INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/51

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

March 2021

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERION, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, 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 Second Review under the Extended Credit Facility, Request for Waiver for Nonobservance of Performance Criterion, Request for Modification of Performance Criteria, 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 February 26, 2021, following discussions that ended on November 23, 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 December 23, 2020.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the World Bank.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for the Democratic Republic of São Tomé and Príncipe.

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.

PRESS RELEASE

PR21/50

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

FOR IMMEDIATE RELEASE

- The IMF Executive Board decision allows for an immediate disbursement of about US$2.73 million to São Tomé and Príncipe to help meet the country's financing needs, support social spending and the post-pandemic recovery.
- The authorities' actions and unprecedented international financial support are helping the country weather the emergency, but deep economic challenges remain.
- The ECF arrangement continues to support the government's effort to restore macroeconomic stability, reduce debt vulnerability create the foundations for stronger and more inclusive growth.

Washington, DC – February 26, 2021: The Executive Board of the International Monetary Fund (IMF) today completed the second 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$2.73 million). This brings São Tomé and Príncipe's total disbursements under the arrangement to SDR 7.19 million (about US$10.34 million).

São Tomé and Príncipe's 40-month ECF arrangement was approved on October 2, 2019 for SDR 13.32 million (about US$18.15 million or around 90 percent of the country's quota) (see Press Release No. 19/363). The program aims to support the government's economic reform program to restore macroeconomic stability, reduce debt vulnerability, alleviate balance of payments pressures and create the foundations for stronger and more inclusive growth.

The first review was completed in July 2020, with a disbursement of about US$2.67 million, and, at the same time, an augmentation of the ECF arrangement of US$2.08 million was approved by the IMF Executive Board (see Press Release No. 20/272). In April 2020, the Executive Board also approved emergency financing of US$12 million 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).

The pandemic continues to have a severe impact on São Tomé and Príncipe's economy, exacerbating external and fiscal imbalances. A complete halt in international tourism and a sharp drop in foreign remittances have deepened external financing needs. Though the outbreak has been broadly brought under control, containment measures and weak external demand have prompted a deep recession, and raised fiscal financing needs, amid already high public debt.

The authorities' actions and unprecedented international financial support are helping the country weather the emergency, but deep economic challenges remain. The authorities have enhanced health services and provided assistance to vulnerable households. However, while sustainable, public debt has risen from already high levels. Energy sector issues continue to

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create debt and hinder growth. External balances and buffers remain under pressure. Moreover, over recent years, growth has been insufficient to reduce poverty and meet the needs of a rising and young population.

Following the Executive Board's discussion on São Tomé and Príncipe, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, issued the following statement:

"The Sãotoméan authorities' swift response to the pandemic, supported by Fund emergency financing, this ECF arrangement, and other unprecedented international assistance, has helped the country weather the pandemic's initial impact.

"Although the COVID-19 crisis adversely affected program performance in the first half of the year, the authorities have taken appropriate corrective actions, and preliminary information on end-2020 performance is encouraging. Moreover, the authorities remain committed to improving fiscal transparency and public financial management and have started publishing large public procurement contracts and monthly reports on COVID-19-related spending.

"The 2021 budget rightly focuses on addressing immediate social and economic needs, supporting the incipient economic recovery, and starting the gradual fiscal consolidation that is needed to preserve debt sustainability and external buffers. In this context, it will be crucial to carry out the authorities' commitment to introduce a VAT in 2021 and contain spending dynamics going forward, particularly on personnel expenses. Accelerating reforms of the energy sector would also contribute to reducing debt and exchange rate pressures over time, strengthening energy security, and supporting long-term growth.

"Monetary policy should continue to support the exchange rate peg and the incipient recovery, including by actively managing liquidity. It is also important to continue financial sector reforms, such as enhancing the central bank's capacity to monitor and manage vulnerabilities and risks in the banking sector, addressing legacy NPLs, and implementing the recommendations of the safeguards assessment.

"Promoting more resilient and inclusive growth is essential to advance the country's development. There is a pressing need to implement broad-based structural reforms that facilitate private investment and develop the tourism sector, such as further upgrading the national payments system, taking action to remove the country from the EU Air Safety List, and implementing planned infrastructure and climate adaptation projects."

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

December 23, 2020

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERION, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. The COVID-19 pandemic is having a severe impact on São Tomé and Príncipe's economy, exacerbating fiscal and external imbalances. Tourism activities and external remittances dropped sharply, while lockdown measures further deepened the recession. The authorities' swift actions and unprecedented international financial support are helping the country weather the emergency. The economy began to reopen in the fall, but the outlook for 2021 remains challenging and subject to significant uncertainty.

Program performance. The end-June fiscal deficit target, set prior to the pandemic, was missed due to the impact of the pandemic and wage overspending early in the year, and several structural benchmarks have been delayed. However, the country is on track to meet the revised end-2020 quantitative targets. São Tomé and Príncipe's public debt remains sustainable. The country continues to face debt distress and its capacity to carry debt has recently been downgraded from medium to weak, heightening debt sustainability risks.

Focus of discussions. Discussions focused on addressing social priorities while gradually resuming fiscal consolidation and reducing debt vulnerability, easing external account pressures, safeguarding financial stability, and boosting more inclusive and sustainable growth.

Recommendation. In light of the exceptional circumstances under the pandemic, and the authorities' strong actions to meet the end-2020 program targets and commitments going forward, staff recommends the completion of the second review and approval of the request for a waiver.

Approved By
David Owen (AFR) and Anna Ilyina (SPR)

Discussions for the second review of the economic program supported by the IMF Extended Credit Facility arrangement took place remotely during November 13-23, 2020. The team comprised Mr. Palomba (head), Mses. Kolovich and Iyer, and Mr. Srour (all AFR), and Mr. Bardella (FAD). Mr. Wezel (MCM) and Mr. Carvalho da Silveira (OED) participated in the discussions. Mses. Synak and Pilouzoue provided research and editorial assistance for the preparation of this report.

CONTENTS

ANNEX

APPENDICES

CONTEXT

1. **The COVID-19 pandemic is having a severe impact on São Tomé and Príncipe's economy, compounding the country's pre-existing vulnerabilities.** As an open, fragile and small island state, the country has been hit hard by a complete halt in international tourism and a sharp drop in foreign remittances, exacerbating external imbalances. A national lockdown to contain the spread of the virus has further curtailed domestic demand. The containment measures and lower external demand have prompted a deep recession, deteriorated external balances, and raised fiscal financing needs, amid widespread poverty and already high public debt.[1]

2. **The authorities' swift actions and unprecedented international financial support are helping the country weather the emergency**. The authorities' response has focused on improving the capacity of the health care system, expanding existing cash transfer programs to vulnerable households, and supporting businesses (e.g., incentives to retain workers) at a total cost of about 3 percent of GDP. With limited fiscal space, the authorities increased fuel excises, introduced a small solidarity contribution on public servants' salaries, and reprioritized spending to cover part of the new expenses. Meanwhile, in the context of the currency peg, the central bank increased liquidity provision to the banking sector. Unprecedented financial support from development partners helped finance the country's large external and budget financing needs.[2] In this context, in April 2020, the country received IMF emergency financial assistance (about US$12 million; 3 percent of GDP), and in July 2020 completed the first review under the 2019 Extended Credit Facility (ECF) arrangement together with an augmentation of the program. The Debt Service Suspension Initiative (DSSI) and the Fund's Catastrophe and Containment Relief Trust (CCRT) provided some additional temporary relief.[3]

São Tomé and Príncipe: COVID-19 Fiscal Response Package, 2020
(Percent of GDP)

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

Sources: Authorities and IMF staff calculations.

3. **The pandemic has adversely affected program performance**, **but the country is on track to meet the revised end-2020 program targets.** The end-June fiscal deficit target, set before the pandemic, and some structural benchmarks were missed. This notwithstanding, the authorities made some progress in meeting fiscal transparency standards. Looking ahead, preliminary information suggests that the authorities are on track to meet the end-2020 quantitative

[1] As of December 2020, the average number of COVID cases has dropped to approximately one per day, and the authorities have started gradually reopening the economy.

[2] External support is expected to finance about 11 percent of GDP in budget needs and 17 percent of GDP of BOP needs.

[3] The authorities have requested and obtained deferment of debt service from other bilateral official creditors (i.e., Portugal) as per the DSSI initiative, and the authorities will be requesting these countries for further deferment of debt service in 2021, as per a DSSI extension.

performance criteria that were set at the first review and account for the pandemic effect. The pandemic also impacted the country's capacity to carry debt, which has been downgraded from medium to weak.

IMPACT OF COVID-19 AND AN INCIPIENT RECOVERY

4. Containment measures and weak external demand triggered a severe recession in 2020 and deepened external vulnerabilities, but signs of recovery are emerging. (Figure 1; Table 1)

- Following the deceleration in GDP growth in 2019 (1.3 percent), key sectors such as tourism, transportation and trade came to a near halt in early 2020. With the country reopening to international trade and travel and lockdown measures relaxed in July, the economy has started picking up.[4] Despite signs of an incipient recovery, real GDP in 2020 is expected to contract by about 6½ percent as tourism and service activities will recover only gradually. Notwithstanding the recession, headline inflation rose to 10.8 percent in September (7.7 percent in 2019) driven by high food prices.

- With the halt in international travel and imports recently recovering, the current account deficit is projected to reach 17 percent of GDP by end-2020 (12.5 percent in 2019).[5] However, gross international reserves have increased (US$64 million in September 2020) and are expected to stabilize at around 5.1 months of projected imports (about 65 percent of reserve money) by end-year, as unprecedented financial support from development partners and disbursements under the IMF's Rapid Credit Facility (RCF) and ECF financed the country's external needs.

5. Pandemic-related expenses and wage overspending have widened the 2020 fiscal deficit (excluding grants) and public debt has risen (Tables 2a-2b). Despite stronger than expected revenue yields from the 2019 tax policy package,[6] the domestic primary deficit (DPD) at end-June 2020 widened to 2.6 percent of GDP (missing the program target set prior to the pandemic) and is projected to reach 5.3 percent of GDP by end-2020 (1.8 percent in 2019), meeting the revised end-year program target, which accounted for pandemic-related spending. The deficit largely reflects spending increases associated with the pandemic (3½ percent of GDP for 2020) and unbudgeted increases in personnel costs early in the year (1 percent of GDP on an annual basis).[7]

[4] Preliminary data indicate that imports began recovering in the third quarter of the year.

[5] This is likely to result in a weaker external position than implied by medium-term fundamentals and desirable policies (Annex I).

[6] The 2019 tax policy package measures included: increasing sales taxes on selected products (e.g. alcoholic beverages and telecommunication services), reducing personal income tax allowances, maintaining retail fuel prices at their high levels, and introducing electronic invoicing. Revenue windfalls largely derive from better than expected performance of excises, including on fuel.

[7] The domestic primary balance is defined as the primary balance net of foreign grants and oil-related revenue, and excluding foreign-financed capital projects. COVID-19 spending and unbudgeted wage expenses are reported on annual basis.

The deficit is largely financed through a temporary increase in donors' grants. However, public debt is expected to increase to about 103½ percent of GDP, due in large part to the drop in GDP and continued losses at the state-owned utility company EMAE.

São Tomé and Príncipe: Fiscal Performance in 2020
(percent of GDP)

	2019	2020:H1	2020 1st Rev.	2020 Proj.
Total domestic revenue (ex. oil and payment to ENCO)	**15.2**	**7.7**	**15.1**	**16.5**
Tax revenue	12.6	6.6	12.9	14.5
Import taxes	5.1	2.4	6.0	6.5
Other taxes	7.5	4.2	6.9	8.0
Nontax revenue[1]	3.3	1.4	2.4	2.5
of which: oil revenue	0.8	0.3	0.0	0.3
Total domestic primary expenditure	**17.0**	**10.3**	**21.4**	**21.8**
Current expenditure	17.5	10.5	20.1	19.8
Personnel costs	9.2	5.3	11.0	10.9
Interest due	0.7	0.3	0.7	0.5
Goods and services	2.5	1.6	2.9	2.8
Transfers	2.9	1.9	3.6	3.5
Other current expenditure[1]	2.2	1.3	2.0	2.0
Capital spending fin. by the Treasury and HIPC	0.2	0.1	0.5	0.5
COVID-related spending fin. By the Treasury[2]	...	...	1.5	2.0
Domestic primary balance[3]	**-1.8**	**-2.6**	**-6.3**	**-5.3**
Program target	*-2.1*	*-0.8*	*-6.3*	*-6.3*
Memorandum items:				
Payment to ENCO	0.0	0.0	0.2	0.2

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

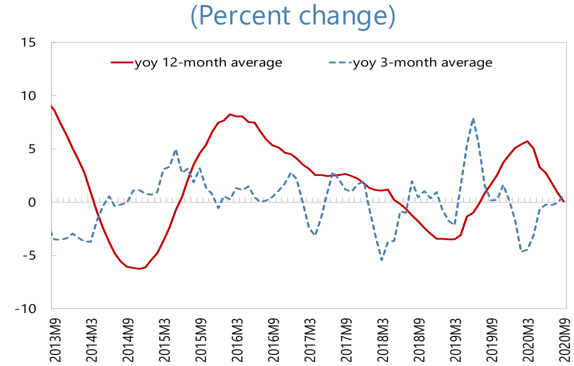
[1] The outturn in 2019 was higher than the programed because some autonomous entities were brought into the Treasury's accounts.

[2] COVID-related spending in 2020:H1 are already included in the other expenditure line items

[3] 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. **The deep recession and uncertain macroeconomic conditions have started affecting the banking sector.** Credit growth to the private sector began decelerating in March 2020, and reached about 0.1 percent by September 2020 (5 percent at end 2019).[8] With ample liquidity, the deceleration was mostly driven by weak demand, coupled with constrained supply, as economic uncertainty rose. The difficult economic juncture has begun affecting banks' asset quality, and by end-September non-performing loans (NPLs) rose to about 34 percent of total loans (26¾ percent in December 2019). In this context, recapitalization plans for selected banks to address capital shortcomings identified under the 2019 asset quality review (AQR) were completed (Figure 2).

São Tomé and Príncipe: Credit to Private Sector
(Percent change)



Source:Authorities and IMF staff calculations.

[8] Given the volatility of credit series, credit growth refers to 12-month averages.

PROGRAM PERFORMANCE

7. **End-June fiscal targets were missed**. The domestic primary balance breached the PC target by DB134 million largely due to pandemic-related spending as the original target was set before the pandemic, and wage overspending. Likewise, the indicative target (IT) on revenues was missed due the pandemic, although arrears clearance proceeded as planned. On the positive side, net international reserves and net bank financing outperformed the end-June targets, reflecting large external financing inflows to cope with the pandemic.

São Tomé and Príncipe: Program Implementation End June 2020
(Millions of new Dobra)

	Program Req.	With adjusters	Preliminary Outturn	Status
Performance Criteria				
Floor on domestic primary balance (as defined in the TMU)	76	-101	-235	Not met
Ceiling on changes in net bank financing of the central government (at program exchange rate)	40	28	-206	Met
Floor on net international reserves of the central bank (US$ millions)	30	33	37	Met
Ceiling on the accumulation of central government's new external payment arrears (US$ millions)	0	...	0	Met
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the central government or the BCSTP (US$ millions)	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				Met
Indicative Targets				
Ceiling on change of central government's new domestic arrears	0		-64	Met
Floor on pro-poor expenditures	310		330	Met
Floor on tax revenue	654		591	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)	6		1	Met

Sources: Authorities and IMF staff calculations.

8. **Despite the pandemic, the authorities are on track to meet the end-2020 PCs, although progress on structural benchmarks has so far been limited.** Preliminary data indicate that the end-December 2020 QPCs are within reach. Progress on structural benchmark (SB) reforms is uneven though. Retail fuel prices were kept unchanged, providing needed revenue, and COVID-19 related spending reports were published until August 2020, although with some delays. However, public procurement contracts, including information about company ownership, were published only until June and information on beneficial ownership was limited (SB November 15, 2020). The benchmarks on the VAT IT system and EMAE reforms, specifically, improving management and modernizing information systems,[9] were delayed, and no plan to take the country off the EU Air Safety list has been developed yet. On the positive side, a draft of the central bank organic law has

[9] See Annex III for detailed information on EMAE reforms.

been finalized, but not yet presented to parliament, and the drafting of the Financial Institutions Law is progressing and should be concluded in early 2021.

São Tomé and Príncipe: Structural Benchmark Implementation
(as of December 2020)

Policy Objectives and Measures	Timing	Status
Strengthening Public Finances		
Implement key measures of Management Improvement Plan and Least Cost Development Plan for EMAE (MEFP ¶46)	Continuous	Not met
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-September 2020	Not met
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	Met
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	Not met
Publishing on the Ministry of Finance (MOF) website beneficial ownership information of companies receiving public procurement contracts (same contracts as above)	November 15, 2020	Not met
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	Not met
Facilitating Business Activities		
Develop a plan to remove the country from the European Union's Air Safety blacklist (newly proposed)	End-2020	Not met

Sources: Authorities and IMF staff calculations.

OUTLOOK AND RISKS

9. **The outlook is highly dependent on the pandemic subsiding, and on continued fiscal adjustment and structural reforms implementation.** Assuming a gradual global recovery and the lifting of domestic containment measures in early 2021, real GDP growth is expected to rebound to about 3 percent in 2021, and peak in 2022 at 5 percent, before stabilizing at around 4-4½ over the medium term. Inflation would pick up in 2021 with the adoption of the VAT, before tapering off anchored by the currency peg. With gradual fiscal consolidation and pandemic-related spending declining, the primary fiscal deficit would broadly balance over time and public debt would decline, reflecting a positive growth-interest rate differential (Annex II).[10] Fiscal adjustment and a gradual increase in tourism receipts would contribute to strengthen the current account balance and international reserves buffers over time (Figure 3, Table 3a-3b).

[10] A decline in pandemic-related spending is expected to contribute to fiscal consolidation, particularly in 2022.

São Tomé and Príncipe: Medium-Term Macroeconomic Projections (Program Baseline)
(Percent of GDP, unless otherwise specified)

	2016	2017	2018	2019	2020		2021		2022	2023	2024	2025
					First Rev.	Proj.	First Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
GDP at constant prices (Annual percentage change)	4.2	3.9	3.0	1.3	-6.5	-6.5	3.0	3.0	5.0	4.2	4.5	4.5
Credit to the private sector (Annual percentage change)	6.6	2.5	-1.6	3.2	0.1	1.1	2.7	4.6	5.6	5.2	...	...
Overall Fiscal balance (commitment basis)	-4.2	-2.7	-1.9	-0.1	-4.6	1.5	-3.7	-3.9	-1.2	-0.8	-0.5	-0.5
Total revenue, grants, and oil signature bonuses	28.2	24.9	24.1	22.5	24.6	28.2	22.7	21.5	24.4	24.4	24.2	24.0
Total expenditure and net lending	32.4	27.6	26.0	22.5	29.2	26.7	26.4	25.4	25.6	25.2	24.7	24.4
Domestic primary balance [1]	-4.1	-2.4	-4.2	-1.8	-6.3	-5.3	-3.9	-3.9	-1.2	-0.6	-0.3	-0.1
Public Debt [2]	81	84	96	98	105	103	105	102	97	92	86	79
NPV Public Debt						47.4		46.5	43.4	40.8	38.1	34.6
Current account balance												
Including official transfers	-6.1	-13.2	-12.3	-12.5	-17.0	-17.5	-11.9	-14.9	-9.2	-8.4	-8.2	-8.0
Excluding official transfers	-20.0	-24.3	-21.0	-19.0	-26.3	-28.7	-18.6	-18.7	-15.0	-14.2	-13.6	-12.9
Gross international reserves [3]												
Months of imports [4]	4.9	4.2	3.0	3.8	6.0	5.1	5.6	5.0	5.2	5.1	5.1	5.0

Sources: Authorities and IMF staff calculations.
[1] Excludes oil related revenues, grants, interest earned, scheduled interest payments, and foreign-financed capital
[2] Total public and publicly guaranteed debt as defined in DSA, which includes EMAE's debt.
[3] Excludes: National Oil Account, commercial banks' foreign currency deposits at the BCSTP to meet reserve requirements, new licensing, and capital requirements.
[4] Excluding imports of investment goods and technical assistance.

10. **Although public debt remains sustainable, long-standing external arrears place the country in debt distress.** Under the program baseline, the present value (PV) of total public and publicly guaranteed (PPG) debt is projected to decline below the debt sustainability analysis (DSA) thresholds only in 2025.[11] However, public debt is assessed to be sustainable, although subject to large significant risks, as the debt PV remains on a downward trajectory amid the authorities' commitment to continue fiscal consolidation, implement planned energy sector reforms (including EMAE), and borrow externally only on concessional terms and at a measured pace. However, post-HIPC sovereign arrears with bilateral creditors, in addition to arrears with private creditors, place the country in debt distress. The authorities continue to be actively engaged with Angola, Brazil, and Equatorial Guinea to regularize their outstanding external arrears (2.6 percent of GDP).[12] Regarding the external arrears owed by São Tomé and Príncipe to private creditors, the authorities continue to make good faith efforts to reach a collaborative agreement.

11. **The outlook is subject to significant uncertainty and downside risks.** A deeper and prolonged duration of the pandemic could further deteriorate the outlook, delay the recovery and create additional external and budget financing pressures. Moreover, the outlook critically depends on the government's ability to deliver on its medium-term fiscal adjustment plans and the pandemic-related spending to decline over time. If adjustment plans are not fully implemented, the fiscal deficit would remain large and financing pressures would intensify, adversely affecting external accounts. Delayed reforms in the energy sector could raise arrears, hindering external buffers. Lower

[11] The DSA includes the concessional terms of the recent restructuring of EMAE's debt to the country's fuel supplier, ENCO. ENCO is a private company owned by Sonangol (77.6 percent of capital), an Angolan state-owned company, with the government owning about 16 percent of the company's share capital.

[12] The arrears to Brazil have been rescheduled as per the DSSI initiative.

than expected grant support from donors would negatively affect economic recovery and weaken the fiscal and external positions. On the upside, rapid progress on structural reforms in the energy sector and in the development of key infrastructure (e.g., airport expansion, road rehabilitation) could trigger stronger medium-term growth.

POLICY DISCUSSIONS

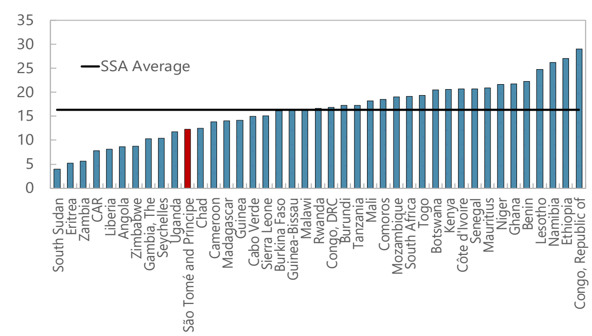
Discussions focused on: (i) implementing a fiscal strategy to address social needs while gradually restoring fiscal sustainability, and accelerating energy sector reforms to reduce fiscal and external vulnerabilities; (ii) developing monetary policy tools to support the peg, and advancing financial sector reforms to safeguard financial stability; and, (iii) unlocking the growth potential of the economy by fostering the tourism sector and a better business environment.

A. Supporting the Recovery and Restoring Fiscal Sustainability

12. The implementation of the 2019 tax policy package has created some fiscal space to address rising development needs, while continuing fiscal consolidation. Containment of spending within budget limits and better than expected revenue (about 1½ percent of GDP) would contain the 2020 DPD to around 5⅓ percent of GDP (6.3 percent of GDP under the program). A large part of the 2020 revenue windfall comes from permanent tax measures included in the 2019 tax policy package.[13] This creates fiscal space to more gradually roll back COVID-19 emergency measures in 2021 and address rising social needs.[14]

13. The 2021 budget marks the return to gradual fiscal consolidation, while providing room to tackle immediate development needs and gradually roll back COVID-19 spending. Under the 2021 budget proposal, the DPD is expected to decline to 3.9 percent of GDP, 1½ percent of GDP lower than in 2020. However, with higher than expected revenues from the 2019 tax package, this DPD target provides room to address rising needs, including: new hiring in the education sector, together with temporary contracts to ensure better social distancing in schools during the pandemic (MEFP ¶14), spending pressures from semi-autonomous regions (MEFP ¶13), and a more

Sub- Saharan Africa: Education Expenditure,
(Percent of GDP, Latest Available Year)



Sources: World Development Indicators, FAD Expenditure Assesment Tool.

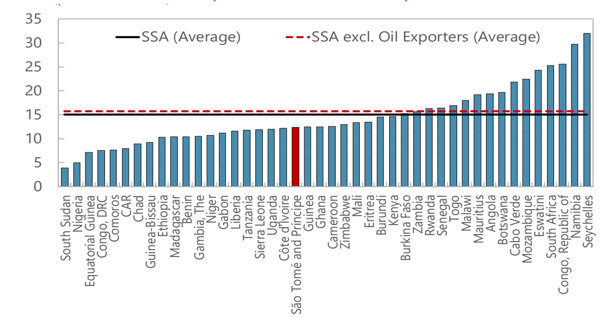
[13] The 2020 revenue windfall is projected to be about 1½ percent of GDP. About two thirds of the windfalls is expected to be permanent. The remaining part would recede over time as international oil prices rise and the implicit additional excise, from keeping retail prices at their earlier high level, subsides.

[14] Spending pressures in the education sector are rising as social distancing needs entail additional personnel expenses. According to the authorities' data, the pupil teacher ratio is well above the level recommended by the World Health Organization (WHO) to ensure proper social distancing.

gradual roll back of COVID measures. With a sharp decline in budget grants, the overall fiscal balance would however widen compared to 2020 (by about 5½ percent of GDP) and the government's gross financing needs would reach 6 percent of GDP. Domestic borrowing and IMF indirect budget support would contribute to finance the budget, with the public debt-to-GDP-ratio remaining broadly stable in 2021, before starting to decline in the following years as the authorities implement their fiscal consolidation strategy.

14. To deliver on the 2021 fiscal targets and the authorities' medium-term fiscal consolidation objectives, it is critical to implement a number of immediate measures. The authorities are committed to introduce the VAT in the second half of 2021 (structural benchmark, MEFP ¶14), which is key to strengthening domestic tax revenues (approximately 2 percent of GDP cumulatively by 2023) and delivering on the program's medium-term fiscal targets.[15] On the spending side, with personnel costs now on the high side by regional standards, and additional wage pressures in the education sector, the authorities are committed to wage and employment containment policies to gradually reduce the wage bill (as a share of GDP) over time, including tight employment and limited salary increases over the next few years (MEFP ¶15). As the pandemic subsides, a reduction in pandemic-related spending will also contribute to reducing the fiscal deficit. As uncertainty around short-term macroeconomic developments remain high, in the event of lower than expected revenue, further revenue mobilization and expenditure rationalization, including further reprioritization of capital expenditure and revisions to the temporary solidarity tax, should be considered to keep debt on a sustainable path (MEFP ¶16).

Sub- Saharan Africa: Tax Revenue, 2018–2019
(Percent of GDP)



Sources: World Economic Outlook.

15. Implementing the authorities' fiscal strategy requires improving public financial management (PFM), governance and transparency frameworks, and revenue administration. Domestic arrears accumulation and hurdles in containing public spending highlight key shortcomings in PFM and entrenched fiscal governance and transparency issues. The authorities are taking actions to address these challenges and there is room for further improvements. Specifically:

- To improve fiscal planning, the authorities have recently developed a manual to strengthen their macro-fiscal projections and plan to publish a three-year medium-term fiscal framework, with the annual budget (MEFP ¶20). They have centralized public borrowing, and recently published a medium-term debt management strategy. Moreover, to better control spending, in 2021, they will pilot a commitment ceiling mechanism to manage expenditures at the commitment stage in

[15] Revenue gains from the VAT are projected to fully materialize by 2023, one year later than previously assumed, as collection efficiency gradually increases over time following the initial VAT introduction.

a large number of spending ministries (MEFP ¶20).[16] These steps will contribute to improving budget processes and introducing more effective spending controls;

- To strengthen fiscal transparency and governance, the authorities are publishing monthly COVID-19-related spending reports, and have begun publishing procurement contracts, including owners of companies awarded contracts (MEFP ¶21). They have also taken steps to improve the availability and timing of publication of such information, and will perform an ex post audit of the 2020 COVID-19-related spending during 2021. They are making efforts to strengthen their capacity to collect beneficial owner information, including through technical assistance. To support fiscal transparency, it is also important to modernize the procurement legislative framework to include, for example, e-procurement, beneficial ownership information, and a complaint mechanism.

- To support revenue collection, it is important to strengthen tax administration. The key priorities are to: (i) reorganize the tax directorate to improve management and strategic planning; (ii) adopt modern compliance risk management practices, including strengthening audit programs; and (iii) overhaul the performance monitoring framework of the tax administration (MEFP ¶18).

16. Reforms of the public energy company EMAE are key to reducing public debt and achieving a more resilient economy.[17] EMAE provides essential services and key inputs to production activities. However, the company's financial position has been steadily accumulating large losses and contingent liabilities for the government, despite relatively high electricity tariffs (Figure 4).[18] With World Bank assistance, the authorities have developed detailed plans to reduce electricity costs, and achieve cost recovery over time by reducing grid and commercial losses (Annex III) (structural benchmark).[19] However, progress on short-term actions to reduce energy losses and improve the company management has lately been limited and other reforms have been often delayed.[20] To recover momentum for the reform agenda, the authorities have established a high-level steering committee, chaired by the Prime Minister, to oversee reform progress (MEFP ¶43). In the short-term, with World Bank support, they expect to complete the installation of new meters and a LED bulbs program to contain electricity demand (MEFP ¶45). Moreover, they have taken

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[16] These activities are being implemented with capacity development support from the Fund.

[17] The Empresa de Água e Electricidade (EMAE) is a stated-owned company that produces and distributes electricity and manages water services.

[18] In 2019, EMAE accumulated close to US$17 million (4 percent of GDP) in new arrears to its suppliers. These arrears largely translate in new external arrears of the oil company ENCO to its parent Angolan company. As of June 2020, EMAE's arrears to ENCO amounted to US$117 million (28 percent of GDP).

