. São Tomé and Príncipe: Sensitivity Analysis for Key Indicators of Public Debt, 2020–2030

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of Debt-to-GDP Ratio											
Baseline	**84**	**86**	**82**	**78**	**74**	**70**	**66**	**62**	**59**	**56**	53
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	**84**	**82**	**79**	**76**	**73**	**71**	**70**	**68**	**68**	**67**	**67**
B. Bound Tests											
B1. Real GDP growth	**84**	**88**	**87**	**84**	**80**	**76**	**72**	**69**	**66**	**63**	**61**
B2. Primary balance	**84**	**90**	**92**	**87**	**82**	**77**	**72**	**68**	**64**	**61**	**58**
B3. Exports	**84**	**90**	**95**	**90**	**86**	**81**	**77**	**73**	**69**	**66**	**63**
B4. Other flows 3/	**84**	**93**	**97**	**93**	**89**	**84**	**79**	**75**	**71**	**68**	**65**
B5. One-time 30 percent nominal depreciation	**84**	**90**	**84**	**79**	**74**	**68**	**62**	**57**	52	48	44
B6. Combination of B1-B5	**84**	**85**	**86**	**77**	**72**	**66**	**62**	**58**	**55**	52	49
C. Tailored Tests											
C1. Combined contingent liabilities	**84**	**98**	**93**	**87**	**83**	**77**	**72**	**68**	**64**	**61**	**58**
C2. Natural disaster	**84**	**96**	**91**	**86**	**82**	**77**	**72**	**68**	**65**	**62**	**59**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	253	325	307	282	268	253	239	225	212	201	189
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	253	315	299	280	272	267	262	258	254	251	247
B. Bound Tests											
B1. Real GDP growth	253	333	322	298	285	272	259	247	235	226	215
B2. Primary balance	253	341	346	314	296	278	262	246	231	219	205
B3. Exports	253	341	354	326	310	294	278	264	249	237	224
B4. Other flows 3/	253	355	364	335	319	303	287	272	257	245	231
B5. One-time 30 percent nominal depreciation	253	350	321	291	270	250	229	209	190	174	157
B6. Combination of B1-B5	253	327	322	278	260	242	227	213	199	188	176
C. Tailored Tests											
C1. Combined contingent liabilities	253	373	347	315	298	280	263	248	232	220	206
C2. Natural disaster	253	364	340	310	294	278	262	248	233	222	209
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	70	57	54	45	41	37	36	35	35	35	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	70	55	51	41	37	33	35	36	38	40	41
B. Bound Tests											
B1. Real GDP growth	70	58	57	49	46	43	42	42	42	42	42
B2. Primary balance	70	57	64	66	53	45	40	38	37	37	36
B3. Exports	70	57	55	46	42	38	37	36	36	36	36
B4. Other flows 3/	70	57	55	46	42	38	37	36	36	36	36
B5. One-time 30 percent nominal depreciation	70	54	53	42	41	37	36	35	35	35	35
B6. Combination of B1-B5	70	55	53	49	42	36	35	34	34	34	34
C. Tailored Tests											
C1. Combined contingent liabilities	70	57	83	60	50	43	39	38	37	36	36
C2. Natural disaster	70	57	76	57	49	43	40	39	38	38	38
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Statement by Mr. Raghani , Executive Director for the Democratic Republic of São Tomé and Príncipe and Mr. Carvalho da Silveira, Advisor to the Executive Director July 27, 2020

Introduction

1. The authorities of Sao Tome and Principe (STP) would like to express their appreciation to the Fund for the relentless support received in implementing the ECF supported program during these unprecedented times. In this vein, the recent disbursement under the Rapid Credit Facility approved in April 2020 was not only critical in helping withstand the health, social and economic fallout of the COVID-19 pandemic but also in catalyzing assistance from other development partners.

2. The authorities remain fully committed to pursuing their reform agenda and addressing structural bottlenecks in line with the Extended Credit Facility (ECF) supported program. They, however, request an augmentation of access in the amount of SDR 1.48 million (10 percent of quota) to help them cover the immediate balance of payment needs, sustain efforts in addressing the adverse effects of the crisis and pave the way for a quick economic recovery in key sectors when the pandemic fades out.

