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Democratic Republic of São Tomé and Príncipe: 2003 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2003 Article IV consultation with the Democratic Republic of São Tomé and Príncipe, the following documents have been released and are included in this package:

- the staff report for the 2003 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **December 5, 2003,** with the officials of São Tomé and Príncipe on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on March 2, 2004.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its March 17, 2004 discussion** of the staff report that concluded the Article IV consultation.

The document listed below have been or will be separately released.

Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

SÃO TOMÉ AND PRÍNCIPE

Staff Report for the 2003 Article IV Consultation

Prepared by the Staff Representatives for the 2003 Consultation with São Tomé and Príncipe

(In consultation with the Finance, Legal, and Policy Development and Review Departments)

Approved by Amor Tahari and Martin Fetherston

March 2, 2004

- The 2001 Article IV consultation was concluded on January 30, 2002. The last arrangement under the Poverty Reduction and Growth Facility (PRGF), approved on April 28, 2000, went off track in early 2001 and expired in April 2003. A staff-monitored program (SMP) was put into place for 2002, under which São Tomé and Príncipe was able to establish a broadly satisfactory track record.

- Discussions for the 2003 Article IV consultation were concluded during November 17-December 5, 2003. These discussions, as well as discussions on a three-year program that could be supported by an arrangement under the PRGF, were begun during April 7-25, 2003 and continued during June 15-20, 2003.

- The missions met with the President of the Republic; the leadership of the National Assembly; the Prime Minister; the Ministers of Planning and Finance, Natural Resources, Justice, and Commerce; the Central Bank Governor; other senior officials; and representatives from unions, employer associations, NGOs, other civil society organizations, and donors.

- The teams comprised, at various times, Messrs. Harnack (head), Zejan, Zoromé, Rother (EP), Erickson (EP), Ould Abdallah, Tyaba, Ms. Perez (Administrative Assistant; all AFR), and Ms. Guillé (Staff Assistant; TGS). Mr. Donovan (AFR), Mr. Randriamaholy, Resident Representative, and Mr. Affane Nguema, Assistant to the Executive Director for São Tomé and Príncipe, participated in the discussions in November. The staff was assisted by Mr. Cruz and Ms. Ceita, Local Economist and Staff Assistant in the Fund office in São Tomé and Príncipe, respectively. The missions worked closely with teams from the World Bank that were in the field at the same time.

- São Tomé and Príncipe has Article XIV status. On the basis of available information the country does not maintain any exchange restrictions and/or multiple currency practices at this time; a review of regulations and practices is being conducted by the authorities, together with LEG and MFD. The authorities have indicated their intention to formally accept soon the obligations under Article VIII, Sections 2*(a)*, 3, and 4.

- The authorities have agreed to publish the staff report; the staff recommends that the next Article IV consultation be held on a 12-month cycle.

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Appendices

Executive Summary

- Discussions with the authorities focused on Article IV consultation issues and a medium-term PRGF-supported program. However, the authorities could not at this stage commit themselves to medium-term macroeconomic policies. Discussions on a new three-year PRGF arrangement could resume by mid-2004.

- The upcoming oil era in São Tomé and Príncipe has created a tense political atmosphere. A coup d'état took place in July 2003, ending a week later with a negotiated settlement that allowed the return of elected President de Menezes and his Prime Minister.

- The country established a track record of broadly satisfactory policy implementation in the context of an SMP during 2002, following a three-year PRGF arrangement adopted in 2000 which veered off-track in early 2001. Satisfactory macroeconomic performance was maintained in 2003.

- São Tomé and Príncipe stands at the threshold of the oil era. Its medium-term macroeconomic outlook is dominated by huge oil signature bonuses expected in 2004. The government faces the crucial challenge of managing this enormous, but exhaustible, wealth against the background of weak institutional and absorptive capacities. As the oil sector is likely to be an enclave, reducing poverty would need high non-oil GDP growth. Substantial efforts will be required to prevent a crowding out of the non-oil economy during the oil era.

- The authorities' need to sterilize oil sector proceeds framed the discussions of fiscal policy. In the baseline scenario, the non-oil primary fiscal deficit would be stabilized in the medium term.

- The main points in the staff appraisal are:

(i) São Tomé and Príncipe's medium-term policies need to cope with the upcoming oil sector activities. The government faces the challenge of how to manage the enormous, but exhaustible, oil wealth.

(ii) The authorities' intention to preserve oil income for future generations is welcome. The staff encourages the authorities to implement without delay the envisaged legislation for oil income stabilization and sterilization mechanisms as well as the regulations governing oil revenue-financed spending and the role of the state oil entity.

(iii) The authorities' objective of stabilizing the non-oil primary fiscal deficit over the medium term is appropriate. To help ensure that fiscal policy remains sustainable, it is important that the deficit is limited in the long term to the interest and dividend earnings from the future oil fund's accumulated assets. The revised 2004 budget, as

presented to the National Assembly in January 2004, is broadly consistent with this approach.

(iv) To resume discussions on a new three-year PRGF-supported program, the authorities need to prepare crucial oil sector legislation in line with prudent medium-term policies. They also need to maintain broadly satisfactory macroeconomic performance.

I. Introduction

1. **Discussions focused on Article IV consultation issues and a medium-term program that could be supported by a new three-year Poverty Reduction and Growth Facility (PRGF) arrangement.** However, the authorities explained that in the wake of the July 2003 coup d'état they could not yet define their medium-term macroeconomic policies under a PRGF-supported program. The coup d'état delayed concluding the 2003 Article IV consultation discussions and significantly increased political and social pressure in the country. The government needed to continue to build a consensus before committing itself to specific financial policies that could form the basis of a PRGF-supported program. In particular, (i) salary negotiations with unions were still ongoing; (ii) the amount of oil signature bonuses was not yet certain; and (iii) crucial legislation determining the quantity and quality of spending financed with oil sector resources had not yet been negotiated with the National Assembly.

2. **In concluding the 2001 Article IV consultation,** Executive Directors regretted that the PRGF-supported program (April 28, 2000-April 27, 2003) had gone off track after one year.[1] They welcomed, however, the authorities' commitment to take strong corrective measures under the staff-monitored program (SMP) and to reestablish a track record of good policy implementation. Directors urged the authorities to enhance their public expenditure control mechanisms and make the management of the emerging oil sector more transparent, particularly given the possible onset of sizable oil-related compensation payments.

3. **The upcoming oil era** in São Tomé and Príncipe has created a tense political atmosphere. This tension led to the **coup d'état** of July 16, 2003, ending a week later with a negotiated settlement that allowed the return of elected President de Menezes and his Prime Minister.[2] The government is now composed primarily of members of the Prime Minister's party (holding the most seats in the National Assembly); the other parties included in the previous government of national unity are now in opposition. The coup and related events have not affected the commitment of the Prime Minister and her government to the economic policies in place prior to the coup d'état, but agreements on the conduct of economic policy have to be forged with the country's stakeholders.

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[1] São Tomé and Príncipe reached its decision point under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) in December 2000 (EBS/00/254; 12/5/00), allowing it to receive interim assistance from most multilateral development banks. The Arab Bank for Economic Development in Africa (BADEA) and the International Fund for Agricultural Development (IFAD) are not yet providing HIPC Initiative interim relief for São Tomé and Príncipe.

[2] President de Menezes took office in September 2001 with 55 percent of the popular vote.

II. Background

A. Recent Economic Developments

4. **São Tomé and Príncipe is the smallest African country in terms of GDP.**[3] While its social indicators compare favorably with the averages for sub-Saharan Africa, its institutional and human capacity are in great need of development. The country's economy has traditionally been dependent on the cocoa sector, which was in state hands until the early 1990s; as a result, the private sector is weak, with little diversification.

5. **Following a decade of very large macroeconomic imbalances, the government has pursued since 1998 economic and financial policies that have helped raise real GDP growth, lower inflation, reduce the primary budget deficit, and push forward key structural reforms.** Dependence on cocoa has been reduced as tourism and construction have increased their contributions to economic growth. The external current account, however, has remained chronically dependent on donor financing. A three-year PRGF arrangement adopted in 2000 veered off track, in large part because of parliamentary elections and associated fiscal slippages. Structural reforms were delayed, and governance problems arose in the emerging oil sector.

B. Performance during 2002-03

6. **In 2002, the authorities adopted a new set of policies in the context of an SMP** (EBS/02/3; 01/11/02). The government addressed some of the long-standing issues raised by Directors during the 2001 Article IV consultation, notably by improving their public expenditure control and monitoring mechanisms, including the HIPC account. The authorities also increased transparency in the oil sector by renegotiating contracts with a view to enhancing the benefits to the country.

7. **São Tomé and Príncipe established a track record of broadly satisfactory policy implementation under the SMP for 2002.** Five out of nine quantitative benchmarks were observed; of the remaining four, three of these were missed solely because of the nondisbursement of a World Bank program loan (Table 1).[4] Also, four out of six structural benchmarks were observed (Table 2); of the remaining two, the audit of government contracts was published in July 2003, while utility tariffs have not been adjusted (see below).

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[3] For 2003, the population is estimated at 176,000 and GDP at US$60 million, with per capita GDP at US$338. Government expenditures are estimated at 65 percent of GDP, with the official unemployment rate at 18 percent.

[4] The remaining benchmark, primary expenditure, was missed by 2 percent.

8. **Regarding macroeconomic performance in 2002, real GDP** grew by 4 percent (near the 5 percent projected under the SMP) and the 12-month **inflation rate** was 9 percent as envisaged (Table 3 and Figure 1). Prudent **fiscal policy** resulted in a lower-than-targeted primary fiscal deficit (Table 4). Broad money (M3) expanded somewhat faster than projected, reflecting higher growth in net domestic assets (NDA) and lower growth in net foreign assets (NFA), both primarily related to the shortfall in program loans (Table 5). To help meet the authorities' inflation target, the central bank kept its reference **interest rate** positive in real terms; with increasing confidence, as the authorities addressed bank supervision issues, demand for money increased. The **external current account deficit** (excluding official transfers) was lower than targeted (Table 6), reflecting an improvement in the **terms of trade** from an increase in world cocoa prices and a cumulative 12 percent depreciation in 2001-02 of the **real effective exchange rate** (Figure 2). The **overall balance of payments**, however, showed a deficit rather than the targeted surplus, primarily owing to the shortfall in nonproject loans mentioned above.[5]

9. **During 2003, São Tomé and Príncipe's macroeconomic performance remained broadly satisfactory.** Economic activity is estimated near the 4½ percent real GDP growth rate projected by the authorities, with end-period inflation at 10 percent. The primary fiscal deficit, including HIPC-financed social outlays, was 12 percent of GDP. M3 increased by 50 percent (including a strong increase in currency in circulation), reflecting a marked increase in demand for transaction balances, and velocity fell from 2.8 to 2.3; NFA rose sharply. The external current account is estimated at 45 percent of GDP, owing to a strong increase in exports and a modest rise in imports. The authorities maintained their flexible exchange rate regime: the real effective exchange rate depreciated by 5 percent during January-October 2003, mitigating the effect on competitiveness of an estimated 11 percent decline in the terms of trade. **Structural reforms** were generally well implemented: the authorities made operational the Auditor General's Office; and the Banco Commercial do Equador (BCE) was recapitalized with private funds, which could allow its reopening in early 2004.[6] However, the financial situation of the **water and electricity state enterprise** (EMAE) deteriorated, owing to arrears on electricity bill payments by individuals.

III. Overview of Key Issues and Long-term Challenges

10. **São Tomé and Príncipe stands at the threshold of an oil era.** The medium-term macroeconomic outlook is dominated by **oil signature bonuses**, expected by mid-2004, equivalent to twice the annual GDP; production is envisaged to commence in 2012 (Box 1

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[5] The government continued to accumulate reschedulable external payments arrears to bilateral creditors in 2002, in the amount of US$6 million (12 percent of GDP).

[6] Also, the First Afriland Bank began operations in November 2003, and a license has been granted to the private National Investment Bank to start operating in 2004.

and Table 7).[7] The government faces the challenge of **how to manage the enormous, but exhaustible, oil wealth.** Given the country's weak institutions and public expenditure management, these revenues could increase budget outlays to levels that far exceed São Tomé and Príncipe's absorptive capacity. Therefore, the bulk of the revenue should be transformed into financial savings, accompanied by institutional strengthening to improve good governance.

11. **As the oil sector is likely to be an enclave, reducing poverty would require high non-oil GDP growth.** Substantial efforts will be needed to prevent a crowding out of the non-oil economy during the oil era, as large oil revenues could have an adverse impact on investment and growth in the non-oil sector. A large loss of price competitiveness for non-oil tradables is likely, owing to real exchange rate appreciation and oil-induced higher domestic spending that would cause inflationary pressure. The challenge will, therefore, be to contain such "Dutch disease" problems, primarily through sterilization of oil revenue, but also through improved market access and enhanced price and wage flexibility.[8]

IV. Discussions with the Authorities

12. **The 2003 Article IV consultation discussions** focused on (i) medium- and long-term challenges, notably as regards the major shock to the country's economy from the upcoming oil sector activities; and (ii) the authorities' strategies in dealing with these challenges. The discussions were aligned on the authorities' draft poverty reduction strategy paper (PRSP).

13. **The authorities and the staff agreed that the impending fundamental changes posed by oil resources would require economic policies that emphasized fiscal adjustment and structural reform.** Such policies would need to be supported by prudent monetary policy, continuation of the current appropriate exchange rate regime, and improved governance to allow preservation of the oil wealth. However, the authorities could not commit themselves to a decision on how the expected oil resources would be distributed between addressing current social concerns—primarily salary issues and strengthening the country's infrastructure—and saving for future generations.

14. **The authorities explained that an oil fund would be established to** (i) help maintain macroeconomic stability, including fiscal sustainability and external

[7] In late 2003, São Tomé and Príncipe began receiving a grant in kind from Nigeria (30,000 barrels of crude oil per day at a guaranteed margin of US$0.13 per barrel until end-2004). This oil revenue, under discussion since 2001, is being incorporated into the fiscal accounts.

[8] Exports of goods and services are dominated by tourism and cocoa. Nontraditional exports have been depressed owing to delayed land reform, foreign aid-induced Dutch disease, a lack of capital, poor infrastructure, and a weak legal system that does not sufficiently safeguard property rights.

competitiveness, in the context of volatile oil prices; and (ii) ensure the efficient, transparent, and pro-poor use of oil revenue. Legislation for such an oil fund would include (i) stabilization and sterilization mechanisms; (ii) regulations governing oil revenue-financed spending; and (iii) a definition of the role of the state oil entity. While the country's stakeholders were discussing different mechanisms to use oil resources for the benefit of society, the authorities were of the view that until oil production starts in the next decade, an oil fund for future generations was the most appropriate initial choice.

A. Medium-Term Macroeconomic Prospects

15. **The authorities have not yet finalized their medium-term macroeconomic framework.** The mission nonetheless developed, and discussed with the authorities, a medium-term baseline scenario that portrayed how the authorities' envisaged policies could cope with the upcoming oil sector activities. This is supported by the analytical work summarized in Box 2; the mission underscored that the growth strategy would need to be accompanied by market liberalization and privatization. Under the baseline scenario, the strategy during 2004-08 would aim at (i) achieving annual real GDP growth of 6½ percent, buttressed by investment related to the upcoming oil era; (ii) limiting annual inflation to an average of 12 percent; and (iii) containing the external non-oil current account deficit, excluding official transfers, at below 50 percent of GDP. It assumes oil signature bonuses of US$150 million in 2004, based on the best available information.[9] During 2004-08, half of this oil income would be used, primarily to finance investment projects, on the assumption that donors would reduce their financial assistance to São Tomé and Príncipe beginning in 2004. The authorities indicated that over the longer term they would monitor their prospects for future oil revenue and adjust oil fund withdrawals on that basis.

16. **The authorities accepted the view of the mission that prudent policies should aim at reducing the non-oil primary fiscal deficit over the medium term.** Focusing on the non-oil primary fiscal balance could help avert procyclical spending in the face of volatile oil prices that would endanger macroeconomic stability. Such a strategy would be based on incorporating interest and dividend earnings from the oil fund and stepped-up government-financed investment supported by withdrawals from the oil fund. The remaining fiscal and balance of payment financing gaps could be covered by debt relief. In the longer term, the authorities could limit the non-oil primary deficit to the earnings from the oil fund's accumulated assets, implying a sustainable fiscal policy.