[19] The authorities' reform plans for the energy sector are centered around their Management Improvement Plan (MIP) and Least Cost Development Plan (LCDP). The MIP aims at reducing grid losses and raising collection rates. The LCDP aims at reducing the average cost of energy produced by increasing renewable sources' share. For details about the MIP and LCDP, see IMF Country Report 20/232.

[20] The implementation of the MIP has been delayed because of, among other reasons, capacity constraints at EMAE and the authorities' internal discussions on possible restructuring of the production, transmission, and distribution frameworks (not supported under the sector reform strategy). Moreover, multiple unsolicited proposals for power plants, not aligned with the LCDP's parameters, have delayed progress on the LCDP.

actions to ensure timely payment from public entities (a large part of EMAEs' unpaid bills), including by suspending power provision. Looking ahead, to ensure cost-recovery for the sector, it is critical to reform the current tariff structure and modify the production mix away from thermo electrical production (Annex III).

17. Uncertain macroeconomic conditions and the recent weakening in the country's debt-carrying capacity have contributed to increased risks to public debt sustainability (Annex II). In case downside risks materialize and debt sustainability further deteriorates, the authorities need to stand ready to take measures to preserve debt sustainability, including through recalibrating fiscal efforts, improving the financing mix (toward more grants and highly concessional borrowing), and seeking further debt relief (MEFP ¶15).

B. Supporting the Peg and Safeguarding Financial Stability

18. The central bank has reacted appropriately to contain the immediate macro-financial impact of the pandemic while safeguarding financial stability and the peg. To ensure adequate liquidity, in April 2020, the Central Bank of São Tomé and Príncipe (BCSTP) reduced reserve requirements, lowered the discount rate for the BCSTP's liquidity facility (MEFP ¶22), and suspended plans to issue certificates of deposit (CD) to control excess liquidity.[21] In addition, it encouraged banks to offer a six-month moratorium on loan repayments for non-delinquent borrowers affected by the pandemic (MEFP ¶28). To safeguard financial stability, loan reporting, classification, and provisioning standards were maintained, and the policy rate was left unchanged. With credit to the private sector declining, in September 2020, in collaboration with the African Development Bank (AfDB), the authorities created a credit line for banks to provide lending to small and medium enterprises (SME) affected by the pandemic.[22]

19. With the pandemic, risks in the banking sector are rising, amid existing vulnerabilities. The banking sector (assets about 65 percent of GDP) remains well capitalized, and liquidity indicators have improved. However, with the pandemic, banks' asset quality has started deteriorating. Since March 2020, NPLs, already high before the pandemic, have increased to 34.2 percent of total loans at end-September 2020 (26.5 percent at end-March 2020) as some banks started recognizing possible pandemic-related losses. On the positive side, despite the difficult macroeconomic environment, loan reclassification and recapitalization recommendations from the 2019 AQR have been fully addressed, building a stronger basis for the sector.[23]

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[21] In early 2020, the BCSTP's monetary policy committee approved an issuance of three-month certificates of deposit (Db100 million, structural benchmark under the ECF program).

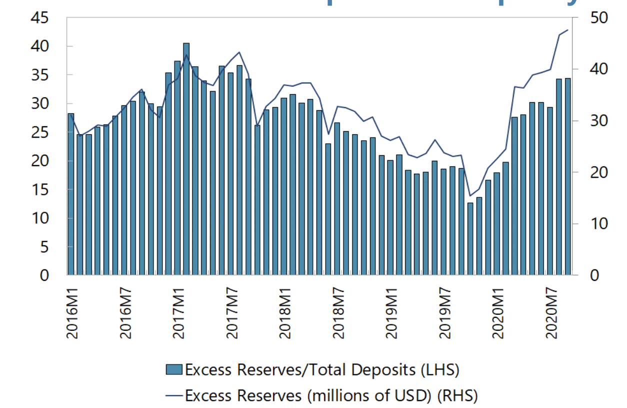
[22] The credit line program (US$3 million, with the possibility of additional funding) aims at easing access to credit for SMEs in sectors hard-hit by the pandemic, including agriculture and tourism. To access the credit lines, investment by SMEs must have received the favorable technical opinion of the National Investment Agency.

[23] With the support of the World Bank, an asset quality review (AQR) was completed in 2019. The AQR identified the need for some loan reclassification in the banking sector and, consequently, recapitalization needs for some banks. In addition, the AQR recommended the BCSTP strengthen its supervisory capacity, both in terms of training and staffing

(continued)

20. The BCSTP should continue to actively manage liquidity in the banking sector and maintain an appropriate monetary policy stance to support the peg and the recovery. It will be vital for the BCSTP to continue ensuring that the banking system can access liquidity should needs arise. At the same time, with exceptionally large external support to finance government operations, excess liquidity in September 2020 climbed to almost US$48 million, and it will be therefore important to contain excess liquidity to adequately support the peg. In November 2020, the BCSTP began issuing CDs to help control the rise in excess liquidity (structural benchmark). Moreover, the BCSTP is committed to developing an action plan to gradually reduce excess liquidity below the current level throughout 2021 to avoid undue pressures on the peg. In this context, the BCSTP should roll-over its existing CDs and stand ready to use any other tool, including adjusting reserve and liquidity requirements and issuing additional CDs (MEFP ¶23).

São Tomé and Príncipe: Excess Liquidity



Sources: Authorities and IMF staff calculations.
Note: Excess liquidity is defined as liquid assets exceeding liquidity requirements as a share of total deposits.

21. With the difficult economic environment, it is important to enhance the BCSTP's ability to monitor and manage rising financial risks and preserve financial stability. The pandemic is likely to put further pressure on banks' asset quality. The BCSTP has already extended the loan payment moratorium (to December 2020) and intends to introduce a formal dividend payout moratorium in 2021 to preserve capitalization in the system. Moreover, early in 2021, the BCSTP will conduct, with IMF assistance, stress tests to identify possible credit risk pressures due to the fallout from the pandemic (structural benchmark) (MEFP ¶29).[24] Based on the results of the stress tests, the BCSTP should require banks to develop contingency plans and identify remedial measures as needed to ensure that banks remain adequately capitalized. Meanwhile, efforts to strengthen the BCSTP's supervisory capacity should be fast tracked. With IMF technical assistance, the BCSTP has adopted a bank rating model for on-and off-site supervision, and a banking supervision manual should be completed to provide guidance for processing off-site and on-site supervision (MEFP ¶31).

22. Stepping up the resolution of legacy non-performing loans will provide the banking system with needed room to support the economy. The high level of NPLs is due in part to legacy NPLs that banks remain unwilling to write off even though the long-defaulted loans are fully provisioned for. The resolution of these loans requires completing ongoing judicial reforms and

levels. Two small banks (15] percent of banking system assets) were placed in liquidation in 2016 (Banco Equador) and 2018 (Banco Privado). For Banco Equador, the reporting requirements and planned asset sales have been delayed. Banco Privado is likely to be sold to a group of investors after the pandemic subsides.

[24] The IMF will provide assistance to further develop the BCSTP's stress testing capacity to identify credit risk pressures and possible recapitalization needs.

forceful supervisory actions. Progress has been recently achieved on improving the judicial loan enforcement process and establishing arbitration tribunals for out-of-court settlement. Completing these reforms requires making the arbitration court fully operational, including by appointing arbitration referees. On the supervisory side, the BCSTP should issue in early 2021 new regulations to support banks' rapid write-offs of long-defaulted and fully provisioned loans (MEFP ¶32).

23. The authorities are committed to close the liquidation processes of two banks during 2021, but the pandemic has contributed to putting pressure on another small bank. The pandemic has frustrated efforts in liquidating two banks (Banco Equador, Banco Privado). Following the unsuccessful attempt to sell assets, the authorities will turn over Banco Equador's assets to the court system and complete the liquidation in early 2021. In the current circumstances, no sale has materialized for Banco Privado, which lost its license for non-compliance with BCSTP directives and not for insolvency. If the sale is not concluded and no other solution is found over the next months, the BCSTP plans to turn the remaining assets over to the court system. With the pandemic another small bank (assets about 1 percent of GDP), with pre-existing capitalization issues, faced liquidity constraints and was placed under BCSTP temporary administration in November 2020. The BCSTP is evaluating the bank's assets and liabilities and following the finalization of the evaluation report, if the bank is found not to be viable, the BCSTP will place the bank in liquidation (MEFP ¶33).

24. Following recent delays, renewed efforts are required to continue strengthening the BCSTP's safeguards framework. The 2019 assessment identified a number of actions to strengthen the BCSTP's independence, internal controls, and oversight, but progress on implementing these recommendations has so far been limited.[25] The submission to parliament of the revised organic law to strengthen the autonomy and governance framework of the BCSTP is now expected to occur by February 2021 (end-2020 structural benchmark) (MEFP ¶27).[26] However, revisions to the financial institutions law to ensure compliance with international regulatory and supervision standards have been delayed due to limited capacity (structural benchmark) (MEFP ¶27). The authorities are also committed to preserving their membership in the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA). Other recommendations on building internal audit capacity, reducing the concentration risk of reserve investments, improving currency operations and adopting International Financial Reporting Standards (IFRS) also remain outstanding. Further, the finalization of the external audit of the 2019 financial statements has been significantly delayed beyond the three-month statutory deadline, and the BCSTP only expects this process to be concluded at end-January 2021. On the positive side, the BCSTP has developed general compliance reports and plans to resume technical assistance virtually in the first quarter of 2021 towards implementing IFRS standards.

25. Looking forward, deepening financial inclusion and introducing an effective payment system remain key steps to support economic development. The current payment system is

[25] The safeguards assessment's recommendations focused on strengthening: central bank autonomy, governance structure for the oversight of central bank operations, financial reporting, and the internal audit function.

[26] The BCSTP organic law is now one of the few in the world that includes a quota on Board members to promote gender equality.

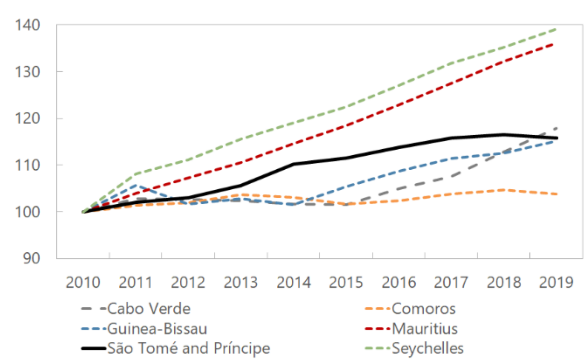
outdated. Moreover, access to credit, particularly for SMEs, is limited compared to other countries, negatively affecting productive activities. The authorities have made some progress in addressing these bottlenecks. The introduction of a new payment system, capable of processing international credit cards, is scheduled for early 2021. A bureau for financial inclusion was recently established at the BCSTP. A working group, tasked with finalizing a national strategy on financial inclusion, aims to complete its work by the end of 2020. Moreover, with World Bank support, the legal framework for a moveable collateral registry is being drafted (MEFP ¶34).

C. Enhancing Structural Reforms for Sustainable and Inclusive Growth

26. Weak governance, structural impediments to business, and untapped opportunities in the tourism sector are hampering economic growth prospects. Over the last decade, the country's growth performance has been decelerating, amid entrenched poverty. As a reflection, governance and ease of business indicators have been structurally low, held back by low government effectiveness and regulatory quality, and weak contract enforcement and institutional protection of investors. In the background, the cost of key production inputs is high (e.g., electricity), hampering competitiveness. Moreover, despite obvious potential, the tourism sector remains relatively underdeveloped (Figure 5). Not surprisingly, poverty is widespread, with about 67 percent of the population living below the national poverty line, and approximately 60 percent of the unemployed are under the age of 34.

São Tomé and Príncipe: Real Income Per Capita

(2010=100, PPP International Dollars)



Sources: World Economic Outlook.

27. Aware of these challenges, the authorities have made boosting sustainable growth and employment the central tenets of their development strategy. They have developed the 2017-2021 Poverty Reduction and Growth Strategy to address widespread poverty, and plan to update this. More recently, the 2020-24 National Development Plan focuses on improving governance, reducing inequality and poverty, facilitating private investment, and enhancing human capital. Under the plan, poverty reduction efforts will focus on continuing to provide basic health care, and social security benefits, and free and universal primary education, along with improving the quality of and completion rates for secondary school.

28. Broad-based structural reforms and policies to develop the tourism sector are needed to boost long-term growth and employment.[27] Macroeconomic stability alone is not sufficient to bring new investment and bolster growth. Reforms are needed to: (i) strengthen government

[27] For an analysis of the impact of structural reforms on growth in a panel of counties including low-income and developing countries, see IMF Country Report 19/295.

effectiveness and improve the business environment (e.g., electricity costs ; investors rights, contract enforcement, public procurement, infrastructures); (ii) foster gender equality in support of a more inclusive recovery (e.g., financial inclusion); (iii) strengthen the country's resilience to climate change (e.g., early warning systems, agriculture sector resilience), and (iv) facilitate the development of the tourism sector (e.g., investment and licensing procedures, training, airport, road rehabilitation, and port; EU's Air Safety List) (MEFP ¶41). In the short term, it is critical to take actions to remove the country from the EU Air Safety List to support trade and the tourism sector (structural benchmark), continue expanding social safety nets and the gender budgeting pilot to better support more vulnerable groups (MEFP ¶39), and speed up reforms to the energy sector to ensure a reliable, low-cost supply of electricity (MEFP ¶43-45).

PROGRAM MODALITIES, SAFEGUARDS, AND RISKS

29. The authorities are requesting a waiver of nonobservance for the end-June 2020 DPD target. Staff support the waiver because the deviations from the target were caused by the impact of the pandemic on revenue and expenditure necessary to contain the virus, and the authorities have taken actions to ensure the program is back on track by the end of 2020, including the gains from the 2019 tax measures and containing some expenditures below budget limits. In fact, preliminary data indicate that the authorities are likely to overperform the revised end-December 2020 PC set at the time of the first review, and the 2021 budget resumes fiscal consolidation.

30. Modifications and extension of program conditionality are proposed. QPCs (for DPD, government's bank financing, international reserves) are modified for end-June, and new QPCs are proposed for end-December 2021. Modified goals for all indicative targets (IT) are proposed for end-March and new ITs for end-September 2021 are proposed in line with program and policy objectives discussed above. In light of their macro-criticality new structural benchmarks have been introduced (in part replacing expiring SBs) on: implementing the VAT in 2021, operationalizing the BCSTP's liquidity management toolkit to reduce excess liquidity, performing stress tests of the banking sector to gauge the risk posed by the pandemic, and reforming the energy sector. The timing and definition of other unmet SBs has been revised to account for recent progress and capacity constraints. In light of their criticality to successful program implementation and to support fiscal transparency, submission to parliament of a 2021 budget in line with program understandings and publication of information about available public procurement contracts are set as prior actions. The Article IV consultation is expected to take place in 2021.

31. The program is fully financed and São Tomé and Príncipe's capacity to repay the Fund remains adequate, although subject to heightened risks. There are firm commitments for financing over the next 12 months and good prospects thereafter, including budget support grants from the World Bank and concessional loan disbursements from AFDB (Table 7).[28] With the recently approved RCF disbursement and the ECF access augmentation, repayments to the IMF will remain below 0.8 percent of exports of goods and services during the program period and peak at 4.0

[28] For 2021, financing include budget support grants from the World Bank and the EU.

percent of exports of goods and services in 2028. Repayments to the IMF as a share of GDP peak in 2027 at 0.8 percent, as a share of total debt service in 2028 at 70.7 percent, and as a share of gross international reserves in 2028 at 10.1 percent.[29]

32. Exchange restrictions and request for extension of approval.[30] São Tomé and Príncipe currently has measures that give rise to exchange restrictions and a multiple currency practice under Article VIII.[31] The IMF Executive Board granted temporary approval of these measures in October 2019 for 12 months. The authorities have requested an additional one-year extension of such measures. Actions taken under the program will help ensure the stability of the peg while supporting the removal of the exchange restrictions, and an extension is needed as these policies are still being implemented. Therefore, staff supports the request by the authorities, given that (a) the measures giving rise to the exchange restrictions are imposed for BOP reasons, necessary and temporary, and (b) the measure giving rise to the multiple currency practice is imposed for BOP reasons, temporary, and non-discriminatory.

33. Sovereign arrears and financing assurances. Prompt Fund support is considered essential for the successful implementation of the member's adjustment program; and the member is pursuing appropriate policies, is making a good faith effort to facilitate a collaborative agreement between private debtors and their creditors, and a good prospect exists for the removal of exchange controls. Due to São Tomé and Príncipe's external payment arrears, a financing assurances review must be completed by the Executive Board. Staff supports the completion of the financing assurances review.

34. Poverty reduction and growth strategy (PRGS). The country's 2017-2021 Poverty Reduction and Growth Strategy, meeting PRGS requirements, was previously issued to the Board.

35. The program is subject to a number of downside risks. In addition to macroeconomic risks, contingent liabilities from the public company EMAE, the fuel supplier ENCO, and commercial banks may generate additional debt and necessitate additional policies to restore debt

[29] For comparison, Comoros' total repayments to the IMF as a share of exports of goods and services peak at about 4 percent and as a share of GDP at 0.5 percent.

[30] 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.

[31] 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.

sustainability.[32] On the upside, savings in the National Oil Account (4 percent of GDP) and the unused credit line with Portugal (6 percent of GDP) can help weather temporary shocks.

STAFF APPRAISAL

36. The COVID-19 pandemic is having a severe impact on São Tomé and Príncipe's economy, exacerbating pre-existing imbalances. A complete halt in international tourism and a sharp drop in foreign remittances have exacerbated external imbalances. Measures to contain the spread of the virus have curtailed domestic demand. Though the outbreak has been broadly brought under control, containment measures and weak external demand have prompted a deep recession, deteriorated external balances, and raised fiscal financing needs, amid widespread poverty and already high public debt.

37. The authorities' actions and unprecedented international financial support are helping the country weather the emergency, but deep economic challenges remain. With international assistance, the authorities have enhanced health services, and provided assistance to vulnerable households and laid-off workers. They have also maintained ample liquidity in the financial system. The external and budget financing needs created by the epidemic are expected to be fully covered by the IMF disbursements under the RCF and augmented ECF, as well as budgetary grants from other partners. However, while sustainable, public debt has risen from already high levels, and the country's capacity to carry debt has been recently downgraded, heightening debt sustainability risks. An inefficient energy sector continues to create debt and hinder growth. External balances and buffers remain under pressure. Moreover, over recent years, growth has been insufficient to reduce poverty and meet the needs of a rising and young population.

38. The pandemic has adversely affected program performance in the first part of 2020, but the country is on track to meet the end-year program targets. The end-June 2020 domestic primary deficit (DPD) target (set prior to the pandemic) was missed. However, net international reserves and net bank financing outperformed the end-June targets, reflecting the elevated levels of external financing inflows. Progress on several structural reforms has been delayed by the pandemic; however, with some delay, the authorities have been publishing monthly spending reports on COVID-19 related expenditures, and full public procurement contracts and owners of companies which were awarded the contracts up to June.

39. Addressing immediate social and economic needs while implementing gradual fiscal consolidation is key to supporting the economic recovery and preserving debt sustainability. The 2021 budget is a welcome step toward gradual fiscal consolidation while providing room to address the critical need for hiring teachers and allowing for gradually rolling back other COVID-related spending. Going forward, reducing the debt burden over time and protecting external buffers would require

[32] EMAE buys fuel for thermal generation from ENCO, which imports fuel from Sonangol, a state-owned company of Angola. Further description of the arrears from EMAE to ENCO, and the implications for debt sustainability, are provided in the DSA.

policies to bring the primary deficit close to a balance. In this respect, staff welcome the authorities commitment to introduce the VAT in 2021. Going forward, it is critical to continue containing spending dynamics, particularly personnel expenses through wage and employment containment policies. Debt sustainability also depends on continuing to borrow moderately and seek grants and highly concessional loans.

40. Improving public financial management processes, and fiscal governance and transparency is critical to the success of the authorities' fiscal consolidation strategy. The publishing of public procurement contracts and ownership information of companies receiving these contracts, and monthly reports of COVID-19 related spending are welcome developments. These efforts should continue over time and include beneficial owners. Ex-post audits of such spending will further improve fiscal transparency. Developing a medium-term fiscal framework and strengthening expenditures controls, including by piloting a commitment ceiling mechanism are also critical steps to delivering on the authorities' fiscal adjustment strategy.

41. Reforms of the energy sector and the publicly owned utility company EMAE are needed to preserve debt sustainability and supporting growth. EMAE has been accumulating significant arrears over time and progress on the government's reform plan for the company has so far been limited. The recently established steering committee, chaired by the Prime Minister, should help reinvigorate reform momentum and ensure progress on reforming the current tariff structure and modifying the production mix away from thermo electrical production. Reforming EMAE will reduce pressures on public debt and foreign exchange reserves and provide lower-cost and reliable electricity, a cornerstone to unlocking the country's development and growth potential.

42. The BCSTP should actively manage liquidity in the banking sector to support the peg and the incipient recovery. With excess liquidity booming recently, the BCSTP should develop and implement a plan for gradually reducing excess liquidity from the current peak, including by rolling over certificate of deposits, standing ready to adjust reserve and liquidity requirements, and issuing additional CDs as needed.

43. With the difficult economic environment, progress is needed to enhance the BCSTP's capacity to manage risks and vulnerabilities in the financial sector and strengthen the sector oversight. Regular stress testing to identify early on possible credit risk pressures due to the fallout from the COVID-19 pandemic, and mandate contingency plans and remedial measures to ensure that banks remain adequately capitalized should be integral components of the BCSTP's supervision practices. Moreover, efforts to address legacy NPLs through the regulatory framework should be completed. The remaining safeguards recommendations must also be completed without further delay.

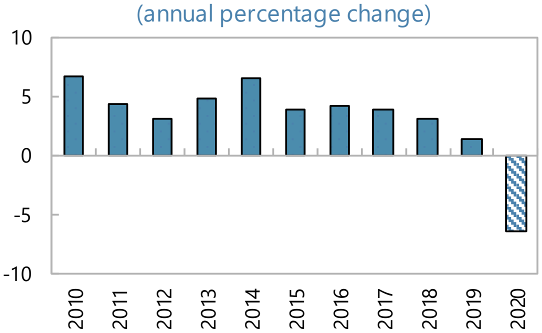
44. Pressing ahead with broad-based structural reforms and policies to develop the tourism sector would facilitate private investment and boost growth and employment. In the short term, the recent upgrade of the national payments system, capable of accepting international credit cards, would help boost tourism revenue and financial inclusion. Moreover, taking action to remove the country from the EU Air Safety List could help the economic recovery by stimulating trade and tourism. Over time, implementing planned infrastructure projects, including road rehabilitation and airport and port expansions, will remove key development bottlenecks and support key sectors such as tourism and agriculture. Continued efforts to promote gender equality and adapt to climate change would also contribute to supporting medium-term growth.

45. Staff supports the authorities' request for completion of the second review of the program under the ECF and waiver of non-observance. Staff also supports the authorities' request for a one-year extension of 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 for the reasons set for in paragraph 32.

Figure 1. São Tomé and Príncipe: An Economy Hard Hit by the COVID-19 Pandemic

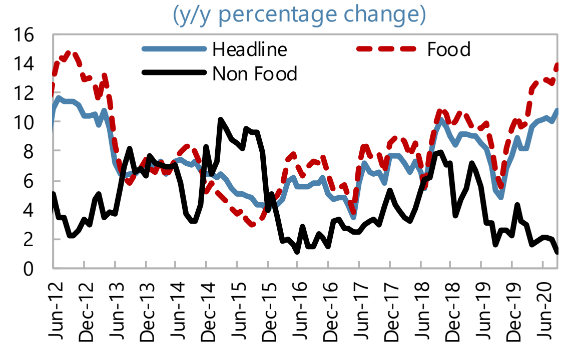
As growth decelerated in 2019, the pandemic brought the economy in recession…

Real GDP
(annual percentage change)



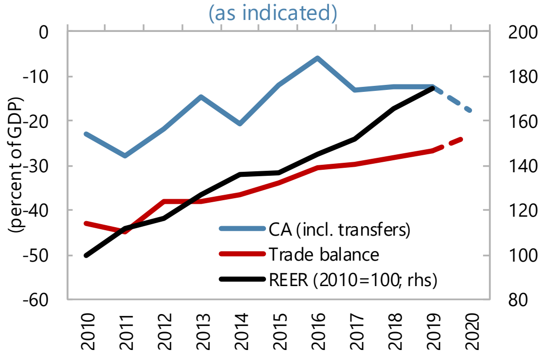
…while headline inflation picked up driven higher food prices, reflecting poor rainfall.

Consumer Price Index
(y/y percentage change)



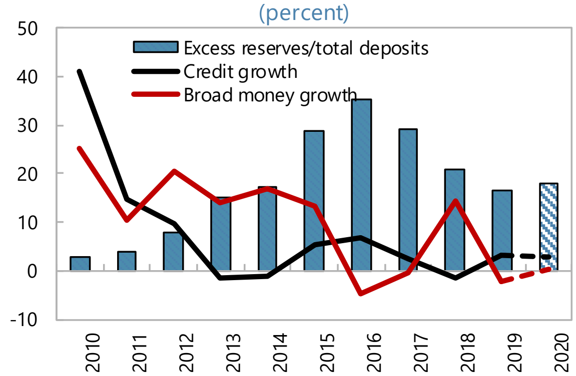
With the pandemic, the current account deteriorated further in 2020 as international tourism came to a halt…

Current Account Balance and REER
(as indicated)



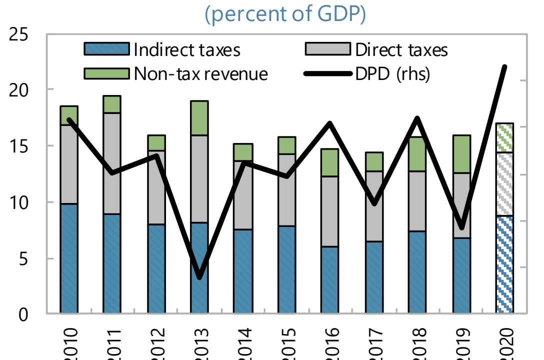
…credit growth decelerated despite the central bank's actions to ensure ample liquidity, and,…

Liquidity, Credit and Broad Money
(percent)



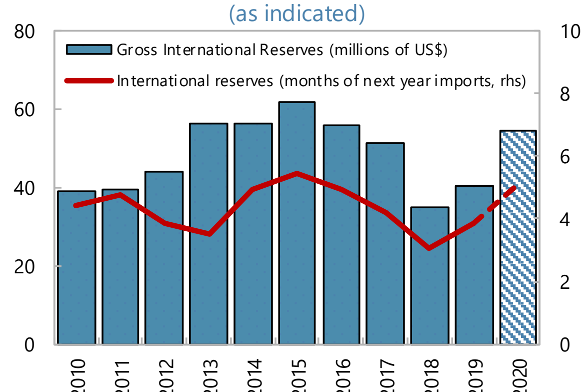
The primary deficit excluding grants (DPD) widened significantly…

Government Revenue and Primary Balance
(percent of GDP)



However, international reserves increased, reflecting large external inflows from development partners to finance external and budget financing needs.

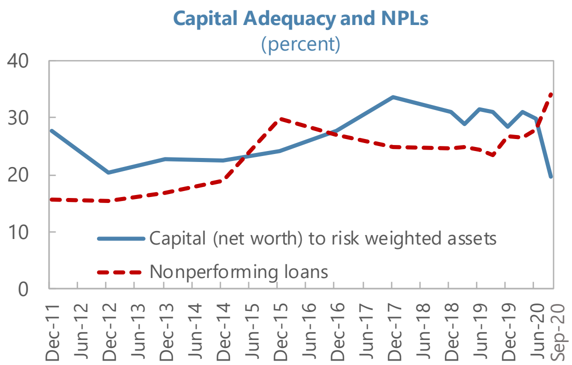
International Reserves
(as indicated)



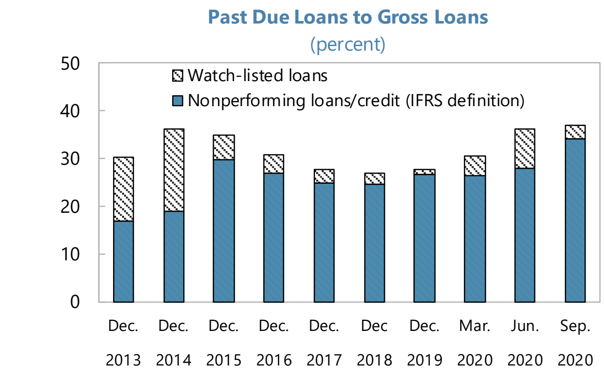
Sources: São Tomé and Príncipe authorities and IMF staff estimates.

Figure 2. São Tomé and Príncipe: Economic Uncertainty Affecting the Banking Sector

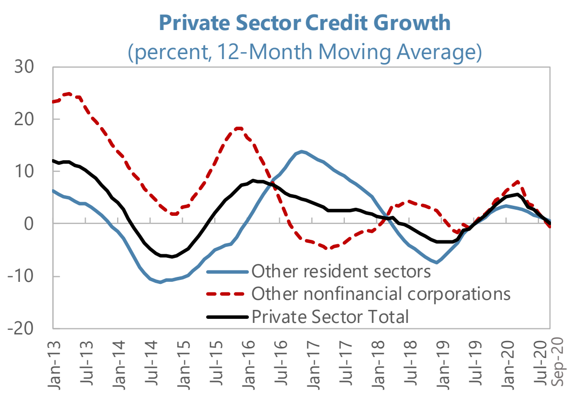
Banks remain well capitalized, but the pandemic and a weakening economy are weighing on banks' assets quality and NPLs have been rising...



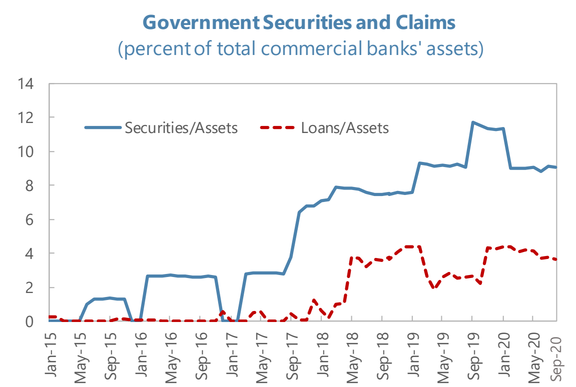
...together with watch-listed loans.



