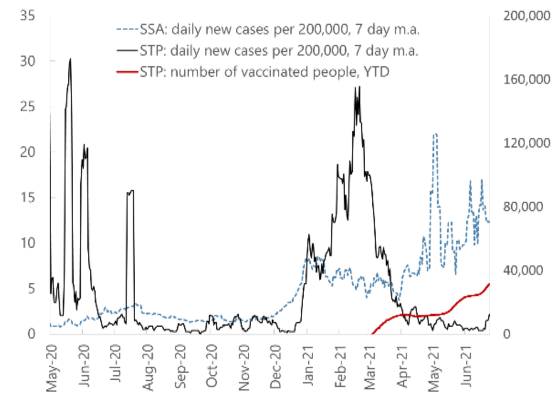
CONTEXT

1. **COVID-19 has unsettled the fragile balance in São Tomé and Príncipe (STP), putting lives and livelihoods at risk.** The authorities aim to vaccinate 70 percent of the population by mid-2022, fully 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. With the global spread of new COVID-19 variants, the authorities are concerned about timely and sufficient supply of additional vaccine orders. The country has also been experiencing electricity shortages, which have been partly overcome by repairing faulty generators.

Text Figure 1. COVID-19 cases and vaccination progress



Sources: Our World In Data and STP authorities.

2. **The authorities' swift actions and international support helped mitigate the pandemic's impact so far**. The pandemic exacerbated social vulnerabilities, considering that one-third of the population still lives in extreme poverty. The authorities' 2020 fiscal response, about 2.9 percent of GDP in additional spending, focused on boosting healthcare and public projects, expanding existing cash transfer programs to vulnerable households, increasing food distribution, and targeting private sector incentives to retain workers (Text Table 1). The Debt Service Suspension Initiative (DSSI)[1] and the Fund's Catastrophe and Containment Relief Trust (CCRT) provided some additional temporary relief.

Text Table 1. São Tomé and Príncipe: COVID-19 Fiscal Response Package

COVID-19 related financing, 2020

	USD million	Percent of GDP
Total Financing	41.4	8.7
Grants	25.4	5.3
World Bank Group - WBG	15.0	3.1
Health contingency plan	1.9	0.4
Expanded social program	3.1	0.7
Budget support - DPO 1/	10.0	2.1
African Development Bank - AfDB	10.3	2.2
Other partners	0.1	0.0
Loans	16.0	3.4
IMF (Rapid Credit Facility - RCF)	12.3	2.6
IMF (Augmentation of ECF 2/) 1/	2.1	0.4
G20 DSSI 1/	1.6	0.4

Source: STP authorities and development partners.
1/ Items not covered by the monthly covid-19 spending reports.
2/ US$ 2.1 million refers only to the augmentation of ECF. Other ECF disbursements are not counted for the purpose of this table.

COVID-19 related expenditure, 2020

	USD million	Percent of GDP 1/
COVID-19 related expenditure	13.8	2.9
of which for health		
WBG Funded health contingency plan	1.9	0.4
Other health outlays	4.8	1.0
of which for social		
WBG Funded expanded social program	3.1	0.7
Private sector incentives to retain workers	0.6	0.1
Support to informal sector workers /2	0.7	0.2
Distribution of food baskets /2	1.0	0.2
of which for businesses, SOEs, government entities		
Contribution to govt. entities workers' wa	1.7	0.3
Memorandum item		
AfDB Funded credit line to businesses 3/	3.0	0.6
COVID-19 related expenditure + credit line	16.8	3.5

Source: STP authorities and development partners.
1/ In percent of 3rd review GDP.
2/ Funded by the IMF's RCF which was channeled via the Resilience Fund.
3/ A US$ 3 million credit line to support businesses yet to be disbursed.

[1] The authorities have requested, obtained, and extended deferment of debt service from other bilateral official creditors as per the DSSI initiative. Potential DSSI savings for STP equals USD 1.6 million (0.4 percent of GDP) in 2020, and USD 2.8 million (0.7 percent of GDP) from in H1 2021.

3. **The authorities are fostering transparency of COVID-19-related spending.** ECF includes continuous structural benchmark (SB) on all RCF transparency and accountability commitments which are being closely monitored. The authorities are making good progress in implementing transparency and accountability measures to ensure appropriate control and oversight over COVID-19 spending, albeit with some delays. Monthly spending execution reports are published with some regularity, along with a subset of procurement contracts. LEG TA is ongoing to support the authorities with legally enabling the collection and publication of beneficial ownership information, which would entail modifications in the legal framework (Box 1).

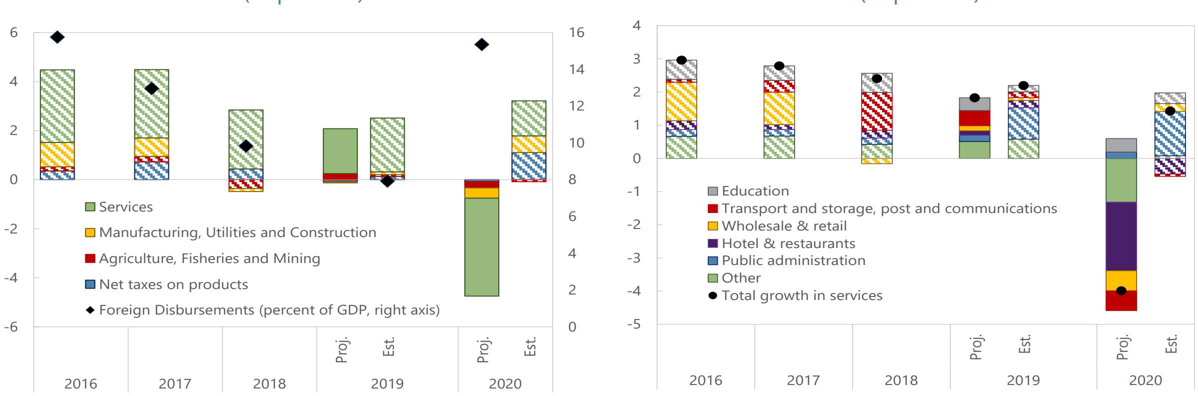
4. **Despite the difficult context, the ECF-supported program performance remains on track.** The end-December 2020 QPCs for the domestic primary balance (DPB), net international reserves, and net bank financing targets were met. The end-March 2021 ITs for the DPB, net international reserves, and net bank financing indicative targets were also met. While tax revenues underperformed the end-March 2021 IT due to slow collections amid electricity blackouts, non-priority spending was contained and the DPB target was met. However, structural reforms are proceeding slowly due to pandemic and endemic capacity constraints.

RECENT ECONOMIC DEVELOPMENTS

5. **2020 growth, preliminarily estimated at 3 percent, was supported by the impact of externally-financed public spending.** Transfers to vulnerable households and businesses provided relief to the service sector which made surprisingly positive contribution to growth (Text Figure 2). Similarly, expansion of externally-financed public spending, including on education and health, boosted construction growth to 5.8 percent in 2020 from 0.6 percent in 2019. The government's domestic arrears payments to suppliers exceeded expectations. The current account deficit widened to an estimated 14.1 percent of GDP in 2020, reflecting a collapse in tourism from 15.5 percent of GDP in 2019 to 3.1 percent in 2020. Gross international reserves reached US$ 67.6 million (4.3 months of imports) in 2020. Headline inflation rose to 9.4 percent (y-o-y) in December 2020, driven by high food prices.

Text Figure 2. São Tomé and Príncipe: Recent Real Sector Developments

GDP: Contribution to Growth by Sector (In percent) | Services: Contribution to Growth by Industry (In percent)



Sources: STP authorities

6. Higher tax revenues provided needed additional space for fiscal stimulus in 2020. The 2019 tax policy package generated revenue windfalls of about 2 percent of GDP, offering additional fiscal space in 2020 (Text Table 2). The DPB widened to -3.2 percent of GDP in 2020 from -1.8 percent in 2019, providing fiscal stimulus, mostly reflecting externally-financed spending increases (Table 2).

Text Table 2. São Tomé and Príncipe: Estimated Outturns of Tax Policy Package 2018–2020
(Percent of GDP)

	2018	2019	2020
Total	**3.1**	**3.5**	**5.6**
Oil surcharge	0.0	0.0	1.1
Suspension of the tax deduction	2.4	2.7	2.8
Tax on consumption of alcoholic beverages	0.4	0.4	0.8
Increase sales tax on telecommunications	0.1	0.2	0.4
Hotel and similar consumption tax	0.1	0.1	0.1
Collection of fishing royalties	0.0	0.1	0.4

Sources: STP authorities; and Fund staff estimates.

7. The Central Bank of STP (BCSTP) supported liquidity and the exchange rate peg. Early measures in April 2020, including lower reserve requirements and the discount rate for BCSTP's liquidity facility, were reversed by end-2020 in view of persistently high excess liquidity, non-performing loans (NPLs) slowly eroding capital buffers, and deteriorating asset quality. Credit growth (y-o-y) to the private sector decelerated to -3 percent (year on year) by Q1 2021.

Text Table 3. São Tomé and Príncipe: TMU- Domestic Primary Balance

		ECF Second Rev.	Estimates	Diff.
I	Total revenue (=1+2)	1526	1596	69
I.A	***of Which: Government Domestic Revenue (=I–2.1+3)***	***1525***	***1565***	***39***
1	Tax revenue	1300	1346	46
2	Nontax revenue	226	250	24
2.1	*of which: oil revenue*	*23*	*31*	8
3	Amortization of debt to ENCO	22	0	-22
II	Total Domestic expenditure (=4+5+6+7)	1997	1924	-73
II.A	***Of which: Domestic primary expenditure (=II–4.2)***	***1956***	***1889***	***-67***
4	Current expenditure	1774	1731	-43
4.1	Personnel costs	980	956	-24
4.2	Interest due	42	35	-7
4.3	Goods and services	255	237	-18
4.4	Transfers	318	325	7
4.5	Other current expenditure	179	178	-1
5	Domestic capital expenditure	27	20	-7
5.1	Financed by the Treasury	28	20	-8
5.2	Financed by privatization proceeds	-1	0	1
6	HIPC Initiative-related social expenditure	18	13	-5
7	COVID-19 spending financed by the Treasury 1/	178	160	-17
III	**Domestic primary balance (= I.A–II.A)**	**-475**	**-324**	**150.5**

Sources: STP authorities; and Fund staff estimates.

1/ Does not include 23.6 billion dobras in COVID-related wages and salaries, which are included in personnel costs.

PROGRAM PERFORMANCE

8. **All end-December 2020 QPCs and ITs were met** (Table 10). The DPB overperformed the end-December 2020 PC by dobras 150.5 million (1.5 percent of GDP) largely due to stronger-than-expected revenue performance and lower current spending (Text Table 3). The IT on revenues was met and arrears clearance exceeded the target. Net international reserves and net bank financing outperformed the end-December PCs. End-March ITs on the DPB, net international reserves, net bank financing, and arrears clearance were also met. However, end-March IT on revenue performance was missed amid delays in tax collections due to energy shortages.

9. **Progress on structural reforms has been slow** (Table 11). On a positive note, the authorities have been meeting the requirements of the transparency-related structural benchmarks by publishing COVID-related expenditure reports and, with less regularity, adjudication notices and public procurement contracts (Box 1). They have also maintained retail fuel prices, generating revenues to continue to pay back longstanding arrears. Preparations for introducing VAT are ongoing with delays, mainly due to protracted contract negotiations with the VAT IT system developers, supported by the World Bank. However, there was limited progress on energy sector reforms and removing STP from the EU air safety list mainly due to weak capacity and COVID-related restrictions. The structural benchmarks on organic and financial institutions laws are progressing with delays, requiring harmonization supported by IMF TA. In a weak capacity environment, building on strong policy commitments and continuous technical support, could catalyze more decisive and timely reform actions going forward.

10. **The outlook depends on restarting revenue-based, gradual fiscal consolidation and accelerating structural reforms.** 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 with a gradual recovery in tourism, transportation, and communication services. In medium-term growth is expected to reach about 4 percent supported by better infrastructure and a stronger tourism potential. Strengthening revenues (introducing VAT in 2021), phasing out pandemic-related spending, and gradually consolidating the DPB would put public debt on a downward trajectory in 2022, supported by a positive growth-interest rate differential in the medium-term. Fiscal adjustment coupled with a gradual increase in tourism receipts would strengthen the current account balance (about -7 percent of GDP) and international reserves (3.9 months of imports) by 2023. Vulnerabilities of a small-island import dependent economy, underscore the need for structural reforms to strengthen competitiveness, diversify the economy, reduce the reliance on oil imports via electricity sector reforms, and improve the efficiency of implementing externally funded projects to avoid disbursements delays.

11. **Public debt is deemed sustainable, but the country remains in debt distress due to prolonged unsettled external arrears** (see DSA update). Public debt remains on a downward trajectory amid the authorities' commitment to continue fiscal consolidation, implement planned energy sector reforms (including EMAE), and borrow externally only on concessional terms and at a measured pace. Under the baseline scenario, public debt to GDP ratio is projected to decrease to 71 percent of GDP in 2026.

However, post-HIPC sovereign arrears with bilateral creditors, in addition to arrears with private creditors, place the country in debt distress. Except for the PV of external-debt-to-GDP ratio, there are threshold breaches of external PPG debt indicators under the baseline scenario. The authorities continue to actively engage with Angola, Brazil, and Equatorial Guinea to regularize outstanding external arrears (2.2 percent of GDP).[2] Regarding external arrears owed by STP to private creditors, the authorities continue to make good faith efforts to reach agreements.

Text Table 4. São Tomé and Príncipe: Medium-Term Macroeconomic Projections
(Program Baseline)

	2020			2021			2022			2023
	1st Rev	2nd Rev	Est.	1st Rev	2nd Rev	Proj.	1st Rev	2nd Rev	Proj.	Proj.
	Annual percent change									
Real GDP	-6.5	-6.5	3.0	3.0	3.0	2.1	5.5	5.0	2.9	3.3
CPI inflation (period average)	7.9	9.9	9.8	8.0	5.6	5.4	5.9	8.1	7.0	5.8
	Percent of GDP									
Central government domestic primary balance[1]	-6.3	-5.3	-3.2	-3.9	-3.9	-3.5	-1.5	-1.2	-2.0	-0.2
Current account balance	-17.0	-17.4	-14.1	-11.9	-16.3	-11.3	-9.3	-9.2	-7.5	-6.7
Public sector gross debt[2]	105.2	103.0	87.4	105.1	101.4	87.9	100.3	96.8	86.5	84.3

[1] Excludes oil related revenues, grants, interest earned, scheduled interest payments, and foreign-financed capital outlay.

[2] 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).

Sources: STP authorities; and Fund staff estimates

12. The outlook is subject to significant uncertainty and downside risks. On the downside, pandemic uncertainty poses challenges for economic recovery and fiscal policy. A new wave of infections and longer-than-expected vaccine deployment could delay recovery. Delays in PFM and energy sector reforms could narrow the fiscal space for social and development spending, while lower-than-expected grant support from donors would deteriorate financing options. Prolonged energy shortages could also delay growth recovery and put additional strains on revenue performance. Any natural disaster could increase pressures for additional spending, while upcoming elections could delay legislative reforms. On the upside, accelerated reforms and key infrastructure development projects could promote medium-term growth.

POLICY DISCUSSIONS

Discussions focused on four key policy pillars: i) rebuilding and strengthening fiscal space to allow for much-needed social and development spending ii) accelerating energy sector reforms; iii) modernizing monetary and financial policies and tools; and (iv) fostering tourism.

A. Strengthening Fiscal Space for Social and Development Spending

13. Mitigating the pandemic's impact requires adequate external support with gradual fiscal consolidation restarting in 2022. The 2021 budget remains appropriate to address the effects of the pandemic and support economic recovery.

[2] The arrears to Brazil have been rescheduled as per the DSSI initiative.

Expected strong revenue performance, anchored by VAT introduction in 2021, would allow the authorities to roll back COVID spending gradually, leaving some in place in 2022. Considering the planned pace of vaccinations, targeted social and health assistance programs would need to continue in 2021-2022. In that context, the DPB is projected to remain at -3.5 percent of GDP in 2021 (-3.2 percent in 2020) and start narrowing to -2 percent of GDP in 2022, putting the public debt path on a downward trajectory (Tables 2a-b). The government's gross financing needs remain large in 2021 and are being met by external disbursements, including BCSTP on-lending of IMF resources (Text Table 5). Grant financed capital projects are projected to gradually decline 2024 onwards.

Text Table 5. São Tomé and Príncipe: External Financing
(in millions of US dollars)

	2020	2021	2022
Total	**66.6**	**62.6**	**53.9**
Grants	**44.1**	**48.0**	**38.6**
Project grants	***14.5***	***30.3***	***23.3***
World Bank	10.6	22.3	17.3
Others	3.9	8.1	6.0
Program grants	***29.6***	***17.7***	***15.3***
World Bank (DPO)	10.0	10.0	6.1
African Development Bank	13.6	2.4	4.2
European Union	5.9	5.3	5.0
Loans	**22.5**	**14.6**	**15.3**
Project loans	***5.8***	***9.4***	***10.2***
African Development Bank	3.6	2.9	1.9
Other (Multilateral and Bilateral)	2.2	6.6	8.3
Program loans	***16.7***	***5.1***	***5.1***
IMF	16.7	5.1	5.1

Sources: STP authorities; AFDB, WB, and Fund staff estimates.

14. Creating fiscal space for social and development spending rest on continued revenue reforms, strengthening wage bill budgeting, and maintaining pro-poor spending:

- *Continued revenue reforms.* Final preparations are under way for introducing the VAT in October 2021 (SB), instead of July as initially planned. In June 2021, the authorities completed an important step by finalizing contract negotiations with the IT developer to roll out the VAT platform at the tax directorate by end-2021, supported by the World Bank (MEFP ¶17). The authorities signed the protocol of information exchange between Customs and Tax Directorates (prior action) to start VAT collections at Customs by October (MEFP ¶18). Having the protocol support joint inspections and monitoring practices for VAT collections. On imports, the Customs Authority will act as a collector, VAT paid on imports will be credited as input on the corresponding VAT return, and Tax Directorate will receive information about this input using the protocol for information exchange. To further support revenues in the reminder of 2021, the authorities are introducing a new environment tax on plastic products and an airport safety fee and are stepping up efforts to collect tax arrears (MEFP ¶15).

- *Strengthening wage bill planning and monitoring* to further stabilize budget planning and execution process. Extra allowances paid to health personnel and security forces, hiring additional teachers for social distancing in schools, and increasing base salaries expanded the wage bill, which is expected to start declining in real terms in 2022. In July 2021, a ministerial order was issued freezing new recruitments and promotions to contain the wage bill (MEFP ¶15).

- *Maintaining pro-poor spending* (IT) and strengthening social spending programs (MEFP ¶13). The World Bank-supported vulnerable families' program, which aims to increase income and consumption of poor households, is being expanded along with youth skills training programs.

- *Contingency measures*. In the event of lower-than-expected revenues, further reprioritization of expenditures is being considered to help to achieve DPB targets. To this end, in July 2021 a ministerial order was issued identifying possible reductions in administrative costs, travel, and other non-essential spending lines (MEFP ¶15).

15. A credible medium-term fiscal strategy needs to be supported by strengthening governance and transparency frameworks, reforms in revenue administration, and PFM:

- *Strengthening fiscal transparency and governance*. Publishing monthly COVID-19-related spending reports and procurement contracts, requiring the collection and publication of beneficial ownership information by amending the procurement legal framework (continuous SB) remain a priority. It is also important to conclude the ongoing ex-post audit of the 2020 COVID-19-related spending (Box 1. MEFP ¶22).

- *Revenue administration reforms*. Going forward there is a need for continuing digitalization and modernization of tax administration services, adopting risk-based tax compliance practices, and improving performance monitoring (MEFP ¶19-20).

- *PFM reforms*. These include piloting a spending ceilings mechanism to manage expenditure commitments in at least five of the most relevant spending ministries, implementing the recently developed manual to strengthen macro-fiscal projections, and publishing a three-year medium-term fiscal framework, with the annual budget (MEFP ¶21).

B. Accelerating Structural Reforms in the Energy Sector

16. Accelerating EMAE reforms to contain losses and relying on fuel pricing mechanism are key to ensuring sustainable debt dynamics and promoting growth.

- Relying on the automatic fuel price adjustment mechanism and maintaining retail fuel prices aligned to international markets (continuous SB) prevent implicit fuel subsidies and contain fiscal risks. The government has been complying with the pricing mechanism since 2017, and retail prices have surpassed import prices. The publicly owned company ENCO has transferred the oil price differential to the state. Looking ahead however, rising oil prices will narrow the differential (Box 2).

- Structural commercial and technical losses in the energy sector remain. EMAE accumulated close to US$13 million (2.7 percent of GDP) in new arrears, which largely translate into new external arrears of ENCO to its Angolan parent company. As of December 2020, EMAE's arrears to ENCO amounted to US$123.3 million (25.9 percent of GDP). New arrears in 2020 were lower than the historical trend, as arrears accumulation related to energy sector operations tend to decelerate when international oil prices decline. The long-standing arrears problem needs to be addressed through EMAE structural reforms outlined below.

Box 1. COVID-19 Spending Transparency and Accountability

Transparency and accountability measures to ensure appropriate control and oversight over COVID-19 related spending, as originally committed in the Letter of Intent for the request for an RCF disbursement in March 2020 (IMF Country Report No. 20/139) and subsequent ECF reviews under continuous structural benchmarks (Table 11.) discussed below, are implemented albeit with some delays. These commitments also apply for COVID-19 spending that will be executed in 2021.

- Monthly COVID-19-related expenditure reports published on the Ministry of Finance website (https://www.financas.gov.st/index.php/publicacoes/documentos/category/147-publicacoes) provide the list of pandemic-related external grants and loans received in 2020 through April 2021 and the corresponding spending by ministries and by economic category. The reports also include sectoral annexes with detailed information on the execution of the main emergency response measures, e.g., the health contingency plan, support for informal sector workers, and targeted private sector incentives to retain workers (including the list of all private company beneficiaries).