17. **Developments in the external sector would overwhelmingly reflect activities related to the oil sector.** Exports of goods and nonfactor services would increase, mainly reflecting a growing tourism sector (in conjunction with a malaria eradication program). This increase, together with earnings from the oil fund, could help stabilize the **non-oil current**

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[9] As outlined in Box 1, the October 2003 bids are still being evaluated. The amount of oil signature bonuses will be known when the specific companies have been chosen.

account deficits, even though infrastructure development is expected to raise imports of investment goods and related services. The **current account deficits, including oil operations,** are expected to widen beginning in 2004, as imports related to oil exploration, albeit financed by foreign direct investment, will grow significantly.

18. **The authorities broadly concurred with this baseline scenario, but said that they needed first to consult the country's stakeholders on the underlying policies.** In particular, stabilizing the non-oil primary fiscal deficit would hinge on (i) legislation and regulations that limited the use of oil fund resources to levels consistent with such an objective, and (ii) salary negotiations with the trade unions. The authorities would propose policies consistent with the baseline scenario in the context of the joint government/National Assembly Oil Commission; at that stage, they were hoping that appropriate oil sector legislation could be approved by the National Assembly in March 2004, although it would take some time to draft the legislation.

19. **The authorities also recognized the pivotal role of the private sector in achieving a sustained rate of economic growth in the non-oil sector and the ensuing need for structural reforms**. They were aware that an integrated growth strategy had to invigorate the non-oil private sector for new productive activities to take hold. The authorities were placing emphasis on improving the country's infrastructure; transportation remained a major bottleneck, with a road network in need of repair, infrequent and irregular service by both ships and planes, and a low capacity of the country's ports. In this way, they hoped to attract investors in areas with high growth potential, such as raw material transformation, fishing, and tourism. The private sector would be further stimulated when the **public sector** withdrew from productive areas, as was the authorities' intention.[10] In the short term, the authorities intended to reform public enterprises; in the medium term, they would develop strategies for their eventual privatization. The authorities stated that these policies would include a safety net for the vulnerable sectors of society.

20. **The authorities, trade unions, and employers viewed insufficient work opportunities as a significant social problem that called for remedial policies.** The authorities felt that a stable macroeconomic environment conducive to accelerating growth was the best strategy to increase income. The trade unions pointed out that the country's minimum wages, including in the public sector were--at US$26 per month--insufficient for an acceptable way of life. They, therefore, argued that the government should use oil sector income to finance higher government salaries. The employers said that, given low domestic labor productivity, higher wages would limit investment to only the most productive endeavors. In a public debate during the mission's stay, the government emphasized that only limited resources would be used to raise wages and that increasing production and productivity was the way to achieve sustained higher income.

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[10] Aside from utilities, there are agricultural estates, an airline, a hotel, and a palm oil factory.

B. Fiscal Policy

21. **The authorities' need to sterilize oil sector proceeds framed the discussions of fiscal policy.** The government's desire to undertake social spending had to be balanced with the need to preserve macroeconomic stability; the authorities indicated that in the wake of the July 2003 coup d'état they were under intense pressure to use oil resources to address social concerns. In their 2004 budget, presented to the National Assembly in November 2003, they proposed to use a portion of the expected oil signature bonuses to (i) effect a onetime increase in government salaries of 53 percent; and (ii) increase total government investment by 68 percent.

22. **The staff cautioned the authorities about the risk of rising inflation resulting from their envisaged policies.** Instead, the mission proposed in its baseline scenario increases in salaries of 23 percent and in total investment outlays of 32 percent; this would be compatible with an average inflation rate of 13 percent in 2004 (and 14½ percent in 2005, after which the rate would decline). The authorities agreed with the mission's assessment that, although increases in inflation were likely to occur because of the lagged response of imports to higher demand, a temporarily higher inflation could be accommodated, provided they allowed the exchange rate to adjust. The mission emphasized, and the authorities concurred, that (i) wage increases in the years prior to the beginning of oil production should be limited to maintaining the government wage bill constant in real terms, and (ii) the quality of government-financed investment outlays needed to be carefully monitored, preferably through public expenditure reviews performed with the assistance of the World Bank.

23. **Following the discussions with the mission, the authorities resubmitted their 2004 budget to the National Assembly in January 2004.** This budget proposal, now broadly in line with the baseline scenario, incorporates increases of 23 percent in the wage bill and 32 percent in investment outlays.[11] The latter increase comprises a structural rise in oil fund-financed investment outlays; therefore, the fiscal primary balance, including HIPC Initiative-financed social outlays, would deteriorate to 23 percent of GDP from an estimated 12 percent of GDP in 2003. The budget is based on the principle of fully incorporating oil sector resources. It projects using some US$8 million in oil signature bonuses (12½ percent of GDP) supplemented by bank financing and donor disbursements; this compares with the use of US$26 million (41 percent of GDP) of oil signature bonuses in the mission's baseline scenario, which assumes lower donor disbursements and a reduction in net bank credit to government.

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[11] However, the authorities are of the view that donor financing could increase from 2003 rather than decline, as projected by the mission in light of the large oil signature bonuses accruing to the government. If the authorities' projections prevail, total investment in 2004 would increase by 144 percent over the estimated 2003 outturn.

24. **The authorities indicated that they would develop a three-year rolling expenditure framework in collaboration with the World Bank.** This would facilitate determination of their spending priorities and recurrent cost implications; such a framework would be presented to the National Assembly for information, together with the annual budget. To help ensure sustainability of deficits, **revenue collection and coverage** would be enhanced, including by evaluating the relative contribution of direct and indirect taxes.[12] With a view to limiting use of the one-off oil signature bonuses for budget financing until oil production starts, the authorities could lower **domestically financed primary expenditure** in terms of GDP after the middle of this decade by prioritizing them (including capital expenditure), which would allow improving quality; this could include a civil service job reclassification to identify redundancies. In late 2003, a World Bank/Fund mission tracking poverty reducing spending revealed weaknesses in budget management. The authorities intend to correct these weaknesses by (i) improving the comprehensiveness of, and classification system for, budget formulation; (ii) reinforcing internal financial controls; and (iii) making more effective the reporting and auditing procedures for budget execution.

C. Monetary Policy

25. **The authorities are implementing a monetary policy supportive of the flexible exchange rate regime.** Their priorities are to contain inflation, strengthen the central bank's net foreign assets position, and enhance credit access for entrepreneurs through structural measures (see below). Monetary policy instruments are not well developed in São Tomé and Príncipe, consisting only of reserve requirements and the central bank's reference interest rate; there are no central bank or government bills. To respond better to inflows related to the impending oil sector activities and help steer broad money growth, the authorities intended to actively use the central bank reference interest rate, which until now had been their main monetary instrument. However, given that two new banks were scheduled to begin operations in early 2004, the authorities were of the view that a new interbank foreign exchange market would be needed to sufficiently strengthen the conduct of monetary policy and thereby financial intermediation.

26. **The mission broadly concurred with this strategy,** and the staff is considering the authorities' request for technical assistance to prepare a foreign exchange auction mechanism. However, as regards the current policy stance, it cautioned—and the authorities concurred—that the central bank should stand ready to adjust in a timely manner its reference interest rate, presently at 14½ percent, to forestall negative effects of increasing inflation. The mission pointed out to the authorities the risk of a more rapid-than-anticipated reduction in the monetary overhang that had emerged in 2003 (when M3 increased by 50 percent) that

[12] The authorities also stand ready to reduce the tax burden for the productive sectors if the real exchange rate were to appreciate, in order to help maintain the competitiveness of the non-oil sector. Actions to this end could include lowering existing sales or import tax rates.

could lead to higher inflation; some 40 percent of M3 is in the form of foreign currency deposits.

27. **The authorities and the staff coincided in their views that the trend of decreasing velocity reflected rising confidence in the banking system.** The banking sector had been strengthened by increased supervision of banks' compliance with prudential norms. The staff acknowledged that the sector would be further enhanced by implementation of a new norm for foreign exchange exposure. The authorities wanted to strengthen further their bank supervision capabilities through continued technical assistance from the Monetary and Financial Systems Department (MFD); the staff encouraged the authorities in this endeavor, pointing to the need to analyze carefully requests for new bank licenses to prevent unqualified bank managers from endangering the soundness of São Tomé and Príncipe's financial sector. The authorities and the mission agreed on the usefulness of **enhancing credit access** for viable private sector investment, including through microfinancing schemes and on-lending by commercial banks of donor funds. Such increases in credit to the private sector would need to be compensated by lower net credit to government to prevent net domestic assets (NDA) from rising.

D. Exchange and Trade Regimes

28. **The mission concurred with the authorities' assessment that the present flexible regime remained appropriate.** In recent years, the exchange rate under this regime has generally reflected the country's economic situation, including terms of trade movements and capital flows.[13] Maintenance of a flexible system would allow the authorities to better cope with volatile prices for cocoa and oil, which will dominate São Tomé and Príncipe's external current account, and avoid pressure on central bank reserves.

29. **To help reach their inflation and reserve targets, the authorities will continue to use the appropriate policy tools to allow the real exchange rate to respond smoothly to structural changes and fluctuations in commodity prices.** The depreciation of the real effective exchange rate in recent years has been positive for São Tomé and Príncipe's competitiveness. The monetary authorities would step up monitoring developments in the foreign exchange market now that new commercial banks were starting operations. They said that they would adopt an intervention policy limited to supporting the authorities' inflation target. In this context, the authorities intended to bolster their **external payments system** by accepting soon the obligations under Article VIII, Sections 2(*a*), 3, and 4.

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[13] São Tomé and Príncipe's exchange rate regime is currently classified as managed floating. The spread between the official and parallel rates of the dobra has been below 1 percent since 1999; the parallel market is used mainly by persons evading taxes and bank fees (which can reach 3 percent). The authorities intend to reduce tax evasion; they expect that, with more banks, competition will lower fees and, hence, use of the parallel market.

30. **The mission agreed with the authorities that São Tomé and Príncipe's trade regime was relatively open.** It is rated 3 on the Fund's index of trade restrictiveness, (with 10 being the most restrictive), and there are no quantitative restrictions. The tariff schedule was adjusted in mid-2002, shifting some agricultural and industrial goods among the three tiers of 5 percent, 10 percent, and 20 percent.[14] The only nontariff barrier relates to the privately managed (though government owned) telecommunications company, which is protected from competition until 2005; the authorities envisage at that time encouraging competition aimed at reducing international telephone rates, which are among the highest in the world.

31. **The authorities and the mission also agreed that São Tomé and Príncipe suffered from significant structural weaknesses that thwarted improvements in competitiveness.** To that end, the authorities welcomed the opportunity to participate in the **Integrated Framework** of Trade-Related Technical Assistance for least-developed countries. They expected that an action plan to address the issue of weak competitiveness could be elaborated by mid-2004.

E. Structural Reforms

32. **The authorities described their policies for strengthening the institutional environment, which are benefiting from World Bank support.** The licensing and registry of enterprises—hitherto a lengthy and complex procedure—are to be streamlined. The authorities also considered establishing a loan guarantee fund, but the mission advised against this course of action, pointing to the moral hazard effects of such a fund in other countries. Instead, the mission stressed the importance of strengthening governance and the rule of law, and welcomed recent measures to promote judicial reform. An Auditor General's Office has become operational, and the authorities also intended to make effective soon a liaison office to resolve business disputes, which would be an important step toward safeguarding property rights. The staff mentioned in this context the importance of modernizing the law regulating bankruptcies and revamping the land tenure system (Box 3); the authorities would work closely with the World Bank in these areas.

33. **The authorities intended tightening the financial discipline of the state-owned water and electricity company, EMAE.** The mission commended the authorities for reinforcing EMAE's management and accounting framework in the context of a World Bank-supported restructuring program. The authorities, while indicating their intention to further strengthen EMAE, made clear that for political reasons they would not for now consider adjusting utility tariffs. Rather, if necessary, they would subsidize EMAE's operations in a

[14] Staple goods are in the 5 percent band, while luxury goods are taxed at the 20 percent rate. All other goods are taxed at the 10 percent rate. There are surcharges, notably for vehicles, fuel, tobacco, and alcohol.

transparent way through the central government budget. The mission urged the authorities to preserve EMAE's endangered operating surplus, a task that would be greatly aided by EMAE's collecting overdue bills from clients.

34. **The authorities indicated that structural reforms would be implemented to strengthen governance**, particularly regarding the business environment. The government pointed out that, to improve the investment climate, it was lobbying for the adoption of a new investment code by the National Assembly. The staff urged the authorities to strengthen governance in the financial sector by reforming the legal system as concerns the recovery of loans. Commercial bankers had indicated to the mission that improved governance would encourage them to be more flexible in extending credit to entrepreneurs. Regarding the oil sector, the authorities recognized that governance would be strengthened by the publication and audit of the transactions related to the future oil fund, and said they were ready to participate in the United Kingdom's Extractive Industries' Transparency Initiative (EITI).

F. PRSP Issues, External Debt, and HIPC Initiative

35. **São Tomé and Príncipe's draft full PRSP targets a long-term decline in poverty** and improvement in social indicators in line with the Millennium Development Goals (MDGs). The poverty reduction strategy hinges on five operational approaches: (i) a reform of public institutions focusing on efficiency gains, capacity building, and good governance; (ii) a medium-term macroeconomic framework to foster sustainable private sector-led growth while preserving macroeconomic stability; (iii) sectoral programs aimed at eliminating economic exclusion; (iv) a strengthening of basic social services, particularly in health and education; and (v) a flexible framework for the revision of the PRSP. The authorities indicated that they would soon complete work on their PRSP, notably as regards defining the medium-term macroeconomic framework. Discussions began in late 2002 with the country's stakeholders, and the staff expects that the full PRSP will be transmitted to the Bank and Fund by mid-2004.

36. ***São Tomé and Príncipe* has a very heavy debt burden** (Tables 8 and 9). The net present value (NPV) of its outstanding public debt in terms of exports was 1,155 percent at end-2002, and under the baseline scenario a cumulative financing gap of US$48 million (75 percent of 2004 GDP) is projected for 2004-08. This gap could be filled by HIPC Initiative interim assistance from multilateral creditors and debt rescheduling from bilateral creditors, complementing identified donors' project and nonproject assistance. The authorities stated that they would rely only on concessional borrowing with a grant element of 50 percent or more, to help keep future debt service at sustainable levels. This prudent debt-management strategy is being supported by a law requiring approval from the National Assembly for all new borrowing. Also, a new debt unit was created in late 2003, consolidating the technical expertise of the Central Bank and Ministry of Finance.

37. **The authorities said that they would like to obtain a new debt rescheduling under Paris Club auspices in 2004.**[15] They saw this as an essential step toward helping them shoulder the heavy debt burden; without debt relief, the government would have to take additional adjustment measures or use the bulk of its oil wealth during 2004-08. The authorities were also interested in reaching the **HIPC Initiative completion point.** They were aware that, to that end, they needed to demonstrate (i) satisfactory implementation of the HIPC Initiative floating completion point triggers; (ii) a stable macroeconomic position; (iii) satisfactory performance under a Fund-supported arrangement; and (iv) implementation of a full PRSP in a satisfactory manner for at least one year. In light of their objectives, the authorities were looking forward to resuming discussions early in 2004 on a PRGF-supported program.

G. Statistical Issues

38. **São Tomé and Príncipe's statistical framework suffers from serious weaknesses, and institutional capacity needs to be enhanced** (Appendix III). The authorities shared the staff's view that efficient and timely macroeconomic management would be difficult without substantial improvements in macroeconomic statistics. The authorities are committed to using the General Data Dissemination System (GDDS) as the framework for developing the country's statistical system. In the context of the GDDS Project for Lusophone African Countries, the authorities have prepared comprehensive metadata, which are expected to be posted soon on the IMF's Data Standards Bulletin Board (DSBB). The reporting of core data to the Fund would also facilitate the monitoring of future Fund-supported programs. Under the GDDS project, the country is receiving technical assistance for national income accounts and balance of payments statistics, with assistance in other statistical areas envisaged later on. The mission supported the intention of the National Institute of Statistics to obtain further technical and financial assistance from donors. The staff identified, together with the authorities and the World Bank team, macroeconomic and statistical training areas for government officials, particularly at the mid- to lower levels.[16]

H. Other Issues

39. **The monetary authorities stated that there is no legislation governing anti-money laundering and combating of the financing of terrorism.** However, the authorities are in the process of drafting legislation in this area that would be presented to the National Assembly in 2004.

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[15] The authorities still need to sign the bilateral rescheduling agreement with Russia outstanding from the 2000 Paris Club rescheduling. A Russian delegation is expected to visit Angola in early 2004, and São Tomé and Príncipe stood ready to sign the agreement there.