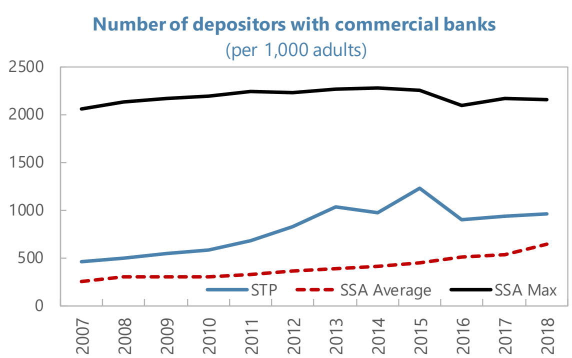
Private sector credit growth has declined during the pandemic.



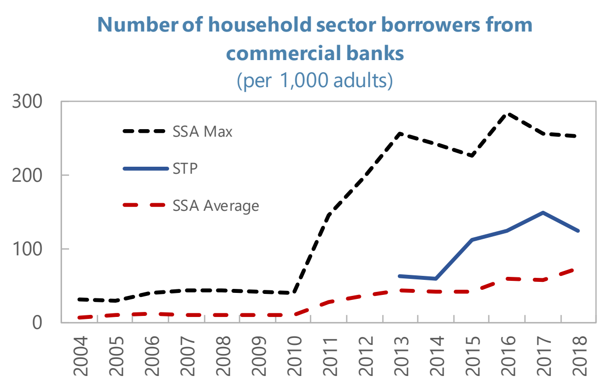
Meanwhile, banks' exposure to the government has been increasing, tightening the financial-fiscal nexus



Access to the banking system compares well to other sub-Saharan African countries....



...but access to credit remains limited and has been declining lately.

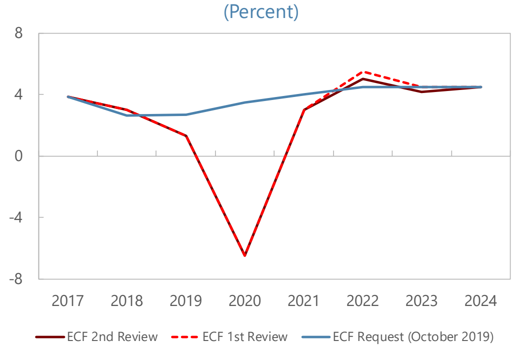


Sources: São Tomé and Príncipe authorities, IMF Financial Access Survey, and IMF staff estimates and projections.

Figure 3. São Tomé and Príncipe: Macroeconomic Effects of the COVID-19 Pandemic

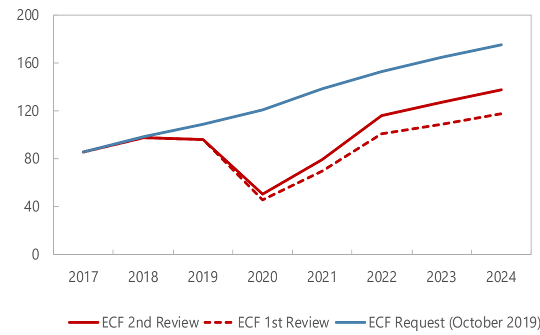
The COVID-19 pandemic is expected to trigger a sharp economic contraction...

Real GDP Growth
(Percent)



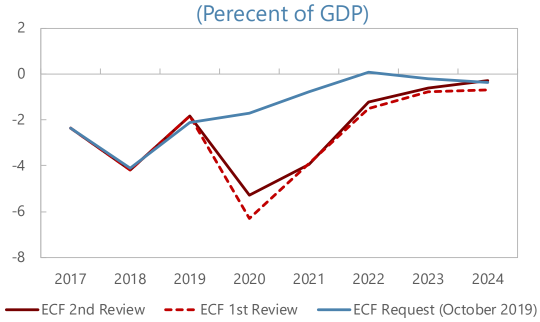
..and an abrupt decline in exports.

Exports of Goods and Services
(Millions of U.S. dollars)



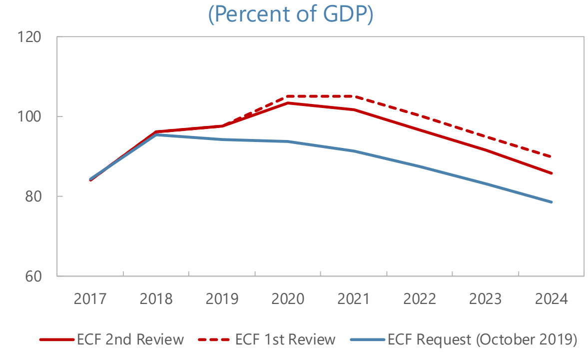
Following an initial deterioration due to the pandemic, gradual fiscal consolidation will narrow the fiscal deficit...

Domestic Primary Balance
(Perecent of GDP)



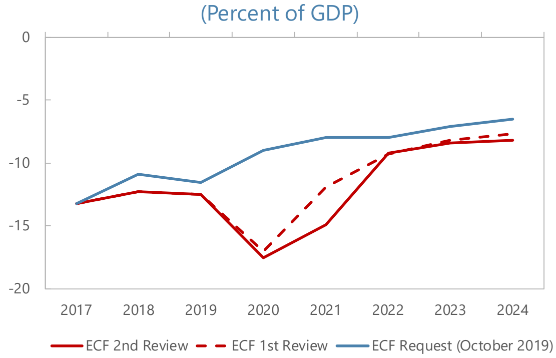
...and put public debt on a declining path.

Public Debt incl. arrears to ENCO
(Percent of GDP)



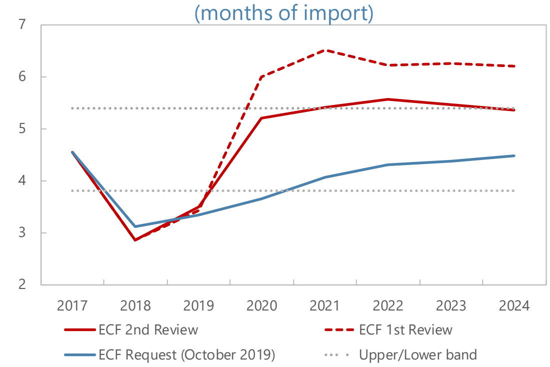
With fiscal adjustment and rising tourism receipts, the current account would improve...

Current Account Balance
(Percent of GDP)



...and international reserves rebuild.

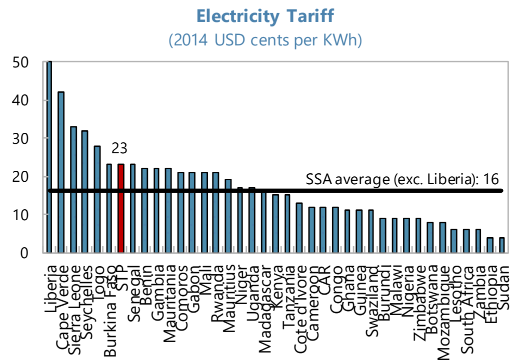
International Reserves
(months of import)



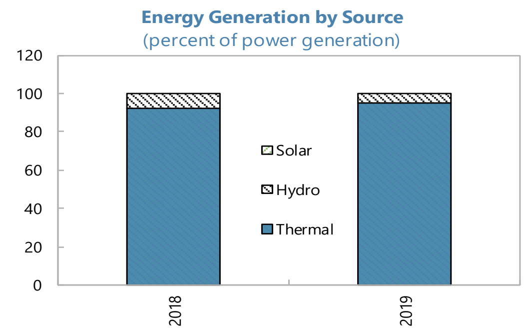
Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections.

Figure 4. São Tomé and Príncipe: An Unsustainable Energy Sector

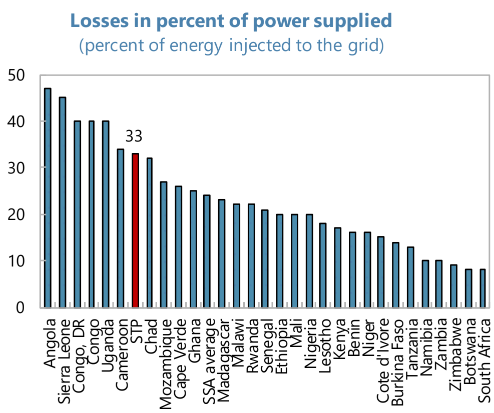
Electricity tariffs in STP are above the average of other sub-Saharan African countries...



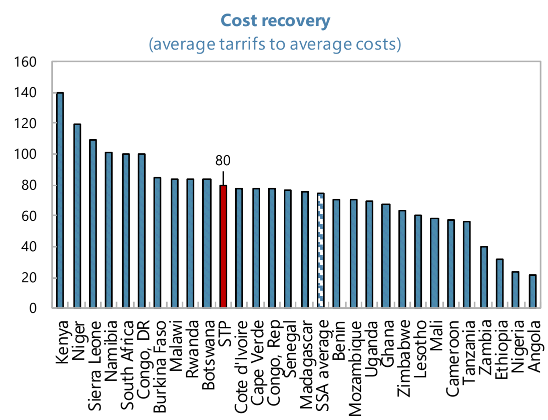
...reflecting the country's major dependence on expensive thermal electricity generation.



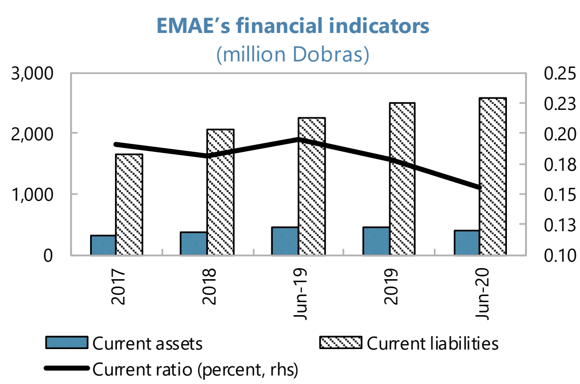
In addition, total losses (technical and commercial) are among the highest in the region..



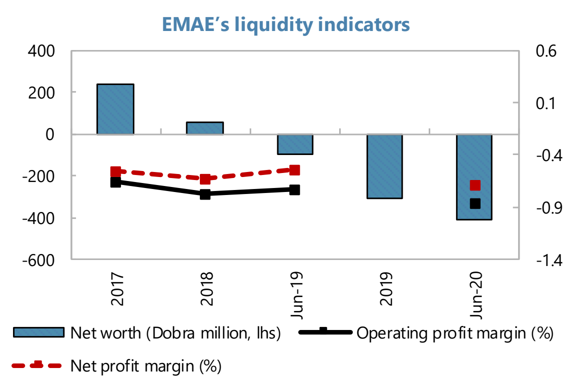
...preventing the sector from achieving cost recovery despite the high tariffs.



In addition, total losses (technical and commercial) are among the highest in the region..



...preventing the sector from achieving cost recovery despite the high tariffs.

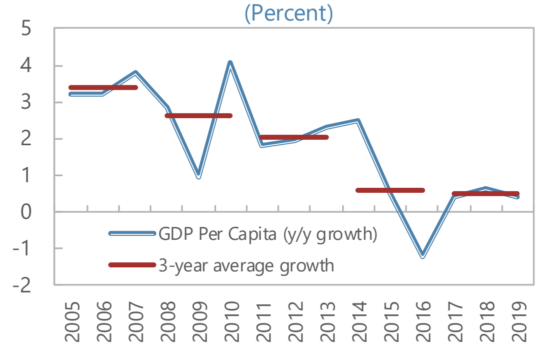


Sources: São Tomé and Príncipe authorities; Least Cost Development Plan (LCDP) and Management Improvement Plan (MIP); and IMF staff estimates.

Figure 5. São Tomé and Príncipe: Structural Impediments to Sustainable and Inclusive Growth

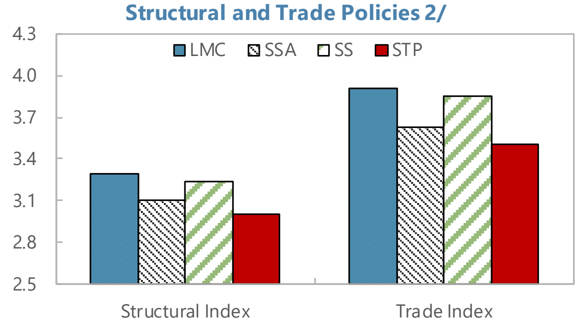
GDP growth in STP has been on a downward trend over the past decade and a half...

Real GDP Growth
(Percent)



Declining growth performance compounds with weaker structural and trade policies relative to pear countries...

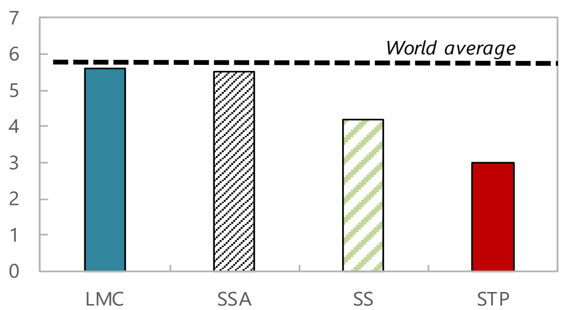
Structural and Trade Policies 2/



2/ CPIA structural policies (financial, regulatory, trade) cluster average (1=low to 6=high). CPIA trade rating (1=low to 6=high)

Limited institutional protection of investors...

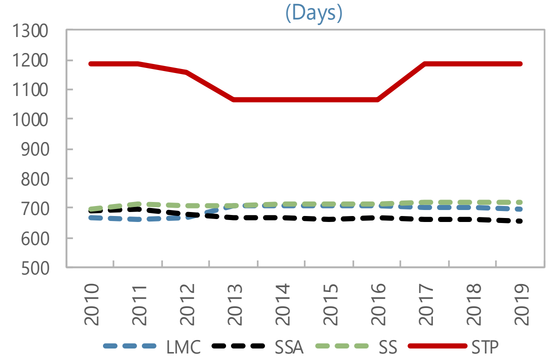
Institutional Protection of Investors 1/



1/ WDI business extent of disclosure index (0=less disclosure to 10=more disclosure) in 2019

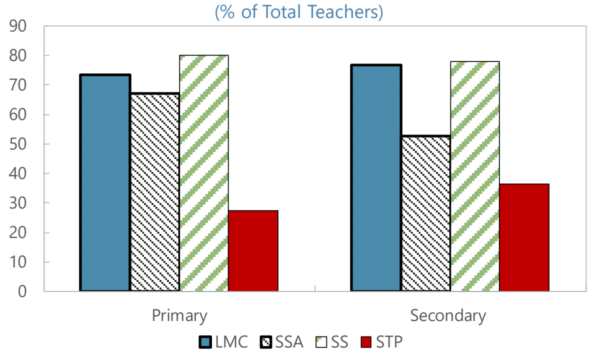
...and, long time required to enforce contracts, point toward a weak business environment.

Time Required to Enforce a Contract
(Days)



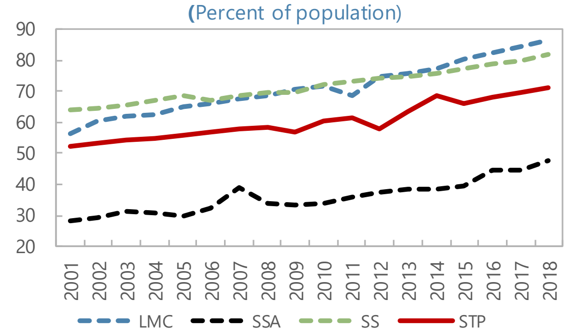
Quality of education provision is lower than in peer countries with a shortage of trained teachers

Trained Teachers
(% of Total Teachers)



However, good progress has been made over time in improving electricity access.

Access to Electricity
(Percent of population)



Abbreviations: LMC - Lower-middle income, SSA - Sub-Saharan Africa, SS - Small States (countries with a population of under 1.5 million, as classified by the World Bank.

Sources: São Tomé and Príncipe authorities' data, World Economic Outlook, and IMF staff estimates and projections.

Table 1. São Tomé and Príncipe: Selected Economic Indicators, 2016–25
(Annual change in percent, unless otherwise indicated)

	2016	2017	2018	2019	2020		2021		2022	2023	2024	2025
					First Rev.	Proj.	First Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
National income and prices												
GDP at constant prices	4.2	3.9	3.0	1.3	-6.5	-6.5	3.0	3.0	5.0	4.2	4.5	4.5
GDP deflator	5.1	2.0	2.6	5.7	3.5	4.0	3.0	4.0	3.5	3.5	3.5	3.5
Consumer prices (End of period)	5.1	7.7	9.0	7.7	8.0	10.2	8.0	10.1	6.2	5.0	5.0	5.0
Consumer prices (Period Average)	5.4	5.7	7.9	7.7	7.9	9.8	8.0	10.6	8.1	5.8	5.2	5.0
External trade												
Exports of goods and nonfactor services	8.9	-10.8	13.9	-1.9	-52.7	-47.5	53.1	58.0	45.9	9.7	8.0	7.8
Imports of goods and nonfactor services	-0.4	5.5	4.3	-5.3	-17.9	-7.1	2.2	3.8	15.7	6.8	6.7	5.7
Exchange rate (new dobras per US$; end of period) [1]	23.4	20.7	21.5	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	-7.4	-4.6	22.6	6.1	-6.6	1.3	4.3	…	…
Broad money (M3)	-4.8	-0.4	14.3	-2.2	-0.6	1.2	6.1	7.1	8.7	7.8	…	…
Credit to the economy	6.6	2.5	-1.6	3.2	0.1	1.1	2.7	4.6	5.6	5.2	…	….
Velocity (GDP to broad money; end of period)	2.8	3.1	2.9	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	22.5	24.6	28.2	22.7	21.5	24.4	24.4	24.2	24.0
Of which : tax revenue	12.3	12.7	12.8	12.6	12.9	14.5	13.2	14.8	15.5	15.8	15.9	16.0
Nontax revenue	2.3	1.7	3.1	3.3	2.4	2.5	2.8	2.9	3.1	2.8	2.9	3.1
Grants	13.5	10.5	8.3	6.6	9.3	11.2	6.7	3.8	5.9	5.8	5.4	4.9
Total expenditure and net lending	32.4	27.6	26.0	22.5	29.2	26.7	26.4	25.4	25.6	25.2	24.7	24.4
Personnel costs	8.9	8.3	9.3	9.2	11.0	10.9	10.3	11.1	10.6	10.3	10.2	10.2
Interest due	0.4	0.5	0.4	0.7	0.7	0.5	0.5	0.4	0.4	0.4	0.4	0.3
Nonwage noninterest current expenditure	8.0	6.9	7.0	7.6	8.4	8.4	8.2	8.3	8.1	8.0	8.0	8.1
Treasury funded capital expenditures	0.7	0.7	1.4	0.1	0.2	0.3	0.3	0.3	0.4	0.4	0.5	0.5
Donor funded capital expenditures	14.2	11.0	7.8	4.8	5.5	3.0	5.9	3.3	5.8	5.8	5.4	5.1
HIPC Initiative-related capital expenditure	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
COVID-19 spending	…	…	…	…	3.1	3.5	1.0	1.7	…	…	…	
Domestic primary balance [2]	-4.1	-2.4	-4.2	-1.8	-6.3	-5.3	-3.9	-3.9	-1.2	-0.6	-0.3	-0.1
Net domestic borrowing	2.8	1.8	3.4	-1.5	-0.9	-1.7	3.1	3.7	0.8	0.2	0.3	0.1
Overall balance (commitment basis)	-4.2	-2.7	-1.9	-0.1	-4.6	1.5	-3.7	-3.9	-1.2	-0.8	-0.5	-0.5
Public Debt [3]	80.9	84.3	96.2	97.7	105.2	103.5	105.1	101.7	96.8	91.7	85.9	79.4
Of which: EMAE's debt to ENCO	16.1	19.3	23.3	26.4	32.7	31.8	34.4	33.1	33.1	32.4	30.9	29.4
External sector												
Current account balance (percent of GDP)												
Including official transfers	-6.1	-13.2	-12.3	-12.5	-17.0	-17.5	-11.9	-14.9	-9.2	-8.4	-8.2	-8.0
Excluding official transfers	-20.0	-24.3	-21.0	-19.0	-26.3	-28.7	-18.6	-18.7	-15.0	-14.2	-13.6	-12.9
PV of external debt (percent of GDP)	31.5	26.6	27.1	27.2	33.8	32.2	33.9	30.1	29.0	27.8	26.3	25.2
External debt service (percent of exports) [4]	3.3	3.8	2.6	4.5	9.5	8.6	8.8	7.7	6.9	6.2	7.6	6.7
Export of goods and non-factor services (US$ millions)	96.6	86.1	98.0	96.2	45.5	50.5	69.7	79.7	116.3	127.6	137.7	148.5
Gross international reserves [5]												
Millions of U.S. dollars	55.9	51.4	35.1	40.4	54.1	54.7	58.8	58.1	64.9	68.6	71.8	73.3
Months of imports of goods and nonfactor services [6]	4.9	4.2	3.0	3.8	6.0	5.1	5.6	5.0	5.2	5.1	5.1	5.0
In months of 2019 imports	…	…	…	3.5	4.6	4.7	5.0	5.0	5.6	…	…	
National Oil Account (US$ millions)	11.5	11.3	19.5	18.8	15.2	16.2	12.4	13.2	11.8	9.6	7.9	6.5
Memorandum Item												
Gross Domestic Product												
Millions of new dobra	7,698	8,154	8,619	9,230	8,933	8,976	9,477	9,615	10,449	11,269	12,188	13,182
Millions of U.S. dollars	347.5	375.8	415.6	421.8	398.4	418.8	426.1	482.6	529.7	574.1	622.0	673.3
Per capita (in U.S. dollars)	1,738	1,842	1,989	1,980	1,828	1,921	1,911	2,164	2,333	2,474	2,625	2,782

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

[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

[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, 2016–25
(Millions of new dobra)

	2016	2017	2018	2019	2020		2021		2022	2023	2024	2025
					First Rev.	Proj.	First Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants [1]	2168	2034	2081	2073	2201	2532	2153	2069	2554	2752	2954	3157
Total revenue	1130	1174	1365	1468	1369	1526	1522	1702	1942	2093	2294	2513
Tax revenue	949	1036	1099	1160	1152	1300	1255	1428	1623	1781	1938	2109
Import taxes	371	388	486	472	535	585	551	611	611	645	704	769
Of which: payment to ENCO	…	…	…	0	22	22	22	20	20	20	20	20
Other taxes	578	647	613	689	617	715	704	817	1012	1136	1234	1340
Nontax revenue [2]	181	138	266	308	217	226	266	274	319	312	355	404
of which: oil revenue	74	51	212	70	2	23	2	2	23	2	2	2
Grants	1038	860	715	605	832	1006	631	367	612	659	660	644
Project grants	891	594	557	333	471	239	397	152	399	430	419	408
Nonproject grants [6]	81	198	125	186	277	704	160	149	148	159	172	168
HIPC Initiative-related grants	65	67	33	86	83	63	74	66	65	69	69	69
Total expenditure	2494	2253	2243	2079	2608	2399	2502	2446	2679	2840	3013	3219
Of which: domestic primary expenditure	1370	1316	1536	1568	1910	1956	1868	2059	2026	2139	2307	2506
Current expenditure	1334	1287	1436	1616	1798	1774	1800	1913	2003	2106	2264	2456
Personnel costs	684	681	798	848	980	980	980	1070	1110	1163	1248	1350
Interest due	34	43	34	66	66	42	48	43	45	45	43	41
Goods and services	249	253	260	235	255	255	260	260	277	299	323	349
Transfers	282	234	273	268	318	318	318	348	378	393	425	473
Other current expenditure [2]	84	76	71	199	179	179	194	192	192	207	224	243
Capital expenditure	1141	952	795	454	513	297	583	344	649	705	721	735
Financed by the Treasury	50	58	122	9	20	28	26	29	42	50	59	64
Financed by external sources	1090	894	673	445	493	269	557	315	608	656	663	671
HIPC Initiative-related capital expenditure	19	15	12	9	22	18	23	23	26	28	28	27
COVID-19 spending	…	…	…	…	274	310	95	165	…	…	…	…
Financed by the Treasury	…	…	…	…	136	178	66	136	…	…	…	…
Financed by external sources	…	…	…	…	138	132	29	29	…	…	…	…
Domestic primary balance [3]	-314	-193	-362	-170	-565	-475	-370	-379	-126	-68	-35	-14
Overall fiscal balance (commitment basis) [6]	-326	-219	-162	-6	-407	133	-349	-377	-125	-88	-59	-62
Net change in domestic arrears	0	6	76	-100	-70	-70	-23	-73	-23	-23	-23	-23
Float and statistical discrepancies	0	-53	-24	251	0	0	0	0	0	0	0	0
Overall fiscal balance (cash basis) [6]	-30	-215	-111	145	-477	63	-372	-450	-149	-111	-82	-85
Financing	30	215	111	-145	24	-63	372	450	149	111	82	85
Net external	62	103	67	-20	47	52	37	55	51	64	30	60
Disbursements [4]	143	160	116	96	161	162	190	192	209	225	244	264
Program financing (loans) [5]	32	37	16	…	…	…	…	…	…	…	…	…
Net domestic	-32	112	44	-125	-23	-116	335	395	98	47	53	25
Net bank credit to the government	-32	112	44	-125	-1	-94	358	415	118	67	72	44
Banking credit (net, excluding National Oil Account) [5]	-5	103	210	-142	-83	-151	292	352	89	23	37	16
Of which: central bank on-lending of IMF resources	…	…	…	59	394	383	118	105	0	0	0	0
National Oil Account	-27	9	-167	17	82	57	66	63	29	44	36	29
Nonbank financing	0	0	0	0	-22	-22	-22	-20	-20	-20	-20	-20
Financing gap	0	0	0	0	-453	0	0	0	0	0	0	0
World Bank (budget support)	…	…	…	…	224	0	…	…	…	…	…	…
AFDB (budget support)	…	…	…	…	229	0	…	…	…	…	…	…
Memorandum items												
Gross Domestic Product	7698	8154	8619	9230	8933	8976	9477	9615	10449	11269	12188	13182
Public debt (in percent of GDP)	81	84	96	98	105	103	105	102	97	92	86	79
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, 2016–25

(In percent of GDP)

	2016	2017	2018	2019	2020			2021		2022	2023	2024	2025
					ECF Req.	First Rev.	Proj.	First Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants [1]	**28.2**	**24.9**	**24.1**	**22.5**	**23.6**	**24.6**	**28.2**	**22.7**	**21.5**	**24.4**	**24.4**	**24.2**	**24.0**
Total revenue	14.7	14.4	15.8	15.9	14.7	15.3	17.0	16.1	17.7	18.6	18.6	18.8	19.1
Tax revenue	12.3	12.7	12.8	12.6	13.0	12.9	14.5	13.2	14.8	15.5	15.8	15.9	16.0
Import taxes	4.8	4.8	5.6	5.1	5.5	6.0	6.5	5.8	6.4	5.8	5.7	5.8	5.8
Of which: payment to ENCO	…	…	…	0.0	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Other taxes	7.5	7.9	7.1	7.5	7.5	6.9	8.0	7.4	8.5	9.7	10.1	10.1	10.2
Nontax revenue [2]	2.3	1.7	3.1	3.3	1.8	2.4	2.5	2.8	2.9	3.1	2.8	2.9	3.1
of which: oil revenue	1.0	0.6	2.5	0.8	0.6	0.0	0.3	0.0	0.0	0.2	0.0	0.0	0.0
Grants	13.5	10.5	8.3	6.6	8.9	9.3	11.2	6.7	3.8	5.9	5.8	5.4	4.9
Project grants	11.6	7.3	6.5	3.6	6.4	5.3	2.7	4.2	1.6	3.8	3.8	3.4	3.1
Nonproject grants [6]	1.1	2.4	1.5	2.0	1.8	3.1	7.8	1.7	1.5	1.4	1.4	1.4	1.3
HIPC Initiative-related grants	0.8	0.8	0.4	0.9	0.7	0.9	0.7	0.8	0.7	0.6	0.6	0.6	0.5
Total expenditure	**32.4**	**27.6**	**26.0**	**22.5**	**23.9**	**29.2**	**26.7**	**26.4**	**25.4**	**25.6**	**25.2**	**24.7**	**24.4**
Of which: Domestic primary expenditure	17.8	16.1	17.8	17.0	15.5	21.4	21.8	19.7	21.4	19.4	19.0	18.9	19.0
Current expenditure	17.3	15.8	16.7	17.5	15.7	20.1	19.8	19.0	19.9	19.2	18.7	18.6	18.6
Personnel costs	8.9	8.3	9.3	9.2	8.8	11.0	10.9	10.3	11.1	10.6	10.3	10.2	10.2
Interest due	0.4	0.5	0.4	0.7	0.6	0.7	0.5	0.5	0.4	0.4	0.4	0.4	0.3
Goods and services	3.2	3.1	3.0	2.5	2.4	2.9	2.8	2.7	2.7	2.7	2.7	2.7	2.7
Transfers	3.7	2.9	3.2	2.9	3.3	3.6	3.5	3.4	3.6	3.6	3.5	3.5	3.6
Other current expenditure [2]	1.1	0.9	0.8	2.2	0.6	2.0	2.0	2.0	2.0	1.8	1.8	1.8	1.8
Capital expenditure	14.8	11.7	9.2	4.9	8.0	5.7	3.3	6.2	3.6	6.2	6.3	5.9	5.6
Financed by the Treasury	0.7	0.7	1.4	0.1	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.5	0.5
Financed by external sources	14.2	11.0	7.8	4.8	7.8	5.5	3.0	5.9	3.3	5.8	5.8	5.4	5.1
HIPC Initiative-related capital expenditure	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
COVID-19 spending	…	…	…	…	…	3.1	3.5	1.0	1.7	…	…	…	…
Financed by the Treasury	…	…	…	…	…	1.5	2.0	0.7	1.4	…	…	…	…
Financed by external sources	…	…	…	…	…	1.5	1.5	0.3	0.3	…	…	…	…
Domestic primary balance [3]	-4.1	-2.4	-4.2	-1.8	-1.7	-6.3	-5.3	-3.9	-3.9	-1.2	-0.6	-0.3	-0.1
Overall fiscal balance (commitment basis) [6]	-4.2	-2.7	-1.9	-0.1	-0.3	-4.6	1.5	-3.7	-3.9	-1.2	-0.8	-0.5	-0.5
Net change in domestic arrears	0.0	0.1	0.9	-1.1	-0.7	-0.8	-0.8	-0.2	-0.8	-0.2	-0.2	-0.2	-0.2
Float and statistical discrepancies	0.0	-0.7	-0.3	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (cash basis) [6]	**-0.4**	**-2.6**	**-1.3**	**1.6**	**-0.9**	**-5.3**	**0.7**	**-3.9**	**-4.7**	**-1.4**	**-1.0**	**-0.7**	**-0.6**
Financing	**0.4**	**2.6**	**1.3**	**-1.6**	**0.9**	**0.3**	**-0.7**	**3.9**	**4.7**	**1.4**	**1.0**	**0.7**	**0.6**
Net external	0.8	1.3	0.8	-0.2	-0.1	0.5	0.6	0.4	0.6	0.5	0.6	0.2	0.5
Disbursements [4]	1.9	2.0	1.3	1.0	1.4	1.8	1.8	2.0	2.0	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	-1.3	-1.5	-1.3	-1.2	-1.6	-1.4	-1.5	-1.4	-1.8	-1.5
Net domestic	-0.4	1.4	0.5	-1.4	1.0	-0.3	-1.3	3.5	4.1	0.9	0.4	0.4	0.2
Net bank credit to the government	-0.4	1.4	0.5	-1.4	1.4	0.0	-1.0	3.8	4.3	1.1	0.6	0.6	0.3
Banking credit (net, excluding National Oil Account) [5]	-0.1	1.3	2.4	-1.5	1.2	-0.9	-1.7	3.1	3.7	0.8	0.2	0.3	0.1
Of which: central bank on-lending of IMF resources	…	…	…	0.6	1.1	4.4	4.3	1.2	1.1	0.0	0.0	0.0	0.0
National Oil Account	-0.3	0.1	-1.9	0.2	0.2	0.9		0.7	0.7	0.3	0.4	0.3	0.2
Nonbank financing	0.0	0.0	0.0	0.0	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1
Financing gap	0.0	0.0	0.0	0.0	0.0	-5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank (budget support)	…	…	…	…	…	2.51	…	…	…	…	…	…	…
AFDB (budget support)	…	…	…	…	…	2.56	…	…	…	…	…	…	…
Memorandum items													
Nominal GDP (Millions of new dobra)	7,698	8,154	8,619	9,230	9,997	8,933	8,976	9,477	9,615	10,449	11,269	12,188	13,182
Public debt	81	84	96	98	94	105	103	105	102	97	92	86	79
EMAE loss	5.8	3.7	3.8	4.2	…	…	…	…	…	…	…	…	…