- More limited progress was achieved on procurement transparency. Publication of some procurement contracts started in Q3 2020, and a prior action on publication of a subset[1] of procurement contracts, adjudication notices and ex-post validation of delivery was met in January 2021. Limited additional information has been published in 2021. In November 2020 the Ministry of Finance issued an executive order requiring all spending agencies to send signed procurements contracts to the procurement agency COSSIL as a pre-condition for Treasury payments to contractors, but this measure still did not regularize timely publication of procurement contracts.

- Publishing beneficial ownership information of companies being awarded procurement contracts is in the preparatory stage of implementation, as the legal framework will need to be adapted for the authorities to require collection and publication of this information. The authorities have requested technical assistance from LEG in this area, which was initiated in April 2021. The authorities are working on a draft for a new procurement law to be enacted in 2021. IMF and the WB are providing inputs for the text, and the teams are ensuring the new legislation will provide for the collection and publication of beneficial ownership information.

- Regarding emergency spending audits, despite an unfruitful attempt to perform concurrent control over the Emergency Fund (Fundo de Resiliência) during 2020, the Tribunal de Contas (supreme audit institution) is currently performing an ex-post audit of the 2020 COVID-19-related spending package, and the corresponding audit report is expected to be finalized by end-October 2021.

1/Documents that became available to the procurement agency COSSIL for the period June-August 2020

- Accelerating implementation of the authorities' Management Improvement Plan (MIP) and Least Cost Development Plan (LCDP) will improve cost efficiency and contain EMAE's structural losses (MEFP ¶41-43) and help transition to renewable energy sources. However, reforms were repeatedly delayed, in part because of pandemic-related restrictions, and progress in installing meters, capping consumption, and modernizing EMAE management have been limited.

While implementing the comprehensive reform package is critical for energy efficiency, in the near-term the authorities should target rolling out the LED program by end-2021 (SB). [3]

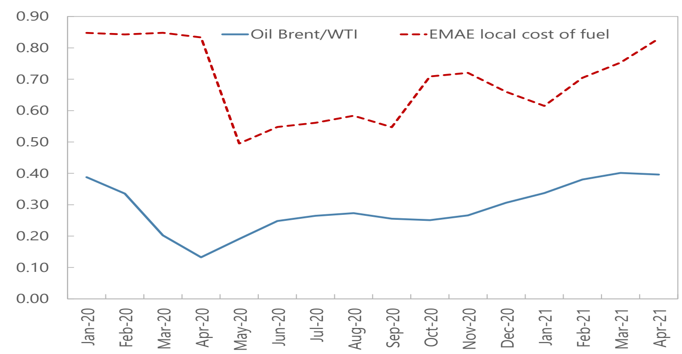
C. Supporting the Peg and Safeguarding Financial Stability

17. Efforts to modernize the country's monetary system by improving the legal framework and strengthening BCSTP's capacity continue. The BCSTP drafted its new organic and financial institutions laws, supported by IMF TA. The BCSTP Board approved the draft organic law and work continues aligning the draft organic and financial institutions laws prior to submission to Parliament in September 2021 (SB, MEFP ¶27). Draft financial institutions law is also expected to be submitted to the government by end-December 2021 (SB, MEFP ¶27). See Annex I for more background on legal reforms.

18. The BCSTP policy stance is appropriate and is expected to continue actively manage bank liquidity in support of the peg and recovery. The large external support in 2020 coupled with weak credit demand during the pandemic led to an increase in excess liquidity. As part of its efforts to manage liquidity, at end-2020, the BCSTP conducted a CD auction and restored reserve requirements and the discount rate to pre-pandemic levels. In March 2021, they introduced a variable rate auction for T-bills, in response to recommendations raised during the ECF second review. The BCSTP is also committed to working with IMF TA to further develop its liquidity management toolkit (SB, MEFP ¶24).

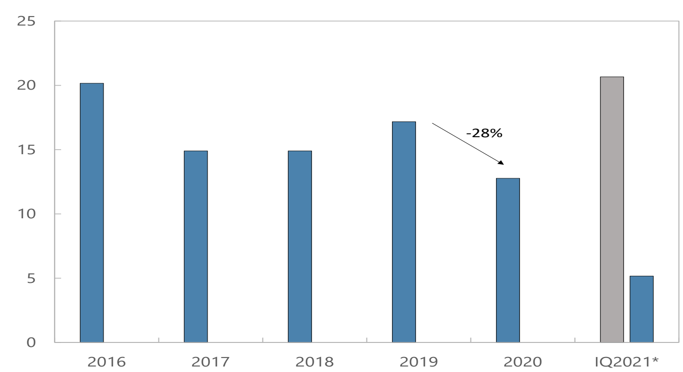
Text Figure 3. São Tomé and Príncipe: Oil price and EMAE's accumulation of arrears

International oil prices and EMAE's local cost of fuel (USD/liter)



Sources: Haver, STP Authorities.

EMAE's accumulation of arrears on fuel purchase (USD million)



Sources: STP Authorities.
* IQ2021 blue bar corresponds to actual and grey bar is annualized over four quarters.

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[3] Previously, there was a continuous SB to "implement key measures of Management Improvement Plan and LCDP for EMAE", which cross-referred to a separate "Table B." in MEFP with 6 different measures to be implemented, each with their separate deadlines. In the current approach, for greater clarity and determination if the SB is completed, separate actions from Table B, MEFP are brought into the actual SB table on a rolling basis with their own implementation deadlines.

Box 2. Automatic Fuel Price Mechanism

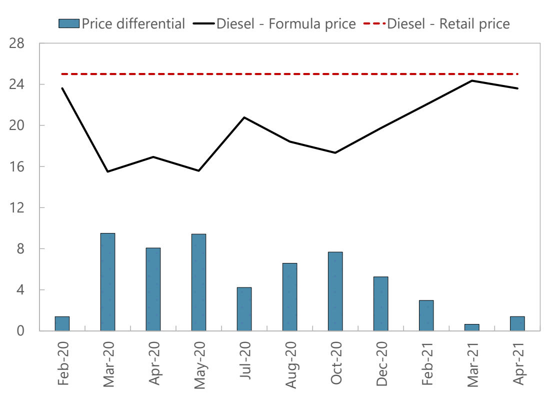
An automatic fuel price mechanism, introduced in 2017, operationalizes a full pass-through of changes in international fuel prices to domestic retail prices, preventing implicit subsidies from below cost retail pricing and build-up of payment arrears to the oil company ENCO. Under the mechanism, retail prices for all fuel products (gasoline, diesel, and kerosene) are set administratively, using pricing formulas based on import CIF prices, applicable taxes, margins and other costs:

- *Total applicable taxes levied on the import CIF price:* a 5 percent duty charged on gasoline, EMAE and non-EMAE diesel and kerosene and surcharges of 106 percent on gasoline, 66 percent on non-EMAE diesel, and 15 percent on EMAE diesel.
- *Road fund:* a fixed fee of 0.35 dobra per liter of gasoline, 0.40 dobra per liter of non-EMAE diesel, and 0.20 dobra per liter of EMAE diesel is earmarked for road maintenance.
- *Margins and other costs:* (i) cost associated with the clearance of products through the customs, assessed as a percentage of the import CIF price; (ii) distribution charges differentiated per product; and (iii) wholesale and retail margins.
- *ENCO Surcharge:* effective from 2019, a surcharge has been introduced in the pricing formulas to pay the long-lasting accumulated debt to ENCO. Currently, the surcharge is set at 2.50 dobras per liter for gasoline and EMAE and non-EMAE diesel, and 0.50 dobra per liter of kerosene.

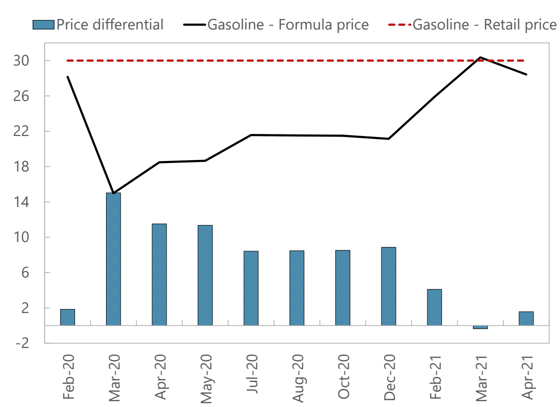
The government complied with the pricing mechanism and maintained retail fuel prices aligned to international markets (continuous SB) to prevent fuel subsidies and contain fiscal risks. Moreover, retail prices have been kept fixed throughout 2020 and 2021 enabling the government to benefit from the large price differential generated by the lower prices at international markets, particularly in 2020.

However, the rising international oil prices have narrowed the differential in the first four months of 2021. Should the upward trend in international markets persists throughout the year, the government will need to adjust domestic prices, consistent with the automatic fuel price mechanism.

Fuel Price Differential for non-EMAE Diesel
(dobra per liter)



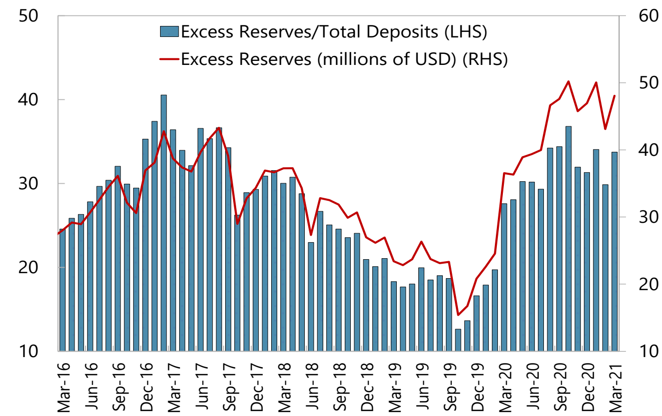
Fuel Price Differential for Gasoline
(dobra per liter)



Source: STP Authorities and Staff calculations.

19. Progress in strengthening the BCSTP's safeguards framework has been slow. While, the BCSTP has made progress towards strengthening the BCSTP Law with technical assistance from the Fund, actions are needed to advance other outstanding items. These include, reviving the technical assistance arrangement with the Bank of Brazil to implement International Financial Reporting Standards (IFRS), continuing to build internal audit capacity and increase audit coverage, establishing independent Audit Committee oversight, and improving investment and currency operations. Further, while the 2019 audited financial statements were published in May 2021, the 2020 audit has not yet commenced. Staff are closely engaged with the BCSTP to resolve the outstanding items. Moreover, the authorities are committed to preserving their membership in the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) (MEFP ¶27).

Text Figure 5. São Tomé and Príncipe: Excess Liquidity



Sources: Authorities and IMF staff calculations.
Note: Excess liquidity is defined as liquid assets exceeding liquidity requirements as a share of total deposits.

20. The banking system is showing some signs of improvement and strengthening supervision capacity remains a priority. The systemwide NPL ratio fell by approximately four percentage points from September 2020 through March 2021 as banks were able to recover on at least two large non-performing loans. Commercial banks remain well capitalized, and despite the decline in commissions and interest-related income during 2020, are showing an improvement in overall profitability, driven by a decline in operating expenditures. Strengthening supervision capacity remains a priority, but pandemic-related restrictions coupled with staffing constraints led to some delays. BCSTP staff plan to begin IMF TA on stress testing in the fall of 2021 (SB, MEFP ¶29) and complete the field testing for the banking supervision manual (MEFP ¶30) in 2022. These efforts, along with additional hiring of supervision staff at BCSTP, would bolster the BCSTP's ability to conduct off-site and on-site supervision.

21. The authorities remain committed to resolution and liquidation of three banks. The BCSTP Board is negotiating with investors on acquisition or liquidation of the Energy Bank and is expected to conclude negotiations by September 2021. The liquidator began the process of turning over the Banco Equador's assets to the court system, but during this process, discovered gaps in the legal framework which may require additional TA. For Banco Privado, a process is underway to deliver the assets to the shareholders, but communications have been hampered by the pandemic (MEFP ¶32).

22. Deepening financial inclusion and developing new payments systems are key for supporting economic development. To boost private sector credit during the pandemic, the authorities, in collaboration with the African Development Bank (AfDB), created a credit line to facilitate lending to small and medium enterprises (SME) affected by the pandemic. Approximately 22 SMEs have accessed about US$800,000 of the overall US$3 million available. However, legacy

NPLs still limit banks' willingness to lend and require effectively functioning arbitration courts (MEFP ¶30). The new payment system, capable of processing international credit cards, became operational in April 2021, and boosts potential for tourism-related FX receipts and consumer spending. The legal framework for the collateral registry is being drafted in coordination with the World Bank, and once fully operational, should facilitate access to credit for SMEs (MEFP ¶33).

PROGRAM MODALITIES AND FINANCING ASSURANCES

23. Extensions and revisions of program conditionality are proposed. QPCs and ITs (for DPD, government's bank financing, international reserves) for 2021 are maintained at levels approved in the second review. QPCs and ITs are being proposed for H1 2022. The timing and definition of unmet SBs have been revised to account for recent progress, capacity constraints, and allow time for harmonization and consensus building. Given the macro-criticality, a prior action has been added on VAT information exchange. The Article IV consultation is expected to take place in H2 2021.

24. If approved, the SDR allocation of around SDR 14.2 million (about 3.6 percent of GDP) will provide welcome external buffers in 2021 and a portion of it could safeguard critical priority expenditures in 2022 onwards. Current program baseline, excluding the SDR allocation, shows a vulnerable external position and provides a tight expenditure envelope. Strengthening external buffers and financing further critical expenditures will therefore be necessary. Financing associated with about SDR 4 million could support well-defined and monitorable priority expenditures in 2022, including those related to the immediate health, education, pro-poor spending (as defined TMU ¶15), and clearing arrears (Box 3). Adjustors are introduced to capture the impact of the new allocation on program targets (see Technical Memorandum of Understanding (TMU)). Should the expected budget financing fail to materialize SDR allocation could be used to meet the financing needs.

25. The program is fully financed and São Tomé and Príncipe's capacity to repay the Fund remains adequate, although subject to heightened risks. There are firm commitments for financing over the next 12 months and good prospects for financing during the remainder of the program, including budget support grants from the World Bank and concessional loan disbursements from AFDB (Text Table 5). Capacity to repay the Fund remains adequate. Though the country is in debt distress, its debt is deemed sustainable, predicated on the authorities' commitment to continue fiscal consolidation, implement EMAE's planned reforms, and borrow externally only on concessional terms at a measured pace.

26. Sovereign arrears and financing assurances. Prompt Fund support is considered essential for the successful implementation of the member's adjustment program; and the member is pursuing appropriate policies, is making a good faith effort to reach a collaborative agreement with their creditors, and facilitate a collaborative agreement between private debtors and their creditors, and a good prospect exists for the removal of exchange restrictions. Due to STP's external payment arrears, a financing assurances review must be completed by the Executive Board. Staff supports the completion of the financing assurances review.

27. The program is subject to a number of downside risks. In case an adverse scenario materializes (lower economic growth and revenues), the macro framework and fiscal program would be revised by preserving social spending but reducing administrative spending. In addition to macroeconomic risks, contingent liabilities from EMAE, ENCO, and commercial banks may generate additional debt and necessitate policies to restore debt sustainability. On the upside, savings in the National Oil Account (1.8 percent of GDP) and the unused credit line with Portugal (6 percent of GDP) can help weather temporary shocks.

28. Capacity development is crucial for the program success. CD priorities (Annex II) are fully aligned and integrated with program objectives, including strengthening capacity to produce macroeconomic data; ongoing reforms in tax policy and administration, PFM, and monetary and financial sector oversight; and governance reforms.

29. Exchange restrictions. STP currently has measures that give rise to exchange restrictions and a multiple currency practice under Article VIII. The IMF Executive Board granted temporary approval of these measures in February 2021 for 12 months, or until the next Article IV consultation, whichever is sooner. Therefore, a new approval, if needed, will be requested during the Article IV consultation planned for H2 2021.

Box 3. Additional SDR Allocation

In April 2021, the IMFC Communiqué called on the IMF to prepare a proposal for a general allocation of SDRs (US$650 billion) to address the long-term global need to supplement existing reserve assets. Once approved later in 2021, IMF member countries would receive SDRs proportional to their IMF quotas—about SDR 14.2 million (about 3.6 percent of GDP) for STP. Under staff's SDR allocation scenario (Text Table):

- Gross and net international reserves would increase in 2021.
- About SDR 4 million could be to be on-lent in 2022 to support pro-poor and social spending and net credit to government would increase accordingly.
- Domestic public debt would be slightly larger in 2022-23 due to this additional on-lending.

Adjusters have been added to the TMU to allow for an adjustment of program targets should the SDR allocation be approved (¶24).

	Baseline			SDR Alternative Scenario		
	2021	2022	2023	2021	2022	2023
Domestic primary balance *(in percent of GDP)*[1]	-3.5	-2.0	-0.2	-3.5	-2.0	-0.2
Gross international reserves *(in USD million)*	63.4	70.3	72.0	73.4	80.0	82.0
Months of imports of goods and services	4.0	4.0	3.9	4.6	4.6	4.5
Months of imports of goods and nonfactor services[2]	5.7	5.9	6.0	6.6	6.7	6.8
Public debt *(in percent of GDP)*	87.9	86.5	84.3	87.9	87.6	86.2
Reserve money *(annual percentage change)*	-10.8	1.3	13.8	-10.8	5.0	14.4
Net credit to government *(in percent of GDP)*	1.3	-0.1	-1.0	1.3	1.0	-0.1
Change in Net Domestic Assets *(in percent of GDP)*	3.2	0.3	3.1	1.4	2.0	3.5

[1] Excludes oil related revenues and a fraction of the oil surcharge for ENCO debt repayment, grants, interest earned, scheduled interest payments, foreign-financed capital outlays, and capitalization of regional organizations per definition in TMU.

[2] Imports of goods and services excluding imports of investment goods and technical assistance.

STAFF APPRAISAL

30. An adequate supply of vaccines remains critical for containing COVID-19 in STP. The authorities' plans are adequate for vaccinating about 70 percent of population by mid-2022 supported by COVAX and the World Bank. Though the outbreak has been broadly brought under control by containment measures, the global spread of new COVID-19 variants accentuates the need for a timely and sufficient supply of vaccines to implement inoculations as planned.

31. The authorities' actions and international financial support are helping the country weather the emergency. Growth was supported by externally-financed public spending and the authorities' response focused on boosting healthcare and public projects, expanding existing cash transfer programs to vulnerable households, increasing food distribution, and targeting private sector incentives to retain workers. The combination of growth and grant financing put the public debt path on a downward trajectory. In the face of weak external buffers and considerable fiscal needs, efforts towards mobilizing grant and concessional financing should continue.

32. Fostering transparency of COVID-19-related spending and improving fiscal governance and transparency remain priorities. The authorities' actions on publishing monthly spending execution reports and procurement contracts are expected to continue. Reviewing the procurement legislation to enable the collection and publication of beneficial ownership information is an important step towards enhanced transparency, along with completing audit reports of 2020 COVID-19 related spending. Developing a medium-term fiscal framework and strengthening expenditures controls, including by piloting a commitment ceiling mechanism are also critical steps for delivering on the authorities' fiscal consolidation strategy.

33. Addressing immediate social and economic needs while implementing gradual fiscal consolidation remain key for supporting the economic recovery and preserving debt sustainability. Implementing the 2021 budget is a step toward gradual fiscal consolidation while maintaining COVID-related and pro-poor spending programs. Improving revenue generation capacity would help reduce the debt burden over time and bring the primary deficit close to a balance. To this end, staff welcome the authorities' efforts to introduce the VAT in 2021. Going forward, it remains critical to continue containing personnel expenses through wage and employment policies. Mobilizing external financing on grant and highly concessional terms also remain important for maintaining debt sustainability.

34. Accelerating reforms of the energy sector and the publicly owned utility company EMAE is needed to preserve debt sustainability and support growth. An inefficient energy sector continues to create debt and hinder growth potential and the comprehensive energy sector reform agenda is moving very slowly. More specifically, EMAE has been accumulating significant debt and arrears over time and progress on the authorities' management improvement reform plan (improving collection and reducing operational and technical losses) of the company has so far been limited, partially because of the pandemic. Recent shortages in electricity supply, due to faulty oil-based electricity generators, accentuates the need for accelerating transition to alternative sustainable energy sources (photovoltaic solar and hydropower) with a view of diversifying away

from thermo-electrical sources. Reforming EMAE will reduce pressures on public debt and foreign exchange reserves and provide lower-cost and reliable electricity, a cornerstone to unlocking the country's development and growth potential.

35. Modernizing monetary and financial legal frameworks remain a priority. The authorities' actions in drafting new laws are welcome and their approval would be timely. The BCSTP should continue to actively manage liquidity in the banking sector to support the peg, access to credit, and economic recovery. With the difficult economic environment, enhancing the BCSTP's capacity to actively manage risks and vulnerabilities in the financial sector and strengthen sector oversight are also important. To this end, regular stress testing and strengthening supervision practices are integral components for modernizing the BCSTP. The BCSTP should step up efforts to implement the remaining IMF Safeguards recommendations.

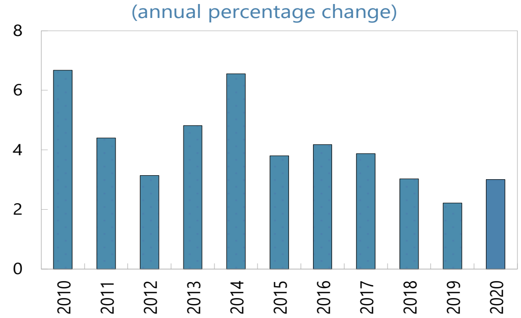
36. Pressing ahead with broad-based structural reforms and policies to develop the tourism sector would facilitate private investment and boost growth and employment. The recent upgrade of the national payments system, capable of accepting international credit cards, would help boost tourism revenue and financial inclusion is a step into a right direction. Bringing air safety regulations in compliance with EU standards and removing the country from the EU Air Safety List could help the economic recovery by stimulating trade and tourism.

37. Staff supports the authorities' request for completion of the third review of the program under the ECF.

Figure 1. São Tomé and Príncipe: Recent Macroeconomic Developments, 2010–21

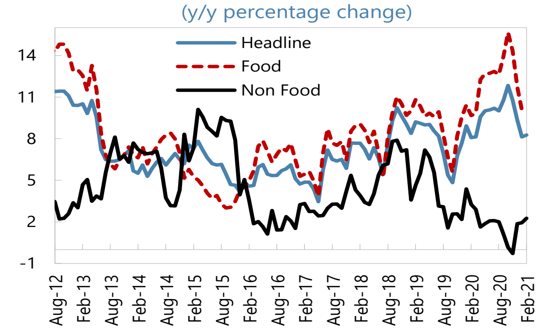
Real GDP growth is estimated at 3 percent in 2020, helped by international support to mitigate the impact of the pandemic.