[16] Priority areas are public expenditure management; bank supervision; data analysis and compilation at the central bank (particularly balance of payments data); and national income accounting.

40. The central bank reiterated that it would continue to make efforts to comply with the recommendations of the transitional safeguards assessment of the external audit mechanism completed in February 2001. A safeguards assessment is currently under way with respect to a possible PRGF arrangement in 2004.

I. Political and Economic Vulnerabilities

41. **The medium-term baseline scenario is subject to both political and economic risks.** The political environment has become tense due to the demands to use oil signature bonuses. If these pressures are not contained within a prudent medium-term macroeconomic framework, economic policymaking could become dominated by short-term political considerations. On the economic front, the amount of the oil signature bonuses is not yet fully known; as a result, a shortfall from the baseline scenario could require cutting back envisaged government outlays. There is also the risk that real GDP growth may not accelerate as projected, given limited private sector investment. If donors curtail more than projected their financial aid to São Tomé and Príncipe, more oil resources could be used by the authorities, which, in turn, would reduce pari passu the buildup of resources before oil production starts. In that case, unsustainable vulnerabilities would emerge.

42. **São Tomé and Príncipe faces issues of competitiveness, given the insufficient pace of structural reforms and chronic large external current account deficits**. This situation is reflected in a narrow export base and a difficult environment for private sector development. In light of the weak institutions in São Tomé and Príncipe, the structural measures envisaged to address these problems may fall short of their intended impact.

V. Staff Appraisal

43. São Tomé and Príncipe stands at the threshold of the oil era. The medium-term macroeconomic outlook is dominated by the expected disbursement of oil signature bonuses, with production envisaged to commence in the next decade. The government faces the challenge of how to manage the enormous, but exhaustible, oil wealth in the context of weak institutions and public expenditure management.

44. As the oil sector is likely to be an enclave, reducing poverty would require accelerating non-oil GDP growth, and substantial efforts will be needed to prevent a crowding out of the non-oil economy during the oil era. Building on the efforts made so far, the authorities need to do more to encourage investment in basic economic infrastructure, improve governance, and implement the structural reforms that are essential for promoting private investment and growth.

45. The medium-term policy strategy for São Tomé and Príncipe needs to cope with the upcoming oil sector activities. The authorities' intention to preserve oil income for future generations is welcome. The staff encourages the authorities to prepare and implement without delay the envisaged legislation for oil income stabilization and sterilization mechanisms as well as the regulations governing oil revenue-financed spending and the role

of the state oil entity. The staff looks forward to the authorities soon defining their medium-term financial policies in line with such legislation.

46. The authorities' objective of stabilizing the non-oil primary fiscal deficit over the medium term is appropriate. To help ensure that fiscal policy remains sustainable, it is important that the deficit be limited in the long term to the interest and dividend earnings from the future oil fund's accumulated assets.

47. The staff supports the authorities' approach to monetary policy which is consistent with the flexible exchange regime and focuses on limiting inflation and enhancing credit access for entrepreneurs. To help keep broad money within targets, the staff encourages the authorities to use the central bank reference interest rate and to broaden the range of monetary policy instruments, including, possibly, foreign exchange auctions. Recent progress in bank supervision is commendable; the staff encourages the authorities to further strengthen this area in light of the start-up of new banks, while urging caution in the approval of future bank licenses.

48. São Tomé and Príncipe's flexible exchange rate regime remains appropriate. The staff commends the monetary authorities' policy of limiting their interventions to supporting the government's inflation target. It will be important in this regard that the real exchange rate be allowed to respond smoothly to structural changes and fluctuations in commodity prices. The staff takes note of the authorities' intention to accept soon the obligations under Article VIII, Sections 2(*a*), 3, and 4 and stands ready to assist the authorities in this respect. It also looks forward to the authorities progressively lowering import tariffs to further liberalize the trade regime.

49. São Tomé and Príncipe faces issues in competitiveness given an insufficient pace of structural reforms and a chronic large external current account deficit. The staff encourages the authorities to address forcefully these vulnerabilities, together with steps to build political consensus to prevent economic policymaking becoming dominated by short-term political considerations. These measures include, notably, structural reforms to strengthen governance and rigorous application of the rule of law to reassure private investors, including by modernizing the law regulating bankruptcies and revamping the land tenure system. The staff welcomes São Tomé and Príncipe's selection for receiving technical assistance on trade-related issues under the Integrated Framework, which would help improve its competitiveness.

50. São Tomé and Príncipe's statistical framework suffers from serious weaknesses, and institutional capacity needs to be enhanced. Early and steady progress in this area will be critical to help improve macroeconomic management. The staff supports the efforts by the national statistical institute to increase its donor-financed technical assistance.

51. The authorities remain interested in resuming discussions in 2004 on a program that could be supported by a new three-year PRGF arrangement. The preparation and adoption of crucial oil sector legislation, together with accompanying prudent medium-term policies, will

be critical elements of such a program. The authorities also need to maintain a broadly satisfactory macroeconomic performance.

52. It is proposed that the next Article IV consultation with São Tomé and Príncipe be held on a 12-month cycle.

Box 1. São Tomé and Príncipe: Milestones in the Oil Sector

In 2001, a border dispute over potentially oil-rich waters with Nigeria resulted in the creation of a **Joint Development Zone (JDZ)**. The JDZ, administered by the Joint Development Authority (JDA) headquartered in Abuja, Nigeria, foresees allocating 60 percent of oil sector income to Nigeria and 40 percent to São Tomé and Príncipe. Between April and October 2003, the JDA conducted the first bidding round. Some 20 bids were received for 7 oil blocks, totaling US$506 million.

Future milestones are outlined below.

Preparatory phase (2004)

- **February 2004 –** The bids from the licensing round are evaluated in two phases, technical and commercial. The **technical phase** focuses on evidence of the companies' expertise and capability, proposals for any associated gas production, and environmental policies. Submissions that achieve a technical evaluation score above 60 percent proceed to the **commercial evaluation phase**. The criteria include the amount bid and proposed complementary social and environmental projects. Results of the tender are to be announced upon approval by the JDA; successful companies have two weeks to accept.
- **February–March, 2004** – **Oil Revenue Management Law (ORML)** to (i) aim for macroeconomic stability, including fiscal sustainability and external competitiveness, in the context of volatile oil prices and large, but exhaustible, oil revenues; and (ii) ensuring the efficient, transparent, and pro-poor use of oil revenue in the context of low administrative and absorptive capacities. The ORML would include (i) stabilization and sterilization mechanisms; (ii) regulations governing oil revenue-financed spending; and (iii) a definition of the role of the state oil entity, the Agência Nacional Petroleira (ANP).
- **March 2004** – Production-Sharing contracts (PSCs) are signed with successful bidders.
- **May, 2004 –** Bonuses are paid by companies accepting the contracts proposed by the JDA. The minimum signature bonus of US$30 million per block is payable in one tranche

Exploration phase (2005-06)

- 2005 – Exploration drilling commences.
- 2006 – Delineation drilling commences (additional wells drilled for seismic surveys on productive structures to confirm results of discovery wells).
- Corporate risk is assessed by oil companies, with consideration of economic conditions and the technical robustness of the projects. Decision whether to develop the wells is made by the companies. Field development plans are presented to the JDA for approval.

Development phase (2008 – 11)

- Contracting for production components in the U.S. Gulf Coast, Europe, and the Far East; shipment of components to the well; compatibilization of components; installation of production, processing, and export facilities; and testing and facility commissioning.

Production phase (2012 – 2031)

- 2012 – Commercial production starts.
- 2012-2015 – Capital cost recovery period. Well operators are allotted 80 percent of production flow for cost recovery; government receives only 20 percent.
- 2015 – Capital cost recovery completed. Bulk of proceeds goes to government.
- 2017 – Year of maximum government revenue.
- 2031 – Field reaches depletion. Facilities are decommissioned.

Box 2. São Tomé and Príncipe: Sources of Economic Growth

São Tomé and Príncipe, a small island state, is a low-income country with a weak productive base. A former Portuguese colony, production has traditionally concentrated on one crop for export, cocoa, which still accounts for 25 percent of total exports of goods and nonfactor services and 85 percent of exports of goods. Efforts to diversify the production base have shown some initial results since 2001, as nontraditional agricultural crops like peppers, flowers, and vanilla have benefited from preferred entry into the European Union market. A project is also under way to produce certified organic cocoa. However, prospects for growth in the agricultural sector are hampered by the lack of land ownership rights (Box 4).

Tourism accounts for nearly half of the country's export revenue and mainly targets upper-income segments of the European market, with an emphasis on sport fishing and ecotourism. There are several upscale hotels in the capital and two high-quality resorts on other islands. In 2003, a new airline began biweekly services from Lisbon, thereby increasing regular European connections to three flights a week.

With oil signature bonuses expected by mid-2004, the authorities intend to accelerate expenditure on infrastructure, particularly road construction and maintenance. This spending, along with anticipated activity from the private sector, especially in construction, is envisaged to raise overall real GDP growth from an estimated 4.5 percent in 2003 to an annual 6.5 percent for 2004-08. A key challenge ahead will be to strengthen the non-oil private sector to limit Dutch disease effects from oil sector activities.

The government intends to attract private sector investment by reducing the public sector's weight in the economy (its total expenditure was 64 percent of GDP in 2002). This will involve taking public enterprises to the point of sale, notably agricultural estates, utilities, the telecommunications company, and the airline. A reform of the country's business regulations and land ownership is also envisaged.

For an analysis of the sources of growth during 1981-2002, the staff used a production function of the form $Y = AL^{0.6}K^{0.4}$, where the variables are real GDP (Y), the labor force (L), the capital stock (K), and total factor productivity (A). The capital stock series assumes a constant depreciation ratio of 6 percent and a capital-output ratio of 2 in 1980. The table below shows that, whereas the contribution of the labor force was stable, capital accumulation was much more volatile. The capital stock drove GDP growth in 1991-2000 but contributed little in the periods before and after. Total factor productivity (TFP) showed a negative contribution to GDP growth over two decades, reflecting inefficient economic management. In 2001-02, TFP improved because of (i) a major improvement in economic management since 1998; (ii) delayed beneficial effects from the accumulation of capital during the previous decade; and (iii) structural reforms, including a more open trade regime.

One of the challenges facing São Tomé and Príncipe is to sustain high growth rates. To that end, both TFP growth and capital accumulation will be paramount, Public sector investment financed by oil revenue could increase the contribution to growth of the construction sector, aided by private investment in tourism. Investment in infrastructure, particularly the road system, will be crucial to further stimulate private sector activities. In the longer term, social expenditure envisaged in the PRSP has the potential to raise GDP growth rates: a population that is healthier and better educated is also more productive. Finally, São Tomé and Príncipe needs to continue addressing institutional weaknesses that hamper both productivity and private sector investment. The regulatory environment needs to foster entrepreneurship, and property rights, especially in the agriculture sector, need to be reformed.

Sources of Economic Growth, 1981–2002
(In percent)

	1981-90	1991-2000	2001-02
Real GDP growth	-1.4	1.8	4.0
Real capital growth	0.3	2.8	0.3
Labor force growth	1.5	1.6	1.5
TFP growth	-3.2	-2.6	2.2

Box 3. São Tomé and Príncipe: Land Tenure Reform

Current situation

In São Tomé and Príncipe, the state owns 93 percent of the land. This represents the enduring legacy of the socialist system the country adopted after its independence in 1975, when all land in the hands of foreigners was nationalized. The remaining 7 percent represents land which was allowed to remain in the hands of private Santomean citizens after independence. As a result, there is only a small market for land ownership. Most land is leased for up to 20 years through state concessions that confer usufruct rights to the lessee; concessions can be inherited during the life of the lease.

There are three large drawbacks to the current system:
- The lack of land ownership hampers access to commercial bank credits. Since most land rights are only in the form of leases instead of outright property titles, banks do not extend land-secured loans to the private sector.
- The absence of land-secured loans in turn discourages investment and, ultimately, hinders economic growth.
- The lack of ownership also impedes the development of an efficient agricultural sector. If, instead of leases, holders had outright title to the land, more efficient farmers could buy out less efficient ones, which would allow increased productivity and economies of scale.

Past reforms

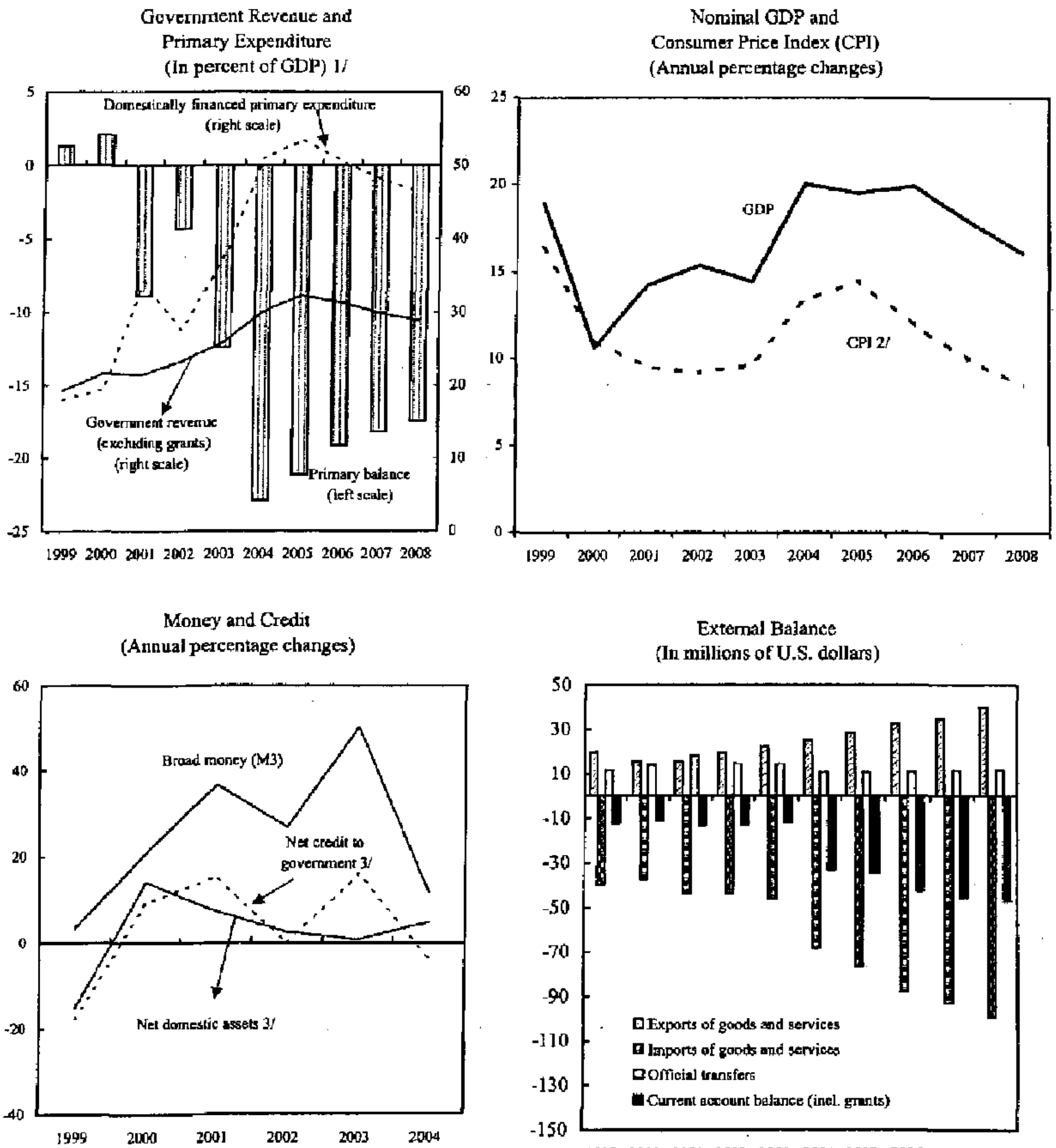
Land reform efforts started in 1991, but with limited success. The World Bank, with cofinancing from the African Development Bank (AfDB), supported a project with the objectives of (i) increasing and diversifying agricultural production, and (ii) promoting equity through the redistribution of large state-owned cocoa plantations (*roças*) to small-scale farmers. As part of this program, 44,000 hectares of land were distributed to smallholders (8,700 families, or some 40,000 persons). However, the project failed because the limited usufruct rights did not allow the new landholders to obtain financing for inputs and other outlays, and the envisaged transformation into outright private ownership was never authorized by the government. In addition, the government lagged in setting up a land registry and keeping track of the distributed land.