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 3a. São Tomé and Príncipe: Balance of Payments, 2016–25

(Millions of U.S. dollars)

	2016	2017	2018	2019	2020		2021		2022	2023	2024	2025
					First Rev.	Proj.	First Rev,	Proj.	Proj.	Proj.	Proj.	Proj.
Trade balance	**-105.5**	**-112.1**	**-116.8**	**-112.3**	**-82.6**	**-98.4**	**-97.2**	**-101.3**	**-119.9**	**-128.3**	**-135.9**	**-144.4**
Exports, f.o.b.	13.6	15.6	16.0	14.1	14.7	17.7	20.3	23.2	25.9	28.5	31.2	33.8
Cocoa	8.6	8.6	8.2	6.9	7.0	4.6	11.4	7.9	9.9	11.6	13.4	14.0
Re-export	3.2	4.7	6.8	3.4	3.4	3.9	3.2	4.2	4.1	4.8	5.0	6.4
Imports, f.o.b.	-119.1	-127.7	-132.9	-126.4	-97.2	-116.1	-117.5	-124.5	-145.8	-156.7	-167.1	-178.2
Food	-36.1	-31.6	-31.1	-31.3	-29.3	-31.8	-30.2	-33.4	-35.7	-38.0	-40.4	-43.1
Petroleum products	-21.7	-27.6	-33.6	-34.2	-18.8	-23.6	-20.1	-27.2	-29.4	-31.3	-33.4	-35.6
Non-oil investment goods	-31.2	-33.5	-31.3	-23.5	-27.1	-25.4	-28.7	-24.6	-37.0	-39.4	-41.2	-43.3
Oil sector related investment goods	-12.7	-21.2	-19.6	-25.5	-19.8	-24.2	-22.5	-29.2	-34.0	-35.0	-37.9	-40.7
Other	-17.4	-13.8	-17.2	-11.9	-2.2	-11.1	-16.0	-10.2	-9.7	-13.1	-14.1	-15.6
Services and income (net)	**19.9**	**3.9**	**13.5**	**16.2**	**-30.2**	**-29.9**	**4.5**	**-4.5**	**21.4**	**26.2**	**29.5**	**33.9**
Exports of nonfactor services	82.9	70.5	82.0	82.1	30.9	32.7	49.4	56.5	90.4	99.1	106.5	114.7
Of which : travel and tourism	68.8	59.9	68.0	66.6	14.7	14.9	29.3	29.7	63.1	74.3	82.3	89.0
Imports of nonfactor services	-63.9	-65.5	-68.6	-64.5	-59.5	-61.3	-42.8	-59.6	-67.2	-70.8	-75.7	-78.5
Factor services (net)	1.0	-1.1	0.1	-1.5	-1.6	-1.4	-2.1	-1.4	-1.7	-2.1	-1.4	-2.2
Of which: oil related	0.0	-0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Private transfers (net)	**15.9**	**16.7**	**16.3**	**15.9**	**8.0**	**8.0**	**13.5**	**15.5**	**18.9**	**20.4**	**22.0**	**23.8**
Official transfers (net)	**48.5**	**41.7**	**36.0**	**27.6**	**37.1**	**46.9**	**28.4**	**18.4**	**31.0**	**33.6**	**33.7**	**32.9**
Of which : project grants (excluding HIPC grants)	40.2	27.4	26.9	15.2	21.0	11.2	17.8	7.6	20.2	21.9	21.4	20.8
HIPC Initiative-related grants	2.9	3.1	1.6	3.9	3.7	2.9	3.3	3.3	3.3	3.5	3.5	3.5
Current account balance												
Including official transfers	-21.1	-49.7	-51.1	-52.6	-67.8	-73.4	-50.9	-71.9	-48.6	-48.2	-50.7	-53.7
Excluding official transfers	-69.6	-91.5	-87.1	-80.2	-104.9	-120.3	-79.3	-90.3	-79.6	-81.7	-84.4	-86.6
Capital and financial account balance	**-9.8**	**75.8**	**-3.7**	**42.5**	**19.3**	**45.3**	**37.7**	**61.9**	**44.8**	**51.2**	**53.7**	**57.2**
Capital transfer	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-9.8	75.8	-3.7	42.5	19.3	45.3	37.7	61.9	44.8	51.2	53.7	57.2
Foreign Direct Investment	22.3	33.0	21.1	30.0	22.9	27.9	26.9	35.5	40.1	41.5	46.2	51.1
Petroleum related investment	19.3	32.1	20.6	26.9	20.8	25.5	23.7	30.7	35.8	36.8	39.9	42.8
Portfolio Investment (net)	0.2	0.6	-21.7	-7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil signature bonuses	3.3	2.3	10.2	3.2	0.1	1.1	0.1	0.1	1.2	0.1	0.1	0.1
Other investment (net)	-35.7	39.9	-13.4	16.9	-3.7	16.4	10.8	26.3	3.5	9.5	7.4	6.0
Assets	-19.5	2.2	-9.5	-8.5	-8.5	-8.5	-8.6	-8.6	-8.7	-8.9	-9.0	-9.2
Public sector (net)	2.4	2.9	2.6	-1.1	1.8	2.8	1.7	2.8	2.6	3.2	1.5	3.1
Project loans	6.4	7.4	5.6	4.4	7.2	7.5	8.5	9.7	10.6	11.5	12.4	13.5
Program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-4.0	-4.4	-3.0	-5.5	-5.4	-4.7	-6.9	-6.9	-8.0	-8.2	-10.9	-10.4
Of which : HIPC Initiative-related grants	-2.5	-2.6	-1.4	-3.4	-3.3	-2.6	-2.9	-2.9	-2.9	-3.2	-3.2	-3.2
Private sector (net)	-18.6	34.7	-6.5	26.5	3.1	22.1	17.7	32.1	9.7	15.1	14.9	12.1
Commercial banks	13.8	8.8	-5.0	-1.5	0.6	-0.7	-0.2	4.0	-0.1	0.7	0.0	0.0
Short-term private capital	-32.3	25.9	-1.5	28.0	2.5	22.7	17.9	28.1	9.7	14.4	14.9	12.1
Errors and omissions	21.7	-32.2	46.9	10.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-6.4**	**-9.6**	**-8.1**	**0.1**	**-48.5**	**-28.1**	**-13.2**	**-10.0**	**-3.8**	**3.0**	**3.0**	**3.5**
Financing	6.4	9.6	8.1	-0.1	26.4	28.1	7.5	10.0	3.8	-3.0	-3.0	-3.5
Change in official reserves, excl. IMF and NOA (increase= -)	6.8	6.7	15.8	-3.1	5.4	5.9	0.0	1.7	-2.0	-4.6	-4.2	-4.4
Use of Fund resources (net)	0.9	2.6	0.5	2.3	17.3	19.3	4.7	4.7	4.5	-0.6	-0.5	-0.5
Purchases	1.8	2.8	0.9	2.7	17.5	17.5	5.2	5.2	5.2	0.0	0.0	0.0
ECF augmentation						2.0						
Repurchases (incl. MDRI repayment)	-0.9	-0.2	-0.4	-0.4	-0.2	-0.22	-0.6	-0.6	-0.8	-0.6	-0.5	-0.5
National Oil Account (increase = -)	-1.3	0.2	-8.2	0.7	3.5	2.6	2.9	3.0	1.4	2.2	1.7	1.4
Exceptional financing (IMF CCRT)	0.0	0.0	0.0	0.0	0.2	0.3	...	0.6	...	...	...	...
Financing Gap (+)	**0.0**	**0.0**	**0.0**	**0.0**	**22.1**	**0.0**	**5.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:												
Current account balance (percent of GDP)												
Including official transfers	-6.1	-13.2	-12.3	-12.5	-17.0	-17.5	-11.9	-14.9	-9.2	-8.4	-8.2	-8.0
Excluding official transfers	-20.0	-24.3	-21.0	-19.0	-26.3	-28.7	-18.6	-18.7	-15.0	-14.2	-13.6	-12.9
Debt service ratio (percent of exports) [1]	3.3	3.8	2.6	4.5	9.5	8.6	8.8	7.7	6.9	6.2	7.6	6.7
Gross international reserves [2]												
Millions of U.S. dollars	55.9	51.4	35.1	40.4	54.1	54.7	58.8	58.1	64.9	68.6	71.8	73.3
Months of imports of goods and nonfactor services [3]	4.9	4.2	3.0	3.8	6.0	5.1	5.6	5.0	5.2	5.1	5.1	5.0

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

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

[2] Gross international reserves 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 assistar

Table 3b. São Tomé and Príncipe: Balance of Payments, 2016–25
(In percent of GDP)

	2016	2017	2018	2019	2020		2021		2022	2023	2024	2025
				Est.	First Rev.	Proj.	First Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
Trade balance	**-30.3**	**-29.8**	**-28.1**	**-26.6**	**-20.7**	**-23.5**	**-22.8**	**-21.0**	**-22.6**	**-22.3**	**-21.8**	**-21.4**
Exports, f.o.b.	3.9	4.1	3.9	3.3	3.7	4.2	4.8	4.8	4.9	5.0	5.0	5.0
Cocoa	2.5	2.3	2.0	1.6	1.8	1.1	2.7	1.6	1.9	2.0	2.2	2.1
Re-export	0.9	1.3	1.6	0.8	0.9	0.9	0.8	0.9	0.8	0.8	0.8	1.0
Imports, f.o.b.	-34.3	-34.0	-32.0	-30.0	-24.4	-27.7	-27.6	-25.8	-27.5	-27.3	-26.9	-26.5
Food	-10.4	-8.4	-7.5	-7.4	-7.4	-7.6	-7.1	-6.9	-6.7	-6.6	-6.5	-6.4
Petroleum products	-6.2	-7.3	-8.1	-8.1	-4.7	-5.6	-4.7	-5.6	-5.5	-5.5	-5.4	-5.3
Non-oil investment goods	-9.0	-8.9	-7.5	-5.6	-6.8	-6.1	-6.7	-5.1	-7.0	-6.9	-6.6	-6.4
Oil sector related investment goods	-3.7	-5.6	-4.7	-6.1	-5.0	-5.8	-5.3	-6.0	-6.4	-6.1	-6.1	-6.0
Other	-5.0	-3.7	-4.1	-2.8	-0.6	-2.7	-3.7	-2.1	-1.8	-2.3	-2.3	-2.3
Services and income (net)	**5.7**	**1.0**	**3.2**	**3.8**	**-7.6**	**-7.1**	**1.0**	**-0.9**	**4.0**	**4.6**	**4.7**	**5.0**
Exports of nonfactor services	23.9	18.8	19.7	19.5	7.7	7.8	11.6	11.7	17.1	17.3	17.1	17.0
Of which : travel and tourism	19.8	15.9	16.4	15.8	3.7	3.5	6.9	6.2	11.9	12.9	13.2	13.2
Imports of nonfactor services	-18.4	-17.4	-16.5	-15.3	-14.9	-14.6	-10.0	-12.4	-12.7	-12.3	-12.2	-11.7
Factor services (net)	0.3	-0.3	0.0	-0.4	-0.4	-0.3	-0.5	-0.3	-0.3	-0.4	-0.2	-0.3
Of which: oil related	0.0	-0.1	0.0	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**	**3.8**	**2.0**	**1.9**	**3.2**	**3.2**	**3.6**	**3.5**	**3.5**	**3.5**
Official transfers (net)	**14.0**	**11.1**	**8.7**	**6.6**	**9.3**	**11.2**	**6.7**	**3.8**	**5.9**	**5.8**	**5.4**	**4.9**
Of which : project grants (excluding HIPC grants)	11.6	7.3	6.5	3.6	5.3	2.7	4.2	1.6	3.8	3.8	3.4	3.1
HIPC Initiative-related grants	0.8	0.8	0.4	0.9	0.9	0.7	0.8	0.7	0.6	0.6	0.6	0.5
Current account balance												
Including official transfers	-6.1	-13.2	-12.3	-12.5	-17.0	-17.5	-11.9	-14.9	-9.2	-8.4	-8.2	-8.0
Excluding official transfers	-20.0	-24.3	-21.0	-19.0	-26.3	-28.7	-18.6	-18.7	-15.0	-14.2	-13.6	-12.9
Capital and financial account balance	**-2.8**	**20.2**	**-0.9**	**10.1**	**4.8**	**10.8**	**8.9**	**12.8**	**8.5**	**8.9**	**8.6**	**8.5**
Capital transfer	0.0	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	20.2	-0.9	10.1	4.8	10.8	8.9	12.8	8.5	8.9	8.6	8.5
Foreign Direct Investment	6.4	8.8	5.1	7.1	5.7	6.7	6.3	7.4	7.6	7.2	7.4	7.6
Recovery of oil capital expense	-5.6	-8.5	-5.0	-6.4	-5.2	-6.1	-5.6	-6.4	-6.8	-6.4	-6.4	-6.4
Portfolio Investment (net)	0.1	0.2	-5.2	-1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil signature bonuses	1.0	0.6	2.5	0.8	0.0	0.3	0.0	0.0	0.2	0.0	0.0	0.0
Other investment (net)	-10.3	10.6	-3.2	4.0	-0.9	3.9	2.5	5.4	0.7	1.7	1.2	0.9
Assets	-5.6	0.6	-2.3	-2.0	-2.1	-2.0	-2.0	-1.8	-1.6	-1.5	-1.4	-1.4
Public sector (net)	0.7	0.8	0.6	-0.3	0.4	0.7	0.4	0.6	0.5	0.6	0.2	0.5
Project loans	1.9	2.0	1.3	1.0	1.8	1.8	2.0	2.0	2.0	2.0	2.0	2.0
Program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.1	-1.2	-0.7	-1.3	-1.4	-1.1	-1.6	-1.4	-1.5	-1.4	-1.8	-1.5
Of which : HIPC Initiative-related grants	-0.7	-0.7	-0.3	-0.8	-0.8	-0.6	-0.7	-0.6	-0.6	-0.5	-0.5	-0.5
Private sector (net)	-5.3	9.2	-1.6	6.3	0.8	5.3	4.2	6.7	1.8	2.6	2.4	1.8
Commercial banks	4.0	2.3	-1.2	-0.4	0.1	-0.2	0.0	0.8	0.0	0.1	0.0	0.0
Short-term private capital	-9.3	6.9	-0.4	6.6	0.6	5.4	4.2	5.8	1.8	2.5	2.4	1.8
Errors and omissions	**6.2**	**-8.6**	**11.3**	**2.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-1.8**	**-2.6**	**-1.9**	**0.0**	**-12.2**	**-6.7**	**-3.1**	**-2.1**	**-0.7**	**0.5**	**0.5**	**0.5**
Financing	1.8	2.6	1.9	0.0	6.6	6.7	1.8	2.1	0.7	-0.5	-0.5	-0.5
Change in official reserves, excl. IMF and NOA (increase= -)	2.0	1.8	3.8	-0.7	1.3	1.4	0.0	0.4	-0.4	-0.8	-0.7	-0.7
Use of Fund resources (net)	0.3	0.7	0.1	0.6	4.3	4.6	1.1	1.0	0.8	-0.1	-0.1	-0.1
Purchases	0.5	0.7	0.2	0.6	4.4	4.2	1.2	1.1	1.0	0.0	0.0	0.0
National Oil Account (increase = -)	-0.4	0.1	-2.0	0.2	0.9	0.6	0.7	0.6	0.3	0.4	0.3	0.2
Exceptional financing (IMF CCRT)	0.0	0.0	0.0	0.0	0.0	0.1		0.1	...	...	...	...
Financing Gap (+)	**0.0**	**0.0**	**0.0**	**0.0**	**5.5**	**0.0**	**1.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:												
Debt service ratio (percent of exports) [1]	3.3	3.8	2.6	4.5	9.5	8.6	8.8	7.7	6.9	6.2	7.6	6.7
Gross international reserves [2]												
Millions of U.S. dollars	55.9	51.4	35.1	40.4	54.1	54.7	58.8	58.1	64.9	68.6	71.8	73.3
Months of imports of goods and nonfactor services [3]	4.9	4.2	3.0	3.8	6.0	5.1	5.6	5.0	5.2	5.1	5.1	5.0

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

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

[2] Gross international reserves 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 as:

Table 4. São Tomé and Príncipe: Summary Accounts of the Central Bank, 2016–25
(Millions of new dobra)

	2016	2017	2018	2019		2020		2021		2022	2023	2024	2025
				ECF Req.		First Rev.	Proj.	First Rev.	Proj.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	**1,775**	**1,474**	**1,416**	**1,448**	**1,502**	**1,524**	**1,511**	**1,589**	**1,407**	**1,487**	**1,513**	**1,558**	**1,615**
Claims on nonresidents	2,144	1,840	1,798	1,851	1,939	2,392	2,324	2,559	2,302	2,470	2,475	2,499	2,499
Official foreign reserves	1,752	1,442	1,352	1,402	1,447	1,893	1,869	2,061	1,858	2,030	2,036	2,061	2,061
Other foreign assets	392	398	446	449	492	500	455	498	444	440	439	438	438
Liabilities to nonresidents	-368	-366	-382	-403	-437	-869	-812	-970	-895	-983	-962	-941	-884
Short-term liabilities to nonresidents[1]	-144	-158	-169	-188	-222	-651	-614	-752	-701	-790	-770	-750	-692
Other foreign liabilities	-224	-208	-213	-215	-215	-219	-199	-218	-194	-193	-192	-192	-192
Net domestic assets	**-135**	**9**	**77**	**41**	**-175**	**-202**	**187**	**-187**	**179**	**201**	**51**	**76**	**-175**
Net domestic credit	259	172	133	54	-90	431	381	606	569	659	708	785	598
Claims on other depository corporations	198	195	195	145	190	190	190	190	190	190	190	190	190
Net claims on central government	-69	-157	-201	-125	-418	106	55	273	233	314	356	427	233
Claims on central government	446	260	310	370	305	729	730	823	770	851	893	964	770
Of which: use of SDRs/PRGF	*180*	*211*	*260*	*205*	*255*	*596*	*623*	*625*	*600*	*652*	*650*	*684*	*684*
Liabilities to central government	-515	-417	-511	-494	-723	-622	-675	-550	-537	-537	-537	-537	-537
Ordinary deposits of central government	-33	-41	-20	-20	-41	-41	-110	-41	-46	-46	-46	-46	-46
Counterpart funds	-82	-60	-65	-65	-96	-96	-91	-96	-92	-94	-94	-94	-94
Foreign currency deposits	-400	-316	-426	-409	-586	-485	-474	-413	-399	-396	-396	-396	-396
Of which: National oil account	*-271*	*-234*	*-419*	*-402*	*-414*	*-340*	*-329*	*-275*	*-261*	*-232*	*-189*	*-154*	*-127*
Claims on other sectors	131	135	139	33	138	135	136	143	146	156	162	169	176
Other items (net)	-394	-163	-57	-13	-85	-633	-195	-793	-390	-458	-657	-709	-773
Base money (M0)	**1,640**	**1,484**	**1,496**	**1,488**	**1,385**	**1,321**	**1,698**	**1,402**	**1,586**	**1,607**	**1,677**	**1,694**	**1,712**
Currency issued	309	324	393	461	411	436	415	463	419	423	475	475	475
Bank reserves	1,332	1,160	1,103	1,027	974	885	1,283	939	1,167	1,184	1,201	1,219	1,237
Of which: domestic currency	1,183	1,013	947	867	843	755	1,139	800	1,032	1,047	1,079	1,096	1,114
Of which: foreign currency	149	147	157	160	131	131	144	139	135	137	122	122	122
Memorandum items:													
Gross international reserves (US$ millions)[2]	55.9	51.4	35.1	36.0	40.4	54.1	54.7	58.8	58.1	64.9	68.6	71.8	73.3
Months of imports of goods and nonfactor services[3]	4.9	4.2	3.0	3.3	3.8	6.0	5.1	5.6	5.0	5.2	5.1	5.1	0.0
in months of 2019 imports	...	...	...	...	3.5	4.6	4.7	5.0	5.0	5.6	...	...	...
Gross international reserves (US$ millions) inc. commercial banks reserves	62.3	58.5	42.4	43.4	46.4	60.0	61.8	65.1	64.9	71.9	74.9	78.1	79.6
Months of imports of goods and nonfactor services[3]	5.5	4.8	3.7	4.0	4.4	6.6	5.8	6.2	5.6	5.7	5.6	5.5	0.0
Net international reserves (US$ millions)[4]	49.7	43.8	27.2	27.4	30.4	25.0	24.5	25.0	22.7	24.8	29.4	33.6	38.0
Months of imports of goods and nonfactor services[3]	4.4	3.6	2.4	2.5	2.9	2.8	2.3	2.4	1.9	2.0	2.2	2.4	2.6
National Oil Account (US$ millions)	11.5	11.3	19.5	18.5	18.8	15.2	16.2	12.4	13.2	11.8	9.6	7.9	6.5
Commercial banks reserves in foreign currency (US$ millions)	6.3	7.1	7.3	7.4	5.9	5.9	7.1	6.2	6.8	6.9	6.2	6.3	6.3
Guaranteed deposits (US$ millions)	0.0	0.0	0.0	0.0	0.0	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	-4.6	22.6	6.1	-6.6	1.3	4.3	1.0	1.0

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 5. São Tomé and Príncipe: Monetary Survey, 2016–23
(Millions of new dobra)

	2016	2017	2018	2019		2020		2021		2022	2023
				ECF Req.	Prel.	First Rev.	Proj.	First Rev.	Proj.	Proj.	Proj.
Net foreign assets	**2,105**	**1,582**	**1,636**	**1,615**	**1,760**	**1,773**	**1,763**	**1,841**	**1,574**	**1,654**	**1,665**
Net foreign assets of the BCSTP	1,775	1,474	1,416	1,448	1,502	1,524	1,511	1,589	1,407	1,487	1,513
Net foreign assets of other depository corporations	330	108	220	220	258	249	252	252	167	167	152
Net domestic assets	**586**	**1,099**	**1,429**	**1,450**	**1,238**	**1,207**	**1,269**	**1,321**	**1,674**	**1,876**	**2,142**
Net domestic credit	1,779	1,972	2,228	2,165	2,158	2,197	2,068	2,603	2,588	2,831	3,025
Net claims on central government	-336	-196	94	175	-43	-8	-158	339	259	372	437
Claims on central government	483	687	977	1,041	1,213	1,148	1,050	1,423	1,329	1,443	1,507
Liabilities to central government	-819	-883	-883	-866	-1,256	-1,155	-1,208	-1,083	-1,070	-1,070	-1,070
Budgetary deposits	-33	-41	-20	-20	-41	-41	-110	-41	-46	-46	-46
Counterpart funds	-82	-60	-65	-65	-96	-96	-91	-96	-92	-94	-94
Foreign currency deposits	-704	-782	-798	-781	-1,119	-1,018	-1,007	-946	-932	-930	-930
Of which: National Oil Account	-271	-234	-419	-402	-414	-340	-329	-275	-261	-232	-189
Claims on other sectors	2,115	2,168	2,134	1,990	2,202	2,205	2,226	2,263	2,328	2,459	2,588
Of which: claims in foreign currency	515	442	395	388	371	373	376	382	393	415	437
(Millions of $US)	22	21	18	18	17	17	19	17	20	21	22
Other items (net)	-1,193	-873	-799	-715	-921	-989	-799	-1,281	-914	-956	-883
Broad money (M3)	**2,691**	**2,681**	**3,066**	**3,065**	**2,998**	**2,981**	**3,032**	**3,162**	**3,248**	**3,530**	**3,807**
Local currency liabilities included in broad money (M2)	1,898	1,966	2,325	2,325	2,293	2,280	2,320	2,419	2,485	2,701	2,913
Money (M1)	1,522	1,578	1,849	1,849	1,907	1,897	1,930	2,012	2,067	2,246	2,422
Currency outside depository corporations	259	295	314	296	315	313	319	332	341	371	400
Transferable deposits in dobra	1,264	1,283	1,535	1,553	1,592	1,583	1,611	1,680	1,726	1,875	2,022
Other deposits in dobra	375	388	476	476	386	384	390	407	418	454	490
Foreign currency deposits	794	716	741	740	704	700	712	743	763	829	894
Memorandum items:											
Velocity (ratio of GDP to M3; end of period)	2.8	3.1	2.9	3.0	3.0	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	2.3	1.8	2.3	2.0	2.2	2.3
Base money (12-month growth rate)	5.0	-9.6	0.8	-0.5	-7.4	-4.6	22.6	6.1	-6.6	1.3	4.3
Claims on other resident sectors (12-month growth rate)	6.6	2.5	-1.6	-6.7	3.2	0.1	1.1	2.7	4.6	5.6	5.2
M3 (12-month growth rate)	-4.8	-0.4	14.3	0.0	-2.2	-0.6	1.2	6.1	7.1	8.7	7.8
Eurorization ratio	32.3	27.1	26.2	23.9	25.6	26.2	26.7	26.2	27.0	…	…

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

Table 6. São Tomé and Príncipe: Financial Soundness Indicators, 2016–2020[1]

(Percent, unless otherwise indicated)

	2016 Dec.	2017 Dec.	2018 Dec.	2019 Mar.	2019 Jun.	2019 Sep.	2019 Dec.	2020 Mar.	2020 Jun.	2020 Sep.
Capital Adequacy										
Regulatory capital to risk-weighted assets	27.8	33.6	30.7	28.9	31.5	30.9	28.5	31.1	29.9	19.7
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	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	0.0	0.0	0.0
... below 6 percent minimum	0.0	0.0	0.0	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	19.0	18.4	17.7
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	0.0	0.0	0.0
... (percent of deposits)	0.0	0.0	0.0	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	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	8.0	8.2	8.2
Past-due loans to gross loans	30.7	27.6	26.9	29.4	26.8	25.5	28.1	30.0	36.2	36.9
Non-performing loans/total credit										
Nonperforming loans/credit (IFRS definition)	27.0	24.9	24.6	24.9	24.5	23.5	26.7	26.5	27.9	34.2
Watch-listed loans	3.7	2.8	2.3	4.5	2.3	2.1	1.4	4.0	8.3	2.7
Provision as percent of past-due loans	71.2	80.0	79.7	75.8	83.9	85.2	83.8	79.0	70.1	71.5
Earnings and profitability										
Return on assets	0.0	-0.6	-0.1	0.2	0.4	0.8	-0.2	0.5	0.3	0.0
Return on equity	0.2	-3.0	-0.8	0.9	2.0	4.2	-1.4	2.8	2.0	-0.3
Expense (w/ amortization & provisions)/income	108.6	112.8	106.7	98.6	97.6	92.1	108.0	89.0	101.5	116.1
Liquidity										
Liquid assets/total assets	54.0	49.7	50.1	41.9	43.7	44.0	40.1	46.1	45.5	46.7
Liquid assets/short term liabilities	84.6	69.1	66.3	55.5	56.8	57.0	51.6	59.0	57.8	58.8
Loan/total liabilities	47.0	53.1	51.6	51.6	50.8	51.3	51.3	49.1	48.9	48.6
Foreign exchange liabilities/total liabilities	26.6	28.6	25.8	25.2	24.3	25.0	25.5	26.0	25.8	24.4
Loan/deposits	63.5	59.7	59.1	59.1	58.1	58.4	59.5	56.1	55.4	54.8
Sensitivity to market risk										
Foreign exchange liabilities to shareholders funds	91.5	90.5	98.2	98.0	100.2	103.3	109.0	111.0	114.8	113.1