Real GDP
(annual percentage change)



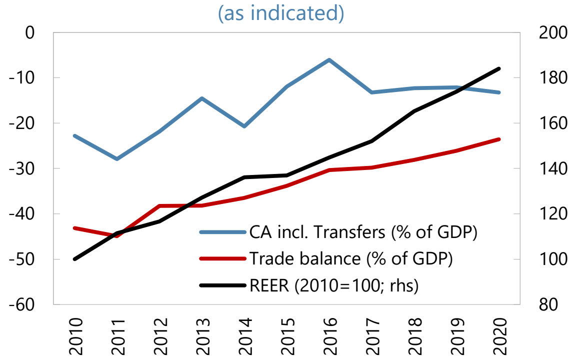
Headline inflation rose to 9.4 percent (y-o-y) in December 2020, driven by high food prices.

Consumer Price Index
(y/y percentage change)



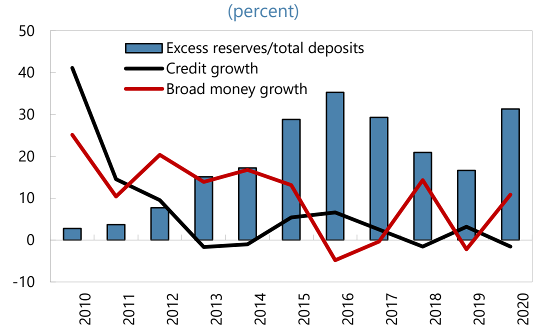
With the pandemic, the current account deteriorated further in 2020 as international tourism came to a halt…

Current Account Balance and REER
(as indicated)



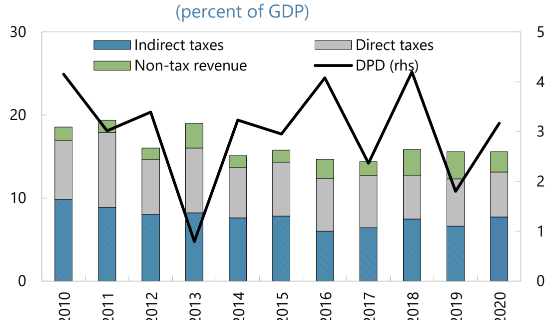
Credit growth decelerated despite the central bank's actions to ensure ample liquidity, and,…

Liquidity, Credit and Broad Money
(percent)



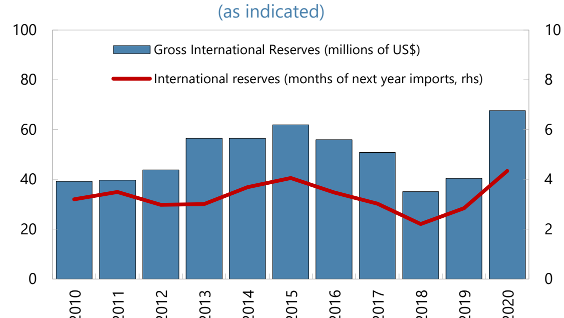
…the domestic primary deficit (DPD), excluding grants widened significantly...

Government Revenue and Primary Balance
(percent of GDP)



…and international reserves increased, reflecting large external inflows from development partners to finance the budget.

International Reserves
(as indicated)

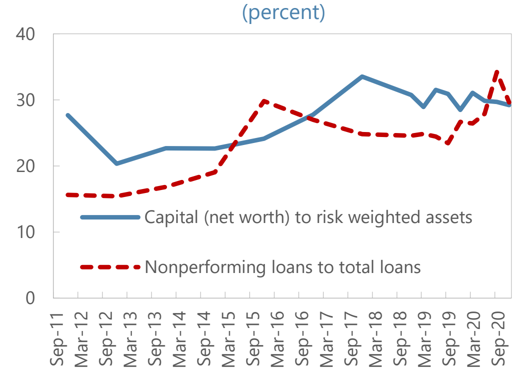


Sources: São Tomé and Príncipe authorities; Information Notice System and IMF staff estimates

Figure 2. São Tomé and Príncipe: Economic Uncertainty Affecting the Banking Sector

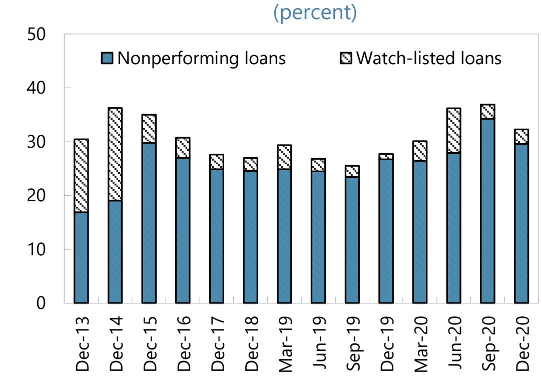
Banks remain well capitalized, but the pandemic is weighing on banks' assets quality. Arrears repayments helped NPLs to improve at end-2020...

Capital Adequacy and NPLs
(percent)



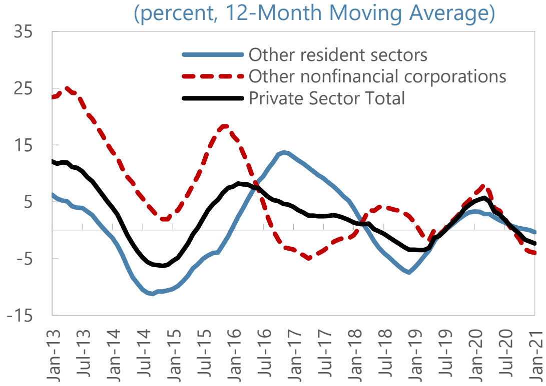
... together with watch-listed loans.

Past Due Loans to Gross Loans
(percent)



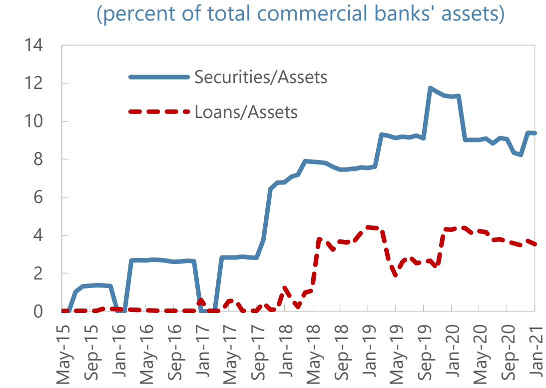
Private sector credit growth has declined during the pandemic.

Private Sector Credit Growth
(percent, 12-Month Moving Average)



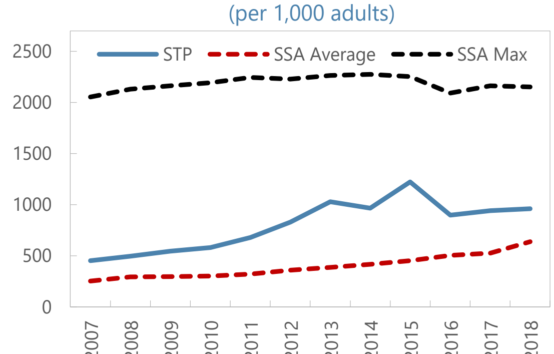
Meanwhile, banks' exposure to the government has been increasing, tightening the financial-fiscal nexus

Government Securities and Claims
(percent of total commercial banks' assets)



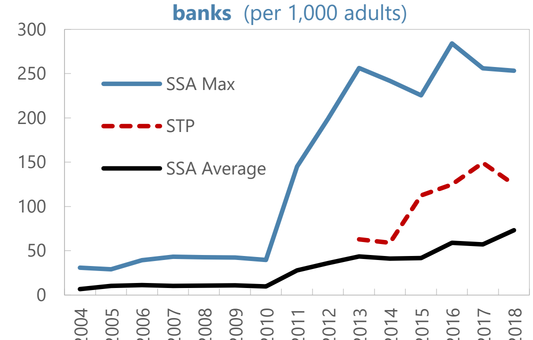
Access to the banking system compares well to other sub-Saharan African countries....

Number of depositors with commercial banks
(per 1,000 adults)



...but access to credit remains limited and has been declining lately.

Number of households borrowing from commercial banks (per 1,000 adults)

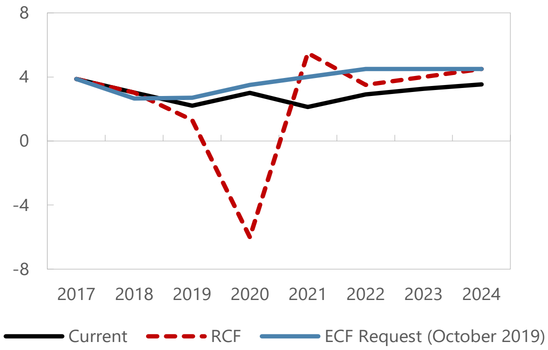


Sources: São Tomé and Príncipe authorities, IMF Financial Access Survey, and IMF staff estimates and projections.

Figure 3. São Tomé and Príncipe: Macroeconomic Effects of the COVID-19 Pandemic

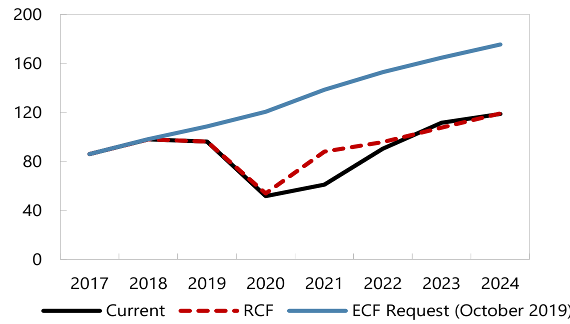
International support and the authorities' swift actions helped mitigate the impact of the pandemic so far

Real GDP Growth
(Percent)



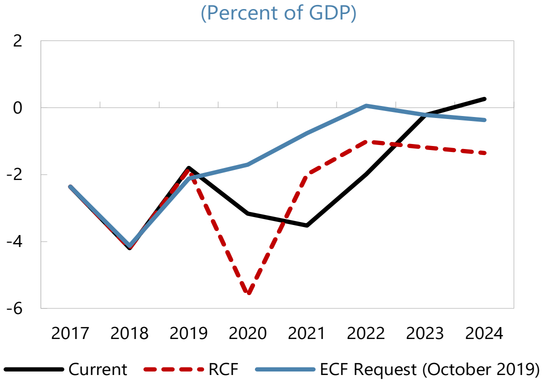
...while exports have declined abruptly due to a sharp drop in tourist arrivals.

Exports of Goods and Services
(Millions of U.S. dollars)



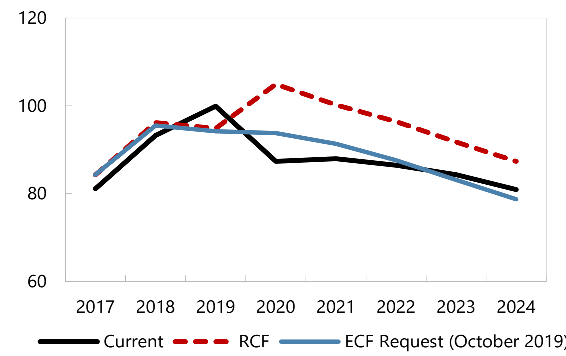
following fiscal stimulus in response to the pandemic, gradual fiscal consolidation will narrow the fiscal deficit...

Domestic Primary Balance
(Percent of GDP)



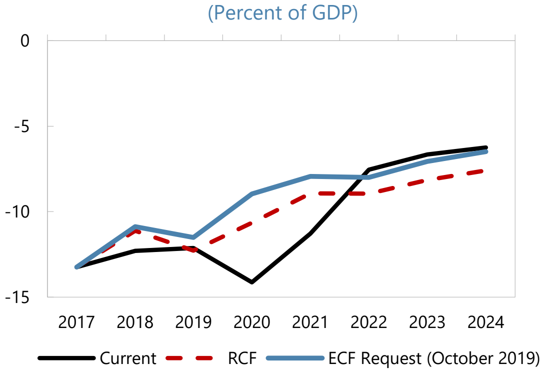
...and put public debt on a declining path.

Public Debt incl. arrears to ENCO
(Percent of GDP)



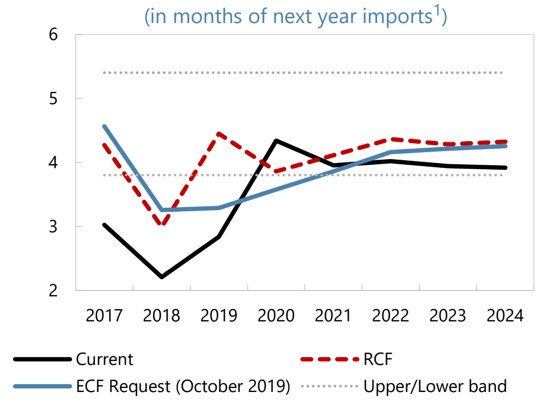
With fiscal adjustment and rising tourism receipts, the current account would improve ...

Current Account Balance
(Percent of GDP)



...and international reserves would increase.

International Reserves
(in months of next year imports[1])

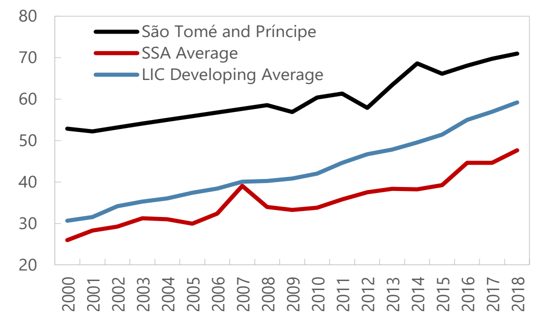


Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections
1/ Imports of goods and services, including investment and technical assistance.

Figure 4. São Tomé and Príncipe: Indicators of Digital Connectivity

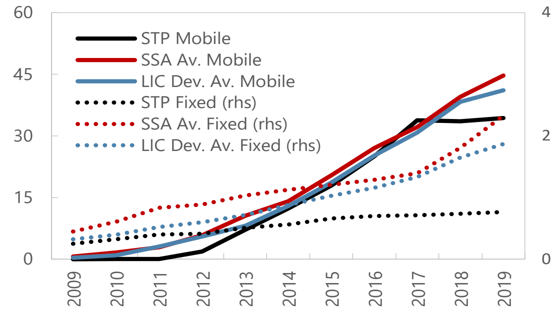
While access to electricity is high relative to the SSA average…

Access to electricty
(percent of population)



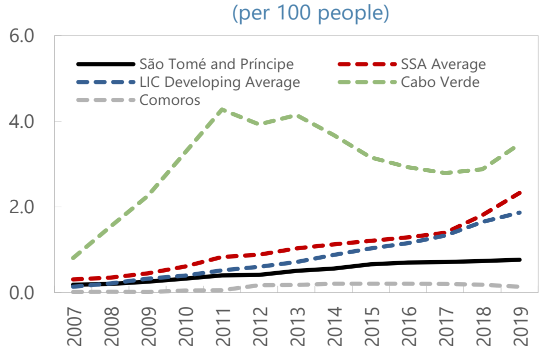
…internet access through mobile technologies is constrained…

Broadband subscription - Mobile and Fixed
(per 100 people)



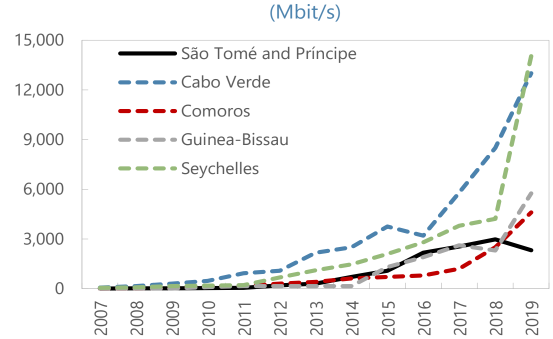
… fixed-broadband subscriptions are low…

Active fixed-broadband subscriptions
(per 100 people)



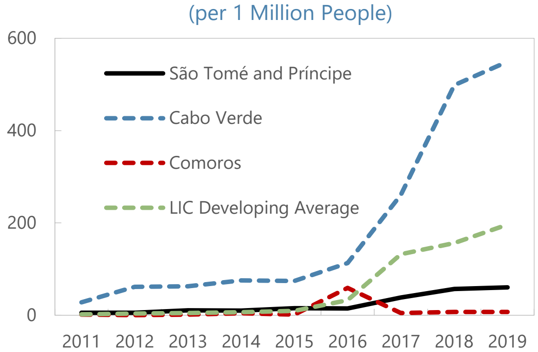
…internet bandwidth is weak…

International Internet Bandwith
(Mbit/s)



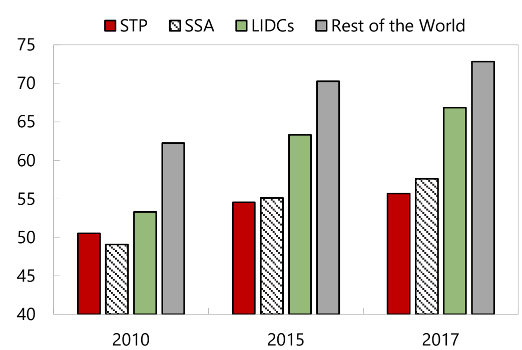
and secure servers are limited…

Secure Internet Servers
(per 1 Million People)



…with overall digital access falling behind the SSA average

Enhanced Digital Access Index (EDAI)

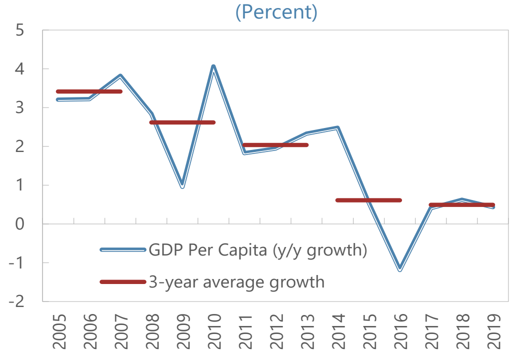


Sources: International Telecommunication Union (ITU), Sub-Saharan Africa Regional Economic Outlook April 2021, CEIC Data.

Figure 5. São Tomé and Príncipe: Structural Impediments to Sustainable and Inclusive Growth

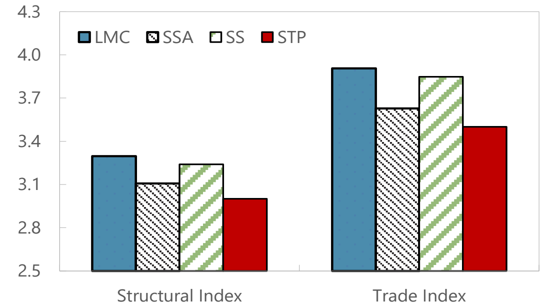
GDP growth in STP has been on a downward trend over the past decade and a half...

Real GDP Growth
(Percent)



Declining growth performance compounds with weaker structural and trade policies relative to pear countries...

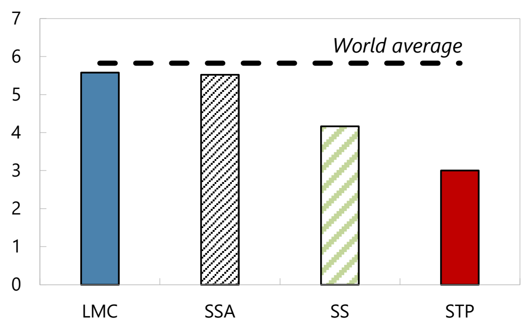
Structural and Trade Policies 2/



2/ CPIA structural policies (financial, regulatory, trade) cluster average (1=low to 6=high). CPIA trade rating (1=low to 6=high)

Limited institutional protection of investors...

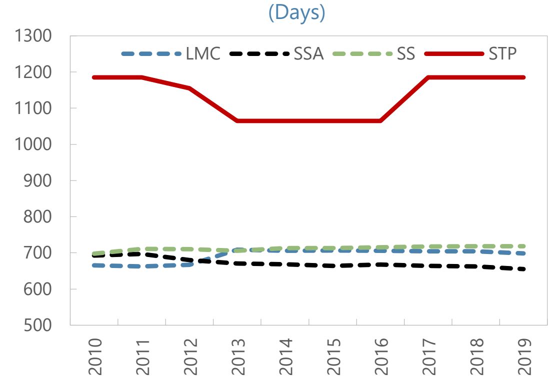
Institutional Protection of Investors 1/



1/ WDI business extent of disclosure index (0=less disclosure to 10=more disclosure) in 2019

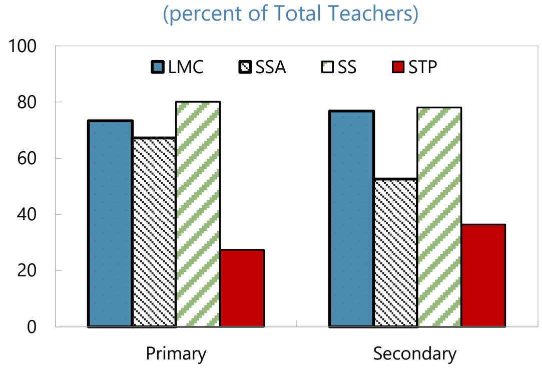
...and, long time required to enforce contracts, point toward a weak business environment.

Time Required to Enforce a Contract
(Days)



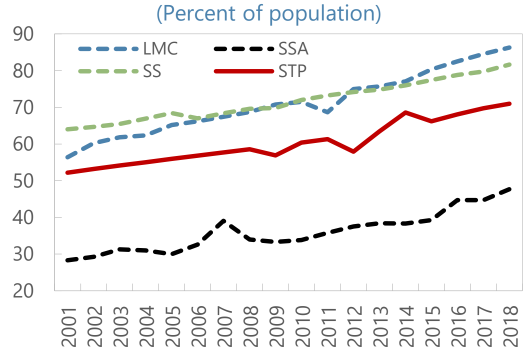
Quality of education provision is lower than in peer countries with a shortage of trained teachers

Trained Teachers
(percent of Total Teachers)



However, good progress has been made over time in improving electricity access.

