

## International Monetary Fund

[Democratic Republic of São Tomé and Príncipe](#) and the IMF

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

**Press Release:**

IMF Executive Board Approves New US\$ 3.9 Million Extended Credit Facility Arrangement for the Democratic Republic of São Tomé and Príncipe  
July 23, 2012

July 6, 2012

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

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## LETTER OF INTENT

São Tomé, July 6, 2012

Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Ms. Lagarde:

1. São Tomé and Príncipe continues to view close cooperation with its development partners as critical for the successful implementation of its economic policies and structural reforms. The Government has made substantial progress in recent years—despite a very challenging international environment—consolidating the fiscal position, supporting economic growth and reducing inflation. The Government is fully committed to build on these achievements.
2. Anchored by a new National Poverty Reduction Strategy Paper (NPRSP), which is now undergoing broad-based consultations in São Tomé and Príncipe, the Government's medium-term economic program, as formulated in the attached Memorandum of Economic and Financial Policies (MEFP), aims to strengthen public finances and the frameworks for monetary policy, banking supervision, and anti-money laundering. To support our policies described in the MEFP, the Government of the Democratic Republic of São Tomé and Príncipe requests assistance from the IMF under the Extended Credit Facility (ECF) in the amount of SDR 2.59 million (35 percent of quota), to be provided in seven equal disbursements over three years. The Government requests the first disbursement of SDR 0.37 million upon IMF Board approval of the ECF arrangement.
3. The key components of the 2012–15 program are:
  - A macroeconomic framework for sustained high growth and low single-digit inflation;
  - Continued, gradual fiscal consolidation centered around domestic primary deficit targets that are in line with available non-debt creating financing;
  - Strengthening customs and tax administration to mobilize additional revenue for priority infrastructure and pro-poor spending;
  - Improving public financial management, transparency and oversight and developing a medium-term fiscal framework;
  - Strengthening monetary policy and operations as well as bank supervision; and
  - Addressing the remaining challenges of the country's anti-money laundering framework.

4. The Government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program, but it will take additional measures, if needed, to safeguard those objectives. São Tomé and Príncipe will consult with the IMF on the adoption of these measures, and in advance of any revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. The Government will furnish the IMF with the necessary data for monitoring purposes on a timely basis. During the program period, the Government will not introduce or intensify any exchange rate restrictions or multiple currency practice that are inconsistent with Article VIII of the IMF's Articles of Agreement, or introduce or intensify import restrictions for balance of payments purposes.

5. We propose that the IMF monitor progress under the program by semi-annual reviews and quantitative performance criteria and structural benchmarks that are presented in Tables 1 and 2 of the attached MEFP. The definitions of quantitative indicative targets and performance criteria are provided in the attached Technical Memorandum of Understanding (TMU). The first review is expected to be completed by May 2013 and the second review by November 2013.

The Government authorizes the IMF to publish this Letter of Intent, the attached MEFP and TMU, and the IMF staff report and the Debt Sustainability Analysis (DSA) update that are related to this request.

Yours truly,

/s/

Mr. Américo d'Oliveira dos Ramos  
Minister of Finance and International Cooperation

/s/

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

Attachments: – Memorandum of Economic and Financial Policies  
– Technical Memorandum of Understanding

## ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2012–15

### I. INTRODUCTION

**The government is determined to continue pursuing macroeconomic policies to support growth and reduce inflation and poverty.** In this regard, the government has reached agreement with the Fund on a medium-term economic program for 2012–15 that can be supported by an ECF arrangement. The medium-term economic program, anchored on the new National Poverty Reduction Strategy Paper (NPRSP), aims at fiscal, monetary, and financial stability. To achieve these objectives, the program contains measures to keep the domestic primary deficit in line with available non-debt creating financing, while mobilizing additional domestic revenue for infrastructure and pro-poor spending. The program also includes an ambitious and realistic structural reform agenda to strengthen public finances and the frameworks for monetary policy, banking supervision, and anti-money laundering.

**The medium-term program is largely determined by the prospects of oil production and exports.** There are many encouraging signs that oil production and exports will start in 2015. The French oil company, Total, has recently bought the rights from Chevron to explore oil in Block 1 of the Joint Development Zone (JDZ) with Nigeria. Total already has an oil platform in a neighboring block of Nigeria's exclusive zone and, thus, will not need to construct or bring a new platform—it can use horizontal drilling. The company has announced plans to invest about US\$ 200 million. The size of this investment indicates a high probability of commercially extractable quantities of oil (significant enough to provide a good rate of return on the investment). Also, recent exploratory drilling in Block 1 yielded positive results and another test well is currently in development.

### II. RECENT ECONOMIC DEVELOPMENTS

**The economic recovery has been resilient.** Despite an unfavorable external environment, the economic recovery that started in 2010 is continuing. Fueled mainly by growing construction activity, growth accelerated slightly from about 4½ percent in 2010 to about 5 percent in 2011. This pickup in economic activity is largely related to a rebound in private sector external financing, stemming from foreign direct investment and other private capital inflows.

**Inflation is declining sharply.** Supported by the exchange rate peg to the euro<sup>1</sup> and declining international food prices, annual average domestic inflation has declined substantially, from a peak of 32 percent in 2008 to about 14 percent in 2011. Year-on-year inflation reached 8 percent in April 2012, the lowest level recorded in ten years, driven by lower international food prices and stable domestic fuel and energy prices.

**The government has continued to make substantial progress on fiscal consolidation.** The domestic primary deficit improved from 8 percent of GDP in 2009 to 4.1 and 3 percent of GDP in 2010 and 2011, respectively. These lower deficits largely reflect the government efforts to contain

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<sup>1</sup> The dobra (Dbs) has been pegged to the euro (€) at a rate of Dbs 24,500 per € since 2010.

non-priority spending and improve tax collections by strengthening the enforcement of tax laws and increasing the collection of tax arrears. Government spending on goods and services and domestically-financed development projects has been carefully managed.

**Despite this progress, eliminating cross-arrears between the government, the state-owned water and electricity company (EMAE), and the oil importing company (ENCO) remains a challenge.** The government accumulated new arrears to EMAE of about  $\frac{1}{2}$  percent of GDP (Dbs 28 billion) in 2011, related mainly to unpaid utility bills at the level of regional and local governments, bringing the end-year stock of government arrears to EMAE to  $1\frac{1}{2}$  percent of GDP (Dbs. 72 billion). In turn, EMAE's stock of unpaid bills to ENCO reached about 6 percent of GDP (Dbs. 253.6 billion) at end-2011, while ENCO had fuel tax arrears of about  $\frac{3}{4}$  percent of GDP (Dbs. 36 Billion).