Future avenues

The authorities are still deliberating about how to transform the usufruct concessions into contracts that could allow accessing bank credit. One option is *aforamento* land holdings that would (i) create a permanent lease transferable by inheritance; (ii) include provisions for the government to pay financial compensation to the lessee in case of cancellation of the lease; and (iii) allow selling the lease, which would make it more suitable as collateral for credit.

The introduction of *aforamentos* will need to be supported by significant progress in making operative a land registry. For land tenure reform to be successful, it will need to be backed up with (i) a strong political commitment; and (ii) strengthened administrative and institutional capacities.

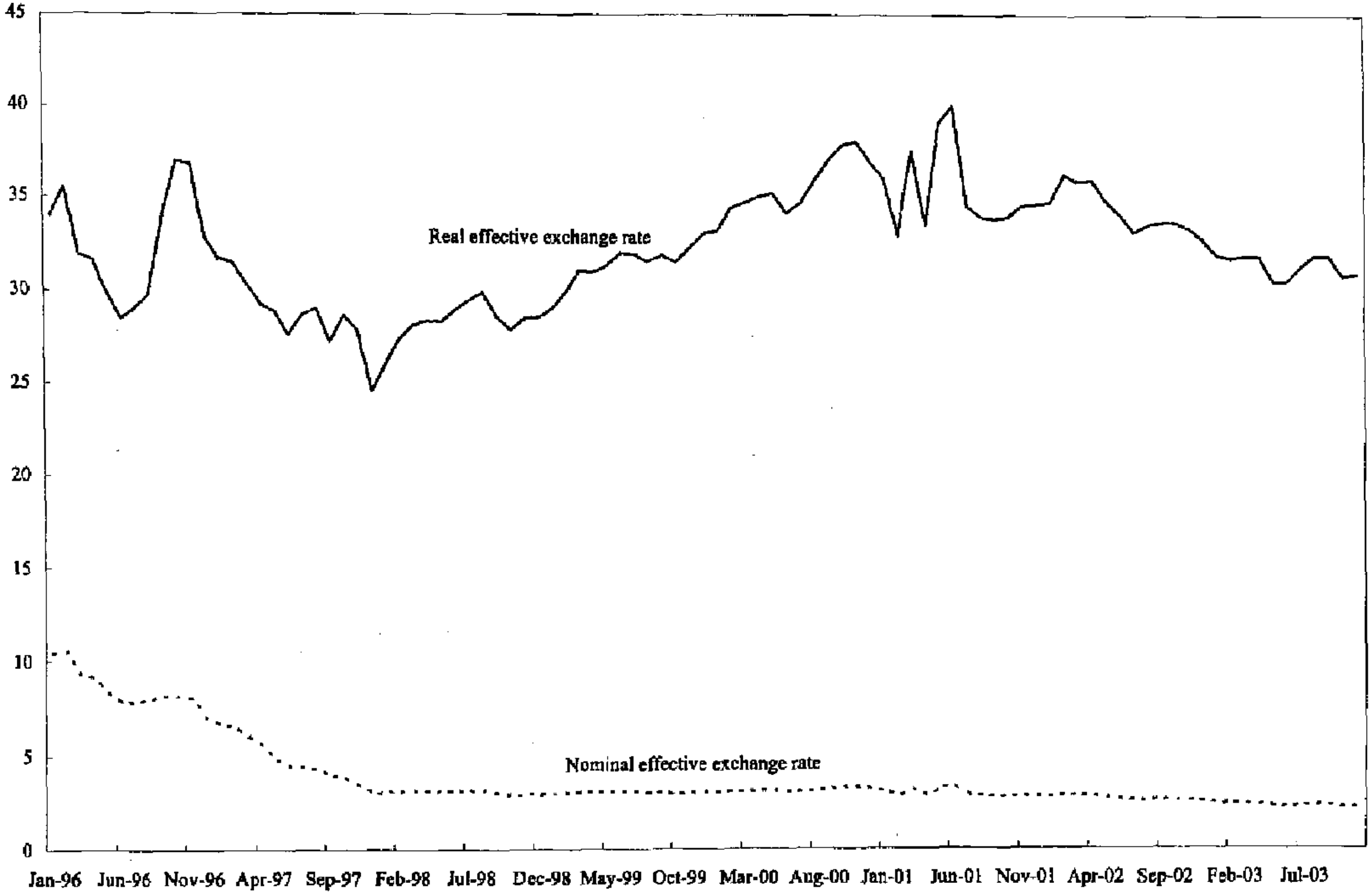
Figure 1. São Tomé and Principe: Economic and Financial Indicators, 1999-2008



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

1/ Primary balance includes HIPC Initiative-financed expenditure.
2/ Period averages.
3/ In percent of beginning-period M3.

Figure 2. São Tomé and Príncipe: Real and Nominal Effective Exchange Rates, January 1996-November 2003



Source: IMF, Information Notice System.

Table 1. São Tomé and Príncipe: Quantitative Benchmarks for the Staff-Monitored Program (SMP) for End-December 2002 1/

(In billions of dobras, unless otherwise specified)

	SMP	Actual	SMP Target Met (M) or Not Met (N)
Floor on primary balance of the central government's financial operations, excluding foreign-financed investments (cumulative from beginning of year)	-23.1	-21.1	M
Ceiling on changes in net bank credit to the central government (cumulative from beginning of year)	-50.1	-0.3	N
Ceiling on changes in net domestic assets of the central bank (cumulative from beginning of year)	-46.5	-2.8	N
Floor on changes in the net foreign assets position of the central bank (cumulative from beginning of year; in millions of U.S. dollars)	6.6	2.1	N
Ceiling on central government's stock of outstanding external payments arrears (in millions of U.S. dollars)	0.0	0.0	M
Ceiling on contracting and guaranteeing of new nonconcessional debt by the central government with a maturity of more than one year (cumulative from beginning of year; in millions of U.S. dollars)	0.0	0.0	M
Ceiling on central government's stock of outstanding short-term external debt with a maturity of less than one year (cumulative from beginning of year; in millions of U.S. dollars)	5.0	5.0	M
Floor on total central government revenue (cumulative from beginning of year)	108.3	113.4	M
Ceiling on primary spending of the central government, excluding foreign-financed investments (cumulative from beginning of year)	131.5	134.5	N
Memorandum items:			
Oil contract signature bonuses	0.0	0.0	
Program financing, including nonproject short-term advances (excl. grants)	74.7	45.0	
Exchange rate (in dobras per U.S. dollar; period average)	8,987	9,088	

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

1/ For footnotes, see page 36 of EBS/02/186 (11/4/02).

Table 2. São Tomé and Príncipe: Prior Actions and Structural Benchmarks Under the Staff-Monitored Program for 2002

Measures	Timetable	Status
Prior action		
Signature of a contract with an internationally reputable firm for an independent external audit of three large government contracts and tenders covering the period 1998-2000.		Observed in October 2002.
Structural benchmarks		
Submission to the National Assembly of the draft budget for 2003.	End-December 2002.	Observed.
Publication of the report on the independent external audit of three large government contracts and tenders covering the period 1998-2000 by an internationally reputable firm.	End-December 2002.	Not observed (action taken in July 2003).
Application of the mechanism for the adjustment of retail petroleum product prices to reflect import prices and distribution costs.	Continuous.	Observed.
Application of the mechanism for the adjustment of water and electricity rates to reflect the costs of production and distribution.	Continuous.	Not observed.
Submission of monthly monetary data within four weeks of the end of each month.	Continuous.	Observed.

Table 3. São Tomé and Príncipe: Selected Economic Indicators, 2001-08

	2001	2002 SMP (EBS/02/186)	2002 Actual	2003 Est.	2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.
	(Annual percentage changes, unless otherwise specified)								
National income and prices									
GDP at constant prices	4.0	5.0	4.1	4.5	6.5	6.5	6.5	6.5	6.5
GDP deflator (percentage change)	9.8	10.8	10.8	9.5	12.7	12.2	12.6	10.7	9.0
Consumer prices (percentage change; end of period)	9.4	9.0	8.9	10.2	16.2	13.0	11.0	9.0	8.0
Consumer prices (percentage change; average)	9.5	9.2	9.2	9.6	13.3	14.5	11.9	9.9	8.5
External trade									
Exports, f.o.b.	15.4	85.4	37.5	26.9	6.1	1.2	-1.5	0.6	6.8
Imports, c.i.f.	6.7	14.7	4.7	7.5	43.7	13.0	15.9	4.9	7.8
Of which: non-oil sector imports	6.7	14.7	4.7	7.5	31.6	10.3	13.6	5.6	10.4
Exchange rate (in dobras per U.S. dollar; end of period) 1/	9,192	9,025	9,192	9,541	...	...	...	...	...
Real effective exchange rate (depreciation -) 1/	-6.5	-1.1	-5.2	-4.5	...	...	...	...	...
Terms of trade	10.8	38.4	52.7	-11.2	-6.4	-2.1	-2.5	-0.8	-0.8
Money and credit (end of period)									
Net domestic assets 2/	7.3	-26.6	2.6	0.7	4.8	...	...	...	...
Of which: credit to government (net) 2/	15.4	-32.6	-0.2	16.0	-3.5	...	...	...	...
credit to the economy 2/	-2.0	4.3	11.6	26.3	8.3	...	...	...	...
Broad money	36.7	23.1	26.9	50.3	11.7	...	...	...	...
Velocity (ratio of non-oil GDP to average broad money)	3.2	3.1	2.8	2.3	2.2	...	...	...	...
Commercial bank lending rate (in percent; end of period) 1/	37.0-39.0	...	37.0-39.0	37.0-39.0	...	...	...	...	...
Commercial bank deposit rate (in percent; end of period) 1/	14.0-16.0	...	14.0-16.0	14.0-16.0	...	...	...	...	...
	(In percent of GDP, unless otherwise specified)								
National accounts									
Consumption	123.1	103.0	112.5	109.4	118.0	118.6	117.9	116.0	113.6
Gross investment	35.8	45.2	32.8	30.4	48.8	59.0	63.5	60.9	57.8
Public investment	21.6	28.3	14.8	16.4	17.7	19.1	18.1	17.3	16.8
Private investment	14.2	16.9	18.0	14.0	31.1	39.9	45.4	43.6	41.1
Of which: non-oil sector (in percent of non-oil GDP)	*14.2*	*16.9*	*18.0*	*14.0*	*15.0*	*16.0*	*16.0*	*17.0*	*17.0*
Gross domestic savings	-23.1	-3.0	-12.5	-9.4	-18.0	-18.6	-17.9	-16.0	-13.6
Public savings	-28.0	...	-15.1	-14.7	-13.8	-12.0	-10.2	-9.2	-8.4
Private savings	4.9	...	2.6	5.3	-4.3	-6.6	-7.7	-6.8	-5.2
Gross national savings	8.3	35.1	8.8	10.0	-2.4	3.0	1.1	0.6	1.2
Government finance									
Total revenue and grants	59.3	63.0	50.5	50.4	46.7	49.6	47.4	44.8	42.9
Of which: tax revenue	18.6	17.9	19.5	20.5	20.7	21.0	21.7	21.6	21.8
Total expenditure and net lending	81.4	69.7	63.7	65.0	71.0	69.5	65.2	61.6	58.7
Of which: noninterest current expenditure	23.0	19.6	20.5	24.2	25.3	24.3	22.4	20.7	19.3
capital expenditure	45.8	37.1	29.4	29.3	32.2	32.4	30.6	29.3	28.3
Primary balance (commitment basis; incl. HIPC Initiative spending) 3	-12.9	-4.7	-4.3	-12.4	-22.9	-21.2	-19.1	-18.2	-17.5
Overall balance (commitment basis)	-22.1	-6.7	-13.2	-14.5	-24.3	-19.8	-17.8	-16.8	-15.8
	(In percent of GDP, unless otherwise specified)								
External sector									
Current account balance (excluding official transfers)	-65.3	-54.2	-51.0	-44.7	-67.9	-73.3	-78.4	-75.2	-70.7
Current account balance (including official transfers)	-27.5	-10.0	-24.0	-20.4	-51.2	-56.9	-62.4	-60.2	-56.7
Non-oil current account balance (excl. official transfers) 4/	-65.3	-54.2	-51.0	-44.7	-52.0	-49.6	-49.3	-48.9	-47.9
Net present value of total debt 5/ 6/ 7/	1,184.4	825.9	1,154.5	1,074.1	887.4	229.6	206.0	187.2	168.9
Net present value of total debt 5/ 6/ 8/	1,829.9	1,259.1	1,560.4	1,341.8	1,020.5	290.4	276.0	265.9	252.0
External debt service before debt relief 7/	48.6	30.1	61.2	57.9	163.5	49.3	45.8	42.1	38.7
External debt service paid 7/	29.5	...	22.9	25.9	...	...	...	...	...
Export earnings (in millions of U.S. dollars)	3.7	6.5	5.1	6.4	6.8	6.9	6.8	6.8	7.3
Overall balance (in millions of U.S. dollars)	-0.5	3.4	-3.7	3.3	122.2	-18.5	-19.8	-21.7	-22.8
Gross foreign reserves (in months of following year's non-oil imports of goods and nonfactor services)	3.5	4.8	4.2	4.6	5.2	5.4	5.1	4.9	4.4

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

1/ For 2003, data as of October.

2/ In percent of broad money at beginning of period.

3/ Excluding oil revenue, grants, interest earned, scheduled interest payments, and foreign-financed capital outlays.

4/ Excluding c.i.f. imports of oil sector-related goods and services, and oil sector profit remittances.

5/ Including arrears to Italy on a loan that remains in dispute.

6/ Assumes that the completion point under the enhanced HIPC Initiative is reached at end-December 2005.

7/ In percent of exports of goods and nonfactor services, calculated as a three-year backward-looking average (e.g., average over 2001-03 for exports in 2003).

8/ In percent of government revenue.

Table 4. São Tomé and Príncipe: Financial Operations of the Central Government, 2001-08