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

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

Table 7. São Tomé and Príncipe: External Financing Requirements and Sources, 2020–24
(Millions of U.S. dollars)

	2020	2021		2022	2023	2024
	Proj.	First Rev.	Proj.	Proj.	Proj.	Proj.
Gross financing requirements	**-119.3**	**-86.7**	**-96.0**	**-90.4**	**-95.2**	**-100.0**
Current account, excluding official transfers	-120.3	-79.3	-90.3	-79.6	-81.7	-84.4
Exports, f.o.b.	17.7	20.3	23.2	25.9	28.5	31.2
Imports, f.o.b.	-116.1	-117.5	-124.5	-145.8	-156.7	-167.1
Services and income (net)	-29.9	4.5	-4.5	21.4	26.2	29.5
Private transfers	8.0	13.5	15.5	18.9	20.4	22.0
Financial account	-5.0	-7.4	-7.4	-8.8	-8.9	-11.5
Scheduled amortization	-4.7	-6.9	-6.9	-8.0	-8.2	-10.9
IMF repayments	-0.2	-0.6	-0.6	-0.8	-0.6	-0.5
Change in external reserves (-ve = increase)	5.9	0.0	1.7	-2.0	-4.6	-4.2
Available funding	**119.3**	**81.1**	**96.1**	**90.5**	**95.1**	**100.1**
National Oil Fund (net)	3.6	2.9	3.1	2.5	2.3	1.9
Oil signature bonuses	1.1	0.1	0.1	1.2	0.1	0.1
Saving (-ve = accumulation of oil reserve func	2.6	2.9	3.0	1.4	2.2	1.7
Expected disbursements	54.5	36.9	28.1	41.6	45.0	46.1
Multilateral HIPC interim assistance	2.9	3.3	3.3	3.3	3.5	3.5
Grants	44.0	25.0	15.1	27.7	30.0	30.2
Concessional loans	7.5	8.5	9.7	10.6	11.5	12.4
Project loans	7.5	8.5	9.7	10.6	11.5	12.4
Program loans	0.0	0.0	0.0	0.0	0.0	0.0
Private sector (net)	41.4	36.0	59.0	41.1	47.8	52.1
IMF ECF	5.2	5.2	5.2	5.2	0.0	0.0
ECF Augmentation	2.0	...	...	...	...	...
IMF CCRT	0.3	...	0.6	...	...	...
IMF RCF	12.3	...	...	...	...	...
Financing Gap	**0.0**	**5.6**	**0.0**	**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 December 3, 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	0.00	0.31	0.60	0.75	0.76	2.04	3.43	3.24	2.99	2.86	1.58	0.00	0.00	0.00	0.00
Charges and interest	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Fund obligations based on existing and prospective credit (millions of SDRs)															
Principal	0.00	0.31	0.60	0.75	0.76	2.04	3.81	4.58	4.89	4.77	3.48	1.52	0.57	0.00	0.00
Charges and interest	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Total obligations based on existing and prospective credit															
Millions of SDRs	0.00	0.32	0.61	0.76	0.77	2.05	3.82	4.59	4.90	4.78	3.49	1.53	0.58	0.01	0.01
Millions of U.S. dollars	0.00	0.44	0.85	1.06	1.08	2.88	5.38	6.46	6.90	6.73	4.91	2.15	0.82	0.01	0.00
Percent of exports of goods and services	0.00	0.56	0.73	0.83	0.78	1.94	3.42	3.89	3.93	3.63	2.51	1.04	0.37	0.01	0.00
Percent of debt service [1]	0.00	7.22	10.63	13.47	10.28	28.80	51.43	63.08	69.09	68.10	47.68	21.11	8.11	0.14	0.00
Percent of quota	0.00	2.16	4.12	5.14	5.20	13.85	25.81	31.01	33.11	32.30	23.58	10.34	3.92	0.07	0.07
Percent of gross international reserves [2]	0.00	0.77	1.31	1.55	1.50	3.93	7.33	8.81	9.88	9.84	7.29	3.25	1.25	0.02	0.00
Percent of GDP	0.00	0.09	0.16	0.19	0.17	0.43	0.73	0.80	0.78	0.70	0.47	0.19	0.07	0.00	0.00
Outstanding Fund credit															
Millions of SDRs	18.6	24.0	27.2	26.4	25.7	23.6	19.8	15.2	10.3	5.6	2.1	0.6	0.0	0.0	0.0
Millions of U.S. dollars	25.7	33.3	37.9	36.9	36.0	33.2	27.9	21.4	14.6	7.9	2.9	0.8	0.0	0.0	0.0
Percent of exports of goods and services	50.9	41.8	32.6	29.0	26.1	22.4	17.8	12.9	8.3	4.2	1.5	0.4	0.0	0.0	0.0
Percent of debt service [1]	594.6	540.6	473.6	468.6	342.7	331.8	266.7	209.3	145.8	79.5	28.6	7.9	0.0	0.0	0.0
Percent of quota	125.5	162.0	183.6	178.6	173.4	159.6	133.9	102.9	69.9	37.7	14.1	3.9	0.0	0.0	0.0
Percent of gross international reserves [2]	47.0	57.4	58.3	53.8	50.1	45.3	38.0	29.2	20.8	11.5	4.4	1.2	0.0	0.0	0.0
Percent of GDP	6.1	6.9	7.2	6.4	5.8	4.9	3.8	2.6	1.7	0.8	0.3	0.1	0.0	0.0	0.0
Net Use of Fund Credit (millions of SDRs)	9.0	5.4	3.2	-0.8	-0.8	-2.0	-3.8	-4.6	-4.9	-4.8	-3.5	-1.5	-0.6	0.0	0.0
Disbursements	9.0	5.7	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	0.0	0.3	0.6	0.8	0.8	2.0	3.8	4.6	4.9	4.8	3.5	1.5	0.6	0.0	0.0
Memorandum items:															
Exports of goods and services (millions of U.S. dollars)	50.5	79.7	116.3	127.6	137.7	148.5	157.0	165.9	175.4	185.4	196.0	207.3	219.2	231.8	245.2
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]	54.7	58.1	64.9	68.6	71.8	73.3	73.3	73.3	69.8	68.4	67.4	66.3	65.5	64.5	63.6
GDP (millions of U.S. dollars)	419	483	530	574	622	673	738	810	880	956	1039	1129	1203	1282	1367

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: 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.	1,902,858	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] An RCF disbursement of SDR9.028 million was approved in April 2020.

2 Overall access and percent of quota were increased by the augmentation of 10 percent.

Annex I. Reform Agenda for the Energy Sector

Objective	Milestones	Timeline	Status	Target
Reduce cost of electricity generation and change the generation mix towards renewable sources	▪ Rehabilitate and expand the capacity of the only operating hydropower plant on the island, Contador HPP, by June 2022 to 3.2 MW. ▪ Implement the Least Cost Development Plan (LCDP) comprising: - Develop 8.8 MW of dual-fueled thermal units (HFO or LNG). - Develop about 2 MW of a photovoltaic solar plant. - Mobilize partnerships to study and developed existing hydropower potential.	▪ Medium-term. ▪ Medium-term: - Medium-term. - Medium-term. - Medium-term.	▪ Delayed. Preparing bidding documents to be launched in 2021 ▪ Delayed. Government has received multiple unsolicited proposals not aligned with LCDP parameters (projects with overcapacity and over costed).	Reduce average cost of energy produced from 0.25 to 0.14 USD/kWh by 2024 Increase renewable sources' share from 5 to 45% by 2024
Reduce peak electricity demand and lower overall electricity consumption	▪ Roll out LED program to replace incandescent/fluorescent with LED lightbulbs. ▪ Pass a law that bans the importation of incandescent/fluorescent lamps.	▪ June 2021 ▪ June 2022	▪ Partially achieved. The tender was concluded in November 2020, and the contract is expected to be signed by end-2020. ▪ Draft law was prepared by consultant and submitted to MoF.	Reduce peak (overall) electricity consumption by 10% (15%) within 12 months
Improve management of electricity distribution by the state-owned corporation EMAE to reduce losses and improve collection rates	▪ Implement the Management Improvement Plan (MIP) comprising: - Prepare bidding documents for procuring management information system (MIP). - Work with HR consultant on organizational restructuring of EMAE and on preparing job descriptions for Directors and Managers. - Conduct selection process for Directors and Managers. - Appoint Project Director for MIP. - Appoint Project Manager for Loss Reduction Plan (LRP). - Select management consultancy firm to support EMAE in implementation of MIP - Develop arrears clearance plans with consumers. Continue to disconnect non-paying customers. - Cap consumption and ensure timely bills payment by public entities. ▪ Install meters to reduce theft of diesel on thermal plants and ensure losses below five percent of the volume supplied for energy generation. ▪ Implement the electricity meter program supported by EIB and World Bank, including complete the installation of 200 high tension, 3000 large consumption, and 16,000 residential meters.	▪ Medium-term: - August 2020 - Aug. to Oct. 2020 - Aug. to Oct. 2020 - August 2020 - August 2020 - October 2020 - To continue after crisis subsides. - November 2020 ▪ June 2021 ▪ June 2021 (end-2021 for residential meters)	▪ Delayed. - Consultant produced bidding documents. Capacity constraints at EMAE have delayed technical review. - HR consultancy firm deviated from the objective by designing an unbundling reform agenda for EMAE. WB will work with HR consultant to get back on track. ▪ Delayed. Finalizing bidding documents; the tender to be launched early-2021 ▪ Partially achieved. The tender is expected to be concluded by end-November 2020, and the contract is expected to be signed in January 2021.	Reduce losses (commercial and technical) from 33 to 23% by June 2022 Raise collection rates from 85 to 95% by June 2022
Reform tariff structure and strengthen regulatory framework	▪ Implement a new tariff structure based on an actual estimate of the costs of services for each costumer tranche. ▪ Approve a decree to adjust tariffs considering: - Tariff structure definition; Costumer category definition; Social tariffs adjustments; Agreed upon conditions and a timeline to achieve full cost-recovery.	▪ Mar. to Dec. 2021 ▪ Mar. to Dec. 2021	▪ WB concluded the tariff analysis and advised on an in-depth tariff reform to led by the regulator AGER. ▪ Delayed.	Gradually achieve a cost-reflective tariff structure by 2024

Note: HPP = Hydro Power Plant, HFO = Heavy Fuel Oil, LNG = Liquefied Natural Gas, LED = Light Emitting Diode, MoF = Ministry of Finance

Appendix I. Letter of Intent

São Tomé, December 23, 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 second review of the program supported by the Extended Credit Facility (ECF) arrangement and approve the third disbursement based on performance under end-June 2020 performance criteria (PC).

The COVID-19 pandemic is having a severe impact on São Tomé and Príncipe's economy, compounding the country's pre-existing vulnerabilities. Our tourism sector remains at a standstill, and remittances have declined precipitously. The external shock and mitigation measures have prompted a severe recession and created significant external and fiscal financing needs. Though we implemented containment and mitigation measures swiftly, we have had more than 1000 cases of COVID-19 and 17 deaths. With the help of the development community, we have been covering our external and fiscal financing needs, improved the capacity of our health care system, expanded an existing cash transfer program to assist the most vulnerable, and supported businesses in the hard-hit sectors. We began gradually reopening our economy in July, and though there are signs of recovery on the horizon, the resurgence of the epidemic among our trading partners and in STP continues to weigh on our population, the economy, and the external and fiscal accounts.

In this context, we continue to focus on addressing the immediate health, social, and economic needs related to the pandemic, while we remain committed to the medium-term reforms agreed under the program to support a strong and sustainable recovery. Therefore, we would like to request that the IMF Executive Board approve a waiver for the nonobservance of the program target at end-June 2020 on the domestic primary balance. We also request that the Executive Board i) modify the performance criteria for end-June 2021 and indicative targets for end-March 2021 and end-September 2021; and ii) approve the new performance criteria proposed for end-December 2021 for the domestic primary balance, government's bank financing, and international reserves. We aim to reduce the 2021 fiscal deficit as agreed under the program and retarget COVID-19-related spending to adapt to the new needs. Over time, we will continue to keep other spending, including the public sector wage bill, under control. To support revenue, we will introduce the VAT in 2021. Moreover, we will continue to implement structural reforms supported by the program to lay the groundwork for recovery. These include reforming the energy sector and the state-owned utility company, EMAE, to provide reliable and low-cost energy while reducing debt and foreign exchange vulnerabilities over time. In addition, we are developing a plan to remove the country from the EU air safety blacklist to facilitate the recovery of tourism.

To strengthen fiscal governance and transparency, we have published adjudication notices of public procurement contracts and signed public contracts whose information was available up to June 2020, and documents available from June to August 2020 will be published soon a prior action. We have also compiled and published ownership information of companies receiving these contracts and monthly COVID-19-related spending. We aim to implement all the recommendations of the last safeguards assessment to strengthen central bank management. The central bank is actively managing system-wide liquidity and carefully balancing liquidity needs during the pandemic with appropriately tight monetary policy to protect the peg.

The government remains committed to achieve the policy objectives of the program: fiscal consolidation coupled with enhanced monetary policy tools to support the peg; reforming state-owned enterprises and the energy sector to contain fiscal risks and improve the business environment; promoting greater fiscal transparency and accountability; and strengthening efforts aimed at climate change adaption and gender equality. These objectives are critical for sustainable and more inclusive growth to create jobs and improve living standards in São Tomé and Príncipe. Furthermore, as part of our comprehensive effort to reduce poverty, we have drafted the National Sustainable Development Plan 2020-2024. The plan serves as a roadmap for promoting robust economic growth and job creation and improving the quality of health and social protection programs for all citizens. This will serve as a basis for our next Poverty Reduction and Growth Strategy (PRGS).

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 and July 2020 MEFP, along with the attached supplementary MEFP, are adequate to achieve the objectives of the program, and we will take further measures that may become appropriate for this purpose. As these policies are still being implemented, we request an extension of the measures that gave rise to exchange restrictions and a multiple currency practice under IMF Article VIII given that actions taken under the program and our policy commitments will help support the removal of the exchange restrictions, and an extension is needed as these policies are still being implemented and are needed for balance of payments reasons.

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) imposing or intensifying restrictions on the making of payments and transfers for current international transactions, (ii) imposing or intensifying import restrictions for balance of payments reasons (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) updates the MEFP approved by the IMF Executive Board on October 2, 2019 and on July 27, 2020. In this MEFP, we review recent developments and performance under the ECF-supported program, assess the economic outlook and risks, and set out our macroeconomic policies for 2021 and beyond, keeping in mind the limitations on implementing new policy measures imposed by the COVID-19 pandemic.

2. São Tomé and Príncipe has made considerable progress under the ECF to preserve fiscal and external sustainability and foster development amid the COVID-19 pandemic. We achieved a significant reduction in the fiscal deficit in 2019, and we expect to overperform on the domestic primary deficit target for end-2020. However, due to the pandemic, the country is facing considerable hurdles. We were not able to meet the end-June fiscal performance criteria (PCs), and actions to fulfill some structural benchmarks had to be delayed.

3. While the pandemic is posing significant health, social, and economic challenges, we remain committed to the objectives of the ECF-supported program. The Rapid Credit Facility (RCF) disbursement and the ECF augmentation approved in 2020, together with support from our development partners, helped us manage our immediate external financial needs in the face of the outbreak. However, we continue to face fiscal and balance of payments pressures, and we expect that the economic, health, and social consequences of the pandemic will remain at the forefront throughout 2021. It is therefore important to mobilize sufficient resources to contain the pandemic, continue assisting the most vulnerable, and support the economy, while maintaining the highest standards of transparency and accountability in public spending.

RECENT ECONOMIC DEVELOPMENTS

4. Weak external demand and COVID-19 containment measures triggered a severe recession in 2020 and created exceptional external and fiscal financing needs.

- Real GDP is expected to contract by about 6½ percent in 2020 as tourism, trade, and transportation came to a near halt during the year. Despite the contraction, headline inflation is projected to rise to about 10 percent, driven by high food prices, reflecting poor rainfall and fishing outturns.

- With international tourism coming to a halt since March and the halving of remittances, the current account deficit has sharply deteriorated (about 30 percent of GDP, net of official support), creating immediate external financing needs. Unprecedented financial support from development partners has however supported gross international reserves that, at end-2020 are projected to reach US$55 million (4.7 months of projected imports).[1]

- Despite strong revenue yields from the tax policy package introduced in late 2019, pandemic-related spending and wage pressures have widened the 2020 domestic fiscal deficit, and public debt has increased.[2] The domestic primary deficit (DPD) at end-June 2020 rose to 2.6 percent of GDP. Higher health expenditures, support to the most vulnerable and the hard-hit sectors of the economy, and an increase in wage expenses reflecting long-overdue promotions of defense personnel and the hiring of new teachers and health staff increased spending. However, as we contain spending within the revised budget spending limits, we expect the 2020 fiscal deficit to be around 5 percent of GDP. Despite significant grant financing, with the recent review of the public debt stock, public debt will increase to about 103½ percent of GDP, largely reflecting a drop in GDP and continued losses at the state-owned utility company EMAE.

5. The recession and uncertain macroeconomic conditions are affecting the banking sector. Banks' asset quality has deteriorated, with NPLs increasing by approximately 8 percentage points since the beginning of the pandemic (as of September 2020). Amid the recession, credit growth to the private sector began decelerating in March 2020 despite ample liquidity. In this context, a small bank has been placed under BCSTP administration because of repeated failures to comply with capitalization and liquidity requirements.

PROGRAM PERFORMANCE

6. We have made steady progress under the ECF program during 2020. We missed the end-June 2020 DPD target, which was set prior to the pandemic. However, net international reserves and net bank financing outperformed the end-June targets, reflecting large external financing inflows to cope with the pandemic. Moreover, we expect to outperform the end-December 2020 DPD target.

7. The pandemic has delayed some structural reforms. We kept retail fuel prices unchanged to support budget revenue. We implemented the highest fiscal transparency standards, publishing with only minor delays monthly spending reports on COVID-related expenditures and public procurement contracts. Moreover, for these contracts, we have made public the ownership for the companies awarded the contracts. We have finalized the draft BCSTP organic law that we plan to submit to parliament by early February 2021. On the other hand, we have faced delays in revising the financial institutions law, developing the VAT IT system, implementing the EMAE and

[1] International reserves exclude commercial banks' deposits in foreign currency 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.

[2] The 2019 tax policy package measures included: increasing sales taxes on selected products (e.g. alcoholic beverages and telecommunication services), reducing personal income tax allowances, maintaining retail fuel prices at their high levels, and introducing electronic invoicing.

energy sector reform plan, and defining a strategy to take the country off of the EU air safety blacklist.

OUTLOOK, RISKS AND STRATEGY

8. As the pandemic subsides and reforms under the ECF program progress, we foresee a gradual recovery of the economy and improvements in the fiscal and external position. Assuming a gradual global recovery, real GDP is expected to grow by about 3 percent in 2021, before stabilizing to around 4-4½ percent over the medium term. As we implement our fiscal consolidation plans, we expect the primary fiscal deficit to approach a near balance over time, and public debt to be on a declining path. With fiscal adjustment, a recovery in tourism receipts, and reforms in the oil-dependent energy sector, we project the current account balance and international reserves buffers to strengthen.

9. While public debt will decline, the country remains in debt distress due to long standing post-HIPC external arrears that we are trying to regularize. We expect the present value (PV) of total public and publicly guaranteed (PPG) debt to return below the debt sustainability analysis (DSA) thresholds associated with the weak debt-carrying capacity by 2025. We remain actively engaged in discussions with Angola (US$4.8 million), Brazil (US$4.3 million), and Equatorial Guinea (US$1.7 million) to regularize our outstanding external arrears (2.6 percent of GDP). An agreement with the Brazilian government was reached, pending ratification by the Brazilian Senate. More recently, we have continued following up with Angola and Equatorial Guinea. In 2019 we also reached an agreement with the government of Angola and EMAE to pay back arrears to ENCO on concessional terms, significantly alleviating the debt burden in present value terms.

10. The outlook is subject to significant risks. A prolonged pandemic or delays in accessing vaccines would weigh on the economic recovery, strain our health system, create additional external and budget financing pressures, and delay our reform efforts. The outlook also depends on sustained grant support from external donors to maintain debt sustainability and provide needed financial resources. On the upside, rapid progress on structural reforms of the energy sector and in key infrastructures (e.g., airport expansion, road rehabilitation) could trigger stronger medium-term growth.

11. Against this backdrop, we remain committed to preserving the achievements to date and implementing the policies agreed under the program, while addressing the challenges posed by the pandemic. Our strategy is focused on: preserving fiscal sustainability, safeguarding financial stability, and accelerating reforms in the energy sector to support growth and external vulnerabilities.

POLICY OBJECTIVES FOR 2020–2022

Our policy objectives are centered on: i) addressing pressing social needs linked to the pandemic and continuing our gradual fiscal consolidation strategy to preserve debt sustainability and build further external buffers (¶12-20); (ii) maintaining high fiscal transparency and accountability standards, *including for COVID-related spending (¶21); (iii) developing monetary policy tools and maintaining a monetary policy stance that supports the peg (¶22-27); (iv) safeguarding financial stability (¶28-35); and (v) unlocking the growth potential of the economy by reforming the energy sector, fostering the tourism sector, promoting gender equality, and adapting to climate change (¶36-46).*

A. Fiscal Policy and Transparency

12. Our priority remains to protect our population from the pandemic and supporting the economy, while implementing our medium-term fiscal consolidation strategy. While we began to phase out lockdown measures in July, the resurgence of the epidemic among our trading partners and in STP continues to weigh on our economy and fiscal accounts. Accordingly, we intend to continue social programs to protect the most vulnerable, support the unemployed, maintain incentives for businesses to retain employees, and implement social distancing rules, particularly in schools.

13. We are determined to meet, and possibly overperform, the 2020 domestic primary fiscal (DPD) target. We will maintain expenditures within the 2020 budget limits, allowing for adjustments only in transfers to the autonomous region of Principe and increases in COVID-related spending, if needed. Adjustments in transfers reflect Principe's longstanding insufficient revenue to cover wages not accounted for in the 2020 budget. Nevertheless, we expect the end-2020 DPD to be around 5 percent of GDP, 1⅓ percent of GDP lower than under the program target, reflecting revenue windfalls from the 2019 tax policy package. The overall deficit is expected to be largely financed through donor grants.

14. We are committed to delivering on the 2021 DPD target of 3.9 percent of GDP as planned under the first review of the ECF program. We project that revenue windfalls from the tax policy measures introduced in late 2019 and the planned introduction of the VAT would raise tax revenue above the original program projections. With a young and growing school population, these revenue gains would be used to finance priority developmental needs, especially hiring teachers in recently built schools. Meanwhile, COVID-19 related expenditures will continue in 2021 and are expected to be phased out by end year as the health crisis subsides.

15. Over the medium term, we will continue implementing policies agreed under the program to approach a balanced DPD position by 2024. To achieve this objective, we intend to adopt wage and employment policies to gradually reduce personnel costs (as a share of GDP) over time and keep other current expenses under control. External borrowing would be capped and restricted to concessional loans only to reduce debt vulnerabilities. Should downside risks materialize, we stand ready to take contingency measures to preserve debt sustainability, including through recalibrating fiscal efforts and improving further the financing mix.

16. To deliver on our policy objectives, we are taking the following actions and measures:

2021 Fiscal Year

- Submit to parliament a 2021 budget proposal targeting a domestic primary deficit of Db 379 million, 3.9 percent of GDP, with spending ceilings for domestic primary spending as detailed in the table below, including ceilings on temporary contracts for teachers to allow social distancing measures in schools;

São Tomé and Príncipe: Aggregate Budget Spending Ceilings, 2021 (millions of new dobras)	
Total domestic primary expenditure	2059
Total primary current expenditure	1871
Personnel costs	1070
Goods and services	260
Transfers	348
Other	192
Treasury-financed capital expenditure	29
HIPC-related social expenditure	23
Treasury-financed COVID-related spending	136
o/w temporary contracts for social distancing in schools	54

- Extend the solidarity contribution to end-2021;
- Introduce the VAT at a 15 percent rate by July 2021 (structural benchmark);
- Keep retail fuel prices unchanged, if oil prices remain low, in 2021 and over the foreseeable future to generate revenue from the differential with international oil prices.

Fiscal year 2022 and following years:

- Reduce the wage bill to close to 10 percent of GDP by continuing over fiscal years 2022-23 current policies of suspending inflation adjustments, and by limiting new hiring to maintain the total number of civil servants broadly unchanged over time through attrition rules and reforming the public administration. We will provide the IMF with quarterly updates on the total number of civil servants by main functional sectors, including education, health, and defense.
- Keep transfers and other current expenditures (including the despesas consignadas dos servicos de cobrança) constant in nominal terms in 2022 and contain the increase broadly in line with GDP growth thereafter. In this regard, the government will not approve borrowing by public entities to offset lower transfers from Treasury.

- Continue efforts to reduce electricity and water consumption at public institutions, particularly by setting ceilings and instructing EMAE to cut off supply to public entities classified as non-essential in case they miss payments.

17. Final preparations are under way to introduce the VAT in July 2021. The VAT law was approved last October, but the COVID epidemic has delayed the VAT launch. We now expect the selection of a company to design the IT system to be completed by January 2021 and the IT system to be operational before July 2021. Meanwhile, we have progressed with other preparatory steps, including developing VAT regulations and refund procedures, harmonizing the VAT with other taxes, reforming excise taxes, developing an education campaign, procuring space and equipment for new staff, setting up four taxpayer centers, training local tax administrators including those from Principe, and working to finalize agreements with banks to receive VAT payments.

18. Efforts will resume to implement IMF recommendations on strengthening tax administration. Following IMF assistance, actions include the: (i) reorganization of the *Direção dos Impostos (DI)* to improve management and strategic planning focused on tax compliance; (ii) adoption of modern compliance risk management practices, including audit programs that make use of information from third parties; and (iii) overhaul of the current performance monitoring framework including key performance indicators and a rewards program. Moreover, pending partners' resources availability, we intend to undergo a comprehensive tax administration diagnostic assessment (TADAT) on our current revenue administration practices before the end of 2022.

19. Tax collection, especially that of large taxpayers, will be closely monitored to ensure timely tax collection. Starting in January 2021, we will prepare and share with the IMF monthly reports on tax payments and outstanding tax arrears. We will fully apply existing legal and administrative procedures to ensure payments are made. In particular, we will improve *Direção dos Impostos (*DI)'s access to third-party sources of data, which will allow for cross-checking tax information and increase the analytical capacities of the data captured by E-invoice to strengthen controls on registration, declaration, payment, and reporting of tax obligations. In addition, we will continue staff training to enhance auditors' skills focusing on the telecommunication, banking, and insurance sectors. Finally, we are committed to recover tax obligations from large taxpayers that suspended their tax payments during the crisis and will launch a recovery program in the first quarter of 2021.

20. The government is committed to continuing strengthening public financial management systems and avoiding the accumulation of new domestic arrears. Specific reforms include:

1) Improving macro-fiscal framework projections (revenues and expenditures). With IMF assistance, we have recently developed a methodological manual to strengthen macro-fiscal forecasting and will gradually implement the manual to strengthen in particular our revenue forecast capacity. Moreover, we have prepared medium-term fiscal framework (MTFF) projections for a three-year period that will be incorporated in budget documents starting with the 2021 budget.

2) Strengthening cash management and internal capacities at the Treasury Department. For this purpose, in coordination with BCSTP, Treasury developed an annual schedule of T-bill issuance for 2021 (to be published in January 2021) and monthly financing plans to guide the issuance of new treasury bills, consistent with the annual budget and the government's cash flow.

3) Strengthening expenditure control, preventing the accumulation of arrears and updating the arrears clearance plan to cover all domestic arrears. Meticulous work undertaken by Treasury in 2019-20 has showed that significant amounts of arrears to private suppliers are outstanding from the last few years. [3] To prevent accumulation of further arrears, as part of our validation process, we have investigated and identified the causes, nature, and timing of these arrears. We have determined that going forward, Treasury will be the sole public entity in the central government allowed to contract loans. Moreover, the government has defined a payment plan to gradually clear the stock of domestic arrears using available financing resources. Moreover, in 2021 we will start a commitment ceiling mechanism to manage expenditures at the commitment stage in selected spending ministries covering on a pilot basis all spending agencies, with the exclusion of the ministries of education, health, defense, and justice. As part of the pilot, we will elaborate quarterly commitment ceilings to support the commitment control mechanism in pilot ministries. This pilot will be gradually expanded to all line ministries and spending agencies in 2022.

4) Enhancing fiscal reporting and improving the consistency of above and below the line fiscal data. We will continue to provide the IMF with the monthly TOFE (central government financial operation table) by the 21st of the following month. Moreover, during 2021, we will continue our efforts to reconcile the financing data with the BCSTP at least on a quarterly basis and seek assistance if needed.

5) Enhancing the enforcement of procurement laws to improve the efficiency of public expenditure and reduce vulnerabilities to corruption. With support of the World Bank, we are updating the 2009 procurement law, to include e-procurement; sustainability, environmental, social, and hygiene issues; framework contracts; and the complaint mechanism.

21. Strengthening fiscal transparency is a key priority of the government. As of November 2020, we have published on the Ministry of Finance (MOF)'s website public procurement contracts up to June 2020 and monthly COVID-19 spending reports up to August 2020. For companies that received public procurement contracts, which were published on the ministry's website, we have also published owner information. We are committed to continue enforcing these high transparency standards. Thus, we will publish on the MOF's 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

[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.

authorization from the Court of Accounts as per the Organic Law (no. 11/2019);[4, 5] (iii) 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 after documents become available—and (v) monthly COVID-19 related expenditure reports with a 45-day lag (structural benchmarks for end-August and end-November). Currently we have no integrated system, and all documents are collected manually. Therefore, there are operational difficulties for our procurement agency COSSIL to access in a timely manner contracts signed by the line ministries. To overcome this obstacle in the short run, the Ministry of Finance has issued an executive order requiring all spending agencies to send signed procurements contracts to COSSIL as a necessary condition for the Treasury to go ahead with payment to contractors. We also commit to overcome current constraints in collecting and publishing information about beneficial owners of companies receiving procurement contracts, and to this purpose we have asked for technical assistance. Looking forward, we are working with the World Bank to develop a webpage for the procurement agency COSSIL, which will expedite the publication of procurement documents and facilitate management and transparency over public contracts. Finally, as part of its audit of the government financial accounts, the Auditor General will audit and publish the 2020 COVID-19-related spending by October 2021.