**The pace of money growth is declining, driven by private sector credit.** After a substantial acceleration to 25 percent in 2010, growth in broad money declined to 8 percent in 2011, stemming from a sharp deceleration in private sector credit. Credit growth was quite strong in 2009 and 2010, averaging around 40 percent annually, with much of it financing personal consumption (spurred by the implementation of direct deposit for civil servant salaries in commercial banks and successive reductions in reserve requirements). As a result, the loan-to-deposit ratio steadily rose to over 100 percent. However, credit growth decelerated throughout 2011 (to about 15 percent) as new sources of credit began to dwindle and household debt levels rose. Month-on-month credit growth was flat in the first quarter of 2012 as banks began to increase provisions for non-performing loans (the ratio of non-performing loans in the total increased to around 21 percent in March 2012 from 14 percent in September 2011).

**The central bank continues to take steps to ensure the soundness of the financial sector.** The credit reference bureau has become operational, providing banks with information necessary to analyze and evaluate the credit worthiness of their customers. In addition, the central bank has successfully required unprofitable banks to raise capital and all banks to raise their capital-to-risk weighted assets ratio to above 10 percent, and it has been carefully monitoring the banks' net open foreign exchange position. As a result of central bank's efforts to de-dollarize the financial system, credit in dobra increased from around 30 percent of total credit in 2010 to almost 40 percent in March 2012. Most banks turned a profit in 2011. However, as noted above, non-performing loans have been increasing lately. On-site inspections of two banks were carried out in 2011, resulting in additional recommendations around good governance, implementation of internal auditing controls, and careful use of the credit reference bureau when making lending decisions.

**The external current account deficit improved slightly in 2011.** The completion of some investment projects contributed to a slowdown in import growth, which partly mitigated the impact of rising international fuel prices on the trade balance. In addition, credit growth stagnation in the latter part of 2011 and, more broadly, a slowdown in activity translated in a decline of consumption goods imports. Private sector capital flows financed only part of the current account deficit and, as a result, net international reserves declined.

### III. THE NEW NATIONAL POVERTY REDUCTION STRATEGY

**The government has finalized its new National Poverty Reduction Strategy Paper (NPRSP).**

The NPRSP prioritizes actions around four pillars: institutional reform to promote good governance; policies for sustainable growth; development of human capital and improved basic social services; and social cohesion. In this context, the government has established several strategic objectives: (i) annual growth of at least 6 percent over the medium term; (ii) reducing by 6 percentage points the share of the population living under the poverty line; (iii) ensuring that the entire population has access to social services by 2016; (iv) reducing significantly social and gender differences; (v) strengthening institutional capacity and the authority and credibility of the state; and (vi) guaranteeing environmental sustainability. To achieve these objectives, the government's economic reform program aims to strengthen public finances, create additional space for infrastructure and pro-poor spending, strengthen the planning and execution of public spending, and implement other structural reforms to improve the business climate further. The NPRSP, after broad-based consultations, will be submitted to the council of ministers for approval by end-July 2012 and subsequently sent to the National Assembly for information and discussions.

### IV. MEDIUM-TERM MACROECONOMIC FRAMEWORK AND POLICIES FOR 2012–15

**Anchored by the new NPRSP, the government's 2012–15 macroeconomic program aims at achieving fiscal, monetary, and financial stability, as well as sustainable economic growth to support poverty alleviation.**

Key macroeconomic objectives of this program are to (i) raise the annual rate of non-oil GDP real growth to about 6 percent over the medium term; (ii) reduce inflation to single digits and keep it broadly in line with international inflation over the medium term; and (iii) maintain a gross international reserve cover of at least 3 months of imports in support of the exchange rate peg.<sup>1</sup> Policies will focus on mobilizing domestic revenue to create additional fiscal space for infrastructure and pro-poor spending, while keeping the domestic primary deficit in line with non-debt creating financing, and on enhancing monetary policy management, banking supervision, and financial stability.

#### **A. Medium-Term Macroeconomic Framework**

**The medium-term macroeconomic framework assumes that oil production and exports will start in 2015.** It envisages an acceleration of real growth in GDP from 4½ percent in 2012 to 6 percent in 2014, supported by an expansion in tourism, agriculture, and construction. Growth drivers will include drilling in the JDZ and in the Exclusive Economic Zone (EEZ), [and work on a deepwater port (expected to start in 2014)]. Investments in infrastructure will help spur growth in general, and in tourism, transportation, and telecommunications in particular. That is the case of the planned new foreign investments in an oil terminal in the northern coast of São Tomé island, and improvements of its roads, the rehabilitation of the country's international airport and main

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<sup>1</sup> In support of the exchange rate peg, the authorities have an agreement with Portugal according to which Portugal stands ready to provide support in the form of a credit line of up to € 25 million, which would add another 3¼ months of imports cushion to international reserves.

port, and the construction of a new shopping mall. To further help spur growth, significant investments are also planned for the island of Príncipe, namely the expansion and modernization of its airport, which is fundamental to promote the sustainable tourism investment recently approved for the island. The projected onset of oil production and exports in 2015 will boost considerably GDP growth in that year and improve significantly the external current account deficit by end of the program period.

**In 2012, however, economic growth is expected to decelerate to 4½ percent as foreign financed projects have taken longer than expected to begin.** After the completion of several large scale public investment projects in 2011, public investment slowed during the first half of 2012. Growth is expected to pick up in the second half of the year, boosted by construction projects to improve the airport, port, and roads, and to convert the fishing pier into a shopping center. The government has been actively seeking aid and concessional loans to fund the public investment plan.

**Inflation is projected to decline to lower single digits over the medium term, anchored by the exchange rate peg.** The onset of oil production is not expected to have a substantial impact on inflation because the National Oil Account (NOA) will absorb most oil related inflows. Despite the favorable evolution of inflation so far in 2012, end-of-year inflation has been revised upward, from 6 to 8 percent, in anticipation of an increase in domestic fuel prices in the second half of the year (domestic fuel prices were last increased in March 2011).