	2001	2002		2003				2004	2004				2005	2006	2007	2008
		Jan.-Dec.		Jan.-Mar.	Jan.-Jun.	Jan.-Sep.	Jan.-Dec.	Rev. Budget	Proj.				Proj.			
		SMP	Actual				Est.		Jan.-Mar.	Jan.-Jun.	Jan.-Sep.	Jan.-Dec.				
	(In billions of dobras)															
Total revenue and grants	248.8	309.4	245.6	57.0	111.8	160.9	280.9	407.0	53.5	139.3	229.6	312.2	396.3	453.9	505.5	561.5
Oil revenue	0.0	0.0	0.0	0.0	0.0	0.0	3.3	13.4	3.4	6.7	10.1	13.4	0.0	0.0	0.0	0.0
Non-oil revenue	89.2	108.3	113.4	28.0	71.9	101.9	140.4	181.8	32.2	76.7	135.8	187.0	257.8	300.0	336.9	377.9
Tax revenue	77.2	87.8	95.0	21.4	52.8	77.2	114.2	131.0	29.4	69.2	103.8	138.4	168.0	207.3	244.1	285.9
Nontax revenue	12.0	20.5	18.4	6.6	19.1	24.7	26.2	50.8	2.8	7.5	31.9	48.6	89.7	92.6	92.8	92.0
Of which : interest earnings of oil fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	23.9	0.0	0.0	13.7	26.7	64.4	62.5	58.3	51.9
Grants	159.5	201.1	132.2	29.1	39.9	59.0	137.1	211.9	17.9	55.9	83.8	111.7	138.5	154.0	168.6	183.6
Project grants	120.9	135.8	110.0	14.4	16.8	28.5	100.1	182.2	9.8	39.7	59.5	79.4	79.3	86.5	92.2	96.9
Nonproject grants	17.3	27.6	0.5	0.5	2.2	2.2	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC Initiative-related grants	21.4	37.7	21.8	14.2	20.8	28.3	34.6	29.8	8.1	16.2	24.3	32.4	59.3	67.5	76.4	86.7
Total expenditure and net lending	342.3	343.3	310.0	69.4	136.8	203.4	361.9	612.0	80.8	231.6	346.8	474.6	554.6	624.1	694.9	768.6
Current expenditure	131.0	132.4	138.1	40.3	87.3	131.7	170.8	214.4	54.3	107.9	161.3	212.2	236.7	263.3	287.7	310.9
Personnel costs	40.5	44.8	43.6	11.6	22.6	37.3	55.0	67.7	16.9	33.8	50.7	67.6	79.9	86.7	92.4	97.1
Goods and services	18.8	24.1	26.7	8.2	23.3	33.9	43.9	52.7	13.1	30.3	45.4	60.5	67.4	75.8	83.4	92.3
Interest on external debt due	32.7	35.0	38.4	13.5	22.3	32.9	34.3	51.4	13.5	22.4	33.0	40.8	41.0	46.6	52.1	55.9
Interest on internal debt due	1.1	1.1	0.0	0.0	0.0	0.0	1.9	1.0	0.0	0.0	0.0	2.0	2.0	2.0	2.0	2.0
Transfers	13.1	9.3	9.4	3.0	7.5	10.7	13.4	14.0	3.5	7.0	10.5	14.0	15.6	17.5	19.4	21.8
Other	24.8	18.0	20.0	4.1	11.6	16.9	22.4	27.6	7.3	14.5	21.8	27.3	30.8	34.6	38.3	41.8
Capital expenditure	192.3	182.2	143.1	22.6	36.7	53.6	163.1	398.4	18.5	107.5	161.2	215.0	258.6	293.3	330.8	371.0
Financed by the treasury	29.4	12.7	12.3	4.5	12.2	17.4	46.8	123.4	5.6	61.6	92.4	123.2	173.7	200.7	232.0	267.1
Financed by external sources	162.9	169.5	130.8	18.1	24.5	36.2	116.3	236.9	12.9	45.9	68.8	91.8	84.9	92.7	98.8	103.9
HIPC Initiative-related social expenditure	17.2	22.5	22.5	6.4	12.7	18.1	28.0	38.1	8.1	16.2	24.3	32.4	59.3	67.5	76.4	86.7
Public service restructuring 1/	1.9	6.2	6.3	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
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.0	0.0	0.0	0.0	0.0
Overall fiscal balance (commitment basis)	-93.5	-33.8	-64.3	-12.3	-25.0	-42.5	-81.0	-205.8	-27.4	-92.3	-117.2	-162.4	-158.3	-170.2	-189.4	-207.2
Change in arrears (net; reduction -)	5.6	5.9	26.4	7.0	9.1	14.3	14.1	-92.5	0.0	0.0	-82.7	-82.7	0.0	0.0	0.0	0.0
External arrears (net; reduction -)	5.6	5.9	23.7	7.0	11.0	18.1	17.8	-92.5	0.0	0.0	-82.7	-82.7	0.0	0.0	0.0	0.0
Domestic arrears (net; reduction -)	0.0	0.0	2.7	0.0	-1.9	-3.8	-3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (cash basis)	-87.9	-27.9	-37.9	-5.3	-15.9	-28.2	-66.9	-298.3	-27.4	-92.3	-199.9	-245.1	-158.3	-170.2	-189.4	-207.2
Financing	87.9	27.9	37.9	5.3	15.9	28.2	66.9	298.3	27.4	92.3	199.9	245.1	158.3	170.2	189.4	207.2
External (net)	53.5	31.8	36.0	22.6	16.3	6.4	45.2	-33.2	9.2	-127.5	-211.9	-219.7	-96.0	-117.2	-135.1	-151.6
Disbursements (projects)	42.0	33.7	20.8	3.7	7.7	7.7	16.2	73.9	3.1	6.2	9.3	12.4	5.7	6.2	6.6	6.9
Program financing (loans)	25.8	29.7	45.0	32.2	32.2	32.2	79.0	47.7	25.8	25.8	25.8	25.8	0.0	0.0	0.0	0.0
Amortization (net)	-14.4	-31.5	-29.8	-13.3	-23.6	-33.5	-50.0	-154.8	-19.8	-159.6	-247.1	-257.9	-101.7	-123.4	-141.6	-158.5
Scheduled	-36.7	-55.2	-59.1	-14.1	-23.6	-40.4	-69.6	-83.3	-19.8	-159.6	-170.4	-181.3	-101.7	-123.4	-141.6	-158.5
Net change in arrears (reduction -)	22.4	23.7	29.3	0.8	0.0	6.9	19.7	-71.5	0.0	0.0	-76.6	-76.6	0.0	0.0	0.0	0.0
Debt relief	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	0.0	0.0	0.0
Domestic (net)	34.5	-3.9	1.9	-17.3	-0.4	21.8	21.7	101.9	0.0	165.1	185.4	248.0	178.0	196.0	223.6	253.3
Bank credit (net)	17.3	-50.1	-0.3	-15.2	-6.9	21.8	31.2	25.9	0.0	-10.4	-10.4	-10.3	0.0	0.0	0.0	0.0
Of which : HIPC Initiative account	-4.3	-15.2	0.7	-7.8	-8.1	-10.2	-6.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonbank financing	0.0	0.0	2.2	-2.1	6.5	0.0	-9.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil concession rights proceeds	17.2	45.0	0.0	0.0	0.0	0.0	0.0	554.6	0.0	1,550.3	1,550.3	1,550.3	0.0	0.0	0.0	0.0
Oil reserve fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-478.6	0.0	-1,374.7	-1,354.5	-1,291.9	178.0	196.0	223.6	253.3
Financing gap (excess financing -)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	229.7	18.2	54.7	226.4	216.8	76.3	91.4	100.8	105.4

Table 4. São Tomé and Príncipe: Financial Operations of the Central Government, 2001-08 (concluded)

	2001	2002		2003				2004	2004				2005	2006	2007	2008
		Jan.-Dec.		Jan.-Mar.	Jan.-Jun.	Jan.-Sep.	Jan.-Dec.	Rev. Budget	Proj.				Proj.			
		SMP	Actual				Est.		Jan.-Mar.	Jan.-Jun.	Jan.-Sep.	Jan.-Dec.				
	(In billions of dobras, unless otherwise indicated)															
Memorandum items:																
Domestically financed primary expenditure 2/	143.8	131.5	134.5	38.1	91.1	136.3	209.4	323.5	54.4	163.3	245.0	340.0	426.7	482.8	542.0	606.8
Of which : primary current expenditure	97.2	96.3	99.7	27.2	66.1	100.8	134.6	162.0	40.8	85.6	128.3	169.4	193.7	214.6	233.5	253.0
Non-oil primary current balance	-7.9	12.0	13.7	0.8	5.8	1.1	5.8	19.8	-8.6	-8.8	7.4	17.6	64.0	85.3	103.3	124.8
Non-oil primary balance (commitment basis) 2/ 3/	-54.5	-23.1	-21.1	-10.1	-19.1	-34.4	-69.0	-141.8	-22.3	-86.6	-109.3	-152.9	-168.9	-182.8	-205.1	-229.0
External debt service paid 4/	41.4	60.6	44.5	19.8	34.9	48.3	66.5	...	...	...	...	...	...	...	...	...
	(In percent of full-year GDP, unless otherwise indicated)															
Total revenue	21.1	22.1	23.3	5.0	12.9	18.3	25.8	28.4	5.3	12.5	21.8	30.0	32.3	31.3	29.9	28.9
Of which: tax revenue	18.3	17.9	19.5	3.8	9.5	13.9	20.5	19.1	4.4	10.4	15.5	20.7	21.0	21.7	21.6	21.8
interest earnings on oil fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.5	0.0	0.0	0.0	4.0	8.1	6.5	5.2	4.0
Total grants	37.8	41.0	27.2	5.2	7.2	10.6	24.6	30.9	2.7	8.4	12.5	16.7	17.3	16.1	14.9	14.0
Of which: project grants	28.6	27.7	22.6	2.6	3.0	5.1	18.0	26.6	1.5	5.9	8.9	11.9	9.9	9.0	8.2	7.4
Total expenditure and net lending	81.1	69.7	63.7	12.5	24.6	36.5	65.0	89.3	12.1	34.7	51.9	71.0	69.5	65.2	61.6	58.7
Social expenditure	25.0	...	19.4	...	...	...	19.6	...	...	...	...	22.1	24.4	24.7	24.8	24.8
Education	8.6	8.9	2.7	...	...	...	5.6	...	...	...	...	6.5	7.8	8.1	8.0	7.9
Health	11.4	13.0	9.0	...	...	...	10.6	...	...	...	...	11.7	12.5	12.5	12.5	12.7
Rural development	5.0	...	7.6	...	...	...	3.4	...	...	...	...	3.9	4.2	4.2	4.3	4.2
Current expenditure	31.0	27.0	28.4	7.2	15.7	23.7	30.7	31.3	8.1	16.1	24.1	31.8	29.6	27.5	25.5	23.7
Of which: primary current expenditure	23.0	19.6	20.5	4.9	11.9	18.1	24.2	23.6	6.1	12.8	19.2	25.3	24.3	22.4	20.7	19.3
personnel costs	9.6	9.1	9.0	...	...	...	9.9	9.9	...	...	...	10.1	10.0	9.1	8.2	7.4
Capital expenditure and net lending	45.6	37.1	29.4	4.1	6.6	9.6	29.3	58.1	2.8	16.1	24.1	32.2	32.4	30.6	29.3	28.3
Domestically financed primary expenditure 2/	34.1	26.8	27.6	6.8	16.4	24.5	37.6	47.2	8.1	24.4	36.7	50.9	53.4	50.4	48.0	46.3
Primary balance 2/ 3/	-12.9	-4.7	-4.3	-1.8	-3.4	-6.2	-12.4	-20.7	-3.3	-13.0	-16.3	-22.9	-21.2	-19.1	-18.2	-17.5
Primary current balance	-1.9	2.5	2.8	0.1	1.1	0.2	1.0	2.9	-1.3	-1.3	1.1	2.6	8.0	8.9	9.2	9.5
Primary balance (excluding HIPC-financed exp.) 3/	-8.9	-0.1	0.3	-0.7	-1.1	-2.6	-6.8	-13.2	-1.6	-9.5	-11.2	-16.0	-13.7	-12.1	-11.4	-10.9
Overall balance (commitment basis, incl. grants) 2/	-22.2	-6.7	-13.2	-2.2	-4.5	-7.6	-14.5	-30.0	-4.1	-13.8	-17.5	-24.3	-19.8	-17.8	-16.8	-15.8
Overall balance (commitment basis, excl. grants) 2/	-60.0	-47.6	-40.4	-7.4	-11.6	-18.2	-39.2	-60.9	-6.8	-22.2	-30.1	-41.0	-37.2	-33.9	-31.7	-29.8
GDP (in billions of dobras)	422.0	491.0	486.8	...	...	...	556.9	686.0	...	...	...	668.3	798.5	957.2	1,128.1	1,309.4

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

1/ Severance packages totaling Db 8,000 million were financed by a Structural Adjustment Facility grant from the European Union in 2001-02.

2/ Includes HIPC Initiative-related social expenditure.

3/ Excluding oil revenue, grants, interest earned and scheduled interest payments, and foreign-financed capital outlays.

4/ Not taking into account HIPC Initiative interim assistance.

Table 5. São Tomé and Principe: Monetary Survey, 2001-04

	2001	2002					2003				2004			
		Mar.	June	Sep.	Dec.		Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.
			Act.		SMP	Act.		Act.		Est.		Proj.		
	(In billions of dobras; end of period)													
Net foreign assets	169.2	154.9	177.3	210.4	248.2	206.5	239.6	252.8	246.4	303.0	303.0	323.3	323.3	323.3
Central bank	117.0	112.2	117.4	157.1	176.6	136.0	168.7	180.8	166.2	214.2	214.2	234.5	234.5	234.5
Commercial banks	52.2	42.6	59.8	53.4	71.5	70.5	70.9	72.0	80.2	88.8	88.8	88.8	88.8	88.8
Net domestic assets	-15.6	8.2	2.3	-34.3	-59.1	-11.6	-33.5	-30.2	2.7	-10.3	-4.2	-8.5	-2.4	3.8
Net domestic credit	12.9	35.0	37.4	0.6	-30.0	31.1	14.7	40.8	87.0	113.4	119.5	115.2	121.3	127.5
Net credit to government	-10.2	10.7	8.2	-33.9	-60.3	-10.5	-25.7	-17.4	11.3	20.6	20.6	10.2	10.2	10.3
Claims	56.4	54.5	56.3	56.6	56.2	57.4	58.0	58.9	59.6	61.3	62.8	64.3	65.9	67.4
Deposits	-66.6	-43.8	-48.1	-90.6	-116.5	-68.0	-83.7	-76.4	-48.3	-40.7	-42.2	-54.1	-55.7	-57.1
Budgetary deposits	-32.1	-13.9	-14.2	-11.4	-81.9	-6.4	-19.2	-23.1	-19.0	-15.2	-16.8	-18.2	-19.7	-22.6
Of which: HIPC Initiative resources	-4.3	-5.1	-1.7	-3.9	-4.3	-3.6	-11.5	-11.1	-14.3	-10.3	-10.3	-10.3	-10.3	-10.3
Counterpart funds	-24.5	-25.0	-24.9	-23.1	-24.5	-14.5	-15.0	-14.7	-13.5	-13.6	-13.6	-13.6	-13.6	-13.6
Foreign currency deposits	-10.1	-4.9	-9.0	-56.0	-10.0	-47.1	-49.5	-38.6	-15.8	-11.8	-11.8	-22.3	-22.3	-20.8
Of which: oil-related deposits	0.0	0.0	0.0	-45.6	...	-45.6	...	...	...	...	...	...	...	...
Net claims on other public institutions	-0.7	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the economy	23.8	25.1	29.2	34.5	30.3	41.6	40.4	58.3	75.8	92.8	98.9	105.0	111.1	117.2
Other items (net)	-28.5	-26.8	-35.1	-35.0	-29.1	-42.7	-48.2	-71.0	-84.4	-123.7	-123.7	-123.7	-123.7	-123.7
Revaluation accounts	-9.8	2.7	-8.7	-11.7	-4.1	-14.7	-19.2	-25.1	-12.4	-25.3	-25.3	-25.3	-25.3	-25.3
Other	-18.7	-29.5	-26.4	-23.3	-25.0	-28.0	-28.9	-45.9	-72.0	-98.4	-98.4	-98.4	-98.4	-98.4
Broad money (M3)	153.5	163.1	179.6	176.1	189.1	194.8	206.1	222.5	249.1	292.7	298.8	317.7	320.9	327.1
Local currency	98.1	104.7	102.3	99.2	116.3	116.3	120.2	117.9	137.0	170.3	176.4	195.2	198.5	204.7
Money	89.2	94.6	91.4	87.4	105.6	104.1	107.4	104.1	121.8	155.0	160.6	177.7	180.5	186.2
Currency outside banks	35.8	39.6	31.1	31.6	41.9	39.5	36.2	36.7	41.6	56.2	59.0	61.8	64.6	67.4
Demand deposits	53.4	55.0	60.2	55.8	63.7	64.6	71.2	67.4	80.2	98.8	101.7	115.9	115.9	118.9
Time deposits	8.9	10.1	10.9	11.8	10.7	12.2	12.8	13.8	15.2	15.3	15.7	17.5	18.0	18.4
Foreign currency deposits	55.4	58.4	77.3	76.9	72.7	78.5	85.9	104.7	112.1	122.4	122.4	122.4	122.4	122.4
	(Changes from the beginning of the year; in billions of dobras)													
Net foreign assets	33.0	-14.3	8.1	41.3	76.3	37.3	33.1	46.3	40.0	96.5	0.0	20.3	20.3	20.3
Net domestic assets	8.3	23.8	17.9	-18.7	-40.8	4.0	-21.8	-18.6	14.3	1.4	6.1	1.8	7.9	14.0
Net domestic credit	15.0	22.2	24.5	-12.3	-42.9	18.2	-16.4	9.8	55.9	82.3	6.1	1.8	7.9	14.0
Net credit to government	17.3	20.8	18.4	-23.7	-50.1	-0.3	-15.2	-6.9	21.8	31.2	0.0	-10.4	-10.4	-10.3
Net claims on other public institutions	0.0	0.0	0.7	0.7	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the economy	-2.3	1.3	5.4	10.8	6.5	17.9	-1.2	16.7	34.1	51.2	6.1	12.2	18.3	24.4
Other items (net)	-6.7	1.7	-6.6	-6.4	2.1	-14.2	-5.4	-28.3	-41.6	-81.0	0.0	0.0	0.0	0.0
Broad money (M3)	41.2	9.5	26.1	22.5	35.5	41.3	11.3	27.7	54.3	97.9	6.1	24.9	28.2	34.4
	(Changes in percent of beginning-of-period money stock, unless otherwise specified)													
Net foreign assets	29.4	-11.3	5.3	26.9	49.7	24.3	17.0	23.8	20.5	49.6	0.0	10.4	10.4	6.9
Net domestic assets	7.3	18.8	11.7	-12.2	-26.6	2.6	-11.2	-9.5	7.3	0.7	3.1	0.9	4.0	4.8
Of which: net credit to government	15.4	16.5	12.0	-15.5	-32.6	-0.2	-7.8	-3.5	11.2	16.0	0.0	-5.3	-5.3	-3.5
credit to the economy	-2.0	1.0	3.5	7.0	4.3	11.6	-0.6	8.5	17.5	26.3	3.1	6.3	9.4	8.3
credit to the economy (percentage change from beginning of the year)	-8.8	5.5	22.8	45.4	27.6	75.1	-2.8	40.0	82.0	123.0	6.6	13.1	19.7	26.3
Broad money (M3)	36.7	7.5	17.0	14.7	23.1	26.9	5.8	14.2	27.9	50.3	3.1	12.8	14.5	11.7
Of which: local currency	28.9	4.3	2.7	0.7	11.9	11.9	2.0	0.8	10.6	27.7	2.1	6.4	7.5	11.7
M2 (percentage change from beginning of the year)	49.6	6.7	4.2	1.1	18.6	18.5	3.4	1.3	17.8	46.4	3.6	14.6	16.6	20.2
Memorandum items:														
M3/base money multiplier	1.6	1.4	1.6	1.6	1.7	1.7	1.6	1.5	1.6	1.6	1.6	1.6	1.7	1.7
Velocity (ratio of GDP to average broad money)	3.2	...	...	...	3.1	2.8	...	...	...	2.3	...	...	...	2.2
Currency outside of banks (in percent of demand deposits)	67.2	72.0	51.7	56.6	65.7	61.1	50.9	54.4	51.9	56.8	58.0	53.3	55.7	56.7
Foreign currency deposits (in percent of total deposits)	47.1	47.3	52.1	53.2	49.4	50.5	50.6	56.3	54.0	51.8	51.0	47.8	47.8	47.1

Sources: São Tomé and Principe authorities; and staff estimates and projections.

