

**Statement by Mr. Raghani, Executive Director for Sao Tome and Principe and Mr. Carvalho da Silveira, Advisor to the Executive Director
April 21, 2020**

The Sao Tome and Principe authorities would like to express their appreciation to Management and staff for the swift response to their request for emergency financial support under the Rapid Credit Facility (RCF) to help mitigate the social and economic impact of COVID-19 pandemic.

The performance under the current Extended Credit Facility (ECF) program, approved in October 2019, has been broadly positive, with significant achievements in fiscal consolidation and implementation of some structural reforms, including the adoption of the VAT Law. Preliminary data attests that all end-December 2019 performance criteria (PCs) were met and most structural benchmarks (SBs) were implemented, except one related to the state-owned utility company (EMAE).

Like any small and fragile island State facing the global health crisis, the economy of Sao Tome and Principe came to a standstill amid mandatory shutdowns. As a result, economic activity is falling drastically, and significant financing gaps are emerging. Against this backdrop, the authorities are requesting an emergency financing under the RCF in the amount of SDR 9.028 million, representing 61 percent of Sao Tome and Principe's quota, to cover the exceptional balance of payments and fiscal needs. They are convinced that the Fund assistance will help support the budget, enhance international reserves and hence pave the way for a quick economic recovery in key sectors when the pandemic fades out. The IMF disbursement will also play a catalytical role in mobilizing assistance from other development partners.

Our authorities remain strongly committed to the program supported by the ECF arrangement. They will continue to work closely with the IMF to maintain broad macroeconomic stability during the pandemic.

The Economic Impact of the COVID-19 Pandemic and Outlook

The economic fallout of the COVID-19 pandemic in Sao Tome and Principe is significant. Although there are only 4 confirmed cases of coronavirus as of April 17, 2020, the authorities believe that the limited diagnostic testing capacity hinders an accurate assessment of the country's real epidemiological situation. The authorities have proactively undertaken a multi-faceted strategy aimed at protecting lives, vulnerable groups, jobs, and businesses to the extent possible, while setting the stage for a quick rebound when the pandemic subsides. The government declared a state of emergency on March 17 with various prevention and containment measures including (i) the closing of schools, restaurants and bars; (ii) cancellation of social and religious gatherings; and (iii) suspension of international flights. Public transportation has been limited and flexibility was introduced to allow telework in some sectors. Sao Tome and Principe has prepared and is implementing a contingency plan with the assistance of the World Health Organization and the World Bank. A major structural challenge is

the high level of poverty and informality, which limits the effectiveness of the containment measures determined by the government.

As a result of these developments, real GDP is anticipated to drop from 1.3 percent in 2019 to -6.0 percent in 2020 weighed by disruptions in the tourism and service industries, global supply chains as well as delays in externally financed projects. The slowdown in economic activity will have a negative impact on fiscal revenues, which together with COVID-19 related expenditures, are putting considerable pressure on public finances and creating urgent fiscal and balance of payment needs estimated at around \$17 million (4.2 percent of GDP), and \$24 million (6 percent of GDP) respectively. The authorities recognize that there is high uncertainty around the length and magnitude of the pandemic and stand ready to take additional measures and seek more external support should the downside risks materialize.

Policy Response to the Pandemic

The authorities remain fully committed to macroeconomic stability and reforms envisaged under the ECF arrangement. However, their short-term priority is to mitigate the human, social and economic impact of the pandemic.

On the fiscal front, spending has been directed at the following key actions: (i) execution of the health contingency plan, including staffing, equipment, information sharing and treatment centers; (ii) assistance to vulnerable groups through the expansion of the current World Bank-cash transfer program to cover more households and nursing homes for the elderly, disabled and abandoned children; and (iii) support to businesses via temporary suspension of administrative penalties on certain taxes, worker retention and recruitment incentives programs, amongst others. Furthermore, the government is contemplating a publicly guaranteed credit line for affected small and medium-sized enterprises (SMEs). They will also grant financial assistance to those who lost their jobs in both formal and informal sectors, contingent on these informal workers registering in the labor force and social security.

Efforts are on the way to introduce a small solidarity tax surcharge on civil servants unaffected by the crisis and cut by 20% the wage bill of state-owned enterprises (SOEs) and autonomous public entities, both for a period of 6 months. Fuel price at the pump will remain unaltered, and an agreement with ENCO, the national oil importer, was signed to ensure the full transfer of the positive oil price differential to the Treasury to reduce existing fuel subsidy debt. A revised budget for 2020 will be submitted to the Parliament to reflect the new priorities as soon as conditions allow. To strengthen transparency and public financial management, the government is committed to publishing information on public procurement contracts and monthly COVID-19 related expenses, consistent with the legislative authorization granted by the Parliament. The authorities also intend to undertake a thorough ex post financial and operational audit of all COVID-19 related operations.

The authorities are aware of the 2020 Debt Sustainability Analysis (DSA) which indicates that the debt is sustainable, but with high risk of debt distress. The Government will continue to prioritize grants and concessional borrowing and make efforts to reach an agreement with bilateral external creditors to defer debt services falling due in 2020. In this respect, the

authorities are grateful to the Fund for the debt service relief under the Catastrophe Containment (CC) window of the Catastrophe Containment and Relief Trust (CCRT). This debt relief will help free up budgetary resources to address public health needs. Looking ahead, the authorities believe that further financing will be needed, should the health crisis last longer than expected, and wish they could benefit from additionality of Fund resources during these exceptional times.

The authorities are cognizant of the importance of coordinating fiscal, monetary, and financial policies to limit the negative impact of the pandemic, while safeguarding financial stability. The central bank has announced several measures to prevent liquidity tension, most notably the reduction of the policy rate and minimum cash reserves requirement; and the introduction of a moratorium on loans, with suspension of interests, charges, and other bank costs.

Notwithstanding, prudential standards and reporting requirements will remain unchanged to ensure the financial sector is resilient in the face of vulnerabilities caused by COVID-19. Consideration is also being given to mobile money to minimize the coronavirus risks associated with exchanging cash and promote electronic transactions.

Conclusion

The Sao Tome and Principe authorities recognize the daunting economic challenges ahead brought about by the pandemic and are confident the policies outlined in their Letter of Intent will help mitigate the impact of the pandemic as well as support a quick recovery. They reiterate their strong commitment to pursuing the reform agenda supported by the ECF arrangement approved in October 2019. They are also hopeful that the IMF disbursement will help catalyze donor support. In light of the above, the authorities would appreciate Executive Directors' support for their request for emergency financing under the Rapid Credit Facility.