### ***B. Strengthening Public Finances***

**The government recognizes the need to continue strengthening fiscal performance to maintain macroeconomic stability and foster an environment conducive to sustainable growth and poverty reduction.** In pursuing its fiscal goals, the government will avoid nonconcessional borrowing and central bank financing. The government understands fully the importance of a strong fiscal position to underpin the exchange rate peg. While the current level of international reserves provides sufficient backing for the peg, the government stands ready to tighten policies as needed to maintain the viability of the peg.

### **Fiscal policy**

**The government remains committed to fiscal prudence:**

- **The medium-term fiscal program is largely determined by the prospects of oil production and exports.** The government will continue to rely primarily on non-debt creating financing, including withdrawals from NOA and budget support grants, and will focus on strengthening domestic revenue collections and containing non-priority spending. Starting in 2015, the fiscal space is expected to be larger given oil revenue. The government will continue to draw NOA resources according to the oil law's formula which, based on current projections, would enable the domestic primary deficit to be 3.0 percent of GDP (equivalent to about 3.9 percent of non-oil GDP) in 2015. The government will use this additional fiscal space for higher infrastructure and pro-poor spending.

- For 2012, the government is targeting a domestic primary deficit of 3¼ percent of GDP, which is in line with the approved budget and available non-debt creating financing.** To achieve this target, the government will continue to mobilize additional domestic revenue and contain non-priority domestic primary spending. On the revenue side, the government plans to broaden the tax base by enforcing compliance with the tax laws and improving efficiency in the customs and tax administrations. In addition, the government will increase (gradually) the domestic price of fuel products by 10 percent in the second half of the year. This is expected to enable ENCO to clear its fuel tax arrears and pay fuel taxes on time. The government aims to control spending by containing outlays on goods and services and enforcing a strict budget constraint on local and regional governments to avoid budget overruns or a buildup in arrears, while protecting priority spending by increasing treasury financed pro-poor and development projects. Available non-debt creating financing is expected from the World Bank, Equatorial Guinea, and drawings from NOA.
- The government will target a domestic primary deficit of 3.1 and 3.0 percent of GDP in 2013 and 2014, respectively.** Measures to modernize the customs and tax administrations, making them more efficient and effective, and other measures to broaden the tax base—strengthening inspection actions through investigations, better analysis of tax returns, more judicious selection of taxpayers for inspection, and the use of modern inspection techniques—will help mobilize additional revenue. While the government will continue to protect pro-poor spending, it will spare no efforts to contain and prioritize other spending. For example, the wage and hiring policies of the government will be consistent with maintaining the annual wage bill in both 2013 and 2014 at 8¼ percent of GDP (unchanged from 2012). In addition to NOA financing, the government has already confirmed budget support from the World Bank and is expected to secure additional non-debt creating financing from regional bilateral partners, including Equatorial Guinea, Gabon, and Morocco.

### **Structural measures to strengthen public finances**

**The government has made considerable progress implementing fiscal reforms, albeit from a low base.** There is still a need for comprehensive reform to further strengthen public finances. In this regard, the government's reform program for the next three years focuses primarily on modernizing and strengthening the customs and tax administrations, and implementing an action plan for improving public financial management.

#### ***Improving tax administration***

**The government will continue to modernize the customs and tax administrations.** Since 2008, the government has been implementing reform measures to modernize the tax system and customs. However, the tax intake (16½ percent of GDP in 2011) is low compared with peers in sub-Saharan Africa and other small island states. To help achieve the objective of raising the tax-to-GDP ratio to 18 percent of non-oil GDP by 2015, the government will:



- With technical assistance from development partners, develop a reform strategy plan for 2013–15 to modernize the tax administration. This plan will cover: (i) organizational reform of the tax administration to integrate its essential functions more effectively; (ii) modernization of tax legislation, particularly with regard to indirect taxation, and the rationalization of tax exemptions; (iii) strengthening of fiscal operations and increasing revenue; (iv) effective use of taxpayer segmentation in the functioning of the tax administration; (v) preparation of a plan with measures to improve the tax education of taxpayers and provide better services to them; and (vi) strengthening of the Tax Directorate's (DI) capacities and improvement of its working conditions.
- Develop by end-2012 a strategy for further modernization of the customs administration, based on the recommendations of a mission from the IMF's Fiscal Affairs Department (FAD) that is scheduled for November 2012.

**To ensure a successful implementation of the reform strategy, the government will take specific steps to strengthen the tax administration.** They will focus on (i) restructuring of the Tax Directorate (DI) by coordinating the regional tax administration with central office and segmenting taxpayers between large firms and other taxpayers; (ii) strengthening of fiscal operations by improving taxpayer register, dossier management, monitoring of tax compliance, enforcement and management of tax arrears, computerization, and taxpayer education; and (iii) tax administration capacity building.

### ***Strengthening public financial management***

**The government has been implementing public financial management reforms since 2005.** To fully implement the 2007 Law on the Government Financial Administration System, the SAFE Law, the government will continue with reforms that focus on strengthening transparency, financial management and supervision and, as capacity permits, moving to a medium-term fiscal framework.

**In addition, the government plans to strengthen the legal framework for fiscal responsibility, and bring it closer to international standards.** The public finance legislation already has some elements of responsibility and transparent system management, but further improvements are needed. Quarterly budget execution reports, the TOFE, the proposed budget, and the broad planning options (GOP) are publicly available. However, other relevant information, such as general government accounts, the main contingent liabilities, and tax expenses are not readily available. In this regard, the government will take steps to introduce transparency rules in the SAFE Law under which key fiscal data are published periodically on a pre-announced schedule.

**The government will continue strengthening public financial management and oversight.** The government has been testing, with technical assistance from the IMF, an electronic system of the government's financial administration system (SAFE-e) which, for the first time in two decades, will enable the government to present general government accounts to the National Assembly and to the Audit Court, starting in 2013. The next step will be to allow the Financial

Inspector General (IGF) and Audit Court to have direct access to the system to monitor budget and financial execution in real time. The government is also planning to propose amendments to the organic law of the Audit Court to provide it with punitive and coercive instruments, such as fines and the authority to suspend contracts when irregularities are found.

