

São Tomé and Príncipe: Review of Performance Under a Staff-Monitored Program

This paper on the Review of Performance Under the Staff Monitored Program for **São Tomé and Príncipe** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **October 31, 2002**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of **São Tomé and Príncipe** or the Executive Board of the IMF.

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Price: \$15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

SÃO TOMÉ AND PRÍNCIPE

Review of Performance Under a Staff-Monitored Program

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(In consultation with the Legal, Monetary and Exchange Affairs,
Policy Development and Review, and Treasurer's Departments)

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October 31, 2002

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Executive Summary

Background

- São Tomé and Príncipe's PRGF-supported program went off track at end-2000 because of fiscal and structural slippages, which were compounded in 2001 by the emergence of oil-sector governance concerns. The authorities requested a staff-monitored program (SMP) for the first half of 2002, but spending overruns reoccurred, and most of the SMP's benchmarks were missed.

Performance under the SMP through end-June 2002

- Program implementation during the first half of 2002 was disappointing, as the key quantitative benchmarks for end-June 2002 were not observed.
- Greater-than-expected revenue mobilization was more than offset by spending overruns owing to trade union wage demands, higher energy and utility costs, and spending related to the March 2002 legislative elections. As a result, the primary fiscal deficit (including HIPC Initiative social expenditures) increased to 3.2 percent of GDP in the first half of 2002, compared with a targeted deficit of 1.6 percent of GDP.
- Net bank credit to the government expanded by 12 percent of the beginning-of-year money stock during the first half of 2002 (compared with a 5 percent target), as the government drew on its deposits at the central bank to finance its larger-than-targeted deficit. As a result, quantitative benchmarks on net bank credit to the government, the central bank's net domestic assets, and the central bank's net international reserves were not observed.
- The government pressed ahead with public service reform, but it reversed water and electricity rate increases that were implemented to ensure cost recovery, as a prior action for the SMP.

Extension of the SMP through end-December 2002

- The authorities have agreed to extend the SMP through end-December 2002 in order to reestablish a satisfactory track record of policy implementation. The government appointed an internationally reputable firm to audit three large government procurement contracts as a prior action. The extended SMP aims at containing inflation within 9 percent in 2002 and narrowing the external current account deficit to 10 percent of GDP in 2002 from 16 percent of GDP in 2001. Real GDP growth is projected to reach 5 percent in 2002.