Table 6. São Tomé and Príncipe: Balance of Payments, 2001-08

(In millions of U.S. dollars, unless otherwise specified)

	2001	2002		2003	2004	2005	2006	2007	2008
		SMP	Act.	Est.			Proj.		
Current account balance, excluding official transfers	-31.2	-29.6	-27.3	-26.6	-43.9	-45.4	-53.4	-56.6	-58.7
Of which : non-oil current account balance 1/	-31.2	-29.6	-27.3	-26.6	-33.6	-30.8	-33.6	-36.8	-39.8
Trade balance	-20.7	-20.7	-20.5	-21.0	-32.6	-37.7	-44.9	-47.4	-51.1
Exports, f.o.b.	3.7	6.5	5.1	6.4	6.8	6.9	6.8	6.8	7.3
Non-oil exports	3.7	6.5	5.1	6.4	6.8	6.9	6.8	6.8	7.3
Of which: cocoa	3.3	5.1	4.6	5.5	5.9	5.9	5.7	5.7	5.6
Oil exports	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Imports, f.o.b.	-24.4	-27.2	-25.5	-27.5	-39.5	-44.6	-51.7	-54.2	-58.4
Food	-7.7	-6.4	-9.2	-9.7	-11.5	-12.1	-12.7	-13.3	-14.0
Investment goods	-11.3	-13.5	-10.7	-11.6	-16.8	-19.1	-22.5	-23.7	-26.3
Oil sector-related investment goods	0.0	0.0	0.0	0.0	-3.3	-4.7	-6.4	-6.4	-5.7
Petroleum products	-4.1	-4.4	-4.3	-4.6	-5.9	-6.6	-7.9	-8.5	-10.0
Other	-1.2	-2.9	-1.3	-1.6	-1.9	-2.0	-2.1	-2.3	-2.4
Services and income (net)	-11.1	-9.5	-7.6	-6.3	-12.0	-8.5	-9.3	-10.0	-8.4
Exports of nonfactor services	11.9	16.1	14.5	16.0	18.1	21.5	25.6	28.2	32.6
Of which: travel and tourism	8.4	11.6	10.4	11.5	13.2	15.6	17.9	19.7	23.3
Imports of nonfactor services	-19.2	-21.7	-18.3	-18.6	-28.7	-31.9	-36.1	-38.7	-40.8
Freight and insurance	-5.1	-5.8	-5.6	-5.5	-8.1	-8.9	-9.3	-10.8	-11.7
Technical assistance	-9.9	-10.2	-8.5	-8.6	-10.0	-9.5	-10.1	-11.1	-12.4
Oil sector-related services	0.0	0.0	0.0	0.0	-6.2	-8.9	-12.0	-12.0	-12.0
Other	-4.2	-5.7	-4.3	-4.5	-4.5	-4.5	-4.6	-4.7	-4.8
Factor services (net)	-3.7	-3.9	-3.8	-3.7	-1.5	1.9	1.2	0.5	-0.2
Interest due	-3.7	-3.9	-3.8	-3.7	-4.0	-3.1	-3.3	-3.4	-3.5
Oil fund interest earnings	0.0	0.0	0.0	0.0	2.5	5.0	4.4	3.9	3.3
Petroleum sector investment income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private transfers (net)	0.6	0.6	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Official transfers (net)	18.0	24.1	14.4	14.5	10.8	10.8	11.0	11.3	11.7
Public investment projects	13.8	15.1	12.1	10.7	7.7	6.2	6.2	6.2	6.2
Nonproject grants	2.0	2.0	0.1	0.4	0.0	0.0	0.0	0.0	0.0
Of which : European Union budget support	1.7	1.1	0.0	0.3	0.0	0.0	0.0	0.0	0.0
HIPC Initiative-related grants	2.3	4.2	2.3	3.4	3.1	4.6	4.8	5.1	5.5
Current account balance, including official transfers	-13.1	-5.5	-12.9	-12.1	-33.1	-34.7	-42.5	-45.3	-47.1
Of which: non-oil current account balance 1/	-13.1	-5.5	-12.9	-12.1	-22.8	-20.0	-22.6	-25.5	-28.2
Capital account balance	12.6	8.9	9.2	15.4	155.2	16.1	22.7	23.7	24.3
Medium- and long-term capital (net)	7.1	3.9	1.0	5.8	165.2	16.1	22.7	23.7	24.3
Project loans	4.8	3.8	2.3	1.7	1.2	0.4	0.4	0.4	0.4
Nonproject loans	3.0	3.3	0.0	3.4	2.5	0.0	0.0	0.0	0.0
Oil signature bonuses 2/	0.0	0.0	0.0	0.0	150.0	0.0	0.0	0.0	0.0
Direct foreign investment	3.3	3.0	5.2	8.0	19.0	24.1	31.4	32.8	33.7
Of which: petroleum-related investment	0.0	0.0	0.0	0.0	10.4	14.8	20.0	20.0	20.0
Amortization	-4.0	-6.2	-6.5	-7.4	-7.5	-8.4	-9.1	-9.5	-9.8
Short-term capital and errors and omissions	5.6	5.0	8.2	9.7	-10.0	0.0	0.0	0.0	0.0
Of which : Nigerian advance	0.0	5.0	5.0	5.0	-10.0	0.0	0.0	0.0	0.0
commercial banks	0.9	...	2.0	-1.6	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.5	3.4	-3.7	3.3	122.2	-18.5	-19.8	-21.7	-22.8

Table 6. São Tomé and Príncipe: Balance of Payments, 2001-08 (concluded)

(In millions of U.S. dollars, unless otherwise specified)

	2001	2002		2003	2004	2005	2006	2007	2008
		SMP	Act.	Est.			Proj.		
Financing	0.5	-3.4	3.7	-3.3	-143.1	12.6	13.3	14.9	16.1
Change in reserves (increase -)	-2.6	-6.6	-2.1	-7.7	-2.7	-1.2	-0.7	0.0	0.0
Oil reserve fund 2/	0.0	0.0	0.0	0.0	-125.0	13.8	13.9	14.9	16.1
Medium- and long-term arrears (net; decrease -) 3/	3.2	3.3	5.8	4.3	-15.4	0.0	0.0	0.0	0.0
Short-term arrears (net; decrease -)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Poverty Reduction and Growth Facility (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	21.0	5.9	6.5	6.7	6.7
Memorandum items:									
Cocoa export volume (in thousands of metric tons)	3.0	...	3.1	3.5	3.7	3.7	3.7	3.7	3.7
Cocoa export unit value (in U.S. dollars per kilogram)	0.93	...	1.46	1.57	1.58	1.58	1.54	1.53	1.52
Exchange rate (in dobras per U.S. dollars; average)	8,842	8,987	9,088	9,365	10,335	12,887	14,060	14,985	15,759
GDP (in billions of dobras)	422.0	491.0	486.8	556.9	668.3	798.5	957.2	1,128.1	1,309.4
Debt-service ratio (before debt relief) 4/ 5/	48.6	30.1	61.2	57.9	163.5	49.3	45.8	42.1	38.7
Debt-service ratio (after debt relief, excluding HIPC Initiative assistance) 4/ 5/	48.6	8.8	61.2	58.2	72.2	27.5	9.5	8.7	8.5
Debt service paid 4/ 6/ 7/	23.6	...	20.1	26.9	...	...	...	...	...
Current account balance, excluding official transfers (in percent of GDP)	-65.3	-54.2	-51.0	-44.7	-67.9	-73.3	-78.4	-75.2	-70.7
Current account balance, including official transfers (in percent of GDP)	-27.5	-10.0	-24.0	-20.4	-51.2	-56.0	-62.4	-60.2	-56.7
Non-oil current account balance, excluding official transfers (in percent of GDP) 1/	-65.3	-54.2	-51.0	-44.7	-52.0	-49.6	-49.3	-48.9	-47.9
Gross reserves (in months of following year's non-oil imports of goods and nonfactor services)	3.5	4.8	4.2	4.6	5.2	5.4	5.1	4.9	4.4

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

1/ Excluding oil exports, c.i.f. imports of oil sector-related goods and services, and oil sector profit remittances.
2/ Oil signature bonuses expected in 2004 will mostly be deposited in the oil reserve fund.
3/ Until 2003, total amount of reschedulable arrears accumulated with bilateral creditors, pending a possible new Paris Club rescheduling agreement. For 2004, assumes a new Paris Club rescheduling agreement.
4/ In percent of exports of goods and nonfactor services, calculated as a three-year backward-looking average (e.g., average over 2001-03 for exports in 2003).
5/ Includes amortization to the IMF; excludes arrears.
6/ Includes obligations to the IMF.
7/ Excludes HIPC interim assistance.

Table 7. São Tomé and Príncipe: Projected Oil Revenue Accruing to the Joint Development Zone, Nigeria, and São Tomé and Príncipe, 2005-23

(In millions of U.S. dollars, unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2011	2012	2016	2020	2021	2022	2023	Average per Year (2011-16)	Average per Year (2017-23)	Total (Cumulative)	Net Present Value (NPV) 1/
Production (barrels per day)	0	0	0	0	0	0	0	25,000	120,000	240,000	240,000	240,000	180,000	69,167	231,429	...	...
Price (U.S. dollars per barrel)	27	26	26	25	25	26	26	27	29	32	24	25	25	28	28	...	...
Gross export revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	244.2	1,283.9	2,812.4	2,123.9	2,166.4	1,657.3	716.6	2,403.4	21,123.1	2,809.8
Production and investment costs																	
Operating costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.3	74.5	148.9	148.9	148.9	111.7	44.7	143.6	1,273.7	168.3
Capital cost	0.0	0.0	0.0	0.0	0.0	0.0	600.0	600.0	400.0	0.0	0.0	0.0	0.0	433.3	0.0	2,600.0	744.6
Exploration costs	37.0	50.0	50.0	50.0	55.5	40.0	40.0	10.0	10.0	0.0	0.0	0.0	0.0	15.0	2.9	392.5	202.6
Total Joint Development Zone (JDZ) revenue																	
Royalty (10-15 percent of gross prod. value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	24.4	156.6	377.3	285.0	290.7	213.6	84.2	321.2	2,753.5	359.4
Bonuses	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	0.0	0.0	0.0	0.0
Profit oil (10-30 percent of revenue, net of costs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	192.9	1,143.1	845.0	863.4	666.0	68.6	967.8	7,186.3	819.1
Income tax (40 percent of net taxable income)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	258.2	571.5	422.5	431.7	333.0	117.4	483.2	4,087.0	517.6
Value-added tax (6¼ percent on 40 percent of operating costs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	1.9	3.7	3.7	3.7	2.8	1.1	3.6	31.8	4.2
Surface rent	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	4.4	8.8	8.8	8.8	6.6	2.5	8.4	74.3	9.7
Total revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	25.8	613.9	2,104.4	1,565.0	1,598.3	1,222.0	273.8	1,784.3	14,132.9	1,710.0
Total revenue (in percent of gross export revenue)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.6	47.8	74.8	73.7	73.8	73.7	38.2	74.2	66.9	60.9
Nigerian share																	
Royalty	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.7	94.0	226.4	171.0	174.4	128.2	50.5	192.7	1,652.1	215.6
Bonuses	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	0.0	0.0	0.0	0.0
Profit oil	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	115.7	685.8	507.0	518.0	399.6	41.1	580.7	4,311.8	491.4
Income tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	154.9	342.9	253.5	259.0	199.8	70.4	289.9	2,452.2	310.5
Value-added tax (6¼ percent on 40 percent of operating costs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	1.1	2.2	2.2	2.2	1.7	0.7	2.2	19.1	2.5
Surface rent	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	2.6	5.3	5.3	5.3	3.9	1.5	5.1	44.6	5.8
Nigerian government revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.5	368.4	1,262.7	939.0	959.0	733.2	164.3	1,070.6	8,479.7	1,026.0
Nigerian share (in percent of total JDZ revenue)	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0
São Tomé and Príncipe (STP) share																	
Royalty	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.8	62.7	150.9	114.0	116.3	85.4	33.7	128.5	1,101.4	143.8
Bonuses	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	0.0	0.0	0.0	0.0
Profit oil	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	77.1	457.2	338.0	345.4	266.4	27.4	387.1	2,874.5	327.6
Income tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	103.3	228.6	169.0	172.7	133.2	47.0	193.3	1,634.8	207.0
Value-added tax (6.25 percent on 40 percent of operating costs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.7	1.5	1.5	1.5	1.1	0.4	1.4	12.7	1.7
Surface rent	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	1.8	3.5	3.5	3.5	2.6	1.0	3.4	29.7	3.9
STP government revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.3	245.6	841.8	626.0	639.3	488.8	109.5	713.7	5,653.1	684.0
STP share (in percent of total JDZ revenue)	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0

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

1/ Calculated for the base year 2003.