Recent Developments

3. Following 90 days of the state of emergency, the government decided to develop a strategy to phase-out confinement to reach a balance between preventive measures of sanitary nature and the gradual return of economic activity in the country. With this view, a state of public calamity was declared from June 16 to July 31, 2020, along with a 3-stage de- confinement plan. Considering the limitations of the health system and testing capacity, many of the measures will remain in place, including the curfew, social distancing, public gathering, and the mandatory use of masks. Although STP recorded a total of 746 cases, of which 588 recovered and 14 died as of July 21, 2020, the government considers that the outbreak is broadly under control as the number of average daily new cases declined drastically.

4. An early implementation of containment measures has helped the authorities halt the spread of COVID-19 and limit the number of fatalities. However, the situation continues to take a heavy toll on economic activity and put a fragile island state like STP in dire straits while also exacerbating the country's vulnerability to economic and climate shocks. Real GDP is anticipated to drop to -6.5 percent in 2020 from 1.3 percent in 2019, as a result of disruptions in the tourism and service industries, global supply chains as well as delays in externally financed projects. This will be the deepest contraction in decades. The slowdown in economic activity is hampering fiscal revenues, which together with COVID-19 related expenditures, are putting considerable pressure on public finances. Therefore, the fiscal

deficit is expected to increase from 1.8 percent of GDP in 2019 to 6.3 percent at year-end 2020. Inflation lowered to 7.7 percent in 2019 and should rise slightly in 2020. In addition, while palm oil export is projected to continue to grow, the current account deficit is anticipated to expand further in 2020 notably on the back of lower external demand.

Outlook

5. While cognizant of the high uncertainty surrounding the macroeconomic projections given the nature of the pandemic, the authorities remain cautiously optimistic about the outlook. They foresee real GDP growth to resume partially at 3 percent in 2021 and firm up at around 4.5 percent over the medium-term as tourism activities resume and key infrastructure projects start to bear fruit. Nonetheless, they stand ready to take additional measures and seek more external support should downside risks materialize.

Performance under the ECF

6. During the period under review, program performance has been solid, with all end-December 2019 performance criteria (PCs) met and most structural benchmarks (SBs) implemented, albeit with some delays. These include significant achievements in fiscal consolidation, gender equality and completion of some structural reforms such as the adoption of the VAT Law. Given the disruptions caused by the pandemic, most end-March and end-June 2020 benchmarks could not be completed. Regarding the missed end-March indicative target for the Domestic Primary Deficit (DPD), in particular, it can be explained by the increase in personnel costs resulting from the hiring of new staff for the health sector, the promotion for the military approved by the previous government, and the hiring and upgrade in salaries of teachers to meet the required education ratios and fill schools financed by donors. On the latter, the authorities stress that it is often challenging to align competing objectives required by different development partners.

Policy Response for 2020 and Beyond

Fiscal Policy

7. The authorities' short-term priority remains to mitigate the social and economic impact of the pandemic and set the stage for a quick recovery without losing sight of medium-term macroeconomic stability.

8. Vigorous fiscal consolidation efforts have helped reduce the DPD to 1.8 percent of GDP in 2019, from 4.2 percent of GDP in 2018. In 2020, due to the impact of the pandemic on fiscal performance, the year-end DPD was revised upward to 6.3 percent of GDP. To help meet the target, the authorities are determined to retain the positive fuel price differential, the temporary tax deferrals and solidarity tax surcharge on civil servants; worker retention and recruitment incentives, and other measures introduced late 2019 to support domestic revenue

mobilization. These will be complemented by grants from the World Bank (WB) and African Development Bank (AfDB). On the other hand, the authorities will continue to rationalize public expenditure to make room for COVID-19 spending while maintaining fiscal discipline, particularly on the wage bill. In this vein, the government will continue to timely publish information on public procurement contracts and monthly COVID-19 related expenses, including the beneficial ownership information of companies receiving the contracts.

9. Over the medium-term, steps will be undertaken to (i) finalize the remaining work for the implementation of the VAT by mid-2021; (ii) forcefully monitor tax payment by large taxpayers; and (iii) strengthen tax administration and public financial management (PFM) in line with IMF recommendations. The WB is currently supporting the authorities' efforts to strengthen the management and transparency of the country's procurement system.