**The government will work closely with ENCO and EMAE to resolve the issue of cross-arrears.** This will involve reconciling and certifying the stock of unpaid bills and unpaid fuel taxes; proposing a solution to clear those arrears that could be accepted by the government, ENCO and EMAE; and developing an action plan that, if implemented, would lead to permanent solution to this problem. This solution is likely to comprise the eventual adoption of an automatic pricing adjustment mechanism for domestic fuel products, a close review of ENCO's cost structure, and a careful review of EMAE's cost structure and its urgent investment needs to replace an old and wasteful power plant with a more efficient one.

### ***C. Enhancing Monetary Management and Financial Stability***

**During the program period, the central bank will focus on achieving three main goals: strengthening monetary management, maintaining financial stability, and improving the credibility of the financial system.**

**To strengthen monetary management, the central bank will cooperate closely with the finance ministry.** The central bank and finance ministry signed a memorandum of understanding in May 2012 to facilitate the flow of information between the two institutions. Regular information sharing will include data on the Treasury's cash outlays (in both domestic and foreign currency), which are important for the central bank's liquidity forecast and foreign exchange operations. With IMF technical assistance, the central bank is developing a liquidity forecasting model and an accompanying reference manual to guide domestic liquidity management. Liquidity forecasting will focus on money in circulation, government account expenditure and revenue, and net international reserves, with a view to identifying the level of excess demand for or supply of liquidity in the banking system.

**São Tomé and Príncipe's monetary framework based on the exchange rate peg requires careful management of international reserves by the central bank.** As noted above, the central bank intends to keep its gross international reserve cover above three months of imports during the program period. Moreover, the international economic and financial crisis has highlighted the importance of asset portfolio diversification to hedge against counter-party, currency, and liquidity risks. In this connection, the central bank will seek to invest its international reserves in high quality financial assets and will emphasize liquidity over return in deciding the portfolio composition.

**The central bank will continue strengthening banking supervision and taking the necessary steps to reduce the risk of distress in the banking system.** The central bank conducted on-site inspections of two commercial banks in 2011, plans to have on-site inspections of two more banks in 2012, and expects to complete on-site inspections of the remaining three banks in 2013. The central bank intends to hire additional supervisors to help increase the frequency of on-site

inspections and to begin training staff on risk-based supervision. IMF technical assistance on risk-based supervision will be needed. The central bank is reviewing the commercial banks' business plans, and will begin analysis of restructuring solutions for banks which are unwilling or unable to restore profitability. It also plans to take steps to ensure that a sound legal and regulatory framework to deal with problem banks will be in place by 2014. In addition, the new chart of accounts of the central bank, which is expected to be introduced in 2013, will adopt international financial reporting standards. The central bank will further strengthen coordination with banking supervisors in neighboring countries.

**The central bank will continue to strengthen its communication with banks and the general public.** The central bank will maintain its website with current data on monetary and macroeconomic aggregates and will post on a timely basis its annually audited financial statements. In 2011, the bank created an Office of Customer Support to educate financial sector clients, monitor unfair business practices, and field complaints. As part of its ongoing efforts to improve disclosure and protect consumers, the central bank will request banks to publish their preliminary quarterly accounts.

#### ***D. Other Structural Reforms***

##### **Strengthening external debt management**

**Notwithstanding substantial debt relief under the HIPC initiative and MDRI, São Tomé and Príncipe is vulnerable to external debt distress.** The latest Joint Fund-Bank debt sustainability analysis stressed the need for a careful debt management strategy to accompany a prudent fiscal policy stance especially in case the onset of profitable oil extraction shifts much beyond 2015. As part of the reforms to improve performance in this area, the government has assigned to the finance ministry's External Debt Department a strategic role in debt monitoring and management.

**To establish a strong institutional role for external debt management, the National Assembly approved in April 2012 the general principles of a new debt management law.** The specific articles of the law are now under discussion and the final text could be approved and published in the second semester of 2012. The draft law, prepared in cooperation with the Debt Relief International (DRI) and the World Bank DeMPA mission, establishes the responsibility and governance structure of the External Debt Department and defines its strategic framework.

**The External Debt Department will work to enhance transparency and best practices in debt management.** The department will continue preparing summary reports on the country's debt situation and strategy and post them on the finance ministry's website. To improve the department's operational effectiveness, DRI has provided training in debt management and the finance ministry has endowed it with an Oracle-based debt management software (CSDRMS).

##### **Strengthening AML/CFT framework**

**São Tomé and Príncipe has been recently placed on the Financial Action Task Force's (FATF) public list of high risk and non-cooperative jurisdictions.** The list includes jurisdictions

with strategic anti-money laundering and combating the financing of terrorism (AML/CFT) deficiencies that have not made sufficient progress in addressing them. The FATF has called upon São Tomé and Príncipe to work on: (i) adequately criminalizing money laundering and terrorist financing; (ii) establishing a fully operational and effectively functioning Financial Intelligence Unit (FIU); (iii) ensuring that financial institutions and designated non-financial business and professions are subject to adequate AML/CFT regulation and supervision; and (iv) implementing effective, proportionate and dissuasive sanctions in order to deal with natural or legal persons that do not comply with the national AML/CFT requirements.

**The government is fully committed to addressing the deficiencies of the AML/CFT framework.** In particular, with technical assistance from the IMF's Legal Department, the government will prepare the necessary draft amendments to the AML/CFT Law, which was approved in 2008 and updated in 2010, with a view to sending those amendments to the National Assembly shortly thereafter and seeking their approval by end-2012. Also, the government will strengthen the operations of the FIU by providing it with additional staff and facilitating the training of its staff. These actions are expected to strengthen the core functions of the FIU, namely the receipt, analysis, and dissemination of suspicious transaction reports from financial and non-financial institutions and professions.

### **Improving the business climate**

**São Tomé and Príncipe has made strides toward improving the business climate, but further reforms are needed.** The World Bank's 2012 Doing Business Survey ranked São Tomé and Príncipe among the top reformers last year, with its overall ranking improving by 11 positions. The government has identified in the new NPRSP key areas for reform to revitalize the energy sector and promote private sector participation. With involvement of the World Bank, the government has started implementing a medium-term strategy for making the state-owned water and electricity corporation (EMAE) commercially viable. The government is also committed to continue simplifying the regulatory framework and strengthening institutional capacity to promote investment, alleviating critical infrastructure bottlenecks in the area of telecommunications, and implementing the country's tourism strategy with a focus on increasing accessibility.