Table 8. São Tomé and Príncipe: Net Present Value (NPV) of External Debt and Debt Service Due, 1999-2008 1/
(Assuming no further debt relief)

(In millions of U.S. dollars, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2000-08
					Est.			Projections			Averages
NPV of total debt 2/	239.1	185.1	187.5	194.7	205.9	179.1	174.9	169.7	164.1	157.7	179.9
NPV of outstanding debt	239.1	185.1	187.5	194.7	197.0	173.5	168.8	163.4	157.4	151.0	175.4
Multilateral 3/	118.0	119.1	119.6	120.2	122.4	121.3	119.8	117.7	115.0	111.8	118.6
Official bilateral 4/	121.1	66.0	67.9	74.5	74.6	52.2	49.0	45.7	42.4	39.2	56.8
Paris Club 5/	82.1	45.9	47.3	48.8	48.0	31.6	29.6	27.5	25.4	23.5	36.4
Other official bilateral 6/	39.0	20.1	20.6	25.7	26.6	20.5	19.4	18.2	17.0	15.7	20.4
NPV of new borrowing 7/	0.0	0.0	0.0	0.0	8.9	5.6	6.0	6.4	6.7	6.8	6.5
Total debt service due 8/	...	6.2	7.7	10.3	11.1	36.5	12.4	13.1	13.4	13.8	13.8
Multilateral 3/ 8/	...	3.8	4.3	5.2	5.7	5.7	6.1	6.7	7.1	7.5	5.8
Official bilateral 4/	...	2.4	3.4	5.1	5.2	30.5	6.1	6.0	6.0	5.7	7.8
Paris Club 5/	...	1.1	2.0	3.1	4.5	18.4	4.0	4.0	3.9	3.6	5.0
Other official bilateral 6/	...	1.4	1.4	2.0	0.6	12.1	2.1	2.1	2.1	2.1	2.9
New borrowing	0.0	0.0	0.0	0.0	0.2	0.3	0.3	0.4	0.4	0.6	0.2
Memorandum items:											
Exports of goods and nonfactor services	16.5	15.5	15.5	19.6	22.4	25.0	28.4	32.4	35.0	39.9	26.0
Three-year export average 9/	13.6	14.6	15.8	16.9	19.2	22.3	25.2	28.6	31.9	35.8	23.4
Government revenues (excl. grants)	9.1	10.0	10.2	12.5	15.3	19.4	20.0	21.3	22.5	24.0	17.2
GDP	46.9	46.3	47.7	53.6	59.5	64.7	62.0	68.1	75.3	83.1	62.2
NPV of debt-to-exports ratio (in percent) 9/											
For total debt	...	1,264.0	1,184.4	1,154.5	1,074.1	803.0	692.5	593.9	513.8	441.0	857.9
For outstanding debt only	...	1,264.0	1,184.4	1,154.5	1,027.7	777.8	668.6	571.7	492.9	422.1	840.4
NPV of debt-to-revenue ratio (in percent) 10/											
For total debt	...	1,848.7	1,829.9	1,560.4	1,341.8	923.5	876.0	795.7	729.8	657.9	1,173.7
For outstanding debt only	...	1,848.7	1,829.9	1,560.4	1,283.7	894.4	845.7	765.9	700.1	629.7	1,150.9
Debt-service-to-export ratio (current year)	...	40.1	49.5	52.8	49.6	146.2	43.8	40.4	38.4	34.6	55.0
Debt-service-to-export ratio (three-year average) 9/	...	42.4	48.6	61.2	57.9	163.5	49.3	45.8	42.1	38.7	61.0
Debt-service-to-revenue ratio	...	62.0	75.1	82.7	72.3	188.0	62.3	61.4	59.8	57.7	80.1

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

1/ Base year 2002. Refers to public and publicly guaranteed debt only, and includes short-term debt ineligible for treatment under the HIPC Initiative. Includes two OPEC and one African Development Bank/Fund (AfDB/AfDF) loans omitted in the HIPC decision point debt sustainability analysis (DSA), as well as the first disbursement under the 2000 PRGF arrangement.

2/ Discounted on the basis of the average commercial interest reference rate for the respective currency for the second half of 2003. Conversion of currency-specific NPVs into U.S. dollars is made at the end-December 2003 exchange rate.

3/ Projected and not fully reconciled. IDA and European Investment Bank (EIB) have provided HIPC Initiative interim assistance on 100 percent of debt service on pre-cutoff-date debt since 2001, while AfDB/AfDF has been providing HIPC Initiative interim assistance on 83 percent of debt service on pre-cutoff-date debt since 2001. IDA, EIB and AfDB/AfDB are assumed to continue providing assistance through end-2005; the International Fund for Agricultural Development (IFAD) and Arab Bank for Economic Development in Africa (BADEA) do not provide any HIPC Initiative interim assistance. OPEC has been providing HIPC Initiative interim assistance since March 2003.

4/ Projected and not fully reconciled. All arrears on eligible outstanding debt to Paris Club creditors at end-March 2000 and on current maturities from April 2000-April 2003 were rescheduled on Naples terms on May 16, 2000; the first phase of the rescheduling was for April 2000-April 2001, while the second and third phases were inoperative. Consequently, the assistance planned under the second and third phases is assumed to have accrued as arrears for May 2001-March 2003. Non-Paris Club creditors are assumed to provide similar treatment.

5/ Debt to Italy has been under discussion since the 2000 HIPC Initiative decision point, and it is assumed that this debt will benefit from treatment similar to that provided by the other Paris Club creditors.

6/ Includes an interest-free US$5 million advance from Nigeria in 2002 programmed to be repaid in 2004 on expected oil signature bonuses.

7/ Projected from 2003. Includes an interest-free US$5 million advance from Nigeria in 2003 programmed to be repaid in 2004 on expected oil signature bonuses. Also includes known estimated and projected disbursements by IDA and AfDB/AfDF; additional projected external disbursements are assumed to be provided on IDA terms with no implied assumption regarding their source.

8/ Excluding interim assistance provided under the HIPC Initiative.

9/ Exports of goods and nonfactor services are calculated as a three-year backward-looking average (e.g., average over 2001-03 for exports in 2003).

10/ NPV of total debt in percent of government revenue.

Table 9. São Tomé and Príncipe: Net Present Value (NPV) of External Debt and Debt Service Due, 1999-2008 1/
(Assuming a Completion Point Under the Enhanced HIPC Initiative at end-December 2005)

(In millions of U.S. dollars, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2000-08
					Est.	Projections					Averages
NPV of total debt 2/	239.1	185.1	187.5	194.7	205.9	197.9	58.0	58.9	59.8	60.4	134.2
NPV of outstanding debt	239.1	185.1	187.5	194.7	197.0	192.7	51.4	51.0	50.6	50.1	128.9
Multilateral 3/	118.0	119.1	119.6	120.2	122.4	126.3	44.0	44.0	43.9	43.8	87.1
Official bilateral 4/	121.1	66.0	67.9	74.5	74.6	66.3	7.4	7.0	6.6	6.2	41.8
Paris Club 5/	82.1	45.9	47.3	48.8	48.0	45.5	5.2	5.0	4.7	4.5	28.3
Other official bilateral 6/	39.0	20.1	20.6	25.7	26.6	20.8	2.1	2.0	1.9	1.8	13.5
NPV of new borrowing 7/	0.0	0.0	0.0	0.0	8.9	5.3	6.6	7.9	9.2	10.4	13.7
Total debt service due 8/	...	6.2	7.7	10.3	11.2	16.1	6.9	2.7	2.8	3.1	7.4
Multilateral 3/ 8/	...	3.8	4.3	5.2	5.7	5.7	6.4	1.6	1.6	1.7	4.0
Official bilateral 4/	...	2.4	3.4	5.1	5.2	10.1	0.2	0.7	0.7	0.7	3.2
Paris Club 5/	...	1.1	2.0	3.1	4.5	0.1	0.2	0.5	0.5	0.4	1.4
Other official bilateral 6/	...	1.4	1.4	2.0	0.6	10.0	0.0	0.2	0.2	0.2	1.8
New borrowing	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.5	0.5	0.7	0.3
Memorandum items:											
Exports of goods and nonfactor services	16.5	15.5	15.5	19.6	22.4	25.0	28.4	32.4	35.0	39.9	28.9
Three-year export average 9/	13.6	14.6	15.8	16.9	19.2	22.3	25.2	28.6	31.9	35.8	62.4
Government revenues (excl. grants)	9.1	10.0	10.2	12.5	15.3	19.4	20.0	21.3	22.5	24.0	19.3
GDP	46.9	46.3	47.7	53.6	59.5	64.7	62.0	68.1	75.3	83.1	66.6
NPV of debt-to-exports ratio (in percent) 9/											
For total debt	...	1,264.0	1,184.4	1,154.5	1,074.0	887.4	229.6	206.0	187.2	168.9	558.2
For outstanding debt only	...	1,264.0	1,184.4	1,154.5	1,027.7	863.8	203.6	178.5	158.3	140.0	532.3
NPV of debt-to-revenue ratio (in percent) 10/											
For total debt	...	1,848.7	1,829.9	1,560.4	1,341.6	1,020.5	290.4	276.0	265.9	252.0	715.3
For outstanding debt only	...	1,848.7	1,829.9	1,560.4	1,283.7	993.4	257.5	239.1	224.9	208.8	681.1
Debt-service ratio (current year)	...	40.1	49.5	52.8	49.8	64.5	24.4	8.4	7.9	7.7	30.8
Debt-service ratio (three-year average) 9/	...	42.4	48.6	61.2	58.2	72.2	27.5	9.5	8.7	8.5	35.1
Debt-service-to-revenue ratio	...	62.0	75.1	82.7	72.7	83.0	34.7	12.8	12.4	12.7	44.4

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

1/ Base year 2002. Refers to public and publicly guaranteed debt only, and includes short-term debt ineligible for treatment under the HIPC Initiative. Includes two OPEC and one African Development Bank/Fund (AfDB/AfDF) loans omitted in the HIPC decision point debt sustainability analysis (DSA), as well as the first disbursement under the 2000 PRGF arrangement.

2/ Discounted on the basis of the average commercial interest reference rate for the respective currency for the second half of 2003. Conversion of currency-specific NPVs into U.S. dollars is made at the end-December 2003 exchange rate.

3/ Projected and not fully reconciled. IDA and European Investment Bank (EIB) have provided HIPC Initiative interim assistance on 100 percent of debt service on pre-cutoff-date debt since 2001, while AfDB/AfDF has been providing HIPC Initiative interim assistance on 83 percent of debt service on pre-cutoff-date debt since 2001. IDA, EIB and AfDB/AfDB are assumed to continue providing assistance through end-2005; the International Fund for Agricultural Development (IFAD) and Arab Bank for Economic Development in Africa (BADEA) do not provide any HIPC Initiative interim assistance. OPEC has been providing HIPC Initiative interim assistance since March 2003.

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8/ Excluding interim assistance provided under the HIPC Initiative.

9/ Exports of goods and nonfactor services are calculated as a three-year backward-looking average (e.g., average over 2001-03 for exports in 2003).

10/ NPV of total debt in percent of government revenue.

SÃO TOMÉ AND PRÍNCIPE: RELATIONS WITH THE FUND
(As of December 31, 2003)

I. **Membership Status**: Joined 09/30/1977; Article XIV

II. **General Resources Account**:	SDR million	%Quota
Quota	7.40	100.00
Fund holdings of currency	7.40	100.05

III. **SDR Department**:	SDR million	%Allocation
Net cumulative allocation	0.62	100.00
Holdings	0.02	2.43

IV. **Outstanding Purchases and Loans**:	SDR million	%Quota
Poverty Reduction and Growth Facility (PRGF) arrangements	1.90	25.70

V. **Financial Arrangements**:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF	04/28/2000	04/27/2003	6.66	1.90
Structural Adjustment Facility (SAF)	06/02/1989	06/01/1992	2.80	0.80

VI. **Projected Obligations to Fund**
(SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	12/31/03	2004	2005	2006	2007	2008
Principal	0.00	0.00	0.10	0.38	0.38	0.38
Charges/interest	0.00	0.02	0.02	0.02	0.02	0.01

VII. **Implementation of HIPC Initiative**:

	Enhanced framework
Commitment of HIPC assistance	
Decision point date	12/20/00
Assistance committed (NPV terms) [1]	
Total assistance (US$ million)	97.00
Of which: Fund assistance (SDR million)	0.00
Completion point date	Floating
Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	0.00
Interim assistance	0.00
Completion point [2]	0.00
Amount applied against member's obligations (cumulative)	0.00

VIII. **Safeguards Assessments:**

Under the Fund's safeguards assessment policy, the Central Bank of São Tomé and Príncipe (BCSTP) was subject to the transitional procedures with respect to the PRGF arrangement approved on April 28, 2000, which expired on April 27, 2003. A transitional safeguards assessment of the BCSTP's external audit mechanism was completed on February 7, 2001. The assessment identified that (i) the external auditor had limited experience in auditing central banks, and (ii) the audited financial statements and related audit opinion had not been published. The transitional safeguards report recommended the publication of the CBSTP's audited financial statements and a second review of the audit by another office of the same audit firm that had more experience in central banking activities. Implementation of the recommendations of the transitional assessment are in progress.

[1] Net present value (NPV) terms at the decision point under the enhanced framework.

[2] Under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative), the nominal amount of assistance disbursed will include an additional amount corresponding to interest on amounts committed but not disbursed during the interim period, calculated using the average return (during the interim period) on the investment of resources held by, or for, the benefit of the PRGF-HIPC Trust.

A subsequent safeguards assessment is currently underway with respect to a possible PRGF arrangement that could be agreed with the authorities in 2004.

IX. Exchange Arrangements:

Since December 2, 1994, the official exchange rate has been market determined. The official exchange rate is determined on a daily basis as a weighted average of the previous day's exchange rates in the commercial banks foreign exchange bureaus and parallel market. The intervention currency for the dobra is the U.S. dollar. The exchange rate of the dobra was 9,451 on December 31, 2003; the spread between the official and parallel market exchange rates has been less than 1.0 percent since 1999.

X. Article IV Consultation:

The last Article IV consultation with São Tomé and Príncipe was concluded by the Executive Board on January 30, 2002.

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

None.

XII. Technical Assistance:

March-December 2003: STA missions to advise on compilation of national income accounts and balance of payments statistics.

March-December 2003: Visits by MFD advisors on the conduct of monetary policy and bank supervision.

January 1998-December 2001: MFD advisor on the conduct of monetary policy, banking supervision, and foreign exchange management.

June 2001: MFD mission on handling of banking crisis and foreign exchange market organization.

January 2000: MFD mission on strengthening of banking supervision.

March and June 1999: MFD missions to the central bank on procedures for effective internal control and inspection.

April – May 1997: money and banking STA mission on procedures for gathering and compiling monetary statistics and data reporting to the Fund.

January – June 1995: STA expert visit to the central bank on improving the presentation of monetary accounts and assisting in the compilation of balance of payments statistics.

July 1991 – January 1994: FAD expert assigned to the Ministry of Planning and Finance on assisting in the implementation of tax reforms.

XIII. **Resident Representative**:

A Fund Resident Representative was assigned to São Tomé and Príncipe in November 1999. The current Resident Representative, Mr. Richard Randriamaholy, took up his post on October 23, 2003.

São Tomé and Príncipe: IMF-World Bank Relations

(As of January 15, 2004)

Partnership in São Tomé and Príncipe's Development Strategy

1. The government of São Tomé and Príncipe's development strategy is set forth in the draft Poverty Reduction Strategy Paper (PRSP), expected to be presented to the World Bank and IMF Boards in mid-2004. Building on an interim PRSP (I-PRSP) adopted in 2000, the government bases its poverty reduction strategy on five pillars:

   - Reform of the public institutions, capacity reinforcement and promotion of good governance;
   - Accelerated and re-distributive growth;
   - Creation of opportunities to diversify and increase the income of the poor;
   - Human resources development and access to all basic social services;
   - Adoption of mechanisms for the implementation, follow-up, and evaluation of the strategy. A plan of action accompanies these strategic targets with global poverty alleviation objectives. The outcome targets include reduction of number of poor by one half by 2010 and to less than one-third of the population by 2015.

   The World Bank and the IMF are supporting São Tomé and Príncipe's poverty reduction efforts in a collaborative and complementary fashion.

2. The IMF is taking the lead in the dialogue on macroeconomic policies, including, in particular, sustained fiscal adjustment and the overall budget envelope. The IMF is fully responsible for the dialogue on monetary policy and banking developments, interest rates, exchange rates, and balance of payments and related statistical and measurement issues. The Fund also leads the dialogue with wage setting in the public service. A staff monitored program (SMP) was in place during 2002; a new three-year PRGF arrangement is under discussion.

3. The World Bank has been supporting the implementation of the I-PRSP and the PRSP, through structural reforms in agriculture, energy, and telecommunications, under an adjustment credit and a capacity building operation, including in the petroleum sector. In this regard, the Bank has taken the lead in the dialogue on structural reforms in the public sector and budget/public finance management, private enterprise restructuring and privatization, institution building, and governance. This support includes liberalization and development of appropriate legal and regulatory frameworks in key sectors, such as electricity, water, and

telecommunications. Particular assistance is provided to the government on technical, financial, and policy advice to develop and adopt an appropriate institutional and legal framework for the upcoming oil sector activities.

4. The Bank is also active in supporting the government's reform agenda in the social sectors, with a sectoral IDA credit under preparation.

5. The Bank's cumulative commitments to São Tomé and Príncipe as of January 15, 2004, amounted to US$71.8 million equivalent for 11 operations.

The Country Assistance Strategy (FY00-05) and the Bank portfolio

6. The World Bank Group Country Assistance Strategy (CAS) for São Tomé and Príncipe, approved by the Board on October 10, 2000, is to support the government's objectives aiming at: (a) sustaining strong economic growth to raise incomes and reduce poverty; and (b) broadening access to social services and improving their quality. IDA also aims to strengthen public resource management through periodic public finance reviews and work towards the adoption of a Medium Term Expenditure Framework in the budgetary process.

7. The current portfolio amounts to commitments of US$10 million, of which US$5.6 million is undisbursed. It consists of the following two projects: the Public Resource Management Credit (PRMC), in an amount of SDR 5.8 million (US$7.5 million equivalent) and the Technical Assistance Credit (PRMC-TA) of SDR 1.95 million (US$2.5 million equivalent). Progress on the reform program and the PRMC has been broadly satisfactory, although slow, due to political uncertainties and general low public management capacity. The closing dates of both projects have been extended by 6 months to June 30, 2004.