Access to Electricity
(Percent of population)

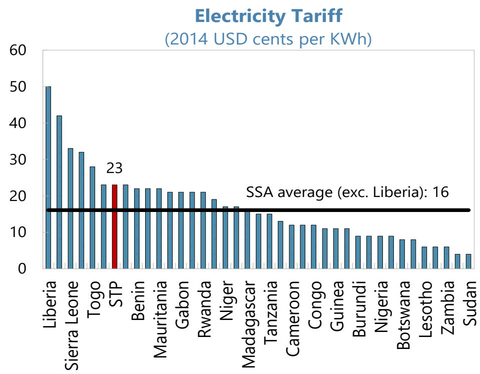


Abbreviations: LMC - Lower-middle income, SSA - Sub-Saharan Africa, SS - Small States (countries with a population of under 1.5 million, as classified by the World Bank

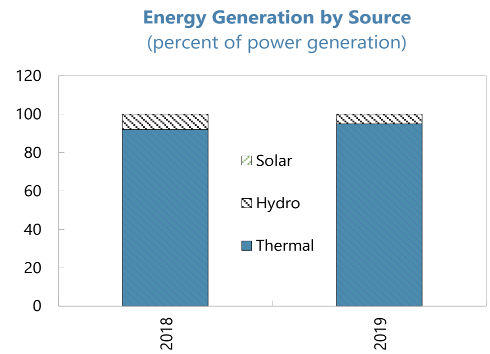
Sources: São Tomé and Príncipe authorities' data, World Economic Outlook, and IMF staff estimates and projections

Figure 6. São Tomé and Príncipe: An Unsustainable Energy Sector

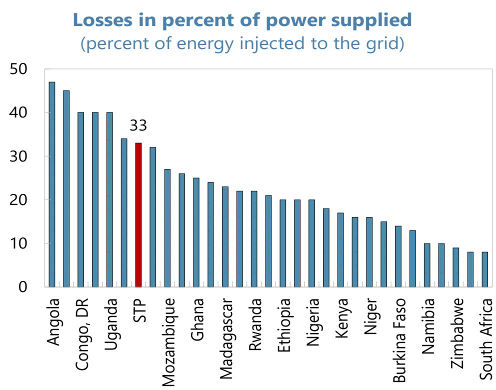
Electricity tariffs in STP are above the average of other sub-Saharan African countries...



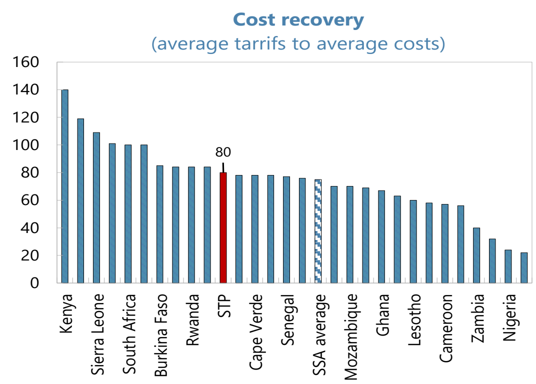
...reflecting the country's major dependence on expensive thermal electricity generation.



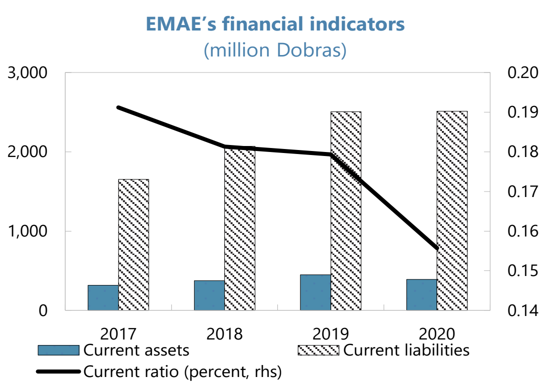
In addition, total losses (technical and commercial) are among the highest in the region..



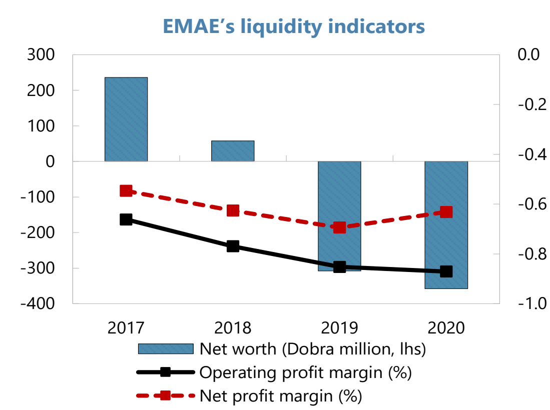
...preventing the sector from achieving cost recovery despite the high tariffs.



As a result, the financial performance of the state-owned utility company EMAE has steadily deteriorated over time...



...and the company has reported a negative net worth since 2019.



Sources: São Tomé and Príncipe authorities and IMF staff estimates. Least Cost Development Plan (LCDP) and Management Improvement Plan (MIP). FAD SOEs Health Check Tool; Alleyne, T. - Energy Subsidy Reform in Sub-Saharan Africa – IMF 2013; Trimble, C. et al - Financial Viability of Electricity Sectors in Sub-Saharan Africa – WBG 2016

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
				Second Rev.	Proj.	Second 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
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.

Table 2a. São Tomé and Príncipe: Financial Operations of the Central Government, 2017–26

(Millions of new dobra)

	2017	2018	2019	2020		2021		2022	2023	2024	2025	2026
				Second Rev.	Est.	Second Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants [1]	2034	2081	2073	2532	2593	2069	2767	2793	2869	3052	3236	3457
Total revenue	1174	1365	1468	1526	1596	1702	1702	1939	2078	2270	2483	2724
Tax revenue	1036	1099	1160	1300	1346	1428	1428	1621	1778	1931	2102	2290
Import taxes	388	486	472	585	571	611	611	628	653	702	756	824
Of which: payment to ENCO	…	…	0	22	0	20	20	20	19	19	19	19
Other taxes	647	613	689	715	775	817	817	993	1126	1229	1346	1466
Nontax revenue [2]	138	266	308	226	250	274	274	318	300	339	382	435
of which: oil revenue	51	212	70	23	31	2	2	31	2	2	2	2
Grants	860	715	605	1006	997	367	1065	854	791	782	753	733
Project grants	594	557	333	239	361	152	604	489	518	497	477	464
Nonproject grants	198	125	186	704	595	149	438	299	206	220	211	205
HIPC Initiative-related grants	67	33	86	63	41	66	23	66	66	66	65	64
Total expenditure	2253	2243	2079	2399	2367	2446	2925	2845	2994	3114	3268	3504
Of which: domestic primary expenditure	1316	1536	1568	1956	1889	2059	2059	2113	2084	2215	2375	2607
Current expenditure	1287	1436	1616	1774	1731	1913	1913	1978	2052	2172	2326	2505
Personnel costs	681	798	848	980	956	1070	1070	1106	1147	1214	1295	1399
Interest due	43	34	66	42	35	43	43	44	42	39	36	32
Goods and services	253	260	235	255	237	260	260	270	286	305	325	351
Transfers	234	273	268	318	325	348	348	365	373	397	437	472
Other current expenditure [2]	76	71	199	179	178	192	192	192	204	217	232	250
Capital expenditure	952	795	454	297	330	344	823	727	915	916	917	974
Financed by the Treasury	58	122	9	28	20	29	29	40	48	56	60	109
Financed by external sources	894	673	445	269	310	315	794	687	867	860	857	865
HIPC Initiative-related capital expenditure	15	12	9	18	13	23	23	26	26	26	26	26
COVID-19 spending	…	…	…	310	293	165	165	113	…	…	…	…
Financed by the Treasury	…	…	…	178	160	136	136	113	…	…	…	…
Financed by external sources	…	…	…	132	132	29	29	0	…	…	…	…
Domestic primary balance [3]	-193	-362	-170	-475	-324	-379	-379	-225	-27	33	87	95
Overall fiscal balance (commitment basis)	-219	-162	-6	133	226	-377	-158	-52	-124	-62	-32	-47
Net change in domestic arrears	6	76	-100	-70	-159	-73	-73	-23	-23	-23	-23	-23
Float and statistical discrepancies	-53	-24	225	0	0	0	0	0	0	0	0	0
Overall fiscal balance (cash basis)	-218	-111	119	63	67	-450	-231	-75	-147	-86	-55	-70
Financing	218	111	-119	-63	-67	450	231	75	147	86	55	70
Net external	103	67	6	52	54	55	53	86	235	198	187	228
Disbursements	160	116	77	162	125	192	190	198	349	363	380	401
Program financing (loans) [4]	37	16	46	…	0	…	0	0	0	0	0	0
Scheduled amortization	-94	-65	-116	-109	-71	-137	-137	-112	-113	-166	-192	-173
of which : covered by HIPC grants			-72	-66	-66	-65	-65	-60	-61	-61	-61	-60
Net domestic	114	44	-125	-116	-122	395	178	-11	-88	-112	-132	-158
Net bank credit to the government	114	44	-125	-94	-122	415	198	8	-69	-93	-113	-139
Banking credit (net, excluding National Oil Account) [4]	105	210	-142	-151	-175	352	135	-14	-115	-130	-142	-163
Banking system credit (gross, excluding National Oil Account)	105	286	477	329	-81	352	135	-14	-115	-130	-142	-163
Of which: central bank on-lending of IMF resources	…	…	59	383	336	105	102	100	0	0	0	0
Of which: Privatisation account	0	0	0	0	0	0	0	0	0	0	0	0
Amortization of domestic debt	…	0	-415	-480	-94	0	0	0	0	0	0	0
National Oil Account	9	-167	17	57	53	63	63	22	46	37	29	24
Nonbank financing	0	0	0	-22	0	-20	-20	-20	-19	-19	-19	-19
Financing gap	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items												
Gross Domestic Product	8154	8619	9424	8976	10247	9615	10750	11281	11972	12748	13602	14693
Public debt (in percent of GDP)	81	93	100	103	87	102	88	86	84	81	77	71
EMAE loss	285	349	388		…		…	…	…	…	…	…

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

[1] Revenue is measured on a cash basis.

[2] 'Non-tax revenue' and 'other current expenditure' exhibit a hike in 2019 as some autonomous entities were brought into the Treasury's accounts.

[3] Excludes oil related revenues and a fraction of the oil surcharge for ENCO debt repayment, grants, interest earned, scheduled interest payments, foreign-financed capital outlays, and capitalization of regional organizations per definition in TMU.

[4] Includes use of IMF program support.

Table 2b. São Tomé and Príncipe: Financial Operations of the Central Government, 2017–26

(In percent of GDP)

	2017	2018	2019	2020		2021		2022	2023	2024	2025	2026
				Second Rev.	Proj.	Second Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants [1]	**24.9**	**24.1**	**22.0**	**28.2**	**25.3**	**21.5**	**25.7**	**24.8**	**24.0**	**23.9**	**23.8**	**23.5**
Total revenue	14.4	15.8	15.6	17.0	15.6	17.7	15.8	17.2	17.4	17.8	18.3	18.5
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
Import taxes	4.8	5.6	5.0	6.5	5.6	6.4	5.7	5.6	5.5	5.5	5.6	5.6
Of which: payment to ENCO	…	…	0.0	0.2	0.0	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Other taxes	7.9	7.1	7.3	8.0	7.6	8.5	7.6	8.8	9.4	9.6	9.9	10.0
Nontax revenue [2]	1.7	3.1	3.3	2.5	2.4	2.9	2.5	2.8	2.5	2.7	2.8	3.0
of which: oil revenue	0.6	2.5	0.7	0.3	0.3	0.0	0.0	0.3	0.0	0.0	0.0	0.0
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
Project grants	7.3	6.5	3.5	2.7	3.5	1.6	5.6	4.3	4.3	3.9	3.5	3.2
Nonproject grants	2.4	1.5	2.0	7.8	5.8	1.5	4.1	2.7	1.7	1.7	1.6	1.4
HIPC Initiative-related grants	0.8	0.4	0.9	0.7	0.4	0.7	0.2	0.6	0.6	0.5	0.5	0.4
Total expenditure	**27.6**	**26.0**	**22.1**	**26.7**	**23.1**	**25.4**	**27.2**	**25.2**	**25.0**	**24.4**	**24.0**	**23.8**
Of which: Domestic primary expenditure	16.1	17.8	16.6	21.8	18.4	21.4	19.1	18.7	17.4	17.4	17.5	17.7
Current expenditure	15.8	16.7	17.1	19.8	16.9	19.9	17.8	17.5	17.1	17.0	17.1	17.0
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
Goods and services	3.1	3.0	2.5	2.8	2.3	2.7	2.4	2.4	2.4	2.4	2.4	2.4
Transfers	2.9	3.2	2.8	3.5	3.2	3.6	3.2	3.2	3.1	3.1	3.2	3.2
Other current expenditure [2]	0.9	0.8	2.1	2.0	1.7	2.0	1.8	1.7	1.7	1.7	1.7	1.7
Capital expenditure	11.7	9.2	4.8	3.3	3.2	3.6	7.7	6.4	7.6	7.2	6.7	6.6
Financed by the Treasury	0.7	1.4	0.1	0.3	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.7
Financed by external sources	11.0	7.8	4.7	3.0	3.0	3.3	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	1.0	…	…	…	…
Financed by the Treasury	…	…	…	2.0	1.6	1.4	1.3	1.0	…	…	…	…
Financed by external sources	…	…	…	1.5	1.3	0.3	0.3	0.0	…	…	…	…
Domestic primary balance [3]	-2.4	-4.2	-1.8	-5.3	-3.2	-3.9	-3.5	-2.0	-0.2	0.3	0.6	0.6
Overall fiscal balance (commitment basis)	-2.7	-1.9	-0.1	1.5	2.2	-3.9	-1.5	-0.5	-1.0	-0.5	-0.2	-0.3
Net change in domestic arrears	0.1	0.9	-1.1	-0.8	-1.5	-0.8	-0.7	-0.2	-0.2	-0.2	-0.2	-0.2
Float and statistical discrepancies	-0.7	-0.3	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (cash basis)	**-2.7**	**-1.3**	**1.3**	**0.7**	**0.7**	**-4.7**	**-2.2**	**-0.7**	**-1.2**	**-0.7**	**-0.4**	**-0.5**
Financing	**2.7**	**1.3**	**-1.3**	**-0.7**	**-0.7**	**4.7**	**2.2**	**0.7**	**1.2**	**0.7**	**0.4**	**0.5**
Net external	1.3	0.8	0.1	0.6	0.5	0.6	0.5	0.8	2.0	1.6	1.4	1.6
Disbursements	2.0	1.3	0.8	1.8	1.2	2.0	1.8	1.8	2.9	2.8	2.8	2.7
Program financing (loans) [4]	0.5	0.2	0.5	…	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-1.2	-0.8	-1.2	-1.2	-0.7	-1.4	-1.3	-1.0	-0.9	-1.3	-1.4	-1.2
Net domestic	1.4	0.5	-1.3	-1.3	-1.2	4.1	1.7	-0.1	-0.7	-0.9	-1.0	-1.1
Net bank credit to the government	1.4	0.5	-1.3	-1.0	-1.2	4.3	1.8	0.1	-0.6	-0.7	-0.8	-0.9
Banking credit (net, excluding National Oil Account) [4]	1.3	2.4	-1.5	-1.7	-1.7	3.7	1.3	-0.1	-1.0	-1.0	-1.0	-1.1
Of which: central bank on-lending of IMF resources	…	…	0.6	4.3	3.3	1.1	0.9	0.9	0.0	0.0	0.0	0.0
National Oil Account	0.1	-1.9	0.2	0.6	0.5	0.7	0.6	0.2	0.4	0.3	0.2	0.2
Nonbank financing	0.0	0.0	0.0	-0.2	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items												
Nominal GDP (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
Public debt	81	93	100	103	87	102	88	86	84	81	77	71
EMAE loss	3.7	3.8	4.1	…	…	…	…	…	…	…	…	…

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

[1] Revenue is measured on a cash basis.

[2] 'Non-tax revenue' and 'other current expenditure' exhibit a hike in 2019 as some autonomous entities were brought into the Treasury's accounts.

[3] Excludes oil related revenues and a fraction of the oil surcharge for ENCO debt repayment, grants, interest earned, scheduled interest payments, foreign-financed capital outlays, and capitalization of regional organizations per definition in TMU.

[4] Includes use of IMF program support.

Table 3a. São Tomé and Príncipe: Balance of Payments, 2017–26

(Millions of U.S. dollars)

	2017	2018	2019	2020		2021		2022	2023	2024	2025	2026
				Second Rev.	Proj.	Second Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Trade balance	**-112.1**	**-116.8**	**-112.3**	**-82.6**	**-112.4**	**-97.2**	**-123.2**	**-125.5**	**-136.4**	**-143.3**	**-147.3**	**-156.1**
Exports, f.o.b.	15.6	16.0	14.1	14.7	13.9	20.3	19.4	22.0	21.7	22.1	27.4	28.7
Cocoa	8.6	8.2	6.9	7.0	4.6	11.4	8.2	10.1	11.9	13.7	14.3	15.0
Re-export	4.7	6.8	3.4	3.4	3.9	3.2	4.8	4.3	4.8	4.8	5.9	6.2
Imports, f.o.b.	-127.7	-132.9	-126.4	-97.2	-126.4	-117.5	-142.6	-147.5	-158.1	-165.3	-174.7	-184.8
Food	-31.6	-31.1	-31.3	-29.3	-32.4	-30.2	-34.8	-35.0	-34.8	-34.7	-36.7	-38.9
Petroleum products	-27.6	-33.6	-34.2	-18.8	-24.6	-20.1	-38.4	-41.5	-41.7	-41.7	-42.2	-43.3
Non-oil investment goods	-33.5	-31.3	-23.5	-27.1	-27.3	-28.7	-31.3	-35.7	-43.3	-48.2	-52.3	-55.6
Oil sector related investment goods	-21.2	-19.6	-25.5	-19.8	-19.0	-22.5	-25.2	-22.4	-22.2	-24.6	-27.6	-28.9
Other	-13.8	-17.2	-11.9	-2.2	-23.0	-16.0	-12.9	-12.9	-16.1	-16.1	-15.9	-18.0
Services and income (net)	**3.9**	**13.5**	**16.2**	**-30.2**	**-9.6**	**4.5**	**-5.5**	**20.6**	**35.2**	**40.5**	**43.5**	**49.6**
Exports of nonfactor services	70.5	82.0	82.1	30.9	37.7	49.4	41.8	68.5	90.0	96.8	102.2	111.8
Of which : travel and tourism	59.9	68.0	66.6	14.7	14.8	29.3	29.7	63.0	74.2	82.2	88.9	94.6
Imports of nonfactor services	-65.5	-68.6	-64.5	-59.5	-44.7	-42.8	-44.5	-45.1	-51.7	-53.9	-55.5	-58.7
Factor services (net)	-1.1	0.1	-1.5	-1.6	-2.6	-2.1	-2.7	-2.9	-3.1	-2.4	-3.1	-3.4
Of which: oil related	-0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Private transfers (net)	**16.7**	**16.3**	**16.3**	**8.0**	**8.2**	**13.5**	**15.6**	**18.3**	**19.4**	**20.7**	**22.1**	**23.9**
Official transfers (net)	**41.7**	**36.0**	**27.6**	**37.1**	**46.5**	**28.4**	**52.9**	**43.4**	**40.7**	**40.6**	**39.4**	**38.5**
Of which : project grants (excluding HIPC grants)	27.4	26.9	15.2	21.0	15.8	17.8	27.8	24.9	26.6	25.7	24.8	24.2
HIPC Initiative-related grants	3.1	1.6	3.9	3.7	2.9	3.3	3.3	3.3	3.5	3.5	3.5	3.5
Current account balance												
Including official transfers	-49.7	-51.1	-52.2	-67.8	-67.4	-50.9	-60.2	-43.3	-41.0	-41.4	-42.4	-44.1
Excluding official transfers	-91.5	-87.1	-79.9	-104.9	-113.9	-79.3	-113.1	-86.6	-81.8	-82.0	-81.7	-82.6
Capital and financial account balance	**75.8**	**-3.7**	**42.1**	**19.3**	**30.5**	**37.7**	**39.5**	**39.4**	**36.3**	**38.2**	**41.3**	**40.6**
Capital transfer	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	75.8	-3.7	42.1	19.3	30.5	37.7	39.5	39.4	36.3	38.2	41.3	40.6
Foreign Direct Investment	33.0	21.1	30.0	22.9	19.6	26.9	30.4	33.3	33.7	35.7	37.4	40.3
Petroleum related investment	32.1	20.6	26.9	20.8	25.5	23.7	30.7	35.8	36.8	39.9	42.6	46.7
Portfolio Investment (net)	0.6	-21.7	-7.6	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil signature bonuses	2.3	10.2	3.2	0.1	1.4	0.1	0.1	1.6	0.1	0.1	0.1	0.1
Other investment (net)	39.9	-13.4	16.5	-3.7	9.9	10.8	9.0	4.6	2.6	2.4	3.8	0.1
Assets	2.2	-9.5	-8.5	-8.5	-8.6	-8.6	-8.9	-9.2	-9.4	-9.6	-9.8	-10.0
Public sector (net)	2.9	2.9	-0.6	1.8	2.6	1.7	4.3	4.5	12.1	10.3	9.8	12.0
Project loans	7.4	5.6	4.4	7.2	5.8	8.5	9.4	10.2	18.0	18.9	19.8	21.1
Program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-4.4	-2.7	-5.0	-5.4	-3.3	-6.9	-5.1	-5.7	-5.8	-8.6	-10.1	-9.1
Of which : HIPC Initiative-related grants	-2.6	-1.4	-3.4	-3.3	-1.7	-2.9	-1.0	-3.0	-3.0	-3.1	-3.1	-3.1
Private sector (net)	34.8	-6.7	25.7	3.1	16.0	17.7	13.6	9.2	-0.2	1.7	3.8	-1.9
Commercial banks	8.9	-5.0	-1.5	0.6	10.1	-0.2	0.0	0.0	0.1	0.0	0.0	0.0
Short-term private capital	25.9	-1.7	27.1	2.5	5.8	17.9	13.6	9.2	-0.3	1.7	3.8	-1.9
Errors and omissions	-33.0	46.7	10.2	0.0	24.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-9.6**	**-8.1**	**0.1**	**-48.5**	**-12.4**	**-13.2**	**-20.7**	**-3.8**	**-4.7**	**-3.2**	**-1.1**	**-3.5**
Financing	9.6	8.1	-0.1	26.4	12.4	7.5	20.7	3.8	-1.0	-2.9	-4.9	-2.2
Change in official reserves, excl. IMF and NOA (increase= -)	6.7	15.8	-3.1	5.4	-9.6	0.0	12.3	-1.7	-2.6	-4.0	-4.3	0.0
Use of Fund resources (net)	2.6	0.5	2.3	17.3	19.6	4.7	4.7	4.5	-0.7	-0.8	-2.0	-3.4
Purchases	2.8	0.9	2.7	17.5	17.5	5.2	5.1	5.1	0.0	0.0	0.0	0.0
ECF augmentation					2.0							
Repurchases (incl. MDRI repayment)	-0.2	-0.4	-0.4	-0.2	0.00	-0.6	-0.4	-0.6	-0.7	-0.8	-2.0	-3.4
National Oil Account (increase = -)	0.2	-8.2	0.7	3.5	2.2	2.9	3.1	1.0	2.3	1.8	1.5	1.2
Exceptional financing (IMF CCRT)	0.0	0.0	0.0	0.2	0.3	...	0.6	...	...	...	...	...
Financing Gap (+)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**5.7**	**6.1**	**6.0**	**5.8**
Memorandum items:												
Current account balance (percent of GDP)												
Including official transfers	-13.2	-12.3	-12.1	-17.0	-14.1	-11.9	-11.3	-7.5	-6.7	-6.3	-6.0	-5.7
Excluding official transfers	-24.3	-21.0	-18.5	-26.3	-23.9	-18.6	-21.2	-15.1	-13.3	-12.4	-11.5	-10.7
Debt service ratio (percent of exports) [1]	3.8	2.6	4.5	9.5	5.0	8.8	11.6	8.4	6.8	8.7	9.0	7.4
Gross international reserves [2]												
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[3]	4.2	3.0	4.0	5.1	6.4	5.0	5.7	5.9	6.0	6.1	5.9	6.2

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

[1] Percent of exports of goods and nonfactor services.