### ***E. Statistics***

**Although hampered by serious financial, human, and technological resource constraints, the government continues to work to strengthen the statistical system.** The National Institute of Statistics (INE) is moving toward using a new system to better capture survey and market information and to include estimates of the informal sector. A household budget survey was completed in 2011 and can serve as the basis for reweighting the CPI components and expanding its coverage over the entire country. The finance ministry's Accounts Department is currently compiling the government's general accounts since 2010 for the first time in two decades. The central bank intends to implement a new chart of accounts for the central bank in 2013. An independent consulting firm is currently reviewing the proposed chart of accounts to ensure that it complies with international financial reporting standards. The government recently

received technical assistance from the IMF to help improve balance of payments statistics, begin to adopt the methodology recommended in the *Balance of Payments Manual 6*, and investigate the possibility of producing International Investment Position (IIP) data.

#### ***F. Capacity Building and Technical Assistance***

**Capacity building and technical assistance is crucial for the successful implementation of the medium-term economic program.** The government will continue working closely with its traditional development partners, including the IMF and the World Bank, in the priority areas of public financial management, customs and tax administration, monetary management, banking supervision, debt management, and AML/CFT. The government will seek to join the upcoming IMF Regional Technical Assistance Center in Accra, AFRITAC West 2, which will enhance access to technical assistance and training and facilitate follow up of technical assistant in critical reform areas.

#### ***G. Program Monitoring***

**The first year of the program covers the 12 months from July 20, 2012 through July 19, 2013.** Progress under the program will be monitored by semi-annual reviews and by quarterly quantitative targets and structural benchmarks that are presented in Tables 1 and 2. A summary list of the main structural reform measures identified by the government is shown in Table 3. The definitions of quantitative indicative targets and performance criteria are provided in the attached Technical Memorandum of Understanding (TMU). The first review is expected to be completed by May 2013 and the second review by November 2013.

**Table 1. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2012–13**  
(Billions of dobra, cumulative from beginning of year, unless otherwise specified)

	2012		2013	
	September	December	March	June
	Indicative Target	Performance Criteria <sup>1</sup>	Indicative Target	Performance Criteria <sup>1</sup>
	30-Sep-12	31-Dec-12	31-Mar-13	30-Jun-13
<b>Performance criteria:</b>				
1 Floor on domestic primary balance (as defined in the TMU) <sup>2</sup>	-99	-164	-47	-105
2 Ceiling on changes in net bank financing of the central government (at program exchange rate) <sup>2, 3, 4, 5, 9</sup>	0	0	0	0
3 Floor on net international reserves of the central bank (US\$ millions) <sup>4, 5</sup>	21.97	21.97	21.97	21.97
4 Ceiling on central government's outstanding external payment arrears (stock, US\$ millions) <sup>6, 9, 11, 12</sup>	0	0	0	0
5 Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the central government or the BCSTP (US\$ millions) <sup>6, 7, 8, 9, 11, 12</sup>	0	0	0	0
6 Ceiling on the outstanding stock of external debt with original maturity of up to and including one year owed or guaranteed by the central government or the BCSTP (stock, US\$ millions) <sup>6, 7, 8, 9, 12</sup>	0	0	0	0
<b>Indicative targets:</b>				
Ceiling on central government's outstanding domestic arrears (stock, billion dobras)	0	0	0	0
Ceiling on dobra base money (stock, billion dobras)	515	551	551	560
Pro-poor expenditures (internally and externally financed)	213	285	73	146
<b>Memorandum items:</b>				
Transfer from NOA to the budget (US\$ millions)	1.2	1.2	3.5	3.5
Net external debt service payments (US\$ millions)	59	79	21	41
Official external program support (US\$ millions) <sup>10, 11</sup>	102	160	28	81
Treasury-funded capital expenditure (billion dobras)	58	96	48	88

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

<sup>1</sup> Performance at the December and June test dates are assessed on the first and second reviews, respectively.

<sup>2</sup> The ceiling will be adjusted downward or upward according to definitions in the TMU.

<sup>3</sup> The ceiling will be adjusted downward by the amount of accumulated domestic arrears.

<sup>4</sup> Excluding the National Oil Account (NOA) at the Central Bank.

<sup>5</sup> The floor on net international reserves will be adjusted upward or downward according to definitions in the TMU.

<sup>6</sup> This performance criterion applies not only to debt as defined in point 9 of the IMF Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF (as amended effective December 1, 2009) but also to commitments contracted or guaranteed for which value has not been received. For further details on the definition of debt and external arrears refer to the TMU, ¶ 14-16.

<sup>7</sup> Only applies to debt with a grant element of less than 50 percent as defined in point 8 g (i) of the IMF Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF (as amended effective December 1, 2009). For further details on the definition of concessionality refer to the TMU, Footnote 6.

<sup>8</sup> Debt is defined as in point 9 of the IMF Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF (as amended effective December 1, 2009). For further details on the definition of debt refer to the TMU, ¶ 14-15.

<sup>9</sup> The term "government" is defined as in point 3 of the TMU, which excludes the operations of state-owned enterprises.

<sup>10</sup> Official external program support, as defined in the TMU, valued at the program exchange rate.

<sup>11</sup> This criterion will be assessed as a continuous performance criterion.

<sup>12</sup> The term "external" is defined in accordance with the residency of the creditor as indicated in point 2 of the IMF Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF (as amended effective December 1, 2009).

**Table 2. São Tomé and Príncipe: Structural Benchmarks for 2012–13**

Category	Structural Benchmarks	Economic rationale	Date
<b>Strengthening Public Finances</b>			
Tax administration	i. Develop a reform strategy plan to modernize tax administration in line with FAD recommendations	Strengthen revenue administration	End-Dec. 2012
Internal control	ii. Strengthen internal control, by Reconciling and certifying the cross-arrears between ENCO, EMAE, and the Treasury, and agreeing on a strategy to address these and to prevent future accumulation of arrears between these entities	Strengthen PFM	End-Dec. 2012
External control	iii. Strengthen external control, by Preparing the general government accounts for 2012 and sending them to the Court of Audit	Strengthen PFM	End-Jun. 2013
<b>Enhancing Monetary Management and Financial Stability</b>			
Liquidity management	iv. Improve liquidity management, by Setting up a framework for forecasting liquidity, international reserves, and government accounts to identify the level of excess or deficit in liquidity	Strengthen the monetary policy framework	End-Dec. 2012
Bank supervision	v. Strengthen banking supervision and regulation, by	Ensure financial stability	
	- Completing the on-site supervision process for two commercial banks		End-Dec. 2012
	- Completing the on-site supervision process for the largest commercial bank		End-Jun. 2013
	- Completing the on-site supervision process for remaining two commercial banks		End-Dec. 2013
<b>Strengthening AML/CFT Framework</b>			
AML/CFT	vi. Strengthening AML/CFT, by Submitting to parliament appropriate draft amendments to the AML/CFT law	Bring the AML/CFT legislation in line with FATF standards and contribute to delisting from FATF blacklist	End-Dec. 2012