B. Monetary Policy, Foreign Exchange Reserves, and Safeguards

22. **The BCSTP responded agilely to changing monetary conditions caused by the pandemic.** To ensure adequate liquidity, the central bank lowered the minimum reserve requirements for domestic currency from 18 to 14 percent and for foreign currency from 21 to 17 percent and the discount rate of the BCSTP liquidity facility from 11 to 9.5 percent in early April.

23. **We remain committed to improving our monetary policy framework to support the peg, including by strengthening our liquidity management operations.** With IMF technical assistance, we have upgraded our liquidity forecasting framework to three months (from one month). As an additional step, on November 17, 2020, the BCSTP auctioned certificates of deposit (CDs), totaling Db 100 million to help control the rise in excess liquidity (structural benchmark). The auction was oversubscribed. The issuance of CDs was delayed from its original program timeline due to the need to guarantee adequate liquidity to the banking system during the pandemic. In recent months, system-wide liquidity has however continued rising, in part due to increasing external flows to finance the fiscal deficit. This excess liquidity has not so far undermined the peg, and we expect excess liquidity to decline gradually over the coming months. However, the BCSTP remains vigilant and will actively monitor liquidity conditions, and by January 2021, it will develop an action plan to gradually reduce excess liquidity from the current level during 2021 to avoid undue pressures on the peg. In this context, in 2021, the BCSTP will roll-over its existing CDs and stands ready to use any other tool, including adjusting reserve requirements and issuing additional CDs to ensure that

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[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 approval by the Court of Accounts within 30 days of signature.

excess liquidity is gradually reduced (structural benchmark). Moreover, the BCSTP will continue to work with the IMF technical assistance to refine the CD mechanism and, over time, develop a policy rate framework that reflects market and risk conditions. In coordination with the Treasury, we will also aim to develop a domestic debt market over the medium term.

24. To improve monetary policy management, we will continue strengthening the coordination of monetary and fiscal policies. In August 2020, we resumed regular meetings of the Committee for Public Debt tasked with improving coordination between monetary and fiscal authorities. In coordination with the committee, in January 2021, Treasury will publish an annual schedule of T-bill issuances for 2021 aligning borrowing plans with the government's cash flow. During 2021, we will continue our efforts to reconcile at least quarterly monetary and treasury data on fiscal financing, which has so far been delayed due to staffing constraints.

25. Over time, fiscal consolidation and planned structural reforms will contribute to boosting international reserves and underpinning our peg to the euro. Pressures on international reserves are in part driven by strong domestic demand and foreign currency needs from the energy sector. Hence, continued fiscal consolidation, complemented by appropriately tight monetary policy, will contain demand for imports and encourage more dobra savings. In addition, energy sector reforms to reduce losses in electricity provision and to modify the production mix will significantly reduce the demand for foreign currency. Other reforms aimed at expanding our economic and export bases (e.g., centered around tourism, agriculture, and fisheries) will also improve the balance of payments. These actions will help ensure the stability of the peg while supporting the removal of exchange restrictions. As these policies are still being implemented, we have requested an extension of the measures that gave rise to exchange restrictions and a multiple currency practice under IMF Article VIII.

26. 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.

27. The Central Bank is committed to sound governance and transparency and to enhance its independence, internal controls, and oversight capacity. We will continue publishing regularly statistics and reports such as the annual schedule of treasury bill issuances on the BCSTP website. Moreover, we are taking steps to implement the remaining recommendations from the last safeguards assessment. We have completed several recommendations, and we will implement the following actions:

- 2019 BCSTP financial statements. We have shared all documents needed to complete the audit of the 2019 financial statements, and we will share with the IMF the preliminary audit report by January 2021. We expect the audit to be completed in January 2021, and it will be published on the BCSTP's website immediately following the auditors' review.

- IFRS implementation plan. We began technical assistance with the Bank of Brazil in early 2020, and we will continue technical assistance through virtual meetings in the first quarter of 2021.

- To enhance BCSTP independence, we have revised the latest draft of the organic law, which now incorporates IMF technical assistance's recommendations on the audit committee. The new draft was approved by the BCSTP Board and the government plan to submit it to parliament by early February 2021 (structural benchmark).

- To align ourselves with best financial regulation and supervision practices (e.g. Basel Core Principles, the Financial Action Task Force (FATF) standards), a draft of the financial institutions law, including IMF technical assistance's suggestions, will be submitted to parliament by end-March 2021 (structural benchmark). In addition, we will preserve the country's membership in the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) by engaging with the GIABA Secretariat and staying current on membership contributions. Losing GIABA membership exposes to public listing by the FATF, which would cause reputational damage and potential loss of correspondent banking relationships.

- To strengthen transparency, we have provided the IMF with a copy of the third quarter report on general compliance prepared for the BCSTP Board, and we will continue to share these quarterly reports in the future. We have also shared an updated implementation timeline for the remaining safeguards recommendations. These include reports on 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 reducing the concentration risk of investments.

C. Financial Sector Policy

28. In response to the pandemic, the BCSTP has taken several actions to safeguard financial stability while supporting credit and economic activity. In April 2020, banks were allowed a six-month moratorium on debt payments for non-delinquent borrowers experiencing distress related to the COVID-19 pandemic. The BCSTP also encouraged banks not to distribute dividends during 2020 to safeguard capital positions and lending capacity. To safeguard financial stability, loan reporting, classification, and provisioning standards have been 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 continue to closely monitor bank performance and enforce all regulations beyond those forborne.

29. The pandemic is adversely affecting banks' asset quality, and we are committed to take all needed actions to preserve financial stability. Since March 2020, the system NPL ratio has increased by approximately 8 percentage points. This increase was driven primarily by some banks' prudential approach to reclassifying and provisioning for loans under moratorium. As the pandemic is likely to put further pressure on asset quality, we will take a number of measures to monitor and support financial stability. We have extended the loan payment moratorium through end-December 2020, and we intend to introduce a formal dividend payout moratorium in 2021. Furthermore, by March 2021, we will again conduct stress tests, with input from the IMF, to identify possible credit risk pressures due to the fallout from the COVID-19 pandemic. As part of our commitment to building capacity, we will work with IMF staff to further refine our stress testing methodology. Based on the results of the March stress tests, the BCSTP will require banks to develop contingency plans and identify remedial measures by June 2021 to ensure that banks remain adequately capitalized.

30. Against this backdrop, we have worked with commercial banks to complete the implementation of the AQR recommendations, including recapitalizing banks where needed. Following the issuance of guidelines in 2019, loan reclassification and additional provisioning requirements, as well as recapitalization needs identified by the AQR have been fully addressed. Using a detailed breakdown of the loans identified under the AQR as problematic, the BCSTP has ascertained that each loan has been properly reclassified and provisioned for and that banks with a need to increase capital, as per stress testing, have done so, largely through retainment of profits. One bank which has not done so is now under the temporary administration of the BCSTP (see below). Once the pandemic subsides, we will perform an AQR to identify any further needs.

31. We continue working to strengthen our supervisory capacity and are intensifying off-site monitoring and on-site inspections to identify risks and non-compliance early-on. With IMF technical assistance, we have adopted a bank rating model for on- and off-site supervision, and we plan to complete by March 2021 the final draft of a banking supervision manual, which will provide the BCSTP with adapted guidance for processing off-site and on-site supervision. Moreover, we have improved the existing credit registry, including implementing a new platform collecting additional loan and debtor information. As a next step, we are developing, with World Bank support, the needed software 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. We are committed to accelerate the resolution of legacy NPLs. This requires supervisory actions and judicial reforms as banks remain unwilling to write off even long-defaulted and fully provisioned loans. On the supervisory side, we have delayed a draft regulation for banks on more rapid write-offs that we now expect to be finalized by March 2021, and once completed, we will send 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. On the judiciary side, we have made some progress in improving the efficiency of the judicial loan enforcement process and establishing arbitration tribunals for out-of-court settlement. 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, were approved by parliament and will soon be signed into law. We will allocate the funding needed to complete these judiciary reforms, which include appointing arbitration referees, securing a location for the court, and refreshing the training of the referees and administrative staff, including through virtual trainings. With this allocation, we anticipate that the arbitration courts will be fully operational by June 2021.

33. We remain committed to concluding the liquidation of the two banks whose licenses were revoked, while a new small bank has been recently put under the BCSTP administration.

- We will close the liquidation process of Banco Equador, initiated because of insolvency, by January 2021. We have taken all needed actions to conclude the liquidation process. In July, we established a working group with representatives from the BCSTP, Ministry of Justice, and the liquidator's office, and made a call to all small depositors with outstanding claims to contact the BCSTP or forfeit their claims. We have unsuccessfully attempted the sale for real estate and fixed assets (estimated at Dobra 92 million) and facilitated loan resolution (previously estimated at Dobra 9 million) offering a discount to debtors. The liquidator will conclude his work and will submit a final report to the BCSTP by January 2021. Based on the report, the liquidator plans to take the necessary actions to close the liquidation by January 2021, including turning over any remaining outstanding assets to the court system for collection. So far, the liquidation cost of Banco Equador stands at 0.3 percent of GDP, most of which is related to the payments to small depositors (see table below). We have calculated the BCSTP exposure to the liquidation, and the BCSTP has made the appropriate provisions in December 2020, including to cover possible legal claims from depositors.

- Banco Privado (BPSTP) lost its license for non-compliance with BCSTP directives and not for insolvency and presents low risks. Payments to small depositors were covered using the bank's liquid assets, and the BCSTP has no exposure to this bank. After the license was revoked, potential investors expressed interest, but in the current circumstances no sale has materialized. If the sale of the BPSTP is not concluded and no other solution is found by June 2021, the BCSTP will turn the remaining assets over to the court system. 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.

- Energy Bank (assets about 1 percent of GDP) was placed under BCSTP administration in November 2020 due to repeated failure to comply with, among others, liquidity and capital requirements. The BCSTP has allowed the bank's customers to withdraw deposits (up to 50,000 dobras), largely financed through BCSTP loans, to limit contagion risks to the banking system. Meantime, the BCSTP has established a provisionary administrative team that is performing an evaluation of the bank's assets and liabilities and will submit a report to the BCSTP Board by mid-January. Following the finalization of the evaluation report, if the bank is found not to be viable, the BCSTP will immediately put the bank in liquidation.

Box 1. São Tomé and Príncipe: Status of Measures Introduced in ECF First Review for Accelerating the Liquidation of Banco Equador

First a multisectoral team will be established by mid-July 2020 to oversee and support the liquidation. *(Completed on time.)*

Second, the liquidator will launch the tender for the sale of all real estate assets and other fixed assets by end-July 2020. *(Delayed. Tender launched in early September 2020 and extended twice with no interested investors.)*

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 2020 or forfeit their claims, closing this process that started in 2016. *(Public announcement made on July 14, 2020; total amount of deposits claimed and paid was approximately Dobra 500,000.)*

Fourth, the liquidation commission will prepare a plan by July 25, 2020 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 2020 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. *(Plan for discounts on unsold loan assets launched in October 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 2020 and will be published in mid-August 2020. *(Report provided in November.)*

34. **We intend to gradually improve access to finance for SMEs, and financial inclusion more generally, and several projects have been initiated.** The government has recently created a credit line (US$3 million, with the possibility of mobilizing additional resources) to finance projects by SMEs approved by the national investment agency. Moreover, with World Bank assistance, we are creating the legal framework for the centralized establishment of a collateral registry. The registry would allow SMEs to pledge movable collateral to facilitate access to bank financing. We are drafting the needed law to be submitted to parliament by early next year. Work is under way to develop the software for the registry, and the World Bank has pledged financing for this project. We expect the registry to be fully operational in 2022. To foster financial inclusion, a multidisciplinary working group on financial inclusion was established by decree in October 2020. The working group, whose secretariat is provided by the BCSTP Bureau of Financial Inclusion, is leading the effort on drafting a national financial inclusion strategy that focuses on reducing gender gaps, increasing access to digital financial technologies, and improving consumer protection and literacy. The goal is to complete a draft financial inclusion strategy by January or February 2021, to be submitted for approval to the National Council on Financial Inclusion, the highest body of the working group created in October.

São Tomé and Príncipe: Cash Flows of Banco Equador Liquidation

(in millions of dobras)	As of April 2020	As of October 2020
Proceeds	**3.6**	**3.7**
Assests sale proceeds	2.0	2.0
Customer debt repayment	1.6	1.6
Operation costs of liquidator	**4.1**	**4.5**
Salaries	2.3	2.6
Wages for technical experts (legal, liquidator, etc.)	1.4	1.5
Wages for security staff	0.9	1.0
Utilities	0.6	0.6
Arrears payment	1.2	1.2
Other services	0.1	0.1
Deposit accounts below 100,000		
Cumulative pay out	28.4	29.0
Remaining amount	13.2	12.7
Net cash flow	-29.0	-29.8
In percent of GDP	-0.3	-0.3
2019 GDP	9,230	

35. **As part of our medium-term financial sector reforms, we are 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. Delays in receiving the equipment have pushed the launch of the new payment system to January 2021.

D. External Sector Policies

Exchange Restrictions

36. **The IMF Executive Board granted temporary approval of exchange restrictions and a multiple currency practice.**[6] The one-year approval expired in October 2020. Given the current balance of payment issues and our policy commitments, we have requested extending the approval

[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 12 months because they are temporary, non-discriminatory, and needed for balance of payments reasons.

for another year. Efforts to boost reserves noted above will also support the removal of the restricting measures.

External Debt

37. 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 of the external debt to GDP ratio falls below the high-risk debt distress threshold by 2024 (see Borrowing Plan table). We will strive to keep external debt disbursements below 2 percent of GDP and limit contracting of new loans to 3 percent of GDP. These parameters will be adjusted according to the development of debt vulnerability. We will also continue to engage actively with bilateral creditors to regularize post-HIPC arrears.

São Tomé and Príncipe: Borrowing Plan 2020
(For Investment, Millions of U.S. dollars)

New public debt contracted or guaranteed	2020 Volume [1]	2020 Present Value [1]
Sources of debt financing	12.6	8.2
Concessional debt of which [2]	12.6	8.2
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	12.6	8.2
Memorandum items		
Indicative projections		
2021	14.5	9.4
2022	15.9	10.3

[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.

38. The government is implementing measures to strengthen debt management. Following the Debt Management Performance Assessment (DeMPA)'s main recommendations, we have published a medium-term debt management strategy. With support from the World Bank, we are creating a debt database that will improve our capacity to perform debt service projections and risk analyses and report detailed debt information stock. Once the new database is ready, we will update our public debt strategy.

E. The Implementation of Other Structural Reforms

Development Planning

39. 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, and building upon the recommendations outlined in the NSGEE, we launched a pilot initiative on gender-responsive budgeting in the Ministry of Infrastructure in the 2021 budget circular. The initiative focuses on improving sanitation facilities in schools, and we will continue to coordinate with IMF staff to further develop our capacity to conduct gender-responsive budgeting, with the purpose of expanding our gender budgeting pilot. Also under the NSGEE, during 2021 the Gender Institute 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, the Ministry of Finance will coordinate with other ministries and start submitting in June 2021 to the Gender Institute data on average annual wages by gender and the share of managerial-level positions held by women and publish these data on a governmental website, such as the Ministry of Finance or Prime Minister's website. The Gender Institute will coordinate with development partners such as EU and World Bank to ensure large projects, particularly those impacting 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 National Financial Inclusion Strategy, which targets women, the BCSTP, through its Bureau of Financial Inclusion, will develop programs to promote financial literacy to be delivered through a specific action plan for the period 2021-25.

40. We will continue our efforts to strengthen the country's resilience to climate change and protect our natural resources. The impact of climate change primarily reflects in rising temperatures and sea level, costal erosion, and changing precipitation patterns, hurting agriculture, fisheries, and eventually tourism. A number of externally-financed projects that were underway in 2020 to strengthen resilience to climate change were put on hold in the wake of the epidemic. Work is expected to largely resume in 2021. They include the regional West Africa Costal Areas Management Program (WACA) supported by the World Bank to increase resilience of Western African coast, the installation of an early warning system supported by UNDP, improved sanitation facilities supported by the EU and UNICEF, 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 protect the environment through training and improved public awareness campaigns and education.

Business Climate to Promote Tourism

41. Improving the business environment and supporting the development of key economic sectors such as tourism is critical to strengthen the recovery and promote sustainable growth. Specific actions include:

- Develop by March 2021 a plan for removing the country from the European Union's Air Safety blacklist to facilitate the recovery of the tourism sector and exports (structural benchmark).
- Publish a clearly codified procedure for the approval of investment, including access to land, to facilitate investment in tourism by March 2021.

- Integrate tourism licensing requests in the GUEnet portal (online portal for starting a business) to facilitate registration and increase transparency on tourism licensing procedures. With support from the World Bank, we have developed the IT platform and the validation will be completed by March 2021.

- Reform the National Tourism Administration to improve the sector management. To enhance coordination and planning efforts, the Cabinet has approved a draft law setting up the National Board for Tourism. Moreover, as part of the COVID-19 recovery plan, we have been issuing "clean and safe" certificates for hotels and other entities, and provided training for tourism sector entities.

- Improve training of workers in the tourism sector, including establishing a school with support from the World Bank. A decree law establishing the school has been prepared and will be issued in early 2021.

- Improve tourism sector data by: publishing quarterly tourist arrival data (which will be agreed upon by relevant agencies, e.g. Border Control, BCSTP, Tourism, INE) within two months from the end of the quarter; expanding the annual BCSTP tourist survey on expenses to include information about overall visits and experience satisfaction by June 2021, and, publishing results within three months of collecting all data.

- Take actions to improve the overall business environment, including by revising the labor law to encourage investment while providing adequate protection to workers and improving the efficiency of the judicial system to better protect creditor rights granted under the law.

42. Other near-term actions are under way 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 early 2021. Supported by AfDB, the tender for a second phase of the project was launched at end-June 2020. The project, with mobile financial services and digital banking capability, is expected to be complete in about 2 years and will 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

43. We are committed to reforming the energy sector and have established a high-level steering committee to oversee the implementation of our reform plans. The committee is chaired by the Prime Minister and includes external partners such as the World Bank. The committee will hold biannual meetings to review reform progress and provide guidance.

44. Our strategy is centered on implementing the Least Cost Development (LCDP) and the Management Improvement (MIP) plans and have EMAE achieving full cost recovery. EMAE is currently unable to pay most of its bills for fuel supplies, making the country vulnerable to electricity shortages, hampering our growth potential. Progress has been achieved in some specific areas. Since we approved our plans, EMAE has installed more than 6000 meters and tightened the criterion for supply cut-off from three to two missed payments. EMAE is also negotiating with banks to add online bill payment options, and it plans to open collection centers in other districts outside the capital. We have also staffed the loss reduction office; however, it has yet to be equipped, rendering it non-operational. We also worked on a contingency plan to deal with the COVID-19 crisis and maintain and inspect aging equipment.

45. Going forward, we will take the concrete reform measures, with specified timeframes, listed below for each key strategic objective:

Objective 1: Reduce the cost of electricity generation and change the generation mix towards renewable sources.

Target: Reduce the average cost of energy produced from 0.25 to 0.14 USD/kWh by 2024. Increase renewable sources' share from 5 percent to 45 percent by 2024.

This will be achieved by implementing the LCDP, including by:

- Rehabilitating and expanding the capacity of the only operating hydropower plant on the island, Contador HPP, by end-2021 to 3.2 MW to reduce overall generation cost.
- Identifying resources for the timely development of the recently approved LLCDP that set as a priority the development of an 8.8 MW dual-fueled thermal units heavy fuel oil (HFO) or liquified natural gas (LNG) plant and about 2MW of a photovoltaic solar plant.
- Mobilizing partnerships to study and develop existing hydropower potential.

We will not finance nor authorize production projects that do not respect the parameters set in the LCDP.

Objective 2: Reduce electricity consumption:

Target: Reduce electricity consumption by 15 percent within 12 months.

a. We are rolling out a program to replace incandescent/fluorescent light bulbs with LED bulbs within nine months, with $2 million in funding support from the World Bank, and we expect to complete the program by end-June 2021. The tender was concluded in November 2020, and the contract is expected to be signed by January 2021.

b. We will pass a law to ban the importation of incandescent/fluorescent lamps by June 2022. An individual consultant has drafted the law, which is under review by the STP government. The government will also conduct outreach to stakeholders such as light importers, raising awareness and helping them access LED suppliers.

Objective 3: Improve management of electricity distribution by the state-owned corporation EMAE to reduce losses and improve collection rates.

Target: 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 (MIP).

Implementing a new organizational structure at EMAE

To improve the operational efficiency of EMAE, we will implement a new organizational structure in the Commercial Directorate of the company and redefine the functions of the Finance Directorate and Management support units. With the support of a consultant and a specialized human resource firm (already hired), this would require the selection of personnel according to the competences of each position in the new organizational structure. Specific actions include:

- Preparing bidding documents for procuring management information systems (MIS) January 2021
- Working with an HR consultant on a proposal for organizational restructuring, new job descriptions for directors and managers reporting to directors (first 2 levels), and the selection process for new management, with the short-list of candidates expected in February 2021 for level 1 directors and in April 2021 for level 2 directors.
- Selecting a management consultancy firm to support EMAE on the implementation of the MIP by March 2021, when the new director team is recruited.
- Adopting modern billing practices, procuring and installing a state-of-the-art MIS, and linking cost of services to payment through tariff reform.
- As the pandemic subsides, continuing to develop arrears clearance plans with consumers, and 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.
- Government agreeing with EMAE on a mechanism to cap consumption and ensure timely bill payment by public entities, including by cutting services to non-essential facilities, deducting from the budget allocation, and direct payments from Treasury to EMAE (November 2020).
- The loss-reduction office, in collaboration with the Communications team to continue the campaign to ensure social acceptance of the reforms and behavioral change of customers to strengthen payment discipline and reduce electricity theft.

Implementing the electricity meter program supported by EIB and World Bank

- 200 high tension meters to be installed in distribution plants to control production, distribution and loss of electricity in the upstream - installed by June 2021.
- 3000 consumption meters for large clients (hotels, industries, government agencies, embassies, etc..) - installed by June 2021.

- 16,000 residential meters for small clients (households) - installed by end-2021.

Reducing theft of diesel on thermal plants and losses

- Installing diesel meters to monitor delivery and consumption at power plants - installed by June 2021.
- Ensuring losses fall below five percent of the volume supplied for energy generation.

Objective 4: Reform tariff structure and strengthen regulatory framework.

Target: Gradually achieve a cost-reflective tariff structure by 2024.

The tariff analysis identified the need for an in-depth tariff reform to be led by the regulator AGER. To gradually achieve a cost-effective tariff structure by 2024, the government will:

a. Issue a decree covering: (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.

b. The first tariff increase will be implemented once meters are in place by December 2021 for large consumers.

The tables below summarize targets and expected actions (structural benchmark).

Table A. São Tomé and Príncipe: Energy Sector Indicators and Targets

(in percent)

	Baseline		Target	
	2018	Dec-19	June-21	June-22
Reducing loss (commercial + technical)	34	33	29	23
Raising bill collection rate to [1,2]	89	85	93	95
Reduce diesel loss to	10	6.3	5	

[1]Deterioration in 2019 due to expansion of network in 2018 by the previous government.
[2] No target manageable in the current context for end-2020.

Table B. São Tomé and Príncipe: Energy Sector: Expected Key Actions and Timeline, 2020-2021

(Structural Benchmark)

1	Develop terms of reference of the new executive management team of EMAE for implementing reform measures	End-December 2020
2	Government establishes a mechanism with EMAE to cap consumption and ensure timely bill payment by public entities	End-November 2020
3	Complete the LED program	End-June 2021
4	Continue to develop arrears clearance plan with non-public customers	To continue after crisis subsides
5	Implement the meter program supported by EIB and World Bank, including completing the installation of 3000 consumption meters for large clients, and install diesel meters to monitor delivery and consumption at power plants	End-June 2021
6	Issue a decree covering: (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	End-2021

Improving Economic Statistics

46. We are continuing to improve economic data. An IMF mission in March 2019 helped us 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 the Statistical Data and Metadata Exchange (SDMX) for machine-to-machine data transfer. Though there have been delays this year due to the pandemic, 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

47. 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 diagnose problems but also support the implementation of the technical assistance recommendations. In addition, we will also request Portuguese speaking experts to simplify interactions, expedite the identification of core issues, and facilitate the transfer of knowledge. We have also discussed and updated with IMF staff our medium-term capacity development strategy, which includes revenue administration—notably, implementing the VAT— PFM reforms to improve budget preparation and execution, banking regulation and supervision, and strengthening the accuracy of balance of payment statistics.

PROGRAM MONITORING

48. 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-June and end-December 2021, while those for end-March 2021 and end-September 2021 are indicative targets. The third review should be completed on or after May 15, 2021, the fourth review should be completed on or after September 15, 2021, and the fifth review should be completed on or after April 15, 2022.

Table 1. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2020
(Millions of new dobras, cumulative from beginning of year, unless otherwise specified)

	2020						
	June Program Target [1]				September Indicative Target		
	Prog. Req.	With adjusters		Status	Revised		Status
Performance Criteria:							
Floor on domestic primary balance (as defined in the TMU) [2]	-76	-101	-235	Not Met	-500	-309	Met
Ceiling on changes in net bank financing of the central government (at program exchange rate) [3, 4, 5]	40	28	-206	Met	-100	-234	Met
Floor on net international reserves of the central bank (US$ millions) [2, 4]	30	33	37	Met	20	41	Met
Ceiling on the accumulation of central government's new external payment arrears (US$ millions) [5, 6, 7, 8]	0	...	0	Met	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	0	0	Met
Not to: (i) impose or intensify exchange restrictions, (ii) introduce or modify multiple currency practices, (iii) conclude bilateral payments agreements that are inconsistent with Article VIII, or (iv) impose or intensify import restrictions for balance of payments reasons				Met			
Indicative Targets:							
Ceiling on change of central government's new domestic arrears	0		-64	Met	-30	-102	Met
Floor on pro-poor expenditures	310		330	Met	550	na	
Floor on tax revenue	654		591	Not Met	750	954	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]	6		1	Met	9	5	Met
Memorandum items:							
Ceiling on dobra base money (stock)	1,337		1,472		1,329	1,615	
Transfer from NOA to the budget (US$ millions)	3.8		3.8		3.8	3.8	
Net external debt service payments [11]	46		49		68		
Official external program support [11]	129		427		1,023	863	
IMF program disbursement	56		274		365	365	
Budget support grants	74		153		658	498	
Domestic arrears clearance (-, exclude debt payment to ENCO)	-33		-64		-53	-102	
Treasury-funded capital expenditure	8		5		15	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

[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

[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

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	Not met
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-September 2020	To enhance revenue	With World Bank support	Not met. Implemented with delay
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	Met
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	Not met (Spending reports published with delay. Contracts and adjudication notices published up to June 2020)
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	Not met (Incomplete information was published)
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	Not met
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 sector	With World Bank support	Not met

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					
	Dec. Performance Criteria	March Indicative Target		June Performance Criteria		Sept. Indicative Target	Dec. Performance Criteria
	First Review	First Review	Prop.	First Review	Prop.	Prop.	Prop.
Performance Criteria:							
Floor on domestic primary balance (as defined in the TMU) [2]	-565	-125	-141	-200	-225	-300	-379
Ceiling on changes in net bank financing of the central government (at program exchange rate) [3, 4, 5]	-65	60	60	165	200	300	354
Floor on net international reserves of the central bank (US$ millions) [2, 4]	25	25	25	25	25	24	23
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
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the central government or the BCSTP (US$ millions) [5, 6, 7, 8, 9]	0	0	0	0	0	0	0
Not to: (i) impose or intensify exchange restrictions, (ii) introduce or modify multiple currency practices, (iii) conclude bilateral payments agreements that are inconsistent with Article VIII, or (iv) impose or intensify import restrictions for balance of payments reasons	Continuous						
Indicative Targets:							
Ceiling on change of central government's new domestic arrears	-60	0	0	0	-20	-30	-60
Floor on pro-poor expenditures	700	150	150	300	300	450	600
Floor on tax revenue	1,152	314	350	628	700	1,050	1,400
New concessional external debt contracted or guaranteed with original maturity of more than one year by the central government or the BCSTP (US$ millions) [5, 7, 8, 10]	12	3	3	6	6	10	14
Memorandum items:							
Ceiling on dobra base money (stock)	1,321	1,342	1,387	1,362	1,454	1,520	1,586
Transfer from NOA to the budget (US$ millions)	3.8	3.0	3.2	3.0	3.2	3.0	3.2
Net external debt service payments [11]	91	33	33	65	65	98	130
Official external program support [11]	1,144	49	49	105	105	105	261
IMF program disbursement	421	0	0	56	56	56	112
Budget support grants	723	49	49	49	49	49	149
Domestic arrears clearance (-, exclude debt payment to ENCO)	-70	0	0	0	0	-10	-73
Treasury-funded capital expenditure	28	7	8	13	15	20	30
Ceiling on personnel expenses	980	…	300	…	599	770	1,070

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

[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

[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 2020-2021

Policy Objectives and Measures	Timing	Macro Rationale	TA involved
Prior actions			
Submitting 2021 budget in line with program to parliament		To contain expenditures	No TA involved
Publishing on the Ministry of Finance (MOF) website: (i) adjudication notices, (ii) signed contracts above the threshold for requiring prior authorization from the Court of Accounts as per the Organic Law (no. 11/2019), and (iii) ex-post validation of public procurement contracts that became available to the procurement agency COSSIL during June-August 2020.		To increase transparency and accountability	No TA involved
Strengthening Public Finances			
Implement key measures of Management Improvement Plan and Least Cost Development Plan for EMAE (MEFP ¶46, table key actions)	Continuous	To contain fiscal risk	With World Bank support
Introduce the VAT according to the October 2019 law (MEFP ¶17)	End-July 2021	To enhance revenue	With World Bank
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 to COSSIL— and (iv) monthly COVID-19 related expenditure reports within a 45-day lag (MEFP ¶22) (newly proposed).	Continuous	To increase transparency and accountability	No TA involved
Publishing on the Ministry of Finance's (MOF) website ownership information and any information availalble about beneficial ownership of companies receiving public procurement contracts (same contracts as above)	Continuous	To increase transparency and accountability	LEG
Enhancing Monetary Policy and Financial Stability			
Conduct bank stress tests, with input from the IMF, to identify possible credit risk pressures due to the fallout from the COVID-19 pandemic	End-March 2021	To support financial sector stability	MCM
Submit the BCSTP organic law to Parliament (MEFP ¶27)	End-February 2021	To strengthen financial supervision and improve governance and oversight	MCM/LEG
Submit the revised financial institutions law, in consultation with IMF staff, to Parliament (MEFP ¶27)	End-March 2021	To strengthen financial supervision and improve governance and oversight	MCM/LEG
Activate the liquidity management toolkit to reduce excess liquidity during 2021 below the end-2020 levels, including by rolling over existing CD, and issuing CDs as needed.	End-December 2021	Stabilize excess liquidity and support the peg	MCM
Facilitating Business Activities			
Develop a plan to remove the country from the European Union's Air Safety blacklist	End-March 2021	To facilitate the recovery of the tourism sector	With World Bank support

Attachment II. Technical Memorandum of Understanding

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 which requires the obligor to make one or more payments in the form of assets (including currency)

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

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.