[2] 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.

[3] Imports of goods and services excluding imports of investment goods and technical assistance.

Table 3b. São Tomé and Príncipe: Balance of Payments, 2017–26
(In percent of GDP)

	2017	2018	2019	2020		2021		2022	2023	2024	2025	2026
				Second Rev.	Proj.	Second Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Trade balance	**-29.8**	**-28.1**	**-26.1**	**-20.7**	**-23.5**	**-22.8**	**-23.1**	**-21.9**	**-22.1**	**-21.6**	**-20.7**	**-20.2**
Exports, f.o.b.	4.1	3.9	3.3	3.7	2.9	4.8	3.6	3.8	3.5	3.3	3.8	3.7
Cocoa	2.3	2.0	1.6	1.8	1.0	2.7	1.5	1.8	1.9	2.1	2.0	1.9
Re-export	1.3	1.6	0.8	0.9	0.8	0.8	0.9	0.8	0.8	0.7	0.8	0.8
Imports, f.o.b.	-34.0	-32.0	-29.3	-24.4	-26.5	-27.6	-26.7	-25.7	-25.7	-25.0	-24.6	-23.9
Food	-8.4	-7.5	-7.3	-7.4	-6.8	-7.1	-6.5	-6.1	-5.6	-5.2	-5.2	-5.0
Petroleum products	-7.3	-8.1	-7.9	-4.7	-5.2	-4.7	-7.2	-7.2	-6.8	-6.3	-5.9	-5.6
Non-oil investment goods	-8.9	-7.5	-5.5	-6.8	-5.7	-6.7	-5.9	-6.2	-7.0	-7.3	-7.4	-7.2
Oil sector related investment goods	-5.6	-4.7	-5.9	-5.0	-4.0	-5.3	-4.7	-3.9	-3.6	-3.7	-3.9	-3.7
Other	-3.7	-4.1	-2.8	-0.6	-4.8	-3.7	-2.4	-2.2	-2.6	-2.4	-2.2	-2.3
Services and income (net)	**1.0**	**3.2**	**3.8**	**-7.6**	**-2.0**	**1.0**	**-1.0**	**3.6**	**5.7**	**6.1**	**6.1**	**6.4**
Exports of nonfactor services	18.8	19.7	19.1	7.7	7.9	11.6	7.8	12.0	14.6	14.6	14.4	14.5
Of which : travel and tourism	15.9	16.4	15.5	3.7	3.1	6.9	5.6	11.0	12.0	12.4	12.5	12.3
Imports of nonfactor services	-17.4	-16.5	-15.0	-14.9	-9.4	-10.0	-8.3	-7.9	-8.4	-8.1	-7.8	-7.6
Factor services (net)	-0.3	0.0	-0.3	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4
Of which: oil related	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private transfers (net)	**4.4**	**3.9**	**3.8**	**2.0**	**1.7**	**3.2**	**2.9**	**3.2**	**3.2**	**3.1**	**3.1**	**3.1**
Official transfers (net)	**11.1**	**8.7**	**6.4**	**9.3**	**9.7**	**6.7**	**9.9**	**7.6**	**6.6**	**6.1**	**5.5**	**5.0**
Of which : project grants (excluding HIPC grants)	7.3	6.5	3.5	5.3	3.3	4.2	5.2	4.3	4.3	3.9	3.5	3.1
HIPC Initiative-related grants	0.8	0.4	0.9	0.9	0.6	0.8	0.6	0.6	0.6	0.5	0.5	0.5
Current account balance												
Including official transfers	-13.2	-12.3	-12.1	-17.0	-14.1	-11.9	-11.3	-7.5	-6.7	-6.3	-6.0	-5.7
Excluding official transfers	-24.3	-21.0	-18.5	-26.3	-23.9	-18.6	-21.2	-15.1	-13.3	-12.4	-11.5	-10.7
Capital and financial account balance	**20.2**	**-0.9**	**9.8**	**4.8**	**6.4**	**8.9**	**7.4**	**6.9**	**5.9**	**5.8**	**5.8**	**5.3**
Capital transfer	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	20.2	-0.9	9.8	4.8	6.4	8.9	7.4	6.9	5.9	5.8	5.8	5.3
Foreign Direct Investment	8.8	5.1	7.0	5.7	4.1	6.3	5.7	5.8	5.5	5.4	5.3	5.2
Recovery of oil capital expense	-8.5	-5.0	-6.2	-5.2	-5.3	-5.6	-5.8	-6.3	-6.0	-6.0	-6.0	-6.1
Portfolio Investment (net)	0.2	-5.2	-1.8	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil signature bonuses	0.6	2.5	0.7	0.0	0.3	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Other investment (net)	10.6	-3.2	3.8	-0.9	2.1	2.5	1.7	0.8	0.4	0.4	0.5	0.0
Assets	0.6	-2.3	-2.0	-2.1	-1.8	-2.0	-1.7	-1.6	-1.5	-1.4	-1.4	-1.3
Public sector (net)	0.8	0.7	-0.1	0.4	0.5	0.4	0.8	0.8	2.0	1.6	1.4	1.6
Project loans	2.0	1.3	1.0	1.8	1.2	2.0	1.8	1.8	2.9	2.8	2.8	2.7
Program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.2	-0.7	-1.2	-1.4	-0.7	-1.6	-1.0	-1.0	-0.9	-1.3	-1.4	-1.2
Of which : HIPC Initiative-related grants	-0.7	-0.3	-0.8	-0.8	-0.4	-0.7	-0.2	-0.5	-0.5	-0.5	-0.4	-0.4
Private sector (net)	9.3	-1.6	6.0	0.8	3.3	4.2	2.6	1.6	0.0	0.3	0.5	-0.2
Commercial banks	2.4	-1.2	-0.3	0.1	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term private capital	6.9	-0.4	6.3	0.6	1.2	4.2	2.6	1.6	0.0	0.3	0.5	-0.2
Errors and omissions	**-8.8**	**11.2**	**2.4**	**0.0**	**5.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-2.5**	**-1.9**	**0.0**	**-12.2**	**-2.6**	**-3.1**	**-3.9**	**-0.7**	**-0.8**	**-0.5**	**-0.2**	**-0.5**
Financing	2.5	1.9	0.0	6.6	2.6	1.8	3.9	0.7	-0.2	-0.4	-0.7	-0.3
Change in official reserves, excl. IMF and NOA (increase= -)	1.8	3.8	-0.7	1.3	-2.0	0.0	2.3	-0.3	-0.4	-0.6	-0.6	0.0
Use of Fund resources (net)	0.7	0.1	0.5	4.3	4.1	1.1	0.9	0.8	-0.1	-0.1	-0.3	-0.4
Purchases	0.7	0.2	0.6	4.4	3.7	1.2	1.0	0.9	0.0	0.0	0.0	0.0
National Oil Account (increase = -)	0.1	-2.0	0.2	0.9	0.5	0.7	0.6	0.2	0.4	0.3	0.2	0.2
Exceptional financing (IMF CCRT)	0.0	0.0	0.0	0.0	0.1		0.1	...	...	...	...	...
Financing Gap (+)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.9**	**0.9**	**0.8**	**0.7**
Memorandum items:												
Debt service ratio (percent of exports) [1]	3.8	2.6	4.5	9.5	5.0	8.8	11.6	8.4	6.8	8.7	9.0	7.4
Gross international reserves [2]												
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 [3]	4.2	3.0	4.0	5.1	6.4	5.0	5.7	5.9	6.0	6.1	5.9	6.2

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

[1] Percent of exports of goods and nonfactor services.

[2] 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.

[3] Imports of goods and services excluding imports of investment goods and technical assistance.

Table 4. São Tomé and Príncipe: Summary Accounts of the Central Bank, 2017–26

(Millions of new dobra)

	2017	2018	2019	2020		2021		2022	2023	2024	2025	2026
				Second Rev.	Act.	Second Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	**1,474**	**1,416**	**1,502**	**1,511**	**1,555**	**1,407**	**1,326**	**1,391**	**1,400**	**1,430**	**1,477**	**1,560**
Claims on nonresidents	1,840	1,798	1,939	2,324	2,316	2,302	2,242	2,390	2,372	2,378	2,366	2,335
Official foreign reserves	1,442	1,352	1,447	1,869	1,831	1,858	1,760	1,917	1,904	1,913	1,901	1,870
Other foreign assets	398	446	492	455	485	444	482	474	468	465	465	465
Liabilities to nonresidents	-366	-382	-437	-812	-762	-895	-916	-1,000	-973	-948	-889	-775
Short-term liabilities to nonresidents[1]	-158	-169	-222	-614	-557	-701	-712	-799	-775	-752	-693	-579
Other foreign liabilities	-208	-213	-215	-199	-205	-194	-204	-200	-198	-197	-197	-197
Net domestic assets	**9**	**77**	**-175**	**187**	**-57**	**179**	**291**	**326**	**692**	**738**	**499**	**420**
Net domestic credit	172	133	-90	381	-140	569	41	127	180	258	69	75
Claims on other depository corporations	195	195	190	190	198	190	198	198	198	198	198	198
Net claims on central government	-157	-201	-418	55	-479	233	-304	-226	-180	-108	-304	-304
Claims on central government	260	310	305	730	280	770	355	433	479	551	355	355
Of which: use of SDRs/PRGF	*160*	*260*	*255*	*623*	*232*	*600*	*244*	*300*	*300*	*335*	*335*	*335*
Liabilities to central government	-417	-511	-723	-675	-758	-537	-659	-659	-659	-659	-659	-659
Ordinary deposits of central government	-41	-20	-41	-110	-94	-46	-46	-46	-46	-46	-46	-46
Counterpart funds	-60	-65	-96	-91	-63	-92	-64	-65	-65	-65	-65	-65
Foreign currency deposits	-316	-426	-586	-474	-602	-399	-549	-547	-547	-547	-547	-547
Of which: National oil account	*-234*	*-419*	*-414*	*-329*	*-334*	*-261*	*-268*	*-244*	*-196*	*-159*	*-130*	*-107*
Claims on other sectors	135	139	138	136	141	146	147	154	162	168	175	181
Other items (net)	-163	-57	-85	-195	83	-390	250	199	512	479	429	345
Base money (M0)	**1,484**	**1,496**	**1,385**	**1,698**	**1,813**	**1,586**	**1,617**	**1,638**	**1,865**	**1,884**	**1,903**	**1,922**
Currency issued	324	393	411	415	432	419	436	440	649	651	652	653
Bank reserves	1,160	1,103	974	1,283	1,382	1,167	1,181	1,198	1,215	1,233	1,251	1,269
Of which: domestic currency	1,013	947	843	1,139	1,249	1,032	1,069	1,084	1,079	1,096	1,114	1,132
Of which: foreign currency	147	157	131	144	133	135	112	114	137	137	137	137
Memorandum items:												
Gross international reserves (US$ millions) [2]	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[3]	4.2	3.0	4.0	5.1	6.4	5.0	5.7	5.9	6.0	6.1	5.9	6.2
Gross international reserves (US$ millions) inc. commercial banks reserves	58.5	42.4	46.4	61.8	74.2	64.9	69.1	76.1	79.1	82.3	83.8	83.8
Months of imports of goods and services	3.5	2.7	3.3	4.0	4.8	4.0	4.3	4.4	4.3	4.3	4.1	4.2
Months of imports of goods and nonfactor services[3]	4.8	3.7	4.6	5.8	7.0	5.6	6.2	6.4	6.6	6.6	6.5	6.7
Net international reserves (US$ millions) [4]	43.8	27.2	30.4	24.5	40.0	22.7	27.6	29.4	31.9	36.0	40.3	46.1
Months of imports of goods and services	2.6	1.7	2.1	1.6	2.6	1.4	1.7	1.7	1.7	1.9	2.0	2.3
Months of imports of goods and nonfactor services[3]	3.6	2.4	3.0	2.3	3.8	1.9	2.5	2.5	2.6	2.9	3.1	3.7
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
Commercial banks reserves in foreign currency (US$ millions)	7.1	7.3	5.9	7.1	6.6	6.8	5.6	5.8	7.1	7.1	7.2	7.2
Guaranteed deposits (US$ millions)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Base money (annual percent change)	-9.6	0.8	-7.4	22.6	31.0	-6.6	-10.8	1.3	13.8	1.0	1.0	1.0

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

[1] The Central Bank's short-term liabilities to nonresidents includes the country's liability to the IMF.

[2] 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.

[3] Imports of goods and services excluding imports of investment goods and technical assistance.

[4] Net 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.

Table 5. São Tomé and Príncipe: Monetary Survey, 2017–23
(Millions of new dobra)

	2017	2018	2019	2020		2021		2022	2023
				Second Rev.	Act.	Second Rev.	Proj.	Proj.	Proj.
Net foreign assets	**1,582**	**1,636**	**1,760**	**1,763**	**1,587**	**1,574**	**1,358**	**1,423**	**1,429**
Net foreign assets of the BCSTP	1,474	1,416	1,502	1,511	1,555	1,407	1,326	1,391	1,400
Net foreign assets of other depository corporations	108	220	258	252	32	167	32	32	29
Net domestic assets	**1,099**	**1,429**	**1,238**	**1,269**	**1,736**	**1,674**	**2,213**	**2,332**	**2,675**
Net domestic credit	1,972	2,228	2,158	2,068	2,030	2,588	2,237	2,346	2,402
Net claims on central government	-196	94	-43	-158	-137	259	61	69	0
Claims on central government	687	977	1,213	1,050	1,059	1,329	1,158	1,166	1,097
Liabilities to central government	-883	-883	-1,256	-1,208	-1,196	-1,070	-1,097	-1,097	-1,097
Budgetary deposits	-41	-20	-41	-110	-94	-46	-46	-46	-46
Counterpart funds	-60	-65	-96	-91	-63	-92	-64	-65	-65
Foreign currency deposits	-782	-798	-1,119	-1,007	-1,040	-932	-987	-985	-985
Of which: National Oil Account	-234	-419	-414	-329	-334	-261	-268	-244	-196
Claims on other sectors	2,168	2,134	2,202	2,226	2,167	2,328	2,176	2,277	2,402
Of which: claims in foreign currency	442	395	371	376	358	393	358	374	395
(Millions of $US)	21	18	17	19	18	20	18	19	20
Other items (net)	-873	-799	-921	-799	-294	-914	-24	-14	273
Broad money (M3)	**2,681**	**3,066**	**2,998**	**3,032**	**3,323**	**3,248**	**3,571**	**3,755**	**3,993**
Local currency liabilities included in broad money (M2)	1,966	2,325	2,293	2,320	2,623	2,485	2,819	2,964	3,152
Money (M1)	1,578	1,849	1,907	1,930	2,244	2,067	2,387	2,485	2,616
Currency outside depository corporations	295	314	315	319	347	341	369	384	405
Transferable deposits in dobra	1,283	1,535	1,592	1,611	1,897	1,726	2,018	2,101	2,211
Other deposits in dobra	388	476	386	390	379	418	432	479	536
Foreign currency deposits	716	741	704	712	700	763	752	791	841
Memorandum items:									
Velocity (ratio of GDP to M3; end of period)	3.1	2.9	3.0	3.0	2.8	3.0	3.0	3.0	3.0
Money multiplier (M3/M0)	1.8	2.0	2.2	1.8	1.8	2.0	2.2	2.3	2.1
Base money (12-month growth rate)	-9.6	0.8	-7.4	22.6	31.0	-6.6	-10.8	1.3	13.8
Claims on other resident sectors (12-month growth rate)	2.5	-1.6	3.2	1.1	-1.6	4.6	0.4	4.7	5.5
M3 (12-month growth rate)	-0.4	14.3	-2.2	1.2	10.9	7.1	7.5	5.2	6.3
Eurorization ratio	27.1	26.2	25.6	26.7	26.2	27.0	26.6	…	…

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

Table 6. São Tomé and Príncipe: Financial Soundness Indicators, 2020–34
(Percent, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Fund obligations based on existing credit (millions of SDRs)															
Principal	0.0	0.1	0.6	0.8	0.8	2.0	3.6	3.6	3.4	3.2	2.0	0.2	0.0	0.0	0.0
Charges and interest	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
Fund obligations based on existing and prospective credit (millions of SDRs)															
Principal	0.0	0.1	0.6	0.8	0.8	2.0	3.6	4.6	4.9	4.8	3.5	1.7	0.6	0.0	0.0
Charges and interest	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
Total obligations based on existing and prospective credit															
Millions of SDRs	0.0	0.1	0.6	0.8	0.8	2.0	3.6	4.6	4.9	4.8	3.5	1.7	0.6	0.0	0.0
Millions of U.S. dollars	0.0	0.2	0.8	1.0	1.1	2.9	5.1	6.4	6.9	6.7	4.9	2.4	0.8	0.0	0.0
Percent of exports of goods and services	0.0	0.3	0.9	0.9	0.9	2.2	3.6	4.3	4.4	4.1	2.8	1.3	0.4	0.0	0.0
Percent of debt service [1]	0.0	2.7	11.0	13.7	10.4	24.7	48.7	62.9	69.0	68.0	47.5	23.6	8.0	0.0	0.0
Percent of quota	0.0	0.9	4.1	5.1	5.1	13.8	24.5	30.9	33.0	32.2	23.5	11.6	3.9	0.0	0.0
Percent of gross international reserves [2]	0.0	0.3	1.2	1.5	1.4	3.7	6.7	8.4	9.1	9.0	6.6	3.3	1.1	0.0	0.0
Percent of GDP	0.0	0.0	0.1	0.2	0.2	0.4	0.7	0.8	0.8	0.7	0.5	0.2	0.1	0.0	0.0
Outstanding Fund credit															
Millions of SDRs	18.6	24.0	27.2	26.4	25.7	23.6	20.0	15.4	10.5	5.8	2.3	0.6	0.0	0.0	0.0
Millions of U.S. dollars	25.7	33.3	37.9	36.9	36.0	33.2	28.1	21.7	14.8	8.1	3.2	0.8	0.0	0.0	0.0
Percent of exports of goods and services	49.8	54.5	41.8	33.1	30.3	25.7	20.0	14.6	9.5	4.9	1.8	0.4	0.0	0.0	0.0
Percent of debt service [1]	998.8	470.2	499.9	483.4	349.6	285.4	269.3	211.9	148.5	82.2	31.1	7.9	0.0	0.0	0.0
Percent of quota	125.5	162.0	183.6	178.6	173.4	159.6	135.1	104.2	71.1	39.0	15.4	3.9	0.0	0.0	0.0
Percent of gross international reserves [2]	38.0	52.5	53.9	51.3	47.9	43.4	36.8	28.4	19.6	10.9	4.4	1.1	0.0	0.0	0.0
Percent of GDP	5.4	6.2	6.6	6.0	5.4	4.7	3.6	2.6	1.6	0.8	0.3	0.1	0.0	0.0	0.0
Net Use of Fund Credit (millions of SDRs)	9.0	3.7	3.2	-0.8	-0.8	-2.0	-3.6	-4.6	-4.9	-4.8	-3.5	-1.7	-0.6	0.0	0.0
Disbursements	9.0	3.8	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.1	0.6	0.8	0.8	2.0	3.6	4.6	4.9	4.8	3.5	1.7	0.6	0.0	0.0
Memorandum items:															
Exports of goods and services (millions of U.S. dollars)	51.7	61.2	90.5	111.7	118.9	129.5	140.5	148.2	156.4	165.0	174.2	183.8	193.9	204.6	216.0
Debt service (millions of U.S. dollars)	2.6	7.1	7.6	7.6	10.3	11.6	10.5	10.2	10.0	9.9	10.3	10.2	10.1	10.0	9.9
Quota (millions of SDRs)	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8
Gross international reserves [2]	67.6	63.4	70.3	72.0	75.1	76.6	76.5	76.5	75.5	74.4	73.7	72.9	72.2	71.6	70.8
GDP (millions of U.S. dollars)	477.3	533.6	572.9	616.4	662.2	711.0	771.6	839.7	905.4	976.6	1053.6	1137.0	1203.8	1274.9	1350.6

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

[1] After HIPC and MDRI debt relief. Including IMF repurchases and repayments in total debt service.