**Table 3. São Tomé and Príncipe: Other Planned Reform Measures**

Category	Structural measures	Economic rationale	Indicative timeframe
<b>Strengthening Public Finances</b>			
Tax administration	i. Strengthen tax administration core business, by <ul style="list-style-type: none"> <li>- Reorganizing DI services, creating an internal audit and a multidisciplinary central service</li> <li>- Creating a single dossier system for each taxpayer</li> <li>- Strengthening fiscal operations through (i) improving the security of the taxpayer register, (ii) strengthening of inspection actions, (iii) reorganizing of tax enforcement actions, (iv) developing of new computer functionalities, and (v) strengthening of relations with taxpayers</li> <li>- Introduce segmentation in the organization of services, working methods, and resource allocation, distinguishing between large firms and other taxpayers</li> <li>- Strengthen the capacities of the DI and improve working conditions for its officials</li> </ul>	Strengthen revenue administration	2013–15
Customs administration	ii. Prepare a reform plan to strengthen customs administration	Strengthen revenue administration	Dec. 2012
Medium-term fiscal framework	iii. Develop a medium-term fiscal scenario by incorporating elements of the GOP to gradually arrive at an MTFE	Strengthen PFM	Dec. 2013
Fiscal responsibility framework	iv. Introduce transparency rules under which key fiscal information, such as budget execution, public debt, [medium-term fiscal scenario], and general government accounts are published in quarterly reports in accordance with a pre-announced timetable	Strengthen PFM	Mar. 2013
Internal control	v. Strengthening internal control, by <ul style="list-style-type: none"> <li>- Giving the IGF auditors a password to enter SAFE-e</li> <li>- Improving the operational resources of the IGF</li> </ul>	Strengthen PFM	Dec. 2012 Jan. 2013
External control	vi. Strengthening external control, by <ul style="list-style-type: none"> <li>- Improve the operational resources of the Audit Court</li> <li>- Amending the organic law of the Audit Court to equip it with punitive and coercive instruments, such as fines and the authority to suspend contracts when irregularities are found</li> <li>- Giving the Audit Court access to the SAFE-e system so that it can monitor budget and financial execution in real time</li> </ul>	Strengthen PFM	2013–14 Jan. 2013 2014  Dec. 2012
<b>Enhancing Monetary Management and Financial Stability</b>			
Liquidity management	vii. Improve liquidity management, by	Strengthen the monetary policy framework	2012–15



Category	Structural measures	Economic rationale	Indicative timeframe
	- Defining a policy rate and introducing open market instruments with a view to neutralizing liquidity conditions		2013–15
	- Improving the payment system for interbank market operations based on international best practices		2013–15
Bank supervision	- Strengthen banking supervision and regulation	Ensure financial stability	2012–15
	- Require commercial banks to publish standardized preliminary quarterly accounts		2013–15
	- Amend the legal and regulatory framework to deal with problem banks		2013–15
	- Review business plans and begin analysis of restructuring solutions for banks which are unwilling or unable to restore bank profitability		2013–15
	<b>Statistics</b>		
Monetary Statistics	viii. Introduction of new chart of accounts for the central bank and regular and timely provision of these data to the IMF in the Standardized Report Forms (SRFs)	Improve transparency	End-Dec. 2013
	<b>Strengthening AML/CFT Framework</b>		
AML/CFT	ix. Strengthening AML/CFT, by - Increasing the FIU's financial and human resources, and providing it with a detailed and adequate budget effectively allocated to strengthen its core functions	Bring the AML/CFT legislation in line with FATF standards and contribute to delisting from FATF blacklist	End-December 2012

## ATTACHMENT II. SÃO TOMÉ AND PRÍNCIPE: TECHNICAL MEMORANDUM OF UNDERSTANDING

May 23, 2012

This Technical Memorandum of Understanding (TMU) contains definitions and adjustment mechanisms that clarify the measurement of variables in Table 1, Quantitative Performance Criteria, and Indicative Targets under the ECF arrangement for 2012–15, which is attached to the Memorandum of Economic and Financial Policies. 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.

### I. Provision of Data to the Fund

Data with respect to all variables subject to performance criteria and indicative targets will be provided to Fund staff monthly with a lag of no more than four weeks for data on 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, as defined below, refer to the domestic primary balance and net bank financing of the central government, net international reserves of the central bank, external payments arrears, and non-concessional short-term and medium- and long-term external debt owed or guaranteed by the central government and/or the central bank.

### II. Definitions

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

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

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

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

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

Code	Description of expenditure	Ministry of Education	Ministry of Health	Ministry of Labour
01.00.00	Personnel expenses	x	x	x
02.01.05	Other durable goods	x	x	
02.02.02	Fuel and lubricants <sup>1</sup>	x	x	x
02.02.04	Food <sup>1</sup>	x		
02.02.05	Medicine	x	x	
02.02.06	Clothing and footwear <sup>1</sup>	x	x	x
02.02.09	Other nondurable goods	x	x	
02.03.01.01	Water and energy	x	x	x
02.03.02	Custody of goods	x	x	
02.03.06	Communications	x	x	x
04.02.01	Private institutions	x		x
04.03.01	Individuals	x		x
04.04.02	Other inward transfers		x	
06.01.00	Education and training		x	
06.04.01	Project costs	x		
06.04.04.02	Miscellaneous	x	x	

<sup>1</sup> Expenditures on fuels and lubricants (*combustíveis e lubrificantes*) that are effected for administrative purposes are excluded. Likewise, food (*alimentação*) and clothing and shoes (*roupas e calçados*) supplied to administrative staff are excluded.

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

**Treasury-funded capital expenditure:** This is classified as part of domestic primary expenditure and covers projects that are not directly financed by project grants and concessional loans. Treasury funded capital spending will correspond to the 2012 government plan for investment on roads, bridges, schools, water and power. It will include spending on new construction, rehabilitation, and maintenance. Expenditure on wages and salaries and the purchase of goods and services related to the projects will not be classified as capital expenditure. The government investment program will be carried out by the Ministries of Public Works and Natural Resources, Education, and Health.

