



DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

September 2021

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND FINANCING ASSURANCES REVIEW — PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR

In the context of the Third Review Under the Extended Credit Facility Arrangement and Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 27, 2021, following discussions that ended on July 7, 2021, with the officials of the Democratic Republic of São Tomé and Príncipe on economic developments and policies underpinning the IMF arrangement. Based on information available at the time of these discussions, the staff report was completed on August 10, 2021.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for the Democratic Republic of São Tomé and Príncipe.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes Third Review Under the Extended Credit Facility for São Tomé and Príncipe

FOR IMMEDIATE RELEASE

- The IMF Executive Board decision allows for an immediate disbursement of about US\$2.70 million to São Tomé and Príncipe to help meet the country's financing needs, support social spending and the post-pandemic recovery.
- Exceptional international support and the authorities' swift actions are helping address the health and socio-economic impacts of the COVID-19 pandemic.
- Macroeconomic stability has been maintained and program performance under the Extended Credit Facility (ECF) has been steady, although the pandemic has delayed some structural reforms.

Washington, DC – August 27, 2021: On August 27, 2021 the Executive Board of the International Monetary Fund (IMF) completed the third review of the Extended Credit Facility (ECF) arrangement for São Tomé and Príncipe. The Board's decision enables the immediate disbursement of SDR 1.90 million (about US\$2.70 million). This brings São Tomé and Príncipe's total disbursements under the arrangement to SDR 9.09 million (about US\$12.91 million).

São Tomé and Príncipe's 40-month ECF arrangement was approved on October 2, 2019 for SDR 13.32 million (about US\$18.15 million or around 90 percent of the country's quota) (see [Press Release No. 19/363](#)).¹ The program aims to support the government's economic reform program to restore macroeconomic stability, reduce debt vulnerability, alleviate balance of payments pressures, and create the foundations for stronger and more inclusive growth.

The second review was completed in February 2021, with a disbursement of about US\$2.73 million. The first review was completed in July 2020, with a disbursement of about US\$2.67 million, and, at the same time, an augmentation of the ECF arrangement of US\$2.08 million was approved by the IMF Executive Board (see [Press Release No. 20/272](#)). In April 2020, the Executive Board also approved emergency financing of US\$12 million for São Tomé and Príncipe under the Rapid Credit Facility (RCF) and IMF debt service relief under the Catastrophe Containment and Relief Trust (CCRT) to address external financing needs arising from the COVID-19 pandemic (see [Press Release No. 20/179](#)).

Executive Board Assessment²

Following the Executive Board discussion, Mr. Bo Li, Deputy Managing Director and Acting Chair, made the following statement:

¹ U. S. Dollar exchange rates as of the date of approval

² 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. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

“The authorities’ swift actions and international support have helped São Tomé and Príncipe mitigate the impact of the pandemic-related crisis. However, uncertainties remain high and continued steadfast program implementation and structural reforms together with adequate vaccination are critical to ensure more resilient, sustained, and inclusive green growth.

“The authorities’ program performance remains favorable, despite the difficult pandemic environment. Addressing immediate social and economic needs and implementing gradual fiscal consolidation are key to supporting the economic recovery and preserving debt sustainability. In this context, introducing the VAT in 2021, reining in spending dynamics, particularly on personnel, and the continued reliance on grants and highly concessional loans are critical.

“The authorities’ efforts in fostering increased transparency are welcome. Reviewing the procurement legislation to enable the collection and publication of beneficial ownership information is an important step towards enhancing transparency, along with completing audit reports of COVID-19 related spending.

“Monetary policy should support the exchange rate peg and the recovery. In this context, the continued active liquidity management, and efforts to strengthen the capacity to manage financial sector risks and vulnerabilities are important. A new legal framework for the central bank and financial sector should also enable much needed modernization.

“In view of recent electricity shortages, accelerating reforms in the energy sector would contribute to providing lower-cost and reliable electricity supply, support the country’s development and growth potential, and reduce pressures on public debt and foreign exchange reserves. Pressing ahead with broad-based structural reforms should also facilitate private investment, help the development of the tourism sector, and promote more resilient and inclusive growth.”