8. The PRMC-TA provides necessary technical support, training, expertise, and goods and equipment to facilitate three objectives:

- implement the policy measures under the government's reform program supported by the PRMC;

- carry out sectoral, suBsectoral and specific studies needed towards the completion of the PRSP; and

- develop the agenda for macroeconomic and sectoral policy reforms.

9. The Bank's proposed lending program in FY05 consists of a US$6 million Social Sector Support Project and of a US$4 million Governance Capacity Building Project, the latter a continuation of the PRMC-TA, focusing mostly on the petroleum sector and public resource management.

World Bank-IMF collaboration in specific areas

10. The World Bank and IMF staffs maintain a close collaborative relationship in supporting the government's growth and poverty alleviation efforts and its structural reforms. Overlapping responsibilities concern the following areas:

11. **Economic Policy Framework :** The IMF and World Bank advise the government in close coordination in areas aimed at strengthening governance, in particular as regards the policy framework for the expected oil sector income. They also advise the government on public enterprise restructuring and privatization. The IMF and the Bank hold discussions with the government on energy tariffs to address the quasi-fiscal deficit in the electricity and water company (EMAE). The focus of the Bank is on improving the efficiency of the market structure, operations of the enterprise, service delivery, and financial performance.

12. **Public resource and expenditure management :** As regards revenue collection, the Bank and Fund support the strengthening of the tax system and tax collections. This has improved tax administration and strengthened implementation of the tax system owing to a new tax directorate structure and tax code. The government has also started to modernize the legal codes. However, the reform process has been slow due to political uncertainties and lack of institutional capacity. As for public expenditures, the government's objective is to shift priority spending towards health and education, while increasing public expenditure efficiency, and improving budgetary and financial management. In late 2003, a World Bank/IMF analysis of poverty-reducing public expenditure financed by HIPC resources revealed weaknesses in budget management. As a result, the Bank and IMF are collaborating closely in implementing the structural reforms needed to improve the tracking of priority spending.

13. **Public Debt Management :** The government created a unit in late 2003 to improve the quality of the government debt database and strengthen debt management. The IMF takes the lead in providing technical assistance on these issues, relying on assistance from the World Bank's debt management system to monitor the multilateral data and HIPC Unit.

14. **Petroleum sector:** São Tomé and Príncipe established a Petroleum Commission in 2002 and launched a bidding round for its shared blocks (with Nigeria) during April-October 2003. It is defining the legal framework for the sector, including the creation of an oil fund, with the assistance of the World Bank, for protecting the prospective earnings for future generations. This legislation is expected to be adopted by the National Assembly by end-March 2004. Technical and institutional capacity need to be strengthened rapidly to ensure better negotiation capacity and supervisory and management capacity over the oil sector earnings. The World Bank

leads the technical assistance in this sector while coordinating with the IMF on petroleum revenue management issues and the appropriate fiscal policy response to anticipated oil revenues.

15. **Administration and Civil Service reforms** : The government is engaged in an administrative and public sector reform with the support of the World Bank, the IMF and other donors (such as the EU). Its goal is to reduce the size of the civil service and raise its efficiency. It has adopted new organizational and staffing plans for each of its ten ministries and downsized the civil service. It is still revising the civil service regulations, grades and salary matrices. The IMF is closely collaborating with the consequent public wage envelope.

Statement of IDA Credits as of December 31, 2003
(In million of U.S. dollars)

Credit Number	Fiscal Year	Sector	IDA Commitment[1]	Undisbursed
3428	2000	Public resource management	7.5	5.0
3429	2000	Technical assistance	2.5	0.6
Total:			10.0	5.6

Source : World Bank

1/ Less cancellation.

Questions may be addressed to :

Mr. David A.Craig, Country Director, Tel. (202) 473-2589.
Ms. Dorsati Madani, Country Economist, Tel. (202) 473-7925.

São Tomé and Príncipe: Statistical Issues

Introduction

São Tomé and Príncipe's statistical system is still developing and suffers from serious resource constraints (qualified staff as well as financial and computer resources). These constraints have slowed down strengthening the system.

The authorities have decided to participate in the Fund's General Data Dissemination System (GDDS) and, since 2003, are benefiting from the technical assistance provided by the Statistics Department (STA) under the GDDS project for Lusophone Africa.

São Tomé and Príncipe began reporting data for *International Financial Statistics (IFS)* in March 1998. Since then, the authorities have made further advances in data reporting, decreasing the lags with which data are being reported (Table 1).

National accounts

Since the mid-1990s, technical assistance for the compilation of the national accounts has been received from the World Bank, French Cooperation and United Nations Development Program (UNDP). Since 2003, the Fund has also provided technical assistance, in the context of the GDDS project.

As a result of this technical assistance, the national account estimates compiled for 1994–1997 follow to some extent the *1993 System of National Accounts (SNA)* methodology, reflecting an initial improvement in the source data, compilation methodology, and statistical techniques. However, beginning in 1998, the quality of national accounts data deteriorated again mainly owing to a decline in the availability of source data and dwindling resources. Since then, only preliminary flash estimates of GDP at current and constant prices have been compiled using industry coefficients and growth rate estimates.

Nonetheless, the National Institute of Statistics (INE) has made considerable efforts to improve source data, namely, in the context of the country's poverty reduction strategy. It has approved classification systems for the compilation of national accounts, which are broadly consistent with internationally accepted classifications. Efforts are also underway in the context of STA's GDDS project to compile national account aggregates with an improved methodology up to 2001 in broad conformity with the *1993 SNA*. An important goal of this project is to elaborate a new GDP series by mid-2005; it will also assist the authorities in creating a quarterly production index. The allocation of adequate human, financial and computer resources to INE is critical to achieve this goal.

Consumer prices

The CPI is calculated monthly and reported to the Fund with a lag of one month. Since 1997, the compilation of the official CPI has been based on a household survey that was financed

by the UNDP. Price surveys only cover the capital, although the authorities intend to develop a regional price series by 2004/2005, based on a new household survey.

Unemployment

In 2003 the authorities completed, with assistance from the World Bank, the first comprehensive survey of unemployment. The survey provides a detailed breakdown of unemployment by age, gender and geographic location.

Government finance statistics

Fiscal data are compiled on a monthly basis, with a lag of about three weeks, and reported to the African Department (AFR). No government finance statistics are reported to STA for publication in the *IFS*.

The main weaknesses in the data reported to the Fund are: (i) expenditures on projects financed by donors, which are not adequately monitored by the Ministry of Finance; and (ii) the below-the-line financing items are not yet of sufficient reliability.

Monetary statistics

The *IFS* page includes sections on exchange and interest rates, international liquidity, monetary accounts for the monetary authorities and deposit money banks, and the monetary survey. Further work is needed to improve the accuracy of these statistics, namely as regards the revaluation accounts and the sectorization of accounts at the commercial banks between residents and nonresidents.

External sector

Exchange rates. The authorities record the rates of the official exchange bureaus, commercial banks, and the parallel market. These rates are available on the internet with a one-day lag. The official rate is the weighted average of the market rates for the previous day.

Merchandise trade. There are significant weaknesses in the source data collection, and some transactions, including some imports related to investment, are not being fully captured in the balance of payments.

Monthly data on the main exports and imports are reported to AFR regularly. However, unit prices and volumes of exports are only occasionally included.

Balance of Payments

Balance of payments statistics are compiled by the Central Bank of São Tomé and Príncipe (BCSTP). Annual balance of payments data are reported to STA and published in the *IFS*.

The GDDS project targets a substantial improvement in the source data, including the response rate, and in the methodology for compiling the balance of payments in light of the Fund's *Balance of Payments Manual*.

STA launched a two-year technical assistance program to improve sourcing from surveys, data processing, and analysis at the BCSTP. Under the program, a first mission in June 2003 reviewed the country's shortcomings in reporting current and financial account transactions and concluded that data are very weak. This was mainly due to the undercoverage of several important sectors, including foreign direct investment and commercial banks' reports on transactions in currencies. Resource constraints, particularly with regard to qualified staff, contribute to a low response rate to the balance of payments surveys.

Debt Issues

The authorities have built on previous efforts to strengthen debt data management. A new unit was created in late 2003 within the Ministry of Finance, incorporating staff from the debt department of the BCSTP. New staff, including a director, has been appointed, which should improve the monitoring of debt statistics. However, the 2003 technical assistance mission on balance of payments statistics noted that the data available for external debt are incomplete and do not conform to international guidelines.

INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 04/32
FOR IMMEDIATE RELEASE
April 2, 2004

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2003 Article IV Consultation with São Tomé and Príncipe

On March 17, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with São Tomé and Príncipe.[1]

Background

Following a decade of very large macroeconomic imbalances, the government has pursued since 1998 economic and financial policies that have helped raise real GDP growth, lower inflation, reduce the primary budget deficit, and push forward key structural reforms. Dependence on cocoa has diminished as tourism and construction have contributed more to economic growth. The external current account, however, has remained chronically dependent on donor financing. A three-year Poverty Reduction and Growth Facility arrangement adopted in 2000 veered off track in 2001, in large part because of fiscal slippages associated with parliamentary elections. In 2002, the authorities adopted a new set of policies in the context of a staff-monitored program, under which São Tomé and Príncipe established a broadly satisfactory track record. The government addressed some of the long-standing issues raised by Directors during the 2001 Article IV consultation, notably by improving their public expenditure control and monitoring mechanisms, including the HIPC account. The authorities also increased transparency in the oil sector by renegotiating contracts with a view to enhancing the benefits to the country.[2]

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

[2] Bids for nine oil blocks from a first bidding round that ended in October 2003 are still being evaluated.

In 2003, São Tomé and Príncipe's macroeconomic performance remained broadly satisfactory. Real GDP is estimated to be near the 4½ percent growth rate as projected by the authorities, with end-period inflation at 10 percent. The primary fiscal deficit, including HIPC-financed social outlays, amounted to 12 percent of GDP. Broad money grew by 50 percent (including a strong rise in currency in circulation), as a result of marked increase in demand for transaction balances; net foreign assets rose sharply. The external current account deficit is estimated at 45 percent of GDP, reflecting a strong increase in exports and a modest rise in imports. The authorities maintained their flexible exchange rate regime: the real effective exchange rate depreciated by 5 percent during January-October 2003, mitigating the effect on competitiveness of an estimated 11 percent decline in the terms of trade. Overall, structural reforms were implemented broadly in line with expectations: the authorities made operational the Auditor General's Office; and the Banco Commercial do Equador (BCE) was recapitalized with private funds, which could allow its reopening in early 2004. However, the financial situation of the water and electricity state enterprise (EMAE) deteriorated, owing to an accumulation of arrears on electricity bill payments by individuals.

Executive Board Assessment

Executive Directors noted that São Tomé and Príncipe, under a staff-monitored program, had maintained broadly satisfactory macroeconomic performance in 2002, and in 2003, despite a short-lived coup d'état. They noted the progress in improving public expenditure management, a longstanding concern.

Directors observed that in view of the impending significant expansion in oil sector activities and the expected receipt of signature bonuses in 2004 that are likely to be larger than annual GDP, the authorities face the challenge of how to manage this oil wealth against the backdrop of widespread poverty and weak institutions. They underscored the need to adopt policies that are conducive to continued macroeconomic stability, a reduction in poverty and achieving high growth in the non-oil sector. A key element will be the adoption of measures leading to a transparent and efficient use of the oil revenue, including through continued improvement in governance and fiscal management.

Directors welcomed the authorities' intention to preserve oil income for future generations by establishing a transparent and well-managed fund for oil revenues that will stabilize the effect of oil revenues on the economy. However, they also considered important that the authorities achieve the right balance between saving the oil revenue and using it for efficient investments. It will be crucial that the authorities prepare and implement without delay the envisaged legislation for this fund as well as the regulations governing oil revenue-financed spending and the state oil entity. They commended the authorities' interest in participating in the Extractive Industries Transparency Initiative.

Directors endorsed the authorities' 2004 budget proposal and their plan for a three-year rolling expenditure framework. They also approved the authorities' choice of the non-oil primary fiscal deficit as their key indicator of the fiscal stance during the upcoming oil era and their strategy to stabilize this deficit over the medium term and to limit it in the long term to the interest and

dividend earnings from the future oil fund's accumulated assets. They urged the authorities to be prudent in using their resources for critical spending on infrastructure, health, and education programs, while cautioning against excessive civil service wage increases. Directors encouraged the authorities to undertake a fiscal ROSC.

Directors supported the authorities' monetary policy stance and efforts to contain inflation, including by making active use of the central bank's reference rate. They considered that the flexible exchange rate regime remains appropriate, and supported the creation of an interbank foreign exchange market. They took note of the authorities' intention to accept soon the obligations under Article VIII, Sections 2(a), 3, and 4, and urged the authorities to rapidly resolve all outstanding issues in this respect.

Directors supported the authorities' focus on enhancing credit access for entrepreneurs and looked forward to continued strengthening of banking supervision. While welcoming the authorities' efforts to draft anti-money laundering legislation, they urged them to present the legislation to the National Assembly at an early date.

Directors cautioned that given recent events in São Tomé and Príncipe, steps to build political consensus are essential to ensure more effective economic policymaking. They stressed that the country faces challenges in enhancing competitiveness and needs to step up the pace of reform. They highlighted the importance of accelerating privatization and diversification to reduce the dependence on cocoa and prevent overdependence on oil. Further they stressed the need to improve governance, the judiciary, bankruptcy law, and the enforcement of property rights. They also encouraged the authorities to undertake meaningful land reform and restructuring of public utility tariffs.

Directors supported the authorities' interest in pursuing another Paris Club debt rescheduling and resuming discussions on a Poverty Reduction and Growth Facility arrangement, and underscored in this regard the importance of sustaining satisfactory macroeconomic performance and implementing oil sector legislation. They looked forward to São Tomé and Príncipe reaching the HIPC Initiative completion point, once all necessary conditions have been met, and welcomed the authorities' efforts toward a Poverty Reduction Strategy Paper with well-prioritized spending and costing. Directors encouraged continued aid flows until oil production comes on stream.

Directors were concerned that, while the authorities are regularly providing the core minimum data to the Fund, substantial improvement in the quality and coverage of data is needed. They welcomed the authorities' intention to seek further technical assistance for this purpose.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

São Tome and Principe: Selected Economic Indicators

	2001	2002	2003 Est.	2004 Proj.
	(Annual percentage changes)			
Real GDP	4.0	4.1	4.5	6.5
GDP Deflator	9.8	10.8	9.5	12.7
Consumer Prices (annual average)	9.5	9.2	9.6	13.3
Real effective exchange rate 1/	-6.5	-5.2	-4.5	...
Terms of trade	10.8	52.7	-11.2	-6.4
	(In percent of GDP)			
Gross domestic investment	35.8	32.8	30.4	48.8
Gross domestic savings	-23.1	-12.5	-9.4	-18.0
Gross national savings	8.3	8.8	10.0	-2.4
	(In millions of US$, unless otherwise specified)			
Exports (f.o.b.)	3.7	5.1	6.4	6.8
Imports (f.o.b.)	24.4	25.5	27.5	39.5
Current account balance 2/	-31.2	-27.3	-26.6	-43.9
Gross official reserves 3/	3.5	4.2	4.6	5.2
Overall balance	-0.5	-3.7	3.3	122.2
Non-oil current account balance (in percent of GDP) 2/	-65.3	-51.0	-44.7	-52.0
Net present value of total debt 4/	1,184.4	1,154.5	1,074.1	887.4
	(In percent of GDP, unless otherwise specified)			
Total revenue and grants	59.3	50.5	50.4	46.7
Total expenditure	81.4	63.7	65.0	71.0
Non-interest current expenditure	23.0	20.5	24.2	25.3
Overall fiscal balance, excluding grants	-60.0	-40.4	-39.2	-41.0
Overall fiscal balance, including grants	-22.2	-13.2	-14.5	-24.3
Change in broad money (in percent)	36.7	26.9	50.3	11.7
Interest rate (in percent) 5/	14.0-16.0	14.0-16.0	14.0-16.0	...

Sources: Sãotomean authorities; and IMF staff estimates and projections.

1/ (+) = appreciation. For 2003, data are through October.
2/ Excluding official transfers.
3/ In months of following year's non-oil imports of goods and nonfactor services.
4/ In percent of exports of goods and services, calculated as a three-year backward-looking average (e.g., average over 2001-2003 for exports in 2003).
5/ Commercial bank deposit rate, end of period.