[2] Gross international reserves excludes 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.

Table 7. São Tomé and Príncipe: External Financing Requirements and Sources, 2016–24
(Millions of U.S. dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
					Proj.	Proj.	Proj.	Proj.	Proj.
Gross financing requirements	**-66.8**	**-92.0**	**-74.5**	**-88.4**	**-126.7**	**-102.4**	**-81.4**	**-71.1**	**-77.3**
Current account, excluding official transfers	-69.6	-91.5	-87.1	-79.9	-113.9	-109.2	-73.1	-61.8	-63.7
Exports, f.o.b.	13.6	15.6	16.0	14.1	13.9	18.9	22.4	24.0	25.0
Imports, f.o.b.	-119.1	-127.7	-132.9	-126.4	-126.4	-138.6	-137.4	-145.8	-156.0
Services and income (net)	19.9	3.9	13.5	16.2	-9.6	-5.0	23.5	40.5	46.6
Private transfers	15.9	16.7	16.3	16.3	8.2	15.6	18.3	19.5	20.7
Financial account	-3.9	-7.2	-3.2	-5.4	-3.3	-5.5	-6.3	-6.6	-9.4
Scheduled amortization	-4.0	-4.4	-2.7	-5.0	-3.3	-5.1	-5.7	-5.8	-8.6
IMF repayments	-0.9	-0.2	-0.4	-0.4	0.0	-0.4	-0.6	-0.7	-0.8
Change in net external reserves (-ve = increase)	6.8	6.7	15.8	-3.1	-9.6	12.3	-2.0	-2.7	-4.2
Available funding	**66.8**	**92.0**	**74.5**	**88.3**	**126.7**	**102.4**	**81.4**	**71.2**	**77.3**
National Oil Fund (net)	2.1	2.6	2.1	3.9	3.6	3.2	2.6	2.4	2.0
Oil signature bonuses	3.3	2.3	10.2	3.2	1.4	0.1	1.6	0.1	0.1
Saving (-ve = accumulation of oil reserve fund)	-1.2	0.2	-8.2	0.7	2.2	3.1	1.0	2.3	1.8
Expected disbursements	54.9	49.1	41.6	32.0	56.5	67.3	44.3	48.7	49.3
Multilateral HIPC interim assistance	2.9	3.1	1.6	3.9	2.9	3.3	3.3	3.5	3.5
Grants, excluding HIPC interim assistance	45.6	38.6	34.4	23.7	47.7	49.6	26.0	27.5	27.2
Concessional loans	6.4	7.4	5.6	4.4	5.8	14.4	15.0	17.7	18.5
Project loans	6.4	7.4	5.6	4.4	5.8	14.4	15.0	17.7	18.5
Program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector (net)	8.0	37.6	29.9	49.7	46.8	26.0	29.2	20.1	26.1
IMF ECF	1.8	2.8	0.9	2.7	5.2	5.2	5.2	0.0	0.0
ECF Augmentation					2.0				
IMF CCRT	…	…	…	…	0.3	0.6	…	…	…
IMF RCF	…	…	…	…	12.3	…	…	…	…
Financing Gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

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

Table 8: São Tomé and Príncipe: Indicators of Capacity to Repay the Fund, 2020–34

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Fund obligations based on existing credit (millions of SDRs)															
Principal	0.0	0.1	0.6	0.8	0.8	2.0	3.6	3.6	3.4	3.2	2.0	0.2	0.0	0.0	0.0
Charges and interest	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
Fund obligations based on existing and prospective credit (millions of SDRs)															
Principal	0.0	0.1	0.6	0.8	0.8	2.0	3.6	4.6	4.9	4.8	3.5	1.7	0.6	0.0	0.0
Charges and interest	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
Total obligations based on existing and prospective credit															
Millions of SDRs	0.0	0.1	0.6	0.8	0.8	2.0	3.6	4.6	4.9	4.8	3.5	1.7	0.6	0.0	0.0
Millions of U.S. dollars	0.0	0.2	0.8	1.0	1.1	2.9	5.1	6.4	6.9	6.7	4.9	2.4	0.8	0.0	0.0
Percent of exports of goods and services	0.0	0.3	0.9	0.9	0.9	2.2	3.6	4.3	4.4	4.1	2.8	1.3	0.4	0.0	0.0
Percent of debt service [1]	0.0	2.7	11.0	13.7	10.4	24.7	48.7	62.9	69.0	68.0	47.5	23.6	8.0	0.0	0.0
Percent of quota	0.0	0.9	4.1	5.1	5.1	13.8	24.5	30.9	33.0	32.2	23.5	11.6	3.9	0.0	0.0
Percent of gross international reserves [2]	0.0	0.3	1.2	1.5	1.4	3.7	6.7	8.4	9.1	9.0	6.6	3.3	1.1	0.0	0.0
Percent of GDP	0.0	0.0	0.1	0.2	0.2	0.4	0.7	0.8	0.8	0.7	0.5	0.2	0.1	0.0	0.0
Outstanding Fund credit															
Millions of SDRs	18.6	24.0	27.2	26.4	25.7	23.6	20.0	15.4	10.5	5.8	2.3	0.6	0.0	0.0	0.0
Millions of U.S. dollars	25.7	33.3	37.9	36.9	36.0	33.2	28.1	21.7	14.8	8.1	3.2	0.8	0.0	0.0	0.0
Percent of exports of goods and services	49.8	54.5	41.8	33.1	30.3	25.7	20.0	14.6	9.5	4.9	1.8	0.4	0.0	0.0	0.0
Percent of debt service [1]	998.8	470.2	499.9	483.4	349.6	285.4	269.3	211.9	148.5	82.2	31.1	7.9	0.0	0.0	0.0
Percent of quota	125.5	162.0	183.6	178.6	173.4	159.6	135.1	104.2	71.1	39.0	15.4	3.9	0.0	0.0	0.0
Percent of gross international reserves [2]	38.0	52.5	53.9	51.3	47.9	43.4	36.8	28.4	19.6	10.9	4.4	1.1	0.0	0.0	0.0
Percent of GDP	5.4	6.2	6.6	6.0	5.4	4.7	3.6	2.6	1.6	0.8	0.3	0.1	0.0	0.0	0.0
Net Use of Fund Credit (millions of SDRs)	9.0	3.7	3.2	-0.8	-0.8	-2.0	-3.6	-4.6	-4.9	-4.8	-3.5	-1.7	-0.6	0.0	0.0
Disbursements	9.0	3.8	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.1	0.6	0.8	0.8	2.0	3.6	4.6	4.9	4.8	3.5	1.7	0.6	0.0	0.0
Memorandum items:															
Exports of goods and services (millions of U.S. dollars)	51.7	61.2	90.5	111.7	118.9	129.5	140.5	148.2	156.4	165.0	174.2	183.8	193.9	204.6	216.0
Debt service (millions of U.S. dollars)	2.6	7.1	7.6	7.6	10.3	11.6	10.5	10.2	10.0	9.9	10.3	10.2	10.1	10.0	9.9
Quota (millions of SDRs)	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8
Gross international reserves [2]	67.6	63.4	70.3	72.0	75.1	76.6	76.5	76.5	75.5	74.4	73.7	72.9	72.2	71.6	70.8
GDP (millions of U.S. dollars)	477.3	533.6	572.9	616.4	662.2	711.0	771.6	839.7	905.4	976.6	1053.6	1137.0	1203.8	1274.9	1350.6

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

[1] After HIPC and MDRI debt relief. Including IMF repurchases and repayments in total debt service.

[2] Gross international reserves excludes 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.

Table 9. Sao Tomé and Príncipe: Proposed Schedule of Disbursements Under ECF Arrangement, 2019–22

Availability Date[1]	Disbursement conditions	SDR Amount	Percent of Quota[2]
10/02/19	Board approval of arrangement.	1,902,857	12.86
03/15/20	Observance of continuous and end-December 2019 PCs and completion of the first review.	3,382,857	22.86
11/15/20	Observance of continuous and end-June 2020 PCs and completion of the second review.	1,902,857	12.86
05/15/21	Observance of continuous and end-December 2020 PCs and completion of the third review.	1,902,857	12.86
09/15/21	Observance of continuous and end-June 2021 PCs and completion of the fourth review.	1,902,857	12.86
04/15/22	Observance of continuous and end-December 2021 PCs and completion of the fifth review.	1,902,858	12.86
10/15/22	Observance of continuous and end-June 2022 PCs and completion of the sixth review.	1,902,857	12.86
	Total	14,800,000	100.0

Source: International Monetary Fund.

[1] An RCF disbursement of SDR9.028 million was approved in April 2020.

[2] Overall access and percent of quota were increased by the augmentation of 10 percent.

Table 10. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2020-2021[1]

(Millions of new dobra, cumulative from beginning of year, unless otherwise specified)

	2020				2021			
	December Program Target				March Indicative Target			
	First Review	With adjusters	Prel.	Status	Second Review	With adjusters	Prel.	Status
Performance Criteria:								
Floor on domestic primary balance (as defined in the TMU) [2]	-565	-647	-324	Met	-141	-166	-129	Met
Ceiling on changes in net bank financing of the central government (at program exchange rate) [3, 4, 5]	-65	-173	-251	Met	60	118	77	Met
Floor on net international reserves of the central bank (US$ millions) [2, 4]	25	22	37	Met	25	22	27	Met
Ceiling on the accumulation of central government's new external payment arrears (US$ millions) [5, 6, 7, 8]	0	0	0	Met	0	0	0	Met
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the central government or the BCSTP (in present value terms, US$ millions) [5, 6, 7, 8, 9]	0	0	0	Met	0	0	0	Met
Not to: (i) impose or intensify exchange restrictions, (ii) introduce or modify multiple currency practices, (iii) conclude bilateral payments agreements that are inconsistent with Article VIII, or (iv) impose or intensify import restrictions for balance of payments reasons				Met				Met
Indicative Targets:								
Ceiling on change of central government's new domestic arrears	-60		-137	Met	0		-14	Met
Floor on pro-poor expenditures	700		864	Met	150		167	Met
Floor on tax revenue	1152		1346	Met	350		262	Not Met
New concessional external debt contracted or guaranteed with original maturity of more than one year by the central government or the BCSTP (in present value terms, US$ millions) [5, 7, 8, 10]	8		0	Met	2		0	Met
Memorandum items:								
Ceiling on dobra base money (stock)	1,321		1,681		1,387		1,609	
Transfer from NOA to the budget (US$ millions)	3.8		3.0		3.2		2.6	
Net external debt service payments [11]	91		56		33		14	
Official external program support [11]	1,144		1,003		49		56	
IMF program disbursement	421		362		0		56	
Budget support grants	723		641		49		0	
Domestic arrears clearance (-, exclude debt payment to ENCO)	-70		-115		0		2	
Treasury-funded capital expenditure	28		35		8		3	
Ceiling on personnel expenses	980		978		300		235	

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

[1] Performance at the December 2019 test date is assessed on the first review.

[2] The floor will be adjusted upward or downward according to definitions in the TMU.

[3] The ceiling will be adjusted downward or upward according to definitions in the TMU.

[4] Excluding the National Oil Account (NOA) at the Central Bank.

5 The term "central government" is defined as in ¶5 of the TMU, which excludes the operations of state-owned enterprises. The target has been changed to present value to reflect new debt policy.

[6] This criterion will be assessed as a continuous performance criterion.

[7] The term "external" is defined on the basis of the residency of the creditor per paragraph 5 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 116919-(20/103) of the Executive Board (October 28, 2020).

[8] This performance criterion or memorandum item applies not only to debt as defined in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 16919-(20/103) of the Executive Board (October 28, 2020), but also to commitments contracted or guaranteed for which value has not been received. For further details on the definition of debt and external arrears refer to the TMU, ¶6 and 13.

[9] Only applies to debt with a grant element of less than 35 percent. For further details refer to the TMU, ¶12 and 17.

[10] Only applies to debt with a grant element of at least 35 percent.

[11] As defined in the TMU, valued at the program exchange rate, excludes HIPC-related amortization.

Table 11. São Tomé and Príncipe: Program Performance of Structural Benchmarks Under the ECF Program, 2021

Policy Objectives and Measures	Timing	Macro Rationale	TA involved	Status
Strengthening Public Finances				
Implement key measures of Management Improvement Plan and Least Cost Development Plan for EMAE (MEFP ¶45, table key actions)	Continuous	To contain fiscal risk	With World Bank support	Not Met
Introduce the VAT according to the October 2019 law (MEFP ¶17)	End-July 2021	To enhance revenue	With World Bank support	
Maintain the current fuel retail prices as long as costs (including taxes and fees) remain below prices, and raise the prices if costs increase, consistent with the automatic fuel price adjustment mechanism, to prevent fuel subsidies.	Continuous	To enhance revenue	No TA involved	Met
Publishing on the Ministry of Finance (MOF) website (i) adjudication notices of public procurement contracts, as required by the Procurement Law (no. 8/2009, articles 29-2, 44-1, and 70-1); (ii) all signed public procurement contracts above the threshold for requiring prior authorization from the Court of Accounts as per the Organic Law (no. 11/2019) (including COVID-19 related); (iii) the ex-post validation of delivery of the contracts —all (i) to (iii) to be published within two weeks documents become available to COSSIL— and (iv) monthly COVID-19 related expenditure reports within a 45-day lag (MEFP ¶22).	Continuous	To increase transparency and accountability	No TA involved	Not Met. Implemented with delay
Publishing on the Ministry of Finance's (MOF) website ownership information and any information available about beneficial ownership of companies receiving public procurement contracts (same contracts as above), within two weeks (MEFP ¶22).	Continuous	To increase transparency and accountability	LEG	Not Met. Implemented with delay
Enhancing Monetary Policy and Financial Stability				
Conduct bank stress tests, with input from the IMF, to identify possible credit risk pressures due to the fallout from the COVID-19 pandemic	End-March 2021	To support financial sector stability	MCM	Not Met
Submit the BCSTP organic law to Parliament (MEFP ¶27)	End-February 2021	To strengthen financial supervision and improve governance and oversight	MCM/LEG	Not Met
Submit the revised financial institutions law, in consultation with IMF staff, to Parliament (MEFP ¶27)	End-March 2021	To strengthen financial supervision and improve governance and oversight	MCM/LEG	Not Met
Activate the liquidity management toolkit to reduce excess liquidity during 2021 below the end-2020 levels, including by rolling over existing CD, and issuing CDs as needed.	End-December 2021	Stabilize excess liquidity and support the peg	MCM	
Facilitating Business Activities				
Develop a plan to remove the country from the European Union's Air Safety blacklist	End-March 2021	To facilitate the recovery of the tourism sector	With World Bank support	Not Met

Annex I. Modernizing Monetary-Financial Legal Framework

1. Context. The move to the peg began in 2009, when São Tomé and Príncipe signed an economic cooperation agreement with Portugal designed to support pegging the dobra to euro. The agreement required that São Tomé and Príncipe adopt and maintain an economic policy stance compatible with preserving macroeconomic and financial stability and that Portugal provided support with a limited credit facility, which now stands at 25 million euros. In 2010, São Tomé and Príncipe moved to a fixed exchange rate regime, with the de jure and de facto exchange rate arrangement as a conventional peg against the euro.

2. Purpose. There is a need to modernize three key laws to bring the monetary and financial legal framework up to international standards. The organic law is set to be revised in response to IMF safeguards recommendations and in conjunction with IMF TA. The current Foreign Exchange Law was adopted in 1999 and has not been modified since then, while some of the law's provisions have not been implemented in practice. The BCSTP recognized the need to modernize the law to enhance the foreign exchange regulatory framework and, with IMF TA, have been working on the improvement of the draft including taking into account best practices. The current law governing supervision of financial institutions in São Tomé and Príncipe dates back to 1992 and also requires updating. Enhancing the legal framework for banks is a priority, although certain types of financial institutions are governed by recently adopted specialized legislation (e.g., microfinance institutions are governed by Law 16/2018 on the Legal Framework for Microfinance), supervision of banks is governed by the Financial Institutions Law of 1992 and a series of regulations (NAPs) issued by the BCSTP. Adopting a robust legal framework for bank supervision will provide legal certainty to market participants, and the new law should comprehensively address all aspects of bank regulation and supervision, including the powers, responsibilities, and functions of the BCSTP and the prudential requirements for banks. At the request of the BCSTP, the IMF is currently providing technical assistance, with a view to bringing the legal framework for bank supervision in line with international standards and good practices, as applicable in the case of São Tomé and Príncipe.

3. Progress. The 2019 IMF Safeguards Assessment identified areas for improvement in the BCSTP organic law, noting that the BCSTP institutional and financial autonomy needed to be strengthened. The report also called attention to the fact that the provisions on recapitalization and on-lending to the government were unclear, improvements in transparency were needed, and the structure of the audit committee was inadequate, among other deficiencies. Draft amendments have been made in consultation with IMF staff and will be further reviewed by the Fund after the harmonization process (see below) to ensure that previously proposed changes remain intact. The law was approved by the BCSTP Board in February 2021 and was sent to the government for review before being submitted to parliament (submission to Parliament was a structural benchmark - February 2021). However, the structural benchmark in the ECF program was not met and this process is currently on hold as the BCSTP Legal department works to harmonize the organic law with the forthcoming changes to the Financial Institutions and Foreign Exchange Laws. The revised date for the structural benchmark is September 2021.

4. Next Steps. While steady progress is being made on updating and revising these laws, the timeline for accomplishing these tasks needs to be extended. BCSTP staff and IMF technical experts

have agreed that the work that remains to be done is crucial to bringing the BCSTP legal framework up to best practices and should not be rushed. Moreover, harmonizing the changes among the three laws will require additional efforts. The BCSTP is understaffed, as noted in previous technical assistance reports and IMF staff reports and. the pandemic have put further pressures on the BCSTP staffs.

Annex II. Capacity Development Activities

List of TA missions

May-21	LEG remote mission on financial institutions law
Apr-21	MCM remote mission on foreign exchange law
Apr-21	AFRITAC remote workshop on expenditure execution manual
Apr-21	STX remote mission on improving tax debt management strategies
Mar-21	STX remote mission on governance plan for the development of an IT solution for VAT management
Mar-21	STX remote mission on modernization of tax adm. management and governance arrangements
Dec-20	STX remote mission on revision of the PIT and CIT Law
Nov-20	AFRITAC remote mission on banking supervision
Oct-20	STX remote mission on tax administration
Sep-20	AFRITAC remote mission on government finance statistics
Sep-20	FAD remote mission on tax administration
Jun-20	STX remote mission on customs administration
Jun-20	AFRITAC remote mission on commitment plans
Jun-20	AFRITAC remote mission on macro-fiscal forecasts
Jun-20	AFRITAC remote mission on national accounts
Feb-20	AFRITAC mission on budget execution and controls
Jan-20	LEG mission on financial institutions law
Jan-20	STX mission tax administration
Jan-20	AFRITAC mission on macro-fiscal framework
Dec-19	LEG mission on BCSTP organic law
Nov-19	MCM mission on monetary operations
Nov-19	FAD mission on budget execution and controls
Nov-19	STX mission on VAT and Excise implementation
Nov-19	AFRITAC mission on national account statistics
Sep-19	STX mission on government finance statistics
Sep-19	AFRITAC Customs revenue mobilization
Sep-19	STX mission tax administration
Aug-19	MCM mission on open market operations
Jul-19	STX mission tax administration
Jun-19	STX mission revenue administration
May-19	AFRITAC mission on banking reg. and supervision
May-19	STX mission on revenue administration
May-19	FAD mission on revenue administration
Apr-19	AFRITAC mission on national accounts statistics
Mar-19	AFRITAC mission on government finance statistics
Dec-18	AFRITAC mission on government finance statistics
Dec-18	AFRITAC mission on banking reg. and supervision
Oct-18	AFRITAC mission on government finance statistics

Source: International Monetary Fund.

Appendix I. Letter of Intent

São Tomé, August 3, 2021

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431, USA

Dear Managing Director Georgieva:

The government of the Democratic Republic of São Tomé and Príncipe requests the IMF Executive Board to complete the third review of the program supported by the Extended Credit Facility (ECF) arrangement and approve the fourth disbursement based on performance under end-December 2020 performance criteria (PC).

The IMF's continued strong support to our country is helping address the health and socio-economic impacts of the COVID-19 pandemic. The completion by the IMF Executive Board in the second review under the ECF arrangement, the augmentation of ECF access, Rapid Credit Facility (RCF), and Catastrophe Containment and Relief Trust (CCRT) were all timely and helped the government in addressing the COVID-19 pandemic and provided resources for implementing the 2020-2021 budgets. We began gradually reopening our economy and started vaccinations in March 2021, and though there is a recovery, the resurgence of the epidemic among our trading partners and in STP continues to weigh on our population and the economy.

We continue to focus on addressing the immediate health, social, and economic needs related to the pandemic, while we remain committed to the medium-term reforms agreed under the program to support a strong and sustainable recovery. The attached Memorandum of Economic and Financial Policies (MEFP) outlines the progress we have made under the program since completion of the second review in February 2021 and updates our policies for the remainder of 2021 and beyond. Despite the pandemic, our commitment to the ECF program remains unwavering. We observed all quantitative performance criteria (QPCs) and all indicative targets (ITs) at end-December 2020. We aim to reduce the 2021 fiscal deficit. We will continue to keep other spending, including the public sector wage bill, under control and to support revenues, we will introduce the VAT in 2021. To this end, we made preparations to roll out VAT at customs check points and signed the protocol of information exchange between Customs and Tax Directorates (prior action).

We remain committed to strengthening governance and fulfilling our commitment on fostering full transparency in all COVID-19-related spending. We have published adjudication notices, public procurement contracts, and COVID-related expenditure reports, and are working on a review of the procurement legal framework to enable the collection and publication of beneficial ownership information. We continued our efforts to strengthen the central bank and will advance the

implementation of outstanding recommendations from the safeguards assessment. We have also kept retail fuel prices unchanged, despite lower global oil prices, to support budget revenue. Though structural benchmarks related to new central bank and financial sector laws and stress testing were not met, they are being implemented with delays. Reforms in the state-owned utility company, EMAE, are delayed due to capacity constraints and considering travel restrictions, we have not been able to develop a plan to remove the country from the EU air safety blacklist to facilitate the recovery of tourism.