São Tomé and Príncipe: 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	3.38	3.8	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:

São Tomé and Príncipe: 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.

São Tomé and Príncipe: 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:

São Tomé and Príncipe: 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 non-concessional external debt by the central government or the BCSTP**. This continuous performance criterion covers the contracting or guaranteeing of new external debt of any maturity (including overdraft positions but excluding short-term import-related and supplier credits) by the central government and/or the BCSTP. Debt is considered non-concessional if it includes a grant element less than 35 percent. The grant element is the difference between the nominal value of the debt and its net present value, expressed as a percentage of the nominal value. The 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 Príncipe 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 2019 or end-December 2020, 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, budget support grants, 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 budget 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 budget 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, budget support 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

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

end-December 2019 or end-December 2020, 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 budget support grants and loans. Budget support loans in 2020 and 2021 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

December 23, 2020

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERION, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW — INFORMATIONAL ANNEX

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

CONTENTS

RELATIONS WITH THE FUND

(As of November 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	0.80	11.23

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF Loans	9.03	61.00
ECF Arrangements	9.55	64.50

V. Latest Financial Commitments:

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Oct 02, 2019	Feb 01, 2023	14.80	5.29
ECF	Jul 13, 2015	Dec 31, 2018	4.44	3.81
ECF	Jul 20, 2012	Jul 13, 2015	2.59	1.11

Outright Loans:

Type	Date of Commitment	Date Drawn	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	Apr 21, 2020	Apr 23, 2020	9.03	9.03

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		0.31	0.60	0.75	0.76
Charges/Interest		0.01	0.01	0.01	0.01
Total		0.32	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 can not 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
N/A	Oct 02, 2020	0.17	0.17

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 still needs to be finalized and 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
November 2020	AFRITAC remote mission on banking supervision
October 2020	STX remote mission on tax administration
September 2020	AFRITAC remote mission on government finance statistics
September 2020	FAD remote mission on tax administration
June 2020	STX remote mission on customs administration
June 2020	AFRITAC remote mission on commitment plans
June 2020	AFRITAC remote mission on macro-fiscal forecasts
June 2020	AFRITAC remote mission on national accounts
February 2020	AFRITAC mission on budget execution and controls
January 2020	LEG mission on financial institutions law
January 2020	STX mission tax administration
January 2020	AFRITAC mission on macro-fiscal framework
December 2019	LEG mission on BCSTP organic law
November 2019	MCM mission on monetary operations
November 2019	FAD mission on budget execution and controls
November 2019	STX mission on VAT and Excise implementation
November 2019	AFRITAC mission on national account statistics
September 2019	STX mission on government finance statistics
September 2019	AFRITAC Customs revenue mobilization
September 2019	STX mission tax administration
August 2019	MCM mission on open market operations
July 2019	STX mission tax administration
June 2019	STX mission revenue administration
May 2019	AFRITAC mission on banking reg. and supervision
May 2019	STX mission on revenue administration
May 2019	FAD mission on revenue administration
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

Date of Delivery	Department/Purpose
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
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 November 30, 2020)

	Date of Last Actual Observation	Date Received	Frequency of Data[6]	Frequency of Reporting	Frequency of Publication
Exchange rates	Nov 2020	Nov 2020	M	M	M
International reserve assets and reserve liabilities of the monetary authorities[1]	Nov 2020	Nov 2020	M	M	M
International investment position	Q3 2019	Jan 2020	Q	Q	Q
Reserve/base money	Sep 2020	Oct 2020	M	M	M
Broad money	Sep 2020	Oct 2020	M	M	M
Central bank balance sheet	Sep 2020	Oct 2020	M	M	M
Consolidated balance sheet of the banking system	Sep 2020	Oct 2020	M	M	M
Interest rates[2]	July 2020	Aug 2020	M	M	M
Consumer Price Index	Sep 2020	Oct 2020	M	M	M
Revenue, expenditure, balance and composition of financing[3] – general government[4]	Oct 2020	Nov 2020	M	M	M
Revenue, expenditure, balance and composition of financing[3] – central government	Oct 2020	Nov 2020	M	M	M
Stocks of central government and central government-guaranteed debt[5]	Q2 2020	Oct 2020	M	Q	Q
External current account balance	Q2 2020	Oct 2020	Q	Q	Q
Exports and imports of goods	Q2 2020	Oct 2020	Q	Q	Q
GDP/GNP[6]	2019	Mar 2020	A	A	A
Gross external debt	Q2 2020	Oct 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).

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

December 23, 2020

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

Approved By
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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 large domestic arrears of the loss-making state-owned utility company (EMAE) highlight 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 relatively low external debt ratios. While the present value (PV) of the external public and publicly guaranteed (PPG) debt-to-GDP and debt-to-exports ratio breach their thresholds in 2020 and 2021 due to the COVID-19 shock, all other external PPG debt burden indicators remain below their thresholds throughout the projection horizon in the baseline scenario.*[1, 2] *The PV of total PPG debt (after accounting for the concessional terms of EMAE's and central government debt and arrears to the country's fuel supplier, ENCO) is projected to breach the benchmark associated with a weak debt-carrying capacity (35 percent of GDP) through 2025. As its downward trajectory remains intact, predicated on the authorities' commitment to implement EMAE's planned reforms and borrow externally only on concessional terms at a measured pace, public debt sustainability is preserved but now subject to larger risks. The likelihood of contingent liabilities materializing, particularly ENCO's arrears to its parent company Sonangol (a state-owned company of Angola), remains low.*

[1] 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.

[2] São Tomé and Príncipe has requested participation in the DSSI from all its official bilateral creditors, and on August 12,2020, Portugal, Brazil, and members of the Paris Club formally issued an MOU accepting the 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. Around $1.4 million of debt service to Portugal has been rescheduled as per the DSSI. Pending confirmation, DSSI terms are not applied to eligible debt from other bilateral creditors (Equatorial Guinea and Angola).

PUBLIC DEBT COVERAGE

1. **For the purpose of the DSA for São Tomé and Príncipe, PPG debt includes central government's and EMAE's, an utility state-owned enterprise (SOE), debt.**[3 4] EMAE has been accumulating arrears over the years to its fuel supplier, ENCO, totaling over 26 percent of GDP at end-2019.[5 6] Three state owned enterprises (SOEs) besides EMAE— ENAPORT, ENASA, and *Correios*—are not included in the analysis due to lack of reliable data.[7] Nevertheless, the potential liabilities from these SOEs are included in the contingent liability stress test assuming 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) at end-2019 as well as an estimated fines of $12.4 million (around 3 percent of GDP) imposed by the Permanent Court of Arbitration regarding the 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.

[3] 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.

[4] 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 too, consistent with the treatment of other pre-HIPC debt. Details about this loan are presented in Text Table 4.

[5] ENCO is registered 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.

[6] 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, is registered domestically.

[7] ENAPORT and ENASA continue to improve data collection efforts, and as per the November 2020 mission, will look toward providing debt statistics for the DSA in the future.

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 (US$30 million) for both public and external DSA, and ENCO's arrears to Sonangol (US$49.1 million) and Permanent Court of Arbitration fine (US$3.0 million) 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 66.2 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 percent of GDP in 2019 relative to 2015 to around 98 percent of GDP.** Central government debt increased by close to 2.5 percent of GDP over the same time period, the remaining increase was due to debt accumulated outside the central government. PPG debt includes the arrears of the state-owned utility company, EMAE, to its fuel supplier ENCO, which rose to around $115 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.**[8] 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.

[8] The arrears to Brazil have been rescheduled as per the DSSI initiative.

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 (US$30.6 million) and Italy (US$24.3 million), in total US$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 US$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 (US$4.8 million), Brazil (US$4.3 million), and Equatorial Guinea (US$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 baseline scenario.
Domestic arrears (9.1 percent of GDP)	São Tomé and Príncipe has domestic arrears to the telecom company CST (US$6.6 million), the water and electricity company EMAE (US$5 million), and other private suppliers (US$22 million, mostly construction companies). In total, the domestic arrears amount to US$33.6 million.	Included in the baseline scenario.
Disputed debt (7.1 percent of GDP)	A loan from Nigeria in the amount of US$30 million was excluded from the debt stock, as there is no signed contract with repayment conditions between the two countries. Nonetheless, the authorities acknowledged 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 an economic recession in 2020, with the economy expected to gradually recover over the following few years.** Real GDP in 2020 is projected to decline by 6.5 percent, compared with pre-crisis projections of a 3.5 percent increase, while the dollar GDP trajectory has been changed to reflect revised exchange rate projections. Average real

growth and inflation are both revised down to 3.9 percent and 4 percent, respectively (compared with 4.3 percent and 4 percent in the September 2019 DSA), throughout the 2020-40 projection horizon. The domestic primary budget deficit now averages 1 percent of GDP through the projection horizon compared with 1.3 percent in the previous DSA. Real GDP is expected to return to pre-pandemic levels in 2022 with the implementation of long-delayed construction projects and a recovery in tourism and global demand.

Text Table 5. São Tomé and Príncipe: 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	3.9
Inflation (percent average)	11.9	9.5	6.7	4.0	4.0
GDP deflator (percent)	5.8	4.1	4.1	2.8	3.7
Domestic primary balance (percent of GDP)	-3.9	-3.7	-3.1	-0.9	-1.0
Grants (percent of GDP)	16.7	15.9	10.1	5.2	4.1
New borrowing (percent of GDP)	7.5	7.4	2.0	1.4	2.0
FDI (percent of GDP)	13	8.9	6.8	11.8	7.3
USD export growth (percent)	24.6	20.8	2.5	8.3	7.9
USD import growth (percent)	10.3	7.1	1.0	5.9	5.9
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	-8.9

[1] IMF Country Report No. 19/325

C. Country Classification

5. **The country's debt carrying capacity is currently assessed to be weak under the 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 currently classifies São Tomé and Príncipe as a country with weak debt-carrying capacity (Text table 6). [9] The applicable thresholds for the ratios of the present value (PV) of PPG external debt relative to GDP and exports are 30 percent and 140 percent, compared with 40 and 180 percent respectively used in the 2020 ECF First Review DSA when the country was assessed as having a medium debt-carrying capacity. The thresholds for PPG external debt service to exports and revenue are 10 percent and 14 percent, compared with 15 and 18 percent earlier. The threshold for the PV of total PPG debt is 35 percent of GDP, compared to the 55 percent used in the August 2020 DSA.

[9] The composite index on debt-carry capacity is periodically updated. In the August 2020 DSA, the country's debt carrying capacity was assessed to be medium. The change from medium to weak debt-carrying capacity implies lower debt sustainability thresholds for key debt indictors.

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
Weak	Weak	Weak	Medium
	2.678	2.685	2.705

DEBT SUSTAINABILITY

A. External Debt Sustainability

6. The DSA indicates that total external PPG debt is sustainable under the program baseline (Figure 1). Under the baseline scenario, the external PPG debt stock and debt service ratios remain below the DSA threshold values throughout the projection horizon, except for a one-time breach of the debt-to-GDP ratio in 2020, and a temporary breach of the debt-to-exports ratio in 2020 and 2021. The PV of PPG external debt-to-GDP ratio remains below the threshold of 30 percent from 2021 onwards. The PV of PPG external debt-to-exports ratio remains around 21-51percentage points below the threshold of 140 percent of GDP from 2022 onward. 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 below their threshold values of 10 and 14 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 extreme 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 percent of GDP), ENCO's arrears to Sonangol (49.1 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 (49.1 out of 66.2 percent of GDP) represent the primary contingent liability in this extreme shock scenario.[10] These results highlight the importance of developing a clearance plan for EMAE's arrears to ENCO, as well as promoting strong export growth.

[10] The size of the Sonangol shock (49.1 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).** After accounting for the concessional terms of EMAE's and central government's debt to ENCO (grant element over 80 percent), the PV of PPG debt is projected to breach the DSA threshold of 35 percent through 2025 before gradually declining to around 27 percent of GDP by 2030. As its downward trajectory remains intact, predicated on the authorities' commitment to continue its fiscal consolidation, implement EMAE's planned reforms, and borrow externally only on concessional terms at a measured pace, public debt sustainability is preserved but now subject to larger risks. In this regard, it would be important to develop an active plan to gradually strengthen STP's debt-carrying capacity against a very uncertain global economic backdrop and preserve debt sustainability. Should downside risks materialize and lead to a further deterioration of the debt situation (compared to staff's baseline), additional fiscal efforts, an improved financing mix (geared toward more grants and highly concessional borrowing), and/or further debt relief would be needed to safeguard debt sustainability.

9. **All the three total PPG debt ratios (PV of debt-to-GDP, PV of debt-to-revenue, and debt service-to-revenue) are sensitive to a primary balance shock.** Under such a primary balance 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 presence of significant arrears of EMAE to its supplier also reflect severe liquidity constraints in 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 state-owned enterprise, EMAE, and continues to borrow externally at concessional terms. São Tomé and Príncipe continues to actively seek rescheduling agreements with the creditors.

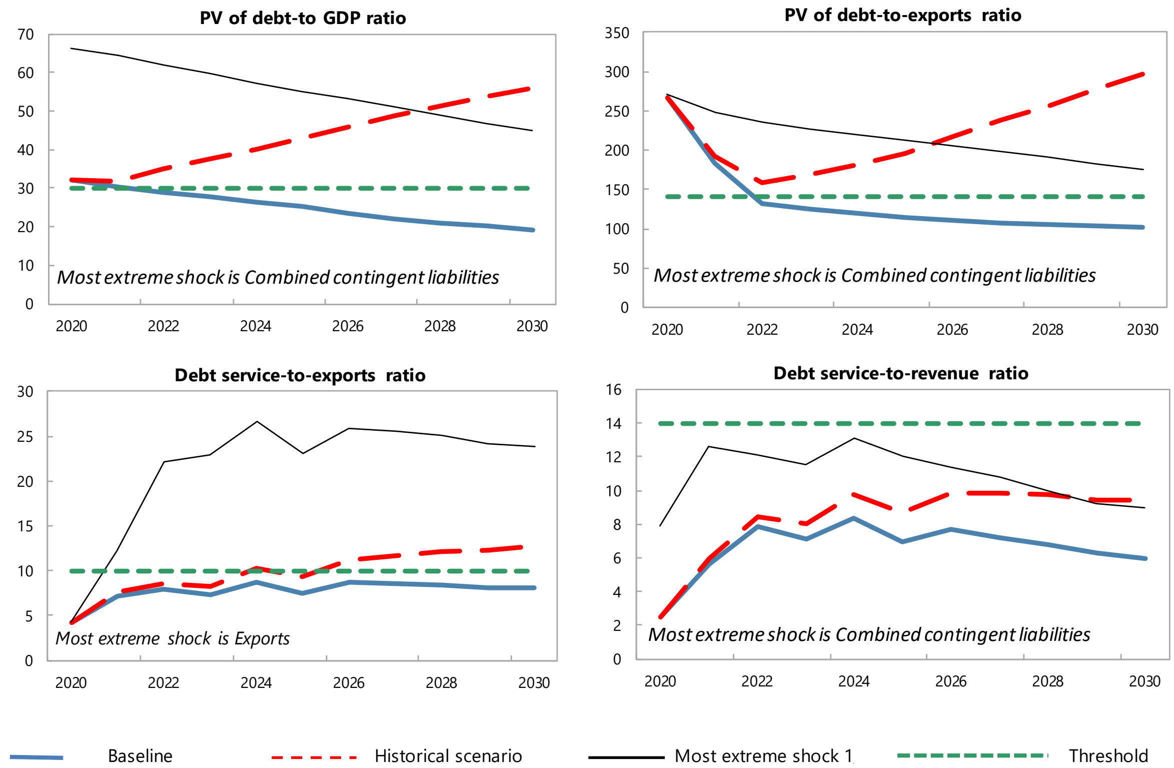
11. **Despite the downgrade of STP's debt-carrying capacity to weak and the in debt distress rating, PPG external and total debt remain sustainable.** The weak debt carrying capacity implies that lower debt burden indicator thresholds and some temporary threshold breaches of external and total PPG debt are observed. Despite the temporary breaches, the PV of external debt-to-GDP remains below its thresholds from 2021 through the projection horizon, and the PV of discounted PPG debt-to-GDP remains below its threshold from 2025 through the projection horizon.

12. **The baseline is subject to substantial external risks**. Stress tests indicate that the country's debt is especially vulnerable to shocks to exports, the fiscal primary balance, and combined contingent liabilities. 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. The authorities are aware of the implications for debt sustainability due to the downgrade in debt-carrying capacity and remain committed to activating contingencies on the fiscal front should the need arise. 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 addressing 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 per annum. 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.

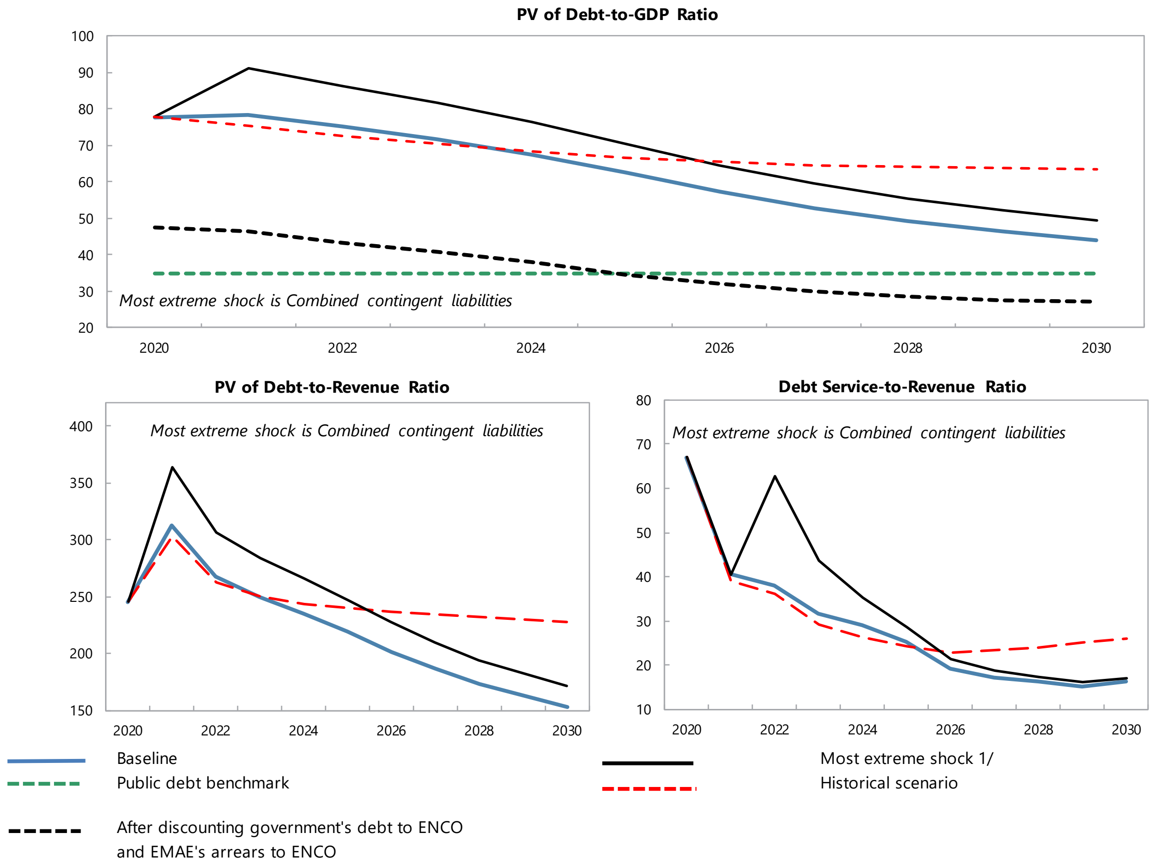
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.8%	1.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	23	23
Avg. grace period	9	9

* 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



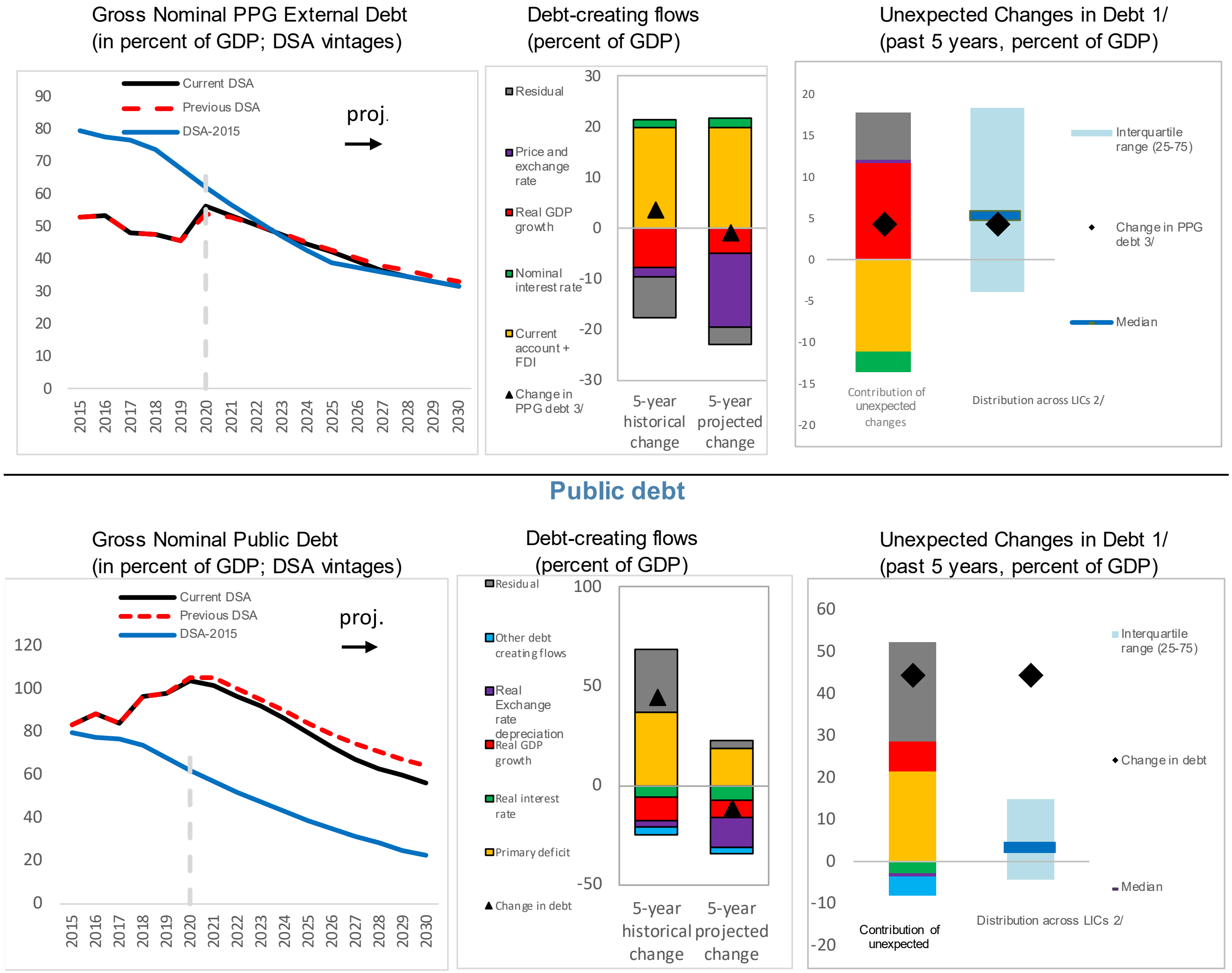
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	34%	34%
Domestic medium and long-term	14%	14%
Domestic short-term	74%	52%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.8%	1.8%
Avg. maturity (incl. grace period)	23	23
Avg. grace period	9	9
Domestic MLT debt		
Avg. real interest rate on new borrowing	-4.0%	-4.0%
Avg. maturity (incl. grace period)	100	100
Avg. grace period	99	99
Domestic short-term debt		
Avg. real interest rate	-3.0%	-3.0%

* 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 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. 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 externe 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



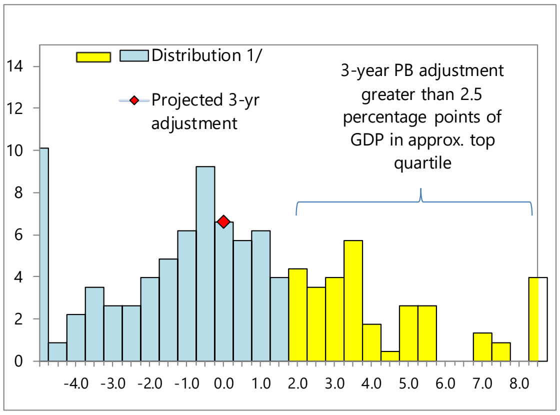
1/ Difference between anticipated and actual contributions on debt ratios.

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.