**Domestic primary balance** is defined as the difference between government domestic revenue and domestic primary expenditure. For reference, this balance for end-December 2011 is projected at 133 billion dobra, broken down as follows:

	Government domestic revenue:	787 billion
<i>Less:</i>	Government primary expenditure: (as defined in paragraph 5)	<u>920 billion</u>
<i>Equals:</i>	Domestic primary balance:	-133 billion

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

**The program exchange rate** for the purposes of this TMU<sup>3</sup> will be 19,008 dobra per U.S. dollar, 24,500 dobra per euro, and 28,987 dobra per Special Drawing Right (SDR).

**Net bank financing of the central government (NCG)** is defined as the stock of all outstanding claims on the central government held by the BCSTP and by other depository corporations (ODCs), less all deposits held by the central government with the BCSTP and with ODCs, as they are reported monthly by the BCSTP to the IMF staff. The balance of the National Oil Account (NOA) is not included in NCG. All foreign exchange-denominated accounts will be converted to dobra at the program exchange rate. For reference, at end-December 2011, outstanding net bank financing of the central government (excluding NOA) is projected at 135 billion dobra, broken down as follows:

	BCSTP credit, including use of IMF resources:	262 billion
<i>Less:</i>	Government deposits with the BCSTP (excluding NOA)	70 billion
	<i>Of which:</i> Treasury dobra-denominated accounts	25 billion
	Treasury foreign currency-denominated accounts	16 billion
	Counterpart deposits	<u>30 billion</u>
<i>Equals:</i>	Net credit to government by the BCSTP	192 billion
<i>Plus:</i>	ODC's credit to the government	5 billion
<i>Less:</i>	Government deposits with ODCs (including counterpart funds)	<u>62 billion</u>
<i>Equals:</i>	Net bank financing of the government (excluding NOA)	135 billion

**Dobra base money** is defined as the sum of currency issued—which consists of currency outside depository corporations and cash in vaults—and banks reserves denominated in dobra. Bank reserves refer to reserves of commercial banks—in dobra—held with the central bank and include reserves in excess of the reserve requirements. For reference, at end-December 2011 dobra base money is projected at 472 billion dobra, calculated as follows:

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<sup>3</sup> Data refer to the mid-point exchange rates published on the BCSTP's webpage for December 31, 2011.

Currency issued:	204 billion
<i>Of which:</i> Cash in vaults	26 billion
Currency outside depository corporations	177 billion
<i>Plus:</i> Bank reserves denominated in dobra	<u>268 billion</u>
<i>Equals:</i> Dobra base money	472 billion

**Net international reserves** (NIR) of the BCSTP are defined for program-monitoring purposes as short-term, tradable foreign assets of the BCSTP minus short-term external liabilities, including liabilities to the IMF. All short-term foreign assets that are not fully convertible external assets nor readily available to and controlled by the BCSTP (i.e., they are pledged or otherwise encumbered external assets, including but not limited to the HIPC umbrella SDR account and assets used as collateral or guarantees for third-party liabilities) will be excluded from the definition of NIR. Securities whose market value at end-December 2011 differs by over 20 percent from their original nominal issue price will be assessed at their market value as reported by the BCSTP's Markets Department. The balance of (1) NOA at the BCSTP, (2) banks' deposits related to capital or licensing requirements, and (3) banks' reserves denominated in foreign currency are excluded from the program definition of NIR. All values are to be converted to U.S. dollars at the actual mid-point market exchange rates prevailing at the test date. For reference, at end-December 2011 NIR is projected at 421 billion dobra, calculated as follows:

Gross international reserves:	815 billion
<i>Of which:</i> Cash	33 billion
Demand deposits	74 billion
Term deposits (including banks' deposits in foreign currency)	346 billion
Securities other than shares	236 billion
<i>Of which:</i> Portuguese Treasury bonds	95 billion
<i>Less:</i> discount (69.65)	29 billion
<i>Rede Ferroviaria Nacional</i> bonds	123 billion
<i>Less:</i> discount (36.45)	78 billion
Mortgage-backed securities of CDG	195 billion
<i>Less:</i> discount (64.00)	70 billion
Accrued interest on securities	16 billion
Reserve position in the Fund	0 billion
SDR holdings	110 billion
<i>Less:</i> Short-term liabilities (including liabilities to the IMF)	312 billion
<i>Less:</i> Banks' reserves denominated in foreign currency	<u>82 billion</u>
<i>Equals:</i> Net international reserves	421 billion
<i>Plus:</i> Other foreign assets	237 billion
<i>Less:</i> Medium and long-term liabilities (including SDR allocation)	<u>206 billion</u>
<i>Equals:</i> Net foreign assets	452 billion
<i>Memorandum item:</i> National Oil Account (NOA)	157 billion

**The performance criterion on short-term external debt** refers to the outstanding stock of external debt with an original maturity of one year or less (including overdraft positions but excluding normal import credits) owed or guaranteed by the government and/or the BCSTP.<sup>4</sup> With respect to the precautionary line of credit from Portugal to support the pegging of the dobra to the euro, unpaid balances outstanding during the first three quarters of a given year will be excluded from the short-term external debt limit. However, outstanding balances at the end of a given year will be included in the assessment of compliance with the short-term external debt performance criterion. For reference, at end-December 2011 the stock of short-term external debt is projected to be zero.

**The performance criterion on nonconcessional medium- and long-term external debt is a continuous performance criterion** that refers to the contracting or guaranteeing of new external debt with original maturity of more than one year by the government and/or the BCSTP.<sup>5,6</sup> Debt being rescheduled or restructured is excluded from the ceilings set on nonconcessional borrowing. Medium- and long-term debt will be reported by the Debt Management Department of the Ministry of Finance and International Cooperation and (as appropriate) by the BCSTP, measured in U.S. dollars at the prevailing exchange rates. The government should consult with IMF staff before contracting or guaranteeing new medium- or long-term debt obligations.

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<sup>4</sup> The term "debt" is defined as in point 9 of the IMF *Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF*, as amended effective December 1, 2009. Debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract.

<sup>5</sup> This performance criterion applies not only to debt as defined in point 9 of the IMF *Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF*, as amended effective December 1, 2009, but also to commitments contracted or guaranteed for which value has not been received.