The support of the IMF continues to be important as we tackle tremendous challenges in developing our country. We believe that the policies contained in the September 2019, July 2020, and February 2021 MEFP, along with the attached supplementary MEFP, are adequate to achieve the objectives of the program, and we will take further measures that may become appropriate for this purpose. We will consult the IMF in advance on the adoption of these measures and revisions to the policies contained in the MEFP, in accordance with IMF policies on such consultations. We will also consult in advance with IMF staff on the terms of possible external borrowing to ensure that such borrowing does not jeopardize debt sustainability and is in line with the IMF's debt limits policy. Furthermore, we are committed to not (i) imposing or intensifying restrictions on the making of payments and transfers for current international transactions, (ii) imposing or intensifying import restrictions for balance of payments reasons (iii) introducing or modifying multiple currency practices, or (iv) concluding bilateral payment agreements in violation of Article VIII of the Articles of Agreements, which are continuous performance criteria under the ECF arrangement.

In line with its commitment to transparency and accountability, the government authorizes the IMF to publish this letter, its attachments, and related staff report, including placement of these on the IMF website in accordance with IMF procedures, following the IMF Executive Board's approval of the request.

Sincerely yours,

/s/	/s/
Mr. Osvaldo Vaz, Minister of Finance, Commerce and the Blue Economy	Mr. Américo Soares De Barros, Governor of the Central Bank of São Tomé and Príncipe

Attachments

1. Memorandum of Economic and Financial Policies (MEFP)
2. Technical Memorandum of Understanding (TMU)

Attachment I. Supplementary Memorandum of Economic and Financial Policies for 2021-22

INTRODUCTION

1. **This supplementary Memorandum of Economic and Financial Policies (MEFP) updates the MEFP approved by the IMF Executive Board on October 2, 2019, on July 27, 2020, and February 26, 2021.** In this MEFP, we review recent developments and performance under the ECF-supported program, assess the economic outlook and risks, and set out our macroeconomic policies for 2021 and beyond, keeping in mind the limitations on implementing new policy measures imposed by the COVID-19 pandemic.

2. **São Tomé and Príncipe has made considerable progress under the ECF to preserve fiscal and external sustainability and foster development amid the COVID-19 pandemic.** We achieved a significant reduction in the fiscal deficit in 2019, overperformed on the domestic primary deficit target for end-2020 and met the end-March 2021 indicative target. However, due to the pandemic, the country is facing considerable hurdles, and actions to fulfill some structural benchmarks were delayed.

3. **While the pandemic is posing significant health, social, and economic challenges, we remain committed to the objectives of the ECF-supported program.** The Rapid Credit Facility (RCF) disbursement and the ECF augmentation approved in 2020, and ECF second review disbursement in February 2021, together with support from our development partners, helped us manage our immediate external financial needs in the face of the outbreak. We have developed our National Deployment and Vaccination Plan (NDVP) and aim to vaccinate 70 percent of the population by mid-2022, supported by the COVAX initiative and World Bank. As of end-June 2021, we have vaccinated 33,900 people with two doses. However, we are concerned about timely and sufficient supply of additional vaccine orders. We continue to face fiscal and balance of payments pressures, and we expect that the economic, health, and social consequences of the pandemic will remain at the forefront throughout 2021 and partly 2022. It is therefore important to mobilize sufficient resources to contain the pandemic, continue assisting the most vulnerable, and support the economy, while maintaining the highest standards of transparency and accountability in public spending.

4. **We will continue to anchor the ECF program on our National Sustainable Development Plan**, whose coverage has been extended to due to the COVID-19 pandemic. Working closely with the UNDP, we have completed a National Socio-economic Recovery Plan Against COVID-19 and a Socio-economic Impact Assessment and Response Plan for COVID-19. These two documents support the development of our new long-term development vision, which serves as a strategic framework for our successive medium-term national development plans. The formulation of a new medium-term development plan has begun and is scheduled to be finalized by end-December 2021 and should help inform the 2022 budgetary process. This plan will also serve as a basis for our next Poverty Reduction and Growth Strategy (PRGS).

RECENT ECONOMIC DEVELOPMENTS

5. Weak external demand and COVID-19 containment measures created exceptional external and fiscal financing needs.

- 2020 growth, preliminarily estimated at 3 percent, was supported by public spending. Transfers to vulnerable households and businesses provided relief, while expansion of externally financed projects, including in education and health, boosted construction growth.
- Exceptional levels of external financing and higher tax revenues provided needed fiscal stimulus, and the domestic primary balance (DPB) widened to -3.4 percent of GDP in 2020.
- The current account deficit widened in 2020, largely due to a collapse in tourism. Following unprecedented financial support, gross international reserves reached US$ 67.6 million (4.5months of imports) in 2020.
- With the recent review of the public debt stock, 2020 public debt decreased to about 87 percent of GDP[1], largely reflecting significant grant financing and denominator effect of higher nominal GDP.

6. The pandemic and uncertain macroeconomic conditions negatively impacted the banking sector in 2020. Banks' asset quality deteriorated, and NPLs increased to 34 percent by September 2020. Credit growth to the private sector began decelerating in March 2020 despite ample liquidity. In this context, a small bank was placed under BCSTP administration because of repeated failures to comply with capitalization and liquidity requirements.

PROGRAM PERFORMANCE

7. We have made steady progress under the ECF program. We outperformed the end-December 2020 DPD target, and met net international reserves and net bank financing targets, reflecting large external financing inflows. While tax revenues underperformed at end-March 2021 due to slow revenue collections amid electricity blackouts, we contained non-priority spending and met the DPD indicative target. We also met the end-March 2021 net international reserves and net bank financing indicative targets.

8. The pandemic has delayed structural reforms. Retail fuel prices were kept unchanged to support budget revenue. We implemented the highest fiscal transparency standards, publishing with only minor delays monthly spending reports on COVID-related expenditures and public procurement contracts. Moreover, for these contracts, we have made public the ownership information for companies awarded contracts. On the other hand, we have faced delays in submitting the draft BCSTP organic law to parliament, revising the financial institutions law,

[1] The public debt stock here excludes pre-HIPC legacy arrears to Angola ($36 million) and pre-HIPC legacy arrears to Italy ($24.3 million). It also excludes disputed Nigeria debt ($30 million), as there is no signed contract between two countries.

implementing the EMAE and energy sector reform plan, and defining a strategy to take the country off of the EU air safety blacklist.

OUTLOOK, RISKS AND STRATEGY

9. As the pandemic subsides and reforms under the ECF program progress, we foresee a gradual recovery of the economy and improvements in the fiscal and external positions. Real GDP is expected to grow by about 2 percent in 2021, before stabilizing to around 4 percent over the medium term. As we implement our fiscal consolidation plans, we expect the primary fiscal deficit to approach a near balance over time, and public debt to be on a declining path. With fiscal adjustment, a recovery in tourism receipts, and reforms in the oil-dependent energy sector, we project the current account balance and international reserves buffers to improve.

10. While we project that public debt will decline, the country remains in debt distress due to long standing post-HIPC external arrears that we are trying to regularize. We expect the present value (PV) of total public and publicly guaranteed (PPG) debt[2] to return below the debt sustainability analysis (DSA) thresholds associated with the weak debt-carrying capacity by 2024. We remain actively engaged in discussions with Angola (US$4.8 million), Brazil (US$4.3 million), and Equatorial Guinea (US$1.7 million) to regularize our outstanding external arrears (2. percent of GDP). An agreement with the Brazilian government was reached, pending ratification by the Brazilian Senate. More recently, we have continued following up with Angola and Equatorial Guinea. In 2019 we also reached an agreement with the government of Angola and EMAE to pay back arrears to ENCO on concessional terms, significantly alleviating the debt burden in present value terms.

11. The outlook is subject to significant risks. A prolonged pandemic or delays in accessing vaccines would weigh on the economic recovery, strain our health system, create additional external and budget financing pressures, and delay our reform efforts. Prolonged energy shortages could also delay growth recovery and put additional strains on revenue performance. The outlook also depends on sustained grant support from external donors to maintain debt sustainability and provide needed financial resources. Hence, a steadfast implementation of the ECF program is necessary to catalyze additional bilateral and multilateral financing. On the upside, rapid progress on structural reforms of the energy sector and in key infrastructures (e.g., airport expansion, road rehabilitation) could trigger stronger medium-term growth.

12. Against this backdrop, we remain committed to preserving the achievements to date and implementing the policies agreed under the program, while addressing the challenges posed by the pandemic. Our strategy is focused on: preserving fiscal sustainability, safeguarding financial stability, and accelerating reforms in the energy sector to support growth and external vulnerabilities.

[2] Excludes debt to ENCO and EMAE debt to ENCO

POLICY OBJECTIVES FOR 2021–2022

Our policy objectives are centered on: i) addressing pressing social needs linked to the pandemic and continuing our gradual fiscal consolidation strategy to preserve debt sustainability and build further external buffers; (ii) maintaining high fiscal transparency and accountability standards, including for COVID-related spending; (iii) developing monetary policy tools and maintaining a monetary policy stance that supports the peg; (iv) safeguarding financial stability; and (v) unlocking the growth potential of the economy by reforming the energy sector, fostering the tourism sector, promoting gender equality, and adapting to climate change.

A. Fiscal Policy and Transparency

13. **Our priority remains to vaccinate and protect our population from the pandemic and support the economy, while implementing our medium-term fiscal consolidation strategy.** We began vaccinations in March 2021, vaccinated about 15 percent of our population as of end-June 2021, and plan to vaccinate 70 percent of the population by mid-2022 supported by the World Bank and COVAX. However, with new waves of pandemic globally, we are concerned about timely and adequate supply of vaccines to meet our plans. While we phased out lockdown measures, the resurgence of the epidemic among our trading partners and in STP itself continues to weigh on our economy and fiscal accounts. Accordingly, we intend to continue social programs to protect the most vulnerable, support the unemployed, maintain incentives for businesses to retain employees, and implement social distancing rules, particularly in schools in 2021 and partly 2022.

14. **We are determined to meet the end-June 2021 domestic primary fiscal (DPD) target.** We will maintain expenditures within the 2021 budget limits. Following the revenue shortfall in Q1 2021, revenue performance recovered somewhat in Q2 2021. However, we continue curtailing non-essential administrative spending and re-prioritizing domestically funded capital spending to put the end-June DPD target within reach. To support revenues in the reminder of 2021, we are planning to introduce a VAT, a new environment tax on plastic products, and an airport safety fee.

15. **We are committed to delivering on the 2021 DPD target of 3.9 percent of GDP as planned under the first and second reviews of the ECF program.** COVID-19 related expenditures will continue in 2021 and partly in 2022 and are expected to be phased out as the health crisis subsides. To deliver on our policy objectives, we are taking the following actions and measures:

- Introduce the VAT at a 15 percent rate by October 2021 **(structural benchmark)**.
- Sign the protocol of information exchange between Customs and Tax Directorates **(Prior Action)** to enable VAT collection at customs points.
- Collection of tax arrears from public enterprises (Dobras 10 million).
- Introduce Environmental Tax and Airport Safety Fee (Dobras 8 million).

- Contain personnel costs. To this end, ministerial orders were issued aimed at freezing new hiring and promotions of civil servants.

- Contingency measures reducing administrative costs by about 30 percent (Dobras 78 million) in case revenues do not materialize which includes goods and services, travel and other non-essential spending lines. To this end, ministerial orders were issued on July 2, 2021.

- Keep retail fuel prices unchanged, if oil prices remain low, in 2021 and over the foreseeable future to generate revenue from the differential with international oil prices. However, if global oil prices continue increasing ensure that the automatic fuel price mechanism is implemented so that retail fuel prices adjust as needed to cover costs.

16. Over the medium term, we will continue implementing policies agreed under the program to approach a balanced DPD position by 2024. To achieve this objective, we intend to adopt wage and employment policies to gradually reduce personnel costs (as a share of GDP) over time and keep other current expenses under control. External borrowing would be capped and restricted to concessional loans only to reduce debt vulnerabilities. Should downside risks materialize, we stand ready to take contingency measures to preserve debt sustainability, including through recalibrating fiscal efforts and improving further the financing mix. To deliver on our policy objectives, we are taking the following actions and measures in fiscal year 2022 and following years:

- Reduce the wage bill to close to 10 percent of GDP by continuing over fiscal years 2022-23 current policies of suspending inflation adjustments, and by limiting new hiring to maintain the total number of civil servants broadly unchanged over time through attrition rules and reforming the public administration. We will provide the IMF with quarterly updates on the total number of civil servants by main functional sectors, including education, health, and defense.

- Keep transfers and other current expenditures (including the despesas consignadas dos servicos de cobrança) constant in nominal terms in 2022 and contain the increase broadly in line with GDP growth thereafter. In this regard, the government will not approve borrowing by public entities to offset lower transfers from Treasury.

17. Final preparations are under way for introducing the VAT in October 2021 (Structural Benchmark). The VAT law was approved in October 2019, but the COVID epidemic has delayed the VAT implementation. We have recently finalized contract negotiations with the IT developer to roll out the VAT platform at Tax Directorate by end-2021, supported by the World Bank, which will be signed upon receiving non-objection from the Bank in the coming days. To ensure timely and successful implementation of the VAT, with IMF TA support we have also developed the VAT Project Governance Plan, which will be part of the contract, which covers management structure and personnel as well as their respective roles, responsibilities, and business functions, including in relation to managing the private IT developer. Other ongoing activities include an education campaign, procuring space and equipment for new staffs, setting up four taxpayers centers, training local tax administrators (including those from Principe), and finalizing agreements with banks to receive VAT payments. Moreover, we have drafted VAT refund regulations

which are undergoing final clearance by our legal advisor before submitting to the Council of Ministers for approval by end-August 2021.

18. We signed the protocol of information exchange between Customs and Tax Directorates to start the VAT collection at Customs (prior action). All preparatory steps for VAT introduction at Customs have been concluded: appointing a dedicated team to work on VAT collections; issuing circulars and regulations; operationalizing automatic assessment of the VAT based on the tariff classification of goods declared; adapting/parametrizing the customs IT system for the VAT (Customs uses the UN provided system called SYDONIA). The protocol will enable tax-related information sharing, joint inspections, fraud detection and prevention, and better coordination between customs and tax directorates. Once the protocol of information exchange between Customs and Tax Directorate is signed, VAT collection could commence at Customs entry points in October 2021. The protocol is expected to be signed by directors of Tax and Customs Directorates and the signed copy shared with IMF staffs.

19. Efforts continue to implement IMF recommendations on strengthening tax administration. Following IMF assistance, actions include the: (i) reorganization of the *Direção dos Impostos (DI)* to improve management and strategic planning focused on tax compliance; (ii) adoption of modern compliance risk management practices, including audit programs that make use of information from third parties; and (iii) overhaul of the current performance monitoring framework including key performance indicators and a rewards program. Moreover, pending support from development partners, we intend to undergo a comprehensive tax administration diagnostic assessment (TADAT) of our current revenue administration practices before the end of 2022.

20. We started publishing detailed statistics on tax collection in April 2021 and we will be closely monitoring taxpayers to ensure timely tax collections. We will fully apply existing legal and administrative procedures to ensure payments are made, especially by large taxpayers. In particular, we will improve *Direção dos Impostos (*DI)'s access to third-party sources of data, which will allow for cross-checking tax information and increase the analytical capacities of the data captured by E-invoice to strengthen controls on registration, declaration, payment, and reporting of tax obligations. In addition, we will continue staff training to enhance auditors' skills focusing on the telecommunication, banking, and insurance sectors. Finally, we are committed to recover tax obligations from large taxpayers that suspended their tax payments during the crisis through a recovery program.

21. The government is committed to continuing strengthening public financial management systems and avoiding the accumulation of new domestic arrears. Specific reforms include:

1) *Improving macro-fiscal framework projections (revenues and expenditures).* With IMF assistance, we have recently developed a methodological manual to strengthen macro-fiscal forecasting and will gradually implement the manual to strengthen our revenue forecasting capacity. Moreover, we have prepared medium-term fiscal framework (MTFF) projections for a three-year period that will be incorporated in budget documents starting with the 2022 budget.

2) *Strengthening cash management and internal capacities at the Treasury Department.* For this purpose, in coordination with BCSTP, Treasury developed an annual schedule of T-bill issuance for 2021 (that was published in January 2021) and monthly financing plans to guide the issuance of new treasury bills, consistent with the annual budget and the government's cash flow.

3) *Strengthening expenditure control, preventing the accumulation of arrears and updating the arrears clearance plan to cover all domestic arrears.* In the 2022 budget cycle we will start a commitment ceiling mechanism to manage expenditures at the commitment stage in selected spending ministries covering on a pilot basis all spending agencies, with the exclusion of the ministries of education, health, defense, and justice. As part of the pilot, we will elaborate quarterly commitment ceilings to support the commitment control mechanism in pilot ministries. This pilot will be gradually expanded to all line ministries and spending agencies overtime.

4) *Enhancing fiscal reporting and improving the consistency of above and below the line fiscal data.* We will continue to provide the IMF with the monthly TOFE (central government financial operation table) by the 21st of the following month. Moreover, during 2021, we will continue our efforts to reconcile the financing data with the BCSTP at least on a quarterly basis and seek assistance if needed.

5) *Enhancing the enforcement of procurement laws to improve the efficiency of public expenditure and reduce vulnerabilities to corruption.* With support of the World Bank and IMF, we are updating the 2009 procurement law, to include e-procurement; sustainability, environmental, social, and hygiene issues; framework contracts; the complaint mechanism; and the collection and publication of beneficial ownership information.

22. Strengthening fiscal transparency continuous to be our key priority (Structural Benchmark):

- Since November 2020, we have been publishing on the Ministry of Finance (MOF)'s website public procurement contracts and monthly COVID-19 spending reports. For companies that received public procurement contracts, which were published on the ministry's website, we have also published owner information and we are working to enhance our procurement law to enable collection and publication of beneficial ownership information for companies being awarded public contracts.

- We are committed to continue enforcing these high transparency standards. Thus, we will publish on the MOF's website: (i) adjudication notices of public procurement contracts, as required by the Procurement Law (no. 8/2009, articles 29-2, 44-1, and 70-1); (ii) all signed public procurement contracts above the threshold for requiring prior authorization from the Court of Accounts as per the Organic Law (no. 11/2019); and (iii) the ex-post validation of delivery of the contracts—all (i) to (iii) to be published within two weeks after documents become available—and (v) monthly COVID-19 related expenditure reports with a 45-day lag; as well as ownership information and any information available about beneficial ownership of companies awarded public procurement contracts (same as above) to be published within two weeks

- Currently we have no integrated system, and all documents are collected manually. Therefore, there are operational difficulties for our procurement agency COSSIL to access in a timely manner contracts signed by the line ministries. To overcome this obstacle in the short run, the MOF has issued an executive order requiring all spending agencies to send signed procurements contracts to COSSIL as a necessary condition for the Treasury to go ahead with payment to contractors. Looking forward, we are working with the World Bank to develop a webpage for the procurement agency COSSIL, which will expedite the publication of procurement documents and facilitate management and transparency over public contracts. We are also working with IMF staff to support the review of our procurement legal framework to enable the collection and publication of beneficial ownership information. Finally, as part of its audit of the government financial accounts, the Auditor General will audit and publish the 2020 COVID-19-related spending by October 2021.

23. We welcome additional SDR allocation, if approved. Additional SDR allocation will provide welcome boost to our external reserves in 2021 and a portion of it could safeguard critical priority expenditures in 2022 onwards. Financing associated with about SDR 4 million could support well-defined and monitorable priority expenditures in 2022, including those related to the immediate health, education, pro-poor spending, and clearing arrears. Adjustors are introduced to capture the impact of the new allocation on program targets (see TMU). Should the expected budget financing fail to materialize SDR allocation could be used to meet the financing needs.

B. Monetary Policy, Foreign Exchange Reserves, and Safeguards

24. We remain committed to improving our monetary policy framework to support the peg, including by strengthening our liquidity management operations. The BCSTP will request IMF technical assistance to refine the CD mechanism and, over time, develop a policy rate framework that reflects market and risk conditions. As part of our efforts to render the monetary and financial markets more dynamic, we introduced a variable rate auction for T-bills in March with a weighted average interest rate of 4.45 percent. Furthermore, we plan to publish future T-bill schedules online per IMF recommendations and commercial bank requests. Meetings for the Committee on Debt Securities are occurring more frequently than in 2020. At the end of 2020, we increased the minimum reserve requirements for domestic currency from 14 to 18 percent and for foreign currency from 17 to 21 percent (pre-pandemic rates) to help reduce excess liquidity. In 2021, the BCSTP will roll-over its existing CDs and stands ready to use any other tool, including further adjusting reserve requirements and issuing additional CDs to ensure that excess liquidity is gradually reduced **(structural benchmark)**.

25. To improve monetary policy management, we will continue strengthening the coordination of monetary and fiscal policies. Staffing constraints and pandemic-related work restrictions during the first half of 2020 hampered our efforts in reconciling quarterly monetary and treasury data on fiscal financing. This year however, we have completed the reconciliation for annual 2020 and Q1 2021 fiscal financing in conjunction with IMF staff, and we will continue this practice of regular reconciliations. Treasury and BCSTP have published the annual schedule for T-bills for 2021 in January 2021.

26. As noted in the Letter of Intent, we will not introduce regulations and practices that could lead to the introduction of new and intensification/modification of existing exchange restrictions/multiple current practice. Therefore, we will consult the IMF when revising relevant regulations or laws.

27. The Central Bank is committed to sound governance and transparency and to enhance its independence, internal controls, and oversight capacity.

- Financial Statement Audit: We published the 2019 external audit report on the BCSTP website in May 2021.

- IFRS implementation plan. We resumed technical assistance with the Bank of Brazil in early 2020 but stopped in Q1 2020 due to the pandemic. We plan to continue to pursue technical assistance from the Bank of Brazil in 2021.,

- Organic Law. The new draft BCSTP Organic Law, supported by IMF TA, was completed and submitted to the BCSTP Board for their validation in November 2020 and submitted to the MOFBE in March 2021 and the draft law was expected to be submitted to Parliament shortly thereafter (structural benchmark). We will submit the new draft BCSTP Organic Law to Parliament in September 2021.