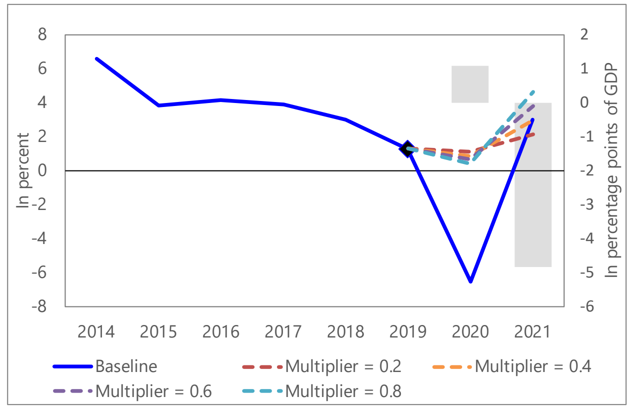
Figure 4. São Tomé and Príncipe: Realism Tools

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



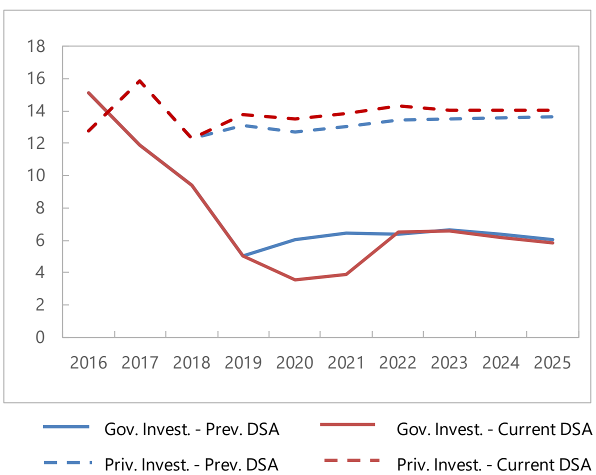
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)

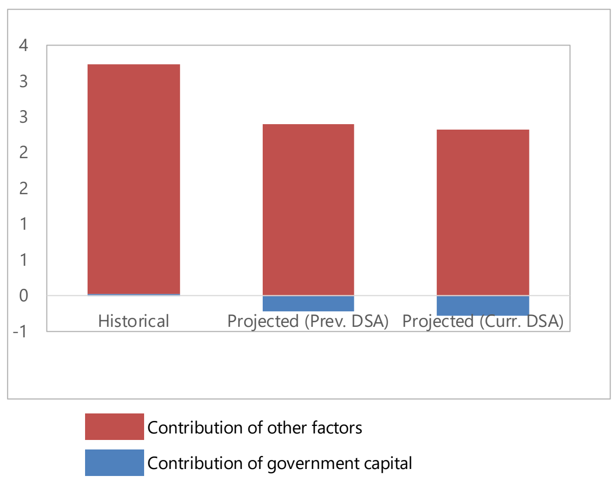
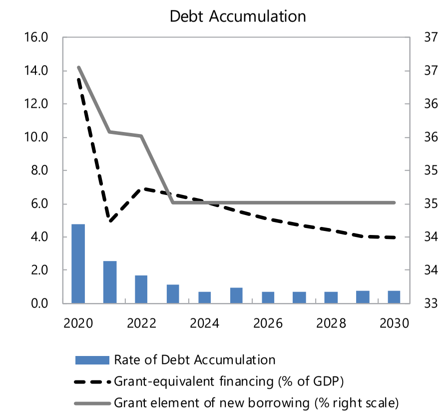


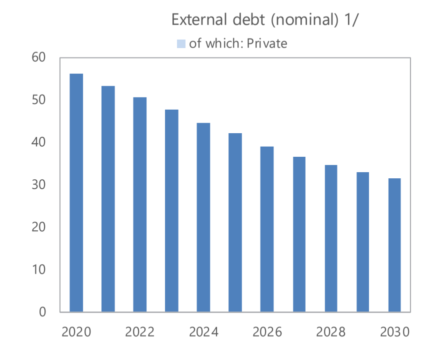
Table 1. São Tomé and Príncipe: External Debt Sustainability Framework, Baseline Scenario, 2018-2040

(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	56.2	53.4	50.6	47.7	44.7	42.0	31.4	27.7	41.8	42.7
of which: public and publicly guaranteed (PPG)	47.7	45.7	56.2	53.4	50.6	47.7	44.7	42.0	31.4	27.7	41.8	42.7
Change in external debt	-0.5	-2.0	10.5	-2.8	-2.8	-2.9	-3.0	-2.6	-1.5	0.2		
Identified net debt-creating flows	2.6	4.7	13.9	6.1	-0.8	-0.8	-1.2	-1.5	-1.1	0.5	4.8	0.8
Non-interest current account deficit	12.1	11.9	17.6	14.6	8.6	7.8	7.6	7.5	7.8	7.6	16.1	9.2
Deficit in balance of goods and services	24.9	22.4	30.3	21.6	18.3	17.4	16.9	16.1	14.6	14.3	35.3	17.7
Exports	23.6	22.8	12.1	16.5	22.0	22.2	22.1	22.0	18.9	16.9		
Imports	48.5	45.2	42.4	38.2	40.2	39.6	39.0	38.1	33.5	31.2		
Net current transfers (negative = inflow)	-12.6	-10.3	-13.1	-7.0	-9.4	-9.4	-9.0	-8.4	-6.8	-6.6	-18.8	-8.4
of which: official	-8.7	-6.6	-11.2	-3.8	-5.9	-5.8	-5.4	-4.9	-3.3	-3.0		
Other current account flows (negative = net inflow)	-0.2	-0.2	0.4	0.0	-0.3	-0.2	-0.3	-0.1	0.0	-0.1	-0.4	0.0
Net FDI (negative = inflow)	-5.1	-7.1	-6.7	-7.4	-7.6	-7.2	-7.4	-7.6	-7.8	-6.3	-8.8	-7.5
Endogenous debt dynamics 2/	-4.4	-0.1	2.9	-1.2	-1.8	-1.4	-1.4	-1.4	-1.0	-0.8		
Contribution from nominal interest rate	0.2	0.6	-0.1	0.3	0.6	0.6	0.6	0.4	0.4	0.4		
Contribution from real GDP growth	-1.3	-0.6	3.0	-1.5	-2.4	-2.0	-2.0	-1.9	-1.4	-1.2		
Contribution from price and exchange rate changes	-3.3	-0.1	...	...	...	...	...	...	...	...		
Residual 3/	-3.1	-6.6	-3.3	-8.9	-1.9	-2.1	-1.8	-1.2	-0.5	-0.3	-3.4	-2.1
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	...	27.2	32.2	30.1	29.0	27.8	26.3	25.2	19.1	16.3		
PV of PPG external debt-to-exports ratio	...	119.4	267.1	182.4	132.2	125.1	118.8	114.1	101.4	96.6		
PPG debt service-to-exports ratio	2.6	4.5	4.2	7.2	8.0	7.3	8.8	7.5	8.1	5.6		
PPG debt service-to-revenue ratio	3.7	5.6	2.5	5.6	7.9	7.1	8.3	7.0	6.0	3.1		
Gross external financing need (Million of U.S. dollars)	31.8	24.6	48.0	40.8	14.5	12.6	13.2	10.9	15.3	44.8		
Key macroeconomic assumptions												
Real GDP growth (in percent)	3.0	1.3	-6.5	3.0	5.0	4.2	4.5	4.5	4.5	4.5	4.2	3.4
GDP deflator in US dollar terms (change in percent)	7.3	0.2	6.2	11.9	4.5	4.0	3.7	3.6	4.0	2.0	4.4	5.1
Effective interest rate (percent) 4/	0.4	1.2	-0.2	0.6	1.2	1.2	1.3	1.0	1.2	1.5	0.9	1.0
Growth of exports of G&S (US dollar terms, in percent)	13.9	-1.9	-47.5	58.0	45.9	9.7	8.0	7.8	5.7	5.5	19.4	10.0
Growth of imports of G&S (US dollar terms, in percent)	4.3	-5.3	-7.1	3.8	15.7	6.8	6.7	5.7	7.6	5.2	7.5	5.7
Grant element of new public sector borrowing (in percent)	...	...	36.6	35.6	35.5	34.5	34.5	34.5	34.5	34.5	...	34.9
Government revenues (excluding grants, in percent of GDP)	16.8	18.5	20.5	21.3	22.2	22.9	23.3	23.7	25.5	30.8	17.7	23.4
Aid flows (in Million of US dollars) 5/	40.5	31.1	64.5	23.7	36.3	33.6	33.7	32.9	34.2	60.9		
Grant-equivalent financing (in percent of GDP) 6/	...	...	13.5	4.9	6.9	6.5	6.1	5.6	4.0	3.7	...	6.0
Grant-equivalent financing (in percent of external financing) 6/	...	...	77.4	71.1	78.1	83.3	82.3	81.0	75.2	74.0	...	78.1
Nominal GDP (Million of US dollars)	416	422	419	483	530	574	622	673	1,039	2,005		
Nominal dollar GDP growth	10.6	1.5	-0.7	15.2	9.8	8.4	8.3	8.3	8.7	6.6	8.7	8.6
Memorandum items:												
PV of external debt 7/	...	27.2	32.2	30.1	29.0	27.8	26.3	25.2	19.1	16.3		
In percent of exports	...	119.4	267.1	182.4	132.2	125.1	118.8	114.1	101.4	96.6		
Total external debt service-to-exports ratio	2.6	4.5	4.2	7.2	8.0	7.3	8.8	7.5	8.1	5.6		
PV of PPG external debt (in Million of US dollars)		114.8	134.8	145.4	153.7	159.6	163.6	169.4	198.8	327.2		
(PVt-PVt-1)/GDPt-1 (in percent)			4.8	2.5	1.7	1.1	0.7	0.9	0.8	1.2		
Non-interest current account deficit that stabilizes debt ratio	12.6	13.9	7.1	17.4	11.3	10.7	10.6	10.2	9.3	7.4		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections 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.

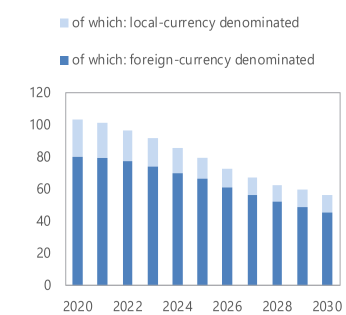
Table 2. São Tomé and Príncipe: Public Sector Debt Sustainability Framework, Baseline Scenario, 2018-2040

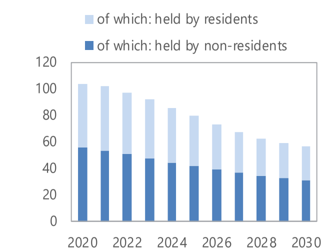
(In percent of GDP, unless otherwise indicated)

	Actual		Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	96.2	97.7	103.5	101.7	96.8	91.7	85.9	79.4	56.5	51.3	**65.0**	**79.8**
of which: external debt	47.7	45.7	56.2	53.4	50.6	47.7	44.7	42.0	31.4	27.7	**41.8**	**42.7**
Change in public sector debt	11.9	1.5	5.8	-1.8	-4.9	-5.1	-5.8	-6.5	-3.0	5.0		
Identified debt-creating flows	6.0	-0.6	-0.7	-1.0	-4.2	-4.5	-5.3	-6.2	-3.1	4.6	**3.1**	**-4.1**
Primary deficit	8.0	4.1	3.0	7.9	4.1	2.4	1.3	0.2	1.3	7.1	**7.6**	**2.1**
Revenue and grants	25.2	25.0	31.7	25.1	28.1	28.7	28.8	28.6	28.8	33.8	**30.8**	**28.5**
of which: grants	8.3	6.6	11.2	3.8	5.9	5.8	5.4	4.9	3.3	3.0		
Primary (noninterest) expenditure	33.2	29.1	34.7	32.9	32.2	31.1	30.1	28.8	30.1	40.9	**38.4**	**30.6**
Automatic debt dynamics	-1.7	-3.9	-3.1	-8.3	-7.8	-6.4	-6.1	-5.9	-4.2	-2.4		
Contribution from interest rate/growth differential	-4.2	-2.9	4.8	-5.0	-6.1	-5.1	-5.0	-4.8	-3.3	-2.4		
of which: contribution from average real interest rate	-1.7	-1.7	-2.0	-2.0	-1.3	-1.2	-1.1	-1.1	-0.8	-0.4		
of which: contribution from real GDP growth	-2.5	-1.2	6.8	-3.0	-4.8	-3.9	-3.9	-3.7	-2.6	-2.0		
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	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.3	-0.1	**-0.8**	**-0.4**
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	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-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	2.1	-1.3	-4.1	-2.3	-1.9	-1.6	-1.4	-0.7	0.4	**3.5**	**-1.7**
Sustainability indicators												
PV of public debt-to-GDP ratio 2/	...	79.4	77.8	78.3	75.1	71.8	67.5	62.5	44.2	40.0		
PV of public debt-to-revenue and grants ratio	...	316.9	245.6	312.2	267.4	250.0	234.8	218.7	153.3	118.2		
Debt service-to-revenue and grants ratio 3/	...	...	67.0	40.6	38.1	31.6	29.0	25.2	16.4	24.3		
Gross financing need 4/	8.5	5.1	23.6	17.4	14.2	11.0	9.1	6.9	5.8	15.2		
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	3.0	1.3	-6.5	3.0	5.0	4.2	4.5	4.5	4.5	4.5	**4.2**	**3.4**
Average nominal interest rate on external debt (in percent)	0.4	1.3	-0.2	0.5	1.2	1.2	1.3	1.0	1.2	1.5	**0.9**	**1.0**
Average real interest rate on domestic debt (in percent)	-2.5	-5.4	-3.3	-3.8	-3.4	-3.4	-3.4	-3.4	-3.8	-2.0	**-6.4**	**-3.8**
Real exchange rate depreciation (in percent, + indicates depreciation)	3.8	-1.4	...	...	...	...	...	...	...	...	**-2.3**	**...**
Inflation rate (GDP deflator, in percent)	2.6	5.7	4.0	4.0	3.5	3.5	3.5	3.5	4.0	2.0	**7.3**	**4.0**
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.2	-11.0	11.3	-2.3	2.6	0.9	0.9	-0.1	5.9	22.7	**-0.2**	**3.7**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-3.9	2.6	-2.8	9.7	9.0	7.5	7.1	6.7	4.3	2.0	**3.0**	**5.8**
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	-0.5	-1.7	2.9	-0.5	-1.0	-1.1	-1.4	1.1	7.0	**5.6**	**0.0**
EMAE loss	3.3	3.8	4.1	4.4	4.0	2.9	1.9	1.1	0.0	0.0	**1.2**	**1.7**

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	**32**	**30**	29	28	26	25	24	22	21	20	19
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	**32**	**32**	**35**	**38**	**40**	**43**	**46**	**49**	**51**	**54**	**56**
B. Bound Tests											
B1. Real GDP growth	**32**	**31**	**30**	29	28	26	25	23	22	21	20
B2. Primary balance	**32**	**33**	**34**	**33**	**31**	30	28	26	25	24	23
B3. Exports	**32**	**35**	**42**	**41**	**39**	**37**	**35**	**33**	**31**	30	29
B4. Other flows 3/	**32**	**38**	**44**	**42**	**40**	**39**	**36**	**34**	**33**	**31**	30
B5. One-time 30 percent nominal depreciation	**32**	**37**	**31**	30	28	27	25	24	22	21	20
B6. Combination of B1-B5	**32**	**41**	**43**	**41**	**39**	**37**	**35**	**33**	**31**	30	29
C. Tailored Tests											
C1. Combined contingent liabilities	**32**	**73**	**70**	**67**	**64**	**61**	**58**	**55**	**52**	**50**	**48**
C2. Natural disaster	**32**	**37**	**36**	**35**	**33**	**32**	**30**	29	28	27	26
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	**267**	**182**	132	125	119	114	111	108	105	103	101
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	**267**	**192**	**159**	**169**	**182**	**195**	**216**	**238**	**257**	**277**	**297**
B. Bound Tests											
B1. Real GDP growth	**267**	**182**	132	125	119	114	111	108	105	103	101
B2. Primary balance	**267**	**199**	**156**	**148**	**141**	135	132	129	126	123	121
B3. Exports	**267**	**351**	**499**	**473**	**451**	**434**	**423**	**414**	**405**	**398**	**391**
B4. Other flows 3/	**267**	**229**	**201**	**190**	**182**	**175**	**171**	**167**	**163**	**160**	**158**
B5. One-time 30 percent nominal depreciation	**267**	**182**	116	110	104	100	97	94	91	90	88
B6. Combination of B1-B5	**267**	**340**	**178**	**341**	**325**	**313**	**305**	**298**	**292**	**286**	**281**
C. Tailored Tests											
C1. Combined contingent liabilities	**267**	**443**	**318**	**301**	**289**	**278**	**272**	**267**	**262**	**258**	**254**
C2. Natural disaster	**267**	**227**	**165**	**158**	**151**	**146**	**144**	**141**	139	138	137
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	4	7	8	7	9	8	9	9	8	8	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	4	8	9	8	**10**	9	**11**	**12**	**12**	**12**	**13**
B. Bound Tests											
B1. Real GDP growth	4	7	8	7	9	8	9	9	8	8	8
B2. Primary balance	4	7	8	8	9	8	9	9	9	9	9
B3. Exports	4	**12**	**22**	**23**	**27**	**23**	**26**	**26**	**25**	**24**	**24**
B4. Other flows 3/	4	7	9	9	**10**	9	**10**	10	10	9	9
B5. One-time 30 percent nominal depreciation	4	7	8	7	8	7	8	8	8	8	8
B6. Combination of B1-B5	4	**11**	**18**	**17**	**20**	**17**	**19**	**19**	**19**	**18**	**18**
C. Tailored Tests											
C1. Combined contingent liabilities	4	7	**13**	**12**	**13**	**12**	**13**	**12**	**12**	**12**	**11**
C2. Natural disaster	4	7	9	8	10	8	10	9	9	9	9
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	3	6	8	7	8	7	8	7	7	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	3	6	8	8	10	9	10	10	10	9	9
B. Bound Tests											
B1. Real GDP growth	3	6	8	7	9	7	8	8	7	7	6
B2. Primary balance	3	6	8	8	9	7	8	8	7	7	6
B3. Exports	3	6	8	9	10	8	9	8	8	7	7
B4. Other flows 3/	3	6	9	9	10	8	9	8	8	7	7
B5. One-time 30 percent nominal depreciation	3	7	10	8	10	8	9	9	8	7	7
B6. Combination of B1-B5	3	6	10	9	10	9	9	9	8	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	3	6	13	12	12	11	11	10	10	9	8
C2. Natural disaster	3	6	9	8	9	8	8	8	7	7	6
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

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

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of Debt-to-GDP Ratio											
Baseline	**78**	**78**	**75**	**72**	**68**	**63**	**57**	**53**	**49**	**47**	**44**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	**78**	**75**	**73**	**70**	**68**	**67**	**66**	**65**	**64**	**64**	**64**
B. Bound Tests											
B1. Real GDP growth	**78**	**81**	**81**	**78**	**74**	**69**	**64**	**60**	**57**	**54**	**52**
B2. Primary balance	**78**	**82**	**82**	**78**	**73**	**67**	**62**	**57**	**53**	**50**	**47**
B3. Exports	**78**	**83**	**88**	**84**	**79**	**74**	**68**	**63**	**59**	**56**	**53**
B4. Other flows 3/	**78**	**86**	**90**	**86**	**81**	**76**	**70**	**65**	**61**	**58**	**55**
B5. One-time 30 percent nominal depreciation	**78**	**84**	**78**	**73**	**67**	**61**	**54**	**48**	**43**	**39**	**36**
B6. Combination of B1-B5	**78**	**78**	**76**	**69**	**65**	**60**	**55**	**50**	**46**	**44**	**41**
C. Tailored Tests											
C1. Combined contingent liabilities	**78**	**91**	**86**	**82**	**76**	**71**	**65**	**59**	**55**	**52**	**49**
C2. Natural disaster	**78**	**89**	**85**	**81**	**76**	**70**	**65**	**60**	**56**	**53**	**50**
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	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	246	312	267	250	235	219	202	186	173	163	153
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	246	303	263	250	244	240	237	234	232	230	228
B. Bound Tests											
B1. Real GDP growth	246	322	284	268	254	240	224	210	197	190	181
B2. Primary balance	246	329	293	272	254	236	217	199	185	174	163
B3. Exports	246	329	313	293	276	259	240	222	207	197	185
B4. Other flows 3/	246	343	321	300	283	265	246	228	213	202	190
B5. One-time 30 percent nominal depreciation	246	337	282	259	238	216	193	172	153	139	125
B6. Combination of B1-B5	246	314	271	243	227	210	193	177	163	154	144
C. Tailored Tests											
C1. Combined contingent liabilities	246	364	307	284	265	247	227	209	194	183	171
C2. Natural disaster	246	354	300	280	262	245	226	210	195	185	174
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	67	41	38	32	29	25	19	17	16	15	16
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	67	39	36	29	26	24	23	23	24	25	26
B. Bound Tests											
B1. Real GDP growth	67	41	41	35	33	30	24	22	21	20	22
B2. Primary balance	67	41	45	42	34	28	21	19	17	16	17
B3. Exports	67	41	38	33	30	26	20	18	17	16	17
B4. Other flows 3/	67	41	39	33	30	26	20	18	17	16	17
B5. One-time 30 percent nominal depreciation	67	39	38	30	30	26	20	18	17	16	17
B6. Combination of B1-B5	67	39	37	31	28	25	19	17	16	15	16
C. Tailored Tests											
C1. Combined contingent liabilities	67	41	63	44	35	29	21	19	17	16	17
C2. Natural disaster	67	41	56	41	35	29	22	20	19	17	18
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 the Staff Representative on
the Democratic Republic of São Tomé and Príncipe
February 26, 2021

This staff statement provides an update on the status of prior actions, financial assurances, and new developments since the staff report was issued. The statement does not alter the thrust of the staff appraisal.

Prior Actions on Fiscal Transparency and on the 2021 Budget

1. **The prior action on publication of procurement contracts, adjudication notices and ex-post validation of delivery reports has been met.** On January 25, 2020, the full set of information required under the prior action was made available on the Ministry's website.[1] The authorities have also continued publishing monthly COVID-19 related expenditure, now available up to December 2020.

2. **The prior action on the 2021 budget has been met.** The domestic primary balance under the 2021 budget, approved by parliament, is in line with the program target, thus supporting program implementation in 2021. The budget contains, however, some spending reallocations, including higher personnel expenses (by 0.3 percent of GDP) and lower domestically financed emergency COVID-19-related allocations (by a similar amount). According to the authorities, the increase in personnel expenses was prompted by the need for new hiring in the health and education sectors, in part to address more permanent pandemic-related demands (e.g., staffing and social distancing in new schools). The authorities do not expect the reductions in COVID-19 related expenditure to reduce pro-poor spending nor to undermine the achievement of the program's indicative floor on such spending. The higher personnel expenditures may require additional policy actions to meet the authorities' MEFP commitment to gradually reduce the civil service wage bill to close to 10 percent by 2023. Staff will continue to follow up on this issue during the remainder of the program.

Financial Assurances

3. Angola and Equatorial Guinea, with which São Tomé and Príncipe has external payment arrears, have provided consent to the completion of the Second ECF Review.

[1] https://www.financas.gov.st/index.php/publicacoes/documentos/category/195-dezembro.

Update on New Developments

4. The authorities have informed staff that preliminary end-December outturns indicate that they are on track to meet key end-year program targets for the subsequent review. Specifically, they estimate the 2020 domestic primary deficit at about 4 percent of GDP (program target 6.3 percent of GDP), and international reserves at end-December were US$37 million (program floor US$25 million). In February, the authorities reported preliminary 2020 GDP estimates that indicated positive real GDP growth. Staff will verify this and other information for the subsequent review.

Statement by Mr. Andrianarivelo Executive Director for the Democratic Republic of São Tomé and Príncipe and Mr. Carvalho da Silveira, Advisor to the Executive Director on Democratic Republic of São Tomé and Príncipe
February 26, 2021

Introduction

1. On behalf of the authorities of Sao Tome and Principe (STP), we thank Management and staff for their engagement and unwavering support to STP during these trying times. The authorities broadly agree with staff's assessment of the economy and policy recommendations for the period ahead. Mindful of the challenges going forward, many of which exacerbated by the Covid-19 pandemic, the authorities reaffirm their commitment to the overall program objectives aimed at achieving macroeconomic stability and promoting inclusive growth. Therefore, they request the Executive Board's support for the completion of the second review under the Extended Credit Facility (ECF) and approval of the waiver for nonobservance of performance criterion.

Recent Developments

2. Despite the early success with the first wave of the pandemic, many challenges lie ahead as the country faces a second surge in January 2021. The recent significant spike in the number of Covid-19 daily cases prompted the government to extend the state of calamity for the island of Sao Tome to February 15, 2021. The state of emergency was also reinstated and extended for Principe island to February 20, 2021. These orders were complemented with new prevention and containment measures. As of February 23, 2021, the total cases recorded stood at 1655, of which 1271 recovered and 26 died. The World Bank will support the country's COVID-19 immunization plan and help with the purchase and distribution of vaccines in alignment with the COVID-19 Vaccines Global Access (COVAX) Facility. The first phase of the vaccine rollout will cover 20 percent of the population and is planned to start in April 2021.

3. The authorities expect Real GDP to drop to -6.5 percent in 2020 from 1.3 percent in 2019 due to disruptions in the tourism and service industries, global supply chains as well as delays in externally financed projects. While the 2019 tax package has improved fiscal revenues more than initially foreseen, it was not enough to offset the increase in Covid-19 related spending and wages, which continue to exert considerable pressures on public finances and the already high debt levels. Therefore, the fiscal deficit is expected to increase from 1.8 percent of GDP in 2019 to about 4 percent at year-end 2020. Inflation has also increased to about 10 percent in 2020 and should decline gradually over time. In addition, the current account deficit is anticipated to expand to 17.5 percent in 2020, notably on the back of lower external demand and a drop in remittances. Credit growth to the private sector has also slowed down during the period.

Outlook

4. The economic recovery is underway, but risks abound. In line with staff estimates, the authorities expect real GDP growth to rebound back to 3 percent in 2021 and firm up at around 4.5 percent over the medium-term as tourism activities pick up and infrastructure projects materialize. They are nevertheless aware of risks stemming from delays to vaccination, a more protracted pandemic, and difficulties controlling the new virus outbreak, as well as setbacks to fiscal adjustment and energy sector reforms. Notwithstanding these uncertainties, the authorities have restated their commitment to steadfastly implement the reform agenda envisaged under the program and take additional steps should downside risks materialize.

Performance under the ECF

5. Although overall conditions remain difficult, the implementation of the ECF program progressed in 2020. All end-June 2020 performance criteria (PCs) and Indicative Targets (ITs) were met, except the ones on the domestic primary balance and floor on revenues, mostly due to the fact that they were set prior to the pandemic. Preliminary data indicates that end-December 2020 PCs are firmly on track as the authorities expect to outperform the domestic primary deficit. The authorities recognize that progress on Structural Benchmarks has been somehow limited and emphasize that Covid-19 disruptions and capacity constraints impacted the implementation of the VAT IT system and EMAE reforms. Notwithstanding, they managed to retain fuel prices to support revenue efforts and publish Covid-19 spending reports and public procurement contracts, including the beneficiary ownership information, albeit with delays due to operational challenges. Moreover, the draft of the central bank Organic Law has been completed, pending submission to the Parliament in February 2021, while advances were also made in finalizing the Financial Institutions Law.

Policy Response for 2021 and Beyond

Fiscal Policy

6. The authorities' short-term priority remains to mitigate the social and economic impact of the pandemic, gradually resume fiscal consolidation, and set the stage for a quick recovery without losing sight of medium-term macroeconomic and debt sustainability.

7. Forceful measures have been taken to achieve the 2020 fiscal targets. Preliminary data indicates that the 2020 domestic fiscal deficit (DPD) will reach about 4 percent of GDP, about 2.3 percent lower the program target. This results from strong revenue windfall from tax measures introduced in 2019, most of which are permanent, as well as expenditure rationalization efforts. While maintaining fiscal discipline remained a priority, steps had to be taken to accommodate spending associated with long-overdue promotions for the military and the hiring of health and education personnel to support mitigation efforts. To achieve the

2021 targets, the Parliament approved the 2021 budget with a DPD of 3.9 percent of GDP on January 14th. On the revenue front, the authorities expect revenue to overperform on the back of the solidarity contribution; VAT implementation starting mid-July 2021; and tax policies introduced in 2019 to support domestic revenue mobilization. Fuel price at the pump will remain unaltered to reduce existing fuel subsidy debt. These efforts will be complemented by grants and concessional loans from development partners, including the World Bank (WB), European Union (EU), and African Development Bank (AfDB). On the other hand, control over expenditures will continue to be exercised. Although the authorities remain firmly committed to gradually reduce the wage bill to close to 10% of GDP by 2023, they continue to face mounting social tension from civil servants to raise wages given the severity of the crisis. At the same time, Covid-19 spending will be rolled back when conditions allow. However, in the near-term, this spending is expected to carry on to meet the increased health and education-related demand during the pandemic, albeit with some reallocation. Moreover, pro-poor spending will be maintained in line with the program.

8. Regarding transparency, the government reiterates its commitment to continue to publish information on public procurement contracts and monthly Covid-19 related expenses. They recognize that the absence of an integrated system and other operational constraints to collect and process information have led to delays in publishing contracts. In this regard, technical assistance is being provided by the World Bank to strengthen the management and transparency of the country's procurement system and an executive order has also been issued by the Ministry of Finance, requiring all spending agencies to share contract information with the procurement agency (COSSIL) before the Treasury approves payment.

9. Over the medium-term, actions will be undertaken to (i) forcefully monitor and recover tax payment by large taxpayers; (ii) lower the wage bill by limiting new hiring and halting inflation adjustments; (iii) maintain transfers constant in nominal terms; and (iv) strengthen tax administration and public financial management (PFM) in line with IMF recommendations.

10. The authorities took note of the latest Debt Sustainability Analysis (DSA) which indicates that the external debt is sustainable, in spite of the in-debt distress rating and the deterioration of the country's debt-carrying capacity. They recognize the criticality of accelerating energy sector reforms and continuing fiscal consolidation to preserve debt sustainability. Further, they remain committed to prudent debt management and keep engaging all remaining creditors in an open and transparent manner to regularize arrears and restructure all outstanding debt. They have also requested an extension of the G20 Debt Service Suspension Initiative in light of the continued liquidity pressure.

Monetary and Exchange Rate Policies

11. Effective coordination between fiscal and monetary financial policies remains essential to mitigate the impact of the crisis, boost international reserve buffers and safeguard the peg to the euro. The BCSTP will continue to closely oversee system-wide liquidity to

prevent liquidity tension and stand ready to tight monetary policy to protect the peg. Efforts to enhance the monetary policy framework to improve liquidity management operations are also progressing with the support of the IMF's TA, and a plan is being developed to gradually reduce excess liquidity. Furthermore, to help the coordination between fiscal and monetary authorities, meetings of the Committee for Public Debt have restarted, and work is underway to regularly disseminate the annual schedule of T-Bills issuance, aligned with cash flow forecasts and borrowing plans. The authorities are determined to continue implementing the recommendations of the Safeguard Assessment to improve the independence and transparency of the Central Bank of Sao Tome and Principe. In this connection, the draft of the organic law and the financial institutions law will be submitted to the Parliament in February and March 2020, respectively, to ensure that the country upholds its adherence to international best practices.

Financial Sector

12. The BCSTP has introduced several measures to prevent liquidity strains and ensure the financial sector is resilient in the face of vulnerabilities caused by CovidD-19. In this respect, a credit line was created to support small and medium enterprises (SMEs) in sectors disproportionately affected by the pandemic, with the assistance of the AfDB. Although the banking sector remains relatively well capitalized, asset quality has weakened with the increasing stock of non-performing loans (NPLs). Nonetheless, efforts were made to implement key recommendations of the asset quality review of the banking system, including those related to the loan classification system and recapitalizations.

13. The BCSTP concurs with the need to step up NPLs resolution. To this end, the central bank is expecting to finalize in the coming months a regulation to allow banks to more rapidly and efficiently address write-offs. The judicial loan enforcement process has been strengthened and advances were made to establish an arbitration tribunal for out-of-court settlement by June 2021. Concerning the two failed banks, *Banco Equador* and *Banco Privado*, pandemic-related disruptions have led to delays in their resolution. Therefore, theauthorities plan to relinquish the remaining assets of both banks to the court system in the next few months, particularly if attempts to attract investors are unsuccessful. Furthermore,the central bank has also placed another small bank under temporary administration amid liquidity difficulties caused by the pandemic, until a full evaluation is concluded, and a decision is made regarding the bank's future.

Structural Reforms

14. The authorities acknowledge that continued structural reforms, as envisaged under their National Sustainable Development Plan 2020-2024, are critical to unleash growth potential, improve competitiveness, address impediments to job creation and investments, and strengthen resilience to shocks. Key infrastructure projects are expected to materialize in 2021, including the modernization of the airport, construction of social housing and rehabilitation of 27km of roads. Moreover, solid strides are also being made in upgrading financial sector infrastructure and regulation. In this regard, the legal framework for a

collateral registry is being developed to help SMEs access financing and the new payment system for international credit cards is expected to be operational in February 2021. With the support of development partners, several initiatives are underway to enforce legislations and close gender gaps, improve capacity and resilience to climate change and address inefficiencies in the labor law and judicial system. Work is also ongoing for expediting the plan to remove the country from the European Union's Air Safety blacklist by March 2021.

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. Given the limited progress, they will take decisive steps to implement the necessary reforms to contain fiscal risks. The newly instated steering committee chaired by the Prime Minister will be helpful in this regard.

16. Capacity development from partners has been instrumental in helping the country advance its reform agenda. While they are grateful to the IMF's continued engagement, the Government would like to reiterate their strong interest in the reopening of the resident representative office in Sao Tome to help deepen the engagement and support program implementation.

Conclusion

17. Notwithstanding the daunting policy challenges facing the country, the authorities reiterate their strong commitment to implementing the ECF-supported program. Fund continued engagement will act as an important catalyst for other lenders, while providing an appropriate anchor for reforms aimed at mitigating the impact of the pandemic, safeguarding macroeconomic stability and supporting a quick recovery.

18. In light of the above, the authorities seek the Executive Board's support for the completion of the second review under the ECF and approval of the waiver for nonobservance of performance criterion. They also request a one-year extension of 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.