10. The authorities welcome the Debt Sustainability Analysis (DSA) which indicates that the external debt is sustainable, but with high risk of debt distress. They reiterated their commitment to prudent debt management and keep engaging all remaining creditors in an open and transparent manner with a view to regularize arrears and restructure all outstanding debt. They have requested participation in the G20 Debt Service Suspension Initiative and are hopeful that this could free up needed resources to help deal with the pandemic. Looking ahead, the authorities strongly believe that there is a need to put in place a new holistic approach to debt relief for small economies such as STP highly vulnerable to exogenous shocks.

Monetary and Exchange Rate Policy

11. The authorities are cognizant of the importance of coordinating fiscal, monetary, and financial policies to limit the negative impact of the pandemic. The central bank will continue to closely oversee system-wide liquidity to prevent liquidity tension and stand ready to tight monetary policy to safeguard the peg. New steps are being taken to strengthen the monetary policy framework, including the extension of liquidity forecast framework to three months and issuance of central bank certificate of deposits with the IMF's technicalassistance. The recommendations of the recent Safeguard Assessment will be effectively implemented, except the one related to the creation of a new structure with 2 Deputy Governors and 4 non-Executive Board members for the Central Bank. This structure is not adapted to the country's circumstances and may distort the functioning of the institution.

Financial Sector

12. The findings and recommendations of the asset quality review (AQR) of the banking system are currently being used to update the loan classification system and strengthen prudential regulations, including for recapitalizations. Prudential standards and reporting

requirements will remain unchanged to ensure the financial sector is resilient in the face of vulnerabilities caused by COVID-19. Stress tests will be conducted, and efforts are underway to strengthen off-site and on-site inspections.

13. The central bank agrees that progress on Non-Performing Loans (NPLs) resolution needs to be accelerated. To speed up the reduction of the stock of NPLs, the Central Bank is preparing a regulation to allow banks to more rapidly and efficiently address write-offs. The judicial loan enforcement process will be strengthened and an arbitration tribunal for out-of-court settlement established by December 2020. Concerning the two failed banks, the authorities are developing a concrete action plan, which will be swiftly implemented to speed up the resolution of Banco Equador and attract investors for Banco Privado. They expect to conclude the liquidation of both banks by the end of 2020.

Structural Reforms

14. In line with their National Sustainable Development Plan 2020-2024, the authorities are determined to continue reform efforts to unlock growth potential, improve competitiveness, address impediments to job creation and investments, and strengthen resilience to shocks. An assessment is in progress to understand the extent and nature of the impact of the COVID-19 crisis in the STP and support timely economic recovery planning under the assistance of United Nations Development Programme (UNDP).

15. The authorities concur with staff on the high importance of reforming the public utility company EMAE and the energy sector to ensure public debt sustainability, in line with the adopted Least Cost Productions Plans and the Management Improvement Plan. In this respect, specific time-bound measures are also being taken to enhance energy provision, contain fiscal risks posed by EMAE and ensure a more transparent and efficient pricing of electricity to allow cost recovery over the medium-term. Going forward, a steering committee chaired by the Prime Minister is being put together to monitor progress and ensure effective implementation of reforms.

16. With the support of development partners, several initiatives are underway to enforce legislations and close gender gaps, notably compulsory quota on women in the Parliament, gender budgeting pilots in selected ministries, gender inclusive curriculum in schools,financial literacy programs, amongst others. At the same time, the authorities also envisage some reform measures to improve capacity and resilience to climate change and address inefficiencies in the labor law and judicial system, which should help reduce legal process delays and costs. Work is ongoing for expediting the upgrade of payment system by end 2020 as well as removing the country from the European Union Air Safety blacklist.

Conclusion

17. The Sao Tomean authorities reiterate their strong commitment to the implementation of the ECF-supported program. Continued engagement and timely delivery of financial

support and hands-on technical assistance, from development partners will be essential to sustain efforts aimed at mitigating the impact of the pandemic, safeguarding macroeconomic stability as well as support a quick recovery.

18. In light of the above, the authorities seek the Executive Board's approval for the completion of the first review under the ECF, the front-loaded augmentation of 10 percent of quota and rephasing of access.