Table 1. São Tomé and Príncipe: Selected Economic Indicators, 2017–26
(Annual change in percent, unless otherwise indicated)

	2017	2018	2019	2020		2021		2022	2023	2024	2025	2026
				2 nd Rev.	Proj.	2 nd Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
National income and prices												
GDP at constant prices	3.9	3.0	2.2	-6.5	3.0	3.0	2.1	2.9	3.3	3.5	3.7	4.0
GDP deflator	2.0	2.6	7.0	4.0	5.6	4.0	2.7	2.0	2.8	2.9	2.9	3.9
Consumer prices (End of period)	7.7	9.0	7.7	9.3	9.4	4.9	4.7	6.2	5.0	5.0	5.0	5.0
Consumer prices (Period Average)	5.7	7.9	7.7	9.9	9.8	5.6	5.4	7.0	5.8	5.2	5.0	4.4
External trade												
Exports of goods and nonfactor services	-10.8	13.9	-1.9	-47.3	-46.3	61.0	18.4	48.0	23.4	6.4	9.0	8.5
Imports of goods and nonfactor services	5.5	4.3	-5.3	-7.2	-10.4	8.5	9.4	2.9	8.9	4.5	5.0	5.8
Exchange rate (new dobras per US\$; end of period) ¹	20.7	21.5	22.0	...	20.1	...	...	...	...	...	...	...
Real effective exchange rate (period average, depreciation = -)	4.9	8.8	5.3	...	5.7	...	...	...	...	...	...	...
Money and credit												
Base money	-9.6	0.8	-7.4	22.6	31.0	-6.6	-10.8	1.3	13.8	...	...	...
Broad money (M3)	-0.4	14.3	-2.2	1.2	10.9	7.1	7.5	5.2	6.3	...	...	...
Credit to the economy	2.5	-1.6	3.2	1.9	-1.6	0.5	0.4	4.7	5.5	...	...	...
Velocity (GDP to broad money; end of period)	3.1	2.9	3.0	3.0	2.8	3.0	3.0	3.0	3.0	...	...	...
Central bank reference interest rate (percent)	9.0	9.0	9.0	...	9.0	...	...	...	...	...	...	...
Average bank lending rate (percent)	19.6	19.9	19.1	...	19.1	...	...	...	...	...	...	...
Government finance (in percent of GDP)												
Total revenue, grants, and oil signature bonuses	24.9	24.1	22.0	28.2	25.3	21.5	25.7	24.8	24.0	23.9	23.8	23.5
Of which: tax revenue	12.7	12.8	12.3	14.5	13.1	14.8	13.3	14.4	14.9	15.1	15.5	15.6
Nontax revenue	1.7	3.1	3.3	2.5	2.4	2.9	2.5	2.8	2.5	2.7	2.8	3.0
Grants	10.5	8.3	6.4	11.2	9.7	3.8	9.9	7.6	6.6	6.1	5.5	5.0
Total expenditure and net lending	27.6	26.0	22.1	25.0	23.1	23.5	27.2	24.2	25.0	24.4	24.0	23.8
Personnel costs	8.3	9.3	9.0	10.9	9.3	11.1	10.0	9.8	9.6	9.5	9.5	9.5
Interest due	0.5	0.4	0.7	0.5	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.2
Nonwage noninterest current expenditure	6.9	7.0	7.5	8.4	7.2	8.3	7.4	7.3	7.2	7.2	7.3	7.3
Treasury funded capital expenditures	0.7	1.4	0.1	0.3	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.7
Donor funded capital expenditures	11.0	7.8	4.7	1.3	3.0	1.4	7.4	6.1	7.2	6.7	6.3	5.9
HIPC Initiative-related capital expenditure	0.2	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
COVID-19 spending	...	...	...	3.5	2.9	1.7	1.5	...	...	...	...	...
Domestic primary balance ²	-2.4	-4.2	-1.8	-5.3	-3.2	-3.9	-3.5	-2.0	-0.2	0.3	0.6	0.6
Net domestic borrowing	1.8	3.4	-1.5	-1.7	-1.7	4.3	1.3	-0.1	-1.0	-1.0	-1.0	-1.1
Overall balance (commitment basis)	-2.7	-1.9	-0.1	3.2	2.2	-2.0	-1.5	-0.5	-1.0	-0.5	-0.2	-0.3
Public Debt ³	81.1	93.2	99.9	103.0	87.4	101.4	87.9	86.5	84.3	80.9	76.8	71.2
Of which: EMAE's debt to ENCO	19.6	23.3	28.9	31.5	24.2	32.9	26.0	29.0	29.5	29.1	27.9	26.5
External sector												
Current account balance (percent of GDP)												
Including official transfers	-13.2	-12.3	-12.1	-17.4	-14.1	-16.3	-11.3	-7.5	-6.7	-6.3	-6.0	-5.7
Excluding official transfers	-24.3	-21.0	-18.5	-28.6	-23.9	-20.1	-21.2	-15.1	-13.3	-12.4	-11.5	-10.7
PV of external debt (percent of GDP)	31.5	26.6	27.2	32.2	25.4	30.0	24.4	24.2	23.9	23.3	22.6	21.7
External debt service (percent of exports) ⁴	3.8	2.6	4.5	8.5	5.0	7.5	11.6	8.4	6.8	8.7	9.0	7.4
Export of goods and non-factor services (US\$ millions)	86.1	98.0	96.2	50.7	51.7	81.6	61.2	90.5	111.7	118.9	129.5	140.5