<sup>6</sup> The level of concessionality of loans is assessed according to the reference interest rate by currency published, by the Export Credit Division of the Organization for Economic Cooperation and Development. For loans of terms of no less than 15 years, the 10-year average of commercial interest reference rates for the currency in which the loan is denominated will be used. For loans of shorter terms, the six-month average will apply. For least developed countries, such as São Tomé and Príncipe, a loan is deemed to be on concessional terms if, on the date of initial disbursement, the ratio of the present value of the loan, calculated on the basis of the reference interest rate, to the nominal value of the loan is less than 50 percent (in other words, a grant element of at least 50 percent). For currencies with no available reference interest rates, the SDR rate will be used. This performance criterion does not apply to IMF facilities.

**The non-accumulation of external payment arrears is a continuous performance criterion.**

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

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

**Official external program support** is defined as grants and loans, including in-kind aid when the products are sold by the government and the receipts are earmarked for a budgeted spending item, and other exceptional financing provided by foreign official entities and incorporated into the budget. Amounts assumed in the program consistent with the definition are shown in Table 1 of the MEFP as a memorandum item labeled "official external program support."

### III. Use of adjusters

**The performance criterion on the domestic primary deficit will have one adjuster.** The limit on the domestic primary deficit will be adjusted upward if the government finds budget support in 2012 and 2013 in addition to that described in the MEFP; this adjuster will be capped at 22 billion dobra ( $\frac{1}{2}$  percent of 2011 GDP) for 2012 and at 16.5 billion dobra for the first half of 2013.<sup>7</sup>

**Adjusters for the performance criteria on net bank financing of the central government and net international reserves will be set.** Deviations from amounts projected in the program for budget transfers from the NOA, official external program support, net external debt service payments, and domestic arrears will trigger adjustments on the above mentioned performance criteria. These deviations will be calculated cumulatively from end-December 2011 or end-December 2012, as appropriate (MEFP, Table 1). The following is an explanation of these adjustments:

- **Adjusters on ceilings on changes in net bank financing of the central government (NCG):** Quarterly differences between actual and projected receipts of budget transfers from the NOA, official external program support, and net external debt service payments will be converted to dobra at the program exchange rate and aggregated from end-December 2011 or end-December 2012, as appropriate, to the test date. The ceilings will

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<sup>7</sup> Grants and related expenditures to cover the cost of the elections will be excluded from the measurement of the domestic primary deficit.

be adjusted downward (upward) by cumulative deviations downward (upward) of actual from projected net external debt service payments, and by deviations upward (downward) in budget transfers from the NOA and official external program support. The combined application of all adjusters at any test date is capped at 57 billion dobra (the equivalent to US\$3 million at the program exchange rate).

- **Adjustors for the floor on net international reserves (NIR) of the BCSTP:** Quarterly differences between actual and projected receipts of budget transfers from the NOA, official external program support, and net external debt service payments, in dobra, will be converted to U.S. dollars at the program exchange rate and aggregated from end-December 2011 or end-December 2012, as appropriate, to the test date. The floor will be adjusted upward (downward) by the cumulative deviation downward (upward) of actual from projected net external debt service payments of the central government, and by deviations upward (downward) for budget transfers from the NOA, and official external program support. The combined application of all adjusters at any test date is capped in such a way that the adjusted floor does not fall short of US\$18.97 million.

#### IV. Data Reporting

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

- 1) **Fiscal Data:** The Directorate of Budget at the Ministry of Finance and International Cooperation will provide the following information to IMF staff, within six weeks after the end of each month or quarter, except for the public investment program (PIP), which will be provided three months after each quarter:
  - Monthly data on central government operations for revenues, expenditure, and financing, including detailed description of net earmarked resources (*recursos consignados*), on commitment (*compromisso*) and cash payments (*caixa*);
  - Monthly data on net credit to the government by the BCSTP, recorded account by account in a format fully compatible with the monetary accounts of the BCSTP;
  - Monthly detailed data on tax and nontax revenues;
  - Monthly detailed data on domestically financed capital expenditure on commitment (*compromisso*) and cash payments (*caixa*);
  - Monthly data on domestic arrears by type;
  - Monthly data on official external program support (non-project);
  - Quarterly data on the execution of the public investment program (PIP) by project and sources of financing;



- Quarterly data on the execution of Treasury-funded capital expenditure by project type, amount, timetable of execution, and progress of execution;
  - Quarterly data on project grant and loan disbursement (HIPC and non-HIPC);
  - Quarterly data on bilateral HIPC debt relief;
  - Latest outstanding petroleum price structures and submission of new pricing structures (within a week of any changes).
- 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. Weekly data will be provided no later than two weeks after the end of the week. The BCSTP will provide the following information to IMF staff:
- Daily data on exchange rates, to be posted on the central bank's web site;
  - Daily data on interest rates, to be posted on the central bank's web site;
  - Daily liquidity management table, including dobra base money and currency in circulation, to be posted on the central bank's web site;
  - Daily net international reserve position, to be posted on the central bank's web site;
  - Monthly balance sheet data of BCSTP (in IMF report form 1SR, with requested memorandum items);
  - Monthly balance sheet data of individual other depository corporations (in IMF report form 2SR);
  - Monthly consolidated balance sheet data of other depository corporations (in IMF report form 2SR);
  - Monthly consolidated depository corporations survey (in IMF survey 3SG);
  - Monthly central bank foreign exchange balance (*Orçamento cambial*);
  - Quarterly table on bank prudential ratios and financial soundness indicators;
  - Quarterly data on the BCSTP's financial position (profit and loss statement, deficit, budget execution, etc.).

- 3) **External Debt Data:** The Debt Management Unit at the Ministry of Finance and International Cooperation will provide the IMF staff, within two months after the end of each month the following information:
- Monthly data on amortization and interest on external debt by creditor; paid, scheduled, and subject to debt relief or rescheduled;
  - Quarterly data on disbursements for foreign-financed projects and program support loans.
- 4) **National Accounts and Trade Statistics:** The following data will be provided to the IMF staff:
- Monthly consumer price index data, provided by the National Institute of Statistics within one month after the end of each month;
  - Monthly data on imports (value of imports, import taxes collected, and arrears) and commodity export values, provided by the Customs Directorate at the Ministry of Finance and International Cooperation, 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.