Table 1. São Tomé and Príncipe: Selected Economic Indicators, 2017–26 (continued)
(Annual change in percent, unless otherwise indicated)

	2017	2018	2019	2020		2021		2022	2023	2024	2025	2026
				2 nd Rev.	Proj.	2 nd Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Gross international reserves ⁵												
Millions of U.S. dollars	51.4	35.1	40.4	54.7	67.6	58.1	63.4	70.3	72.0	75.1	76.6	76.5
Months of imports of goods and services	3.1	2.2	2.8	3.5	4.3	3.6	4.0	4.0	3.9	3.9	3.8	3.8
Months of imports of goods and nonfactor services ⁶	4.2	3.0	4.0	5.1	6.4	5.0	5.7	5.9	6.0	6.1	5.9	6.2
National Oil Account (US\$ millions)	11.3	19.5	18.8	16.2	16.6	13.2	13.5	12.5	10.2	8.3	6.8	5.6
Memorandum Item												
Gross Domestic Product												
Millions of new dobra	8,154	8,619	9,424	8,976	10,247	9,615	10,750	11,281	11,972	12,748	13,602	14,693
Millions of U.S. dollars	375.8	415.6	430.7	418.1	477.3	478.2	533.6	572.9	616.4	662.2	711.0	771.6
Per capita (in U.S. dollars)	1,842	1,989	2,022	1,918	2,190	2,144	2,393	2,524	2,657	2,794	2,938	3,002
Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections												
¹ Central Bank (BCSTP) mid-point rate.												
² Excludes oil related revenues, grants, interest earned, scheduled interest payments, and foreign-financed capital outlay.												
³ Total public and publicly guaranteed debt as defined in DSA, which includes EMAE's debt to ENCO (and excludes the government's arrears to EMAE due to consolidation).												
⁴ Percent of exports of goods and nonfactor services.												
⁵ Gross international reserves exclude the National Oil Account and commercial banks' foreign currency deposits at the BCSTP in order to meet reserve requirements, for new licensing, and for meeting capital requirements												
⁶ Imports of goods and services excluding imports of investment goods and technical assistance.												



DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND FINANCING ASSURANCES REVIEW

August 10, 2021

EXECUTIVE SUMMARY

Macroeconomic developments and outlook. São Tomé and Príncipe has maintained macroeconomic stability in the period since the previous ECF review (February 2021). International support and the authorities' swift actions helped mitigate the impact of the pandemic so far. Growth is estimated at 3 percent in 2020, supported by externally-financed spending. Growth is projected to slow to 2 percent in 2021, reflecting delays in the return of tourists, and to strengthen to 3 percent in 2022. The economic outlook is subject to high uncertainty and downside risks, notably the evolution of the pandemic.

COVID-19. The authorities aim to vaccinate 70 percent of the population by mid-2022, supported by the COVAX initiative and the World Bank. About 25,600 people (12 percent of population) were vaccinated with at least one dose as of mid-July 2021. Considering new COVID-19 waves globally, the authorities are concerned about the timely and sufficient supply of additional vaccine orders. Presidential elections, first round held on July 18th with no winner emerging and second round planned on September 5th, are not expected to have an impact on the IMF program, which appears to have broad-based support.

Program performance. Program implementation has remained strong, despite the difficult pandemic environment. Quantitative performance criteria (PC) at end-December 2020 and Indicative Targets (IT) at end-March 2021 for the primary domestic balance, net international reserves, and net domestic financing were met, some by significant margins. However, the completion of several end-December 2020 structural benchmarks (SBs) including on legislative reforms were delayed. Based on the program baseline, São Tomé and Príncipe remains in debt distress but public and external debt is deemed sustainable, and capacity to repay the Fund remains adequate.

Focus of Discussions. Discussions focused on implementing the VAT, containing the wage bill, maintaining pro-poor spending, accelerating reforms in the public energy company, and fostering transition to clean energy, continuing the transparency and governance agendas, modernizing the legal framework for monetary and financial policies, and maintaining price, financial, and external stability. Given the macro-criticality of VAT implementation, a prior action has been added in this area. The new timings of structural conditionality reflect capacity constraints and the need to build consensus on major legislative reforms.

Recommendation. Staff recommends completion of the third review in light of the authorities' strong actions to meet the end-2020 and end-March 2021 program targets and commitments going forward, notwithstanding very difficult pandemic circumstances.

Approved By
Vivek Arora (AFR) and
Anna Ilyina (SPR)

Discussions for the third review of the economic program supported by the IMF Extended Credit Facility arrangement took place remotely during June 7–July 7, 2021. The team comprised E. Kvintradze (head), K. Nassar, L. Kolovich, K. Wang (all AFR), Mr. Bardella (FAD), Mr. Wezel (MCM) and Mr. Carvalho da Silveira (OED) participated in the discussions. Ms. Synak and Pilouzoué provided research and editorial assistance for the preparation of this report.

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