- Financial Institutions Law. A draft of the financial institutions law, supported by IMF technical assistance, was to be submitted to parliament by end-March 2021 (structural benchmark). However, with capacity and pandemic-related constraints, both BCSTP and IMF decided that more time would be needed to be able to bring the law up to international standards and best practices. Thus, in coordination with IMF, we will plan to complete the draft of the law by September 2021, submit to the BCSTP Board by October 2021, submit to the Ministry of Finance by November 2021, and then submit to parliament by December 2021.

- We will preserve the country's membership in the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) by engaging with the GIABA Secretariat and staying current on membership contributions. Losing GIABA membership exposes to public listing by the FATF, which would cause reputational damage and potential loss of correspondent banking relationships.

- We are committed to implementing the outstanding safeguards recommendations to strengthen the BCSTP Law, implement International Financial Reporting Standards, improve internal audit capacity and Audit Committee oversight, and reduce credit and concentration risks in foreign exchange investments. To this end, we have provided the IMF with an updated timeline and undertake to provide regular updates and documentation on the status of the outstanding recommendations.

C. Financial Sector Policy

28. Though the pandemic adversely affecting banks' asset quality last year, there are signs of improvement, and we remain committed to take all needed actions to preserve financial stability. The systemwide NPL ratio fell by approximately four percentage points from

September 2020 through March 2021 as banks were able to recover on at least two large non-performing loans. Despite the decline in commissions and interest-related income, banks are showing an improvement in overall profitability, driven by a decline in operating expenditures. The loan payment moratorium, from which approximately 2500 customers benefitted, will expire at the end of June 2021. The BCSTP will monitor the impact and determine if further measures are needed.

29. **We are taking steps to improve stress testing capacity to monitor banks' asset quality and preserve financial stability.** As part of our commitment to building capacity, we completed our own stress testing in March 2021. The data and methodology for these stress tests were to have been shared with the IMF by March 2021 **(structural benchmark)**; however, BCSTP staff in the Supervision Department were unable to do so due to staffing constraints. To get back on track with this structural benchmark, we shared the March 2021 stress testing data and methodology with IMF in June 2021, and we expect technical assistance to begin in September 2021. The results of the stress tests, after review and verification from IMF technical assistance, will be used to determine whether banks will need to develop contingency plans and identify remedial measures to ensure that banks remain adequately capitalized.

30. **Efforts to strengthen supervisory capacity continue at a slower pace.** With the support of AFRITAC technical assistance, we have completed the drafting of the manual on banking supervision. However, BCSTP staff have been unable to field test the risk-rating manual due to staffing constraints and pandemic-related lockdown measures. We expect to finalize the field testing by June 2022. We also plan to request IMF technical assistance on developing our banking resolution capacity and will pursue this once we have completed the hiring process for new staff, which is expected by Q1 2022.

31. **We are committed to accelerate the resolution of legacy NPLs to encourage greater access to credit and growth in investment.** Our efforts to have the arbitration courts up and running by June 2021 were delayed, but we have taken important steps over the last six months to continue to push ahead on this front. At the start of 2021, we drafted all legal documents in close consultation with the Council of Ministers and members of parliament. Corrections and revisions were introduced in March, and by April 2021, the necessary legal framework was complete. However, we lacked the financial resources for staffing, training, rehabilitation of the physical space, and operational costs. To address this, the Chamber of Commerce worked closely with UNDP to secure funding for building renovations and operational costs. We have also explored training options using experts from Angola, Cabo Verde, and/or Portugal. Thus, we now anticipate that the building for the court will be completed and that the court will be fully operational once we complete the training of the arbitrators by early 2022.

32. **We are exploring how to complete the resolution of three banks, but face challenges related to the lack of a legal framework and investors.** BCSTP staff completed a final report on the recommendations for the Energy Bank resolution in January 2021. Based on this report, the BCSTP Board is negotiating with national and international investors for either a total acquisition or a partial acquisition and liquidation of the bank, and we expect to conclude negotiations by September 2021. The final report for the Banco Equador liquidation was submitted by the liquidator

to the BCSTP Board in March 2021, and the liquidator began the process of turning over the bank's assets to the court system as we were unable to find any investors or purchasers for the remaining assets. However, during this process, we discovered that the current legal framework does not permit for this procedure. We are exploring options, including requesting IMF technical assistance on banking liquidation, to finalize. For Banco Privado, a process is underway to deliver the assets to the shareholders, but communications and contacts have been hampered by the pandemic.

33. Improving access to finance for SMEs, and financial inclusion more generally, remains a key area of focus for us. The government established a credit line (US$3 million) to help increase access to finance for SMEs. Since the introduction of this credit line in January 2021, 22 SMEs have been granted access to more than $800,000 in credit. Going forward, we will work to build awareness of this program, both with SMEs and commercial banks, and examine ways to streamline the application process. After an international competition, we have selected a company to develop the software for the new collateral registry, which we expect to be complete in early 2022. The BCSTP Bureau of Financial Inclusion completed the national financial inclusion strategy in May 2021 and External Sector Policies and was ratified in the national symposium in June 2021.

Exchange Restrictions

34. The IMF Executive Board granted temporary approval of exchange restrictions and a multiple currency practice. The IMF Executive Board granted temporary approval of these measures in February 2021 for 12 months, or until the next Article IV consultation, whichever is sooner. Therefore, a new approval, if needed, will be requested during the Article IV consultation planned for H2 2021. Efforts to boost reserves noted above will also support the removal of the restricting measures.

D. External Debt

35. Given the high debt level, we will continue to borrow cautiously. We will borrow only at concessional terms. Continued EMAE reform (see ¶41-43) will reduce fiscal liabilities. All these measures will ensure the present value of the external debt to GDP ratio falls below the high-risk debt distress threshold by 2024 (see Borrowing Plan table). We will strive to keep external debt disbursements below 2 percent of GDP and limit contracting of new loans to 3 percent of GDP. These parameters will be adjusted according to the development of debt vulnerability. We will also continue to engage actively with bilateral creditors to regularize post-HIPC arrears.

36. The government is implementing measures to strengthen debt management. Following the Debt Management Performance Assessment (DeMPA)'s main recommendations, we have published a medium-term debt management strategy. With support from the World Bank, we are creating a debt database that will improve our capacity to perform debt service projections and risk analyses and report detailed debt information stock. Once the new database is ready, we will update our public debt strategy.

E. The Implementation of Other Structural Reforms

Development Planning

37. **Our commitment to improving gender equality and women's economic empowerment remains firm despite some delays in our efforts.** We will review our legislation to address gender disparities, including, for example, a mandatory quota on female representation in parliament. The Gender Institute will launch awareness campaigns on gender equality, including incorporating it in the school curriculum to inform all citizens of their legal rights and opportunities in September 2021. The Ministry of Finance has been delayed in collecting gender-disaggregated data from line ministries, but by December 2021, we will begin publishing data on average annual wages by gender and the share of managerial-level positions held by women on a governmental website, such as the Ministry of Finance or Prime Minister's website. As part of our goal to increase capacity on gender-related issues, staff from the Ministry of Finance attended a five-day training held by the IMF on gender budgeting, and we will continue to coordinate with IMF staff to further develop our gender budgeting initiative.

São Tomé and Príncipe: Borrowing Plan 2021
(For Investment, Millions of U.S. dollars)

	2021	
New public debt contracted or guaranteed	Volume [1]	Present Value [1]
Sources of debt financing	16.0	10.4
Concessional debt of which [2]	16.0	10.4
Non-concessional debt of which [3]	0.0	0.0
Semi-concessional debt [3]	0.0	0.0
Commercial terms [4]	0.0	0.0
Uses of debt financing	16.0	10.4
Memorandum items		
Indicative projections		
2022	17.1	11.1
2023	18.1	11.8

Source: STP Authorities and Staff calculations.
[1] Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate.
[2] Debt with a grant element that exceeds a minimum threshold of 35 percent.
[3] Debt with a positive grant element below the minimum grant element.
[4] Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.

38. **We will continue our efforts to strengthen the country's resilience to climate change and protect our natural resources.** The impact of climate change primarily reflects in rising temperatures and sea level, costal erosion, and changing precipitation patterns, hurting agriculture, fisheries, and eventually tourism. A number of externally-financed projects that were underway in 2020 to strengthen resilience to climate change were put on hold in the wake of the epidemic. Work is expected to largely resume in H2 2021. They include the regional West Africa Costal Areas Management Program (WACA) supported by the World Bank to increase resilience of Western African coast, the installation of an early warning system supported by UNDP, improved sanitation facilities supported by the EU and UNICEF, and a recently launched project (COMPRAN) supported by FIDA to strengthen the agricultural sector. At the same time, we will continue to improve our local capacity to protect the environment through training and improved public awareness campaigns and education.

Business Climate to Promote Tourism

39. Improving the business environment and supporting the development of key economic sectors such as tourism is critical to strengthen the recovery and promote sustainable growth. However, reforms were delayed due to pandemic. Specific actions include:

- We recognize the criticality of removing the country from the European Union's Air Safety blacklist to facilitate the recovery of the tourism sector and exports **(structural benchmark)**. However, with the pandemic, we were unable to meet our goal of finalizing this plan by March 2021, and we now expect to have the plan completed by December 2021. We have been able to make some upgrades to the airport over the past year to improve social distancing. We are also updating laws and regulations to bring them in-line with EU guidelines and providing training to staffs.

- We will work to publish a clearly codified procedure for the approval of investment, including access to land, to facilitate investment in tourism by December 2021.

- We completed some initial steps on developing the GUEnet portal (online portal for starting a business), which will facilitate registration and increase transparency on tourism licensing procedures. With support from the World Bank, we have developed the IT platform but we have encountered delays in the validation process as the company that was contracted to complete the work by March 2021 has not done so. We expect this process to be complete by December 2021. We have developed a tourism recovery plan, focusing on 1) measures to guarantee safety of tourists; 2) a roll-out of our vaccination plan, to include all employees working in tourism sector, and the promotion of widespread, affordable COVID testing; and 3) our "Clean and Safe" initiative, which grants certifications to hotels and restaurants whose staff underwent training and whose facilities meet sanitation criteria. These establishments are subject to regular monitoring for non-compliance, and the certification can be revoked if standards are not met.

- We submitted the decree law establishing the tourism school in May 2021. Once it comes into force, a managing entity will be engaged, which will be responsible for setting up the school.

- We have been unable to implement our plans to improve tourism sector data collection and publication due to staffing constraints. However, we will aim to 1) publish quarterly tourist arrival data (which will be agreed upon by relevant agencies, e.g. Border Control, BCSTP, Tourism, INE) within two months from the end of the quarter; 2) expand the annual BCSTP tourist survey on expenses to include information about overall visits and experience satisfaction by December 2021, and, 3) publish results within three months of collecting all data.

- We will work to revise the labor law to encourage investment while providing adequate protection to workers and improving the efficiency of the judicial system to better protect creditor rights granted under the law. We are also working on revising the decree law 28.2014 that regulates hotels and we expect to complete this by August 2021.

40. Other near-term actions are under way to improve the payments system and reduce transportation costs. The new payment system, capable of processing international credit cards,

became operational in April 2021 which helps tourism receipts and consumer spending. In addition, we will aim to improve the port of Principe, which will help reduce the cost of imports (currently on average 20 percent higher than in São Tomé) and ensure a steady supply of goods.

Energy Sector Reform

41. **Despite the slow progress during COVID-19 crises, we remain committed to the comprehensive reform strategy for the energy sector, which aims to shift thermoelectric generation towards more sustainable energy sources.** The strategy is centered on implementing the Least Cost Development (LCDP) and the Management Improvement (MIP) plans and have EMAE achieving full cost recovery. It comprises four clear objectives that combine together to improve electricity generation capacity and contain consumption, enhance efficiency in EMAE's operations by reducing losses and increasing collection rates, besides enhancing the design of the tariff structure for electricity in the country:

Objective 1: Reduce the cost of electricity generation and change the generation mix towards renewable sources.	**Target:** Reduce the average cost of energy produced from 0.25 to 0.14 USD/kWh by 2024. Increase renewable sources' share from 5 percent to 45 percent by 2024.
Objective 2: Reduce electricity consumption (Table B.).	**Target:** Reduce electricity consumption by 15 percent within 12 months.
Objective 3: Improve management of electricity distribution by the state-owned corporation EMAE to reduce losses and improve collection rates.	**Target:** Reduce losses (commercial and technical) and improve the collection rate to lower losses raise the collection rate. (**Table A. Below)**
Objective 4: Reform tariff structure and strengthen regulatory framework.	**Target:** Gradually achieve a cost-reflective tariff structure by 2024.

Table A. São Tomé and Príncipe: Energy Sector Indicators and Targets

(in percent)

	Baseline		Target	
	2019	Dec-20	Dec-21	June-22
Reducing loss (commercial + technical)	33	33	29	23
Raising bill collection rate to [1,2]	85	91	93	95
Reduce diesel loss to	6.3	6.3	5	

[1]Deterioration in 2019 due to expansion of network in 2018 by the previous government.
[2] No target manageable in the current context for end-2020.

42. **Under objective 2 our near-term priority action to reduce electricity consumption include:**

a. Rolling out the LED program, as previously agreed with IMF Staff, to replace incandescent/fluorescent light bulbs with LED bulbs in the country, pursuant to the LED

program parameters by end-2021 **(structural benchmark)**. A program to replace incandescent/fluorescent light bulbs with LED bulbs is supported with $2 million funding from the World Bank and we expect to start the distribution of LED bulbs by end-2021. The tender was concluded in November 2020, and the contract signed in May 2021. We are now launching the tender to hire two additional individual consultants, one to perform a technical inspection in the LED factory in China and the other the prepare a communication campaign. The contracts with the consultants are expected to be signed in July 2021 to enable receiving the LED bulbs in São Tomé in the third quarter of 2021.

b. Passing a law to ban the importation of incandescent/fluorescent lamps by June 2022. An individual consultant has drafted the law, which is under review by the STP government. We will also conduct outreach to stakeholders and importers, raising awareness and helping them access LED suppliers.

43. Since March 2021, the country has been experiencing persistent daily shortages in electricity supply and we are working diligently to overcome this situation. The shortages were caused by the depreciation and lack of maintenance in oil-based electricity generators which became non-operation, reducing the generation capacity in the country from 19 MW to 14 MW in March. While we are working to stabilize energy supply by importing replacement parts and repairing faulty generators, we understand that permanent solutions require accelerating development of alternative sustainable energy sources (a photovoltaic solar and hydropower) as part of overall energy sector reform strategy. We are currently reviewing our strategy and reform measures with a view of addressing immediate capacity constraints, in consultation with development partners.

Table B. São Tomé and Príncipe: EMEA/Energy Sector: Expected Key Actions and Timeline, 2021

Measures	Status	Proposed new target date
1. Develop terms of reference of the new executive management team of EMAE for implementing reform measures.	Delayed due to capacity constraints at EMAE and impact of COVID.	End-September 2021
2. Government establishes a mechanism with EMAE to cap consumption and ensure timely bill payment by public entities.	Delayed due to restrictions imposed by the pandemic.	To continue after crisis subsides
3. Complete the LED program, as previously agreed with IMF Staff, to replace incandescent/fluorescent light bulbs with LED bulbs in the country, pursuant to the LED program parameters **(Structural Benchmark)**	Procurement contract signed with some delay in scheduled delivery to allow for fabrication of lamps.	End-2021
4. Continue to develop arrears clearance plan with non-public customers.	Delayed due to restrictions imposed by the pandemic.	To continue after crisis subsides
5. Implement the meter program supported by EIB and World Bank, including completing the installation of 3000 consumption meters for large clients, and install diesel meters to monitor delivery and consumption at power plants.	Delayed due to additional requirements identified in the bidding documents. Procurement process is ongoing.	To continue after crisis subsides
6. Issue a decree covering: (i) tariff structure definition, (ii) customer category definition, (iii) social tariffs adjustments, and (iv) agreed conditions and a broad timeline to achieve full cost-recovery structure.	Delayed.	End-2021

Improving Economic Statistics

44. We are continuing to improve economic data. An IMF TA helped us implement the enhanced General Data Dissemination System (e-GDDS) to foster greater data accessibility and identify priority areas for data quality improvements. We continue submitting data essential for surveillance through a National Summary Data Page (NSDP) using the Statistical Data and Metadata Exchange (SDMX) for machine-to-machine data transfer. Though there have been delays this year due to the pandemic, we will redouble our efforts to ensure that we adhere to our schedule of publication commitments (outlined here). We also plan to improve our balance of payment statistics, including recording imports related to petroleum exploration FDI and refining estimation of tourist receipts.

Capacity Development

45. Continued hands-on technical assistance is essential to build capacity. Given limited staff capacity, on-the-job training has been particularly important. Therefore, we will seek to complement short-term technical assistance with that provided by long-term or peripatetic experts, who not only diagnose problems but also support the implementation of the technical assistance recommendations. In addition, we will also request Portuguese speaking experts to simplify interactions, expedite the identification of core issues, and facilitate the transfer of knowledge. We have also discussed and updated with IMF staff our medium-term capacity development strategy, which includes revenue administration—notably, implementing the VAT— PFM reforms to improve budget preparation and execution, banking regulation and supervision, and strengthening the accuracy of balance of payment statistics.

PROGRAM MONITORING

46. The program will be monitored on a semi-annual basis, through quantitative and/or continuous performance criteria and indicative targets (Table 3) and structural benchmarks (Table 4). Quantitative targets are set for end-June, end-December 2021, and end-June 2022, while those for end-September 2021 and end-March 2022 are indicative targets. The fourth review should be completed on or after September 15, 2021, the fifth review should be completed on or after April 15, 2022, and the sixth review should be completed on or after October 15, 2022.

Table 1. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2020-21[1]

(Millions of new dobras, cumulative from beginning of year, unless otherwise specified)

	2020				2021			
	December Program Target				March Indicative Target			
	First Review	With adjusters	Prel.	Status	Second Review	With adjusters	Prel.	Status
Performance Criteria:								
Floor on domestic primary balance (as defined in the TMU) [2]	-565	-647	-324	Met	-141	-166	-129	Met
Ceiling on changes in net bank financing of the central government (at program exchange rate) [3,4,5]	-65	-173	-251	Met	60	118	77	Met
Floor on net international reserves of the central bank (US$ millions) [2,4]	25	22	37	Met	25	22	27	Met
Ceiling on the accumulation of central government's new external payment arrears (US$ millions) [5,6,7,8]	0	0	0	Met	0	0	0	Met
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the central government or the BCSTP (in present value terms, US$ millions) [5,6,7,8,9]	0	0	0	Met	0	0	0	Met
Not to: (i) impose or intensify exchange restrictions, (ii) introduce or modify multiple currency practices, (iii) conclude bilateral payments agreements that are inconsistent with Article VIII, or (iv) impose or intensify import restrictions for balance of payments reasons				Met				Met
Indicative Targets:								
Ceiling on change of central government's new domestic arrears	-60		-137	Met	0		-14	Met
Floor on pro-poor expenditures	700		864	Met	150		167	Met
Floor on tax revenue	1152		1346	Met	350		262	Not Met
New concessional external debt contracted or guaranteed with original maturity of more than one year by the central government or the BCSTP (in present value terms, US$ millions) [5,7,8,10]	8		0	Met	2		0	Met
Memorandum items:								
Ceiling on dobra base money (stock)	1,321		1,681		1,387		1,609	
Transfer from NOA to the budget (US$ millions)	3.8		3.0		3.2		2.6	
Net external debt service payments [11]	91		56		33		14	
Official external program support [11]	1,144		1,003		49		56	
IMF program disbursement	421		362		0		56	
Budget support grants	723		641		49		0	
Domestic arrears clearance (-, exclude debt payment to ENCO)	-70		-115		0		2	
Treasury-funded capital expenditure	28		35		8		3	
Ceiling on personnel expenses	980		978		300		235	

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

[1] Performance at the December 2019 test date is assessed on the first review.

[2] The floor will be adjusted upward or downward according to definitions in the TMU.

[3] The ceiling will be adjusted downward or upward according to definitions in the TMU.

[4] Excluding the National Oil Account (NOA) at the Central Bank.

5 The term "central government" is defined as in ¶5 of the TMU, which excludes the operations of state-owned enterprises. The target has been changed to present value to reflect new debt policy.

[6] This criterion will be assessed as a continuous performance criterion.

[7] The term "external" is defined on the basis of the residency of the creditor per paragraph 5 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 15688 of the Executive Board (Dec. 5, 2014).

[8] This performance criterion or memorandum item applies not only to debt as defined in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 15688 of the Executive Board (Dec. 5, 2014), but also to commitments contracted or guaranteed for which value has not been received. For further details on the definition of debt and external arrears refer to the TMU, ¶6 and 13.

[9] Only applies to debt with a grant element of less than 35 percent. For further details refer to the TMU, ¶12 and 17.

[10] Only applies to debt with a grant element of at least 35 percent.

[11] As defined in the TMU, valued at the program exchange rate, excludes HIPC-related amortization.

Table 2. São Tomé and Príncipe: Structural Benchmarks

Policy Objectives and Measures	Timing	Macro Rationale	TA involved	Status
Strengthening Public Finances				
Implement key measures of Management Improvement Plan and Least Cost Development Plan for EMAE (MEFP ¶45, table key actions)	Continuous	To contain fiscal risk	With World Bank support	Not Met
Introduce the VAT according to the October 2019 law (MEFP ¶17)	End-July 2021	To enhance revenue	With World Bank support	
Maintain the current fuel retail prices as long as costs (including taxes and fees) remain below prices, and raise the prices if costs increase, consistent with the automatic fuel price adjustment mechanism, to prevent fuel subsidies.	Continuous	To enhance revenue	No TA involved	Met
Publishing on the Ministry of Finance (MOF) website (i) adjudication notices of public procurement contracts, as required by the Procurement Law (no. 8/2009, articles 29-2, 44-1, and 70-1); (ii) all signed public procurement contracts above the threshold for requiring prior authorization from the Court of Accounts as per the Organic Law (no. 11/2019) (including COVID-19 related); (iii) the ex-post validation of delivery of the contracts —all (i) to (iii) to be published within two weeks documents become available to COSSIL— and (iv) monthly COVID-19 related expenditure reports within a 45-day lag (MEFP ¶22).	Continuous	To increase transparency and accountability	No TA involved	Not Met. Implemented with delay
Publishing on the Ministry of Finance's (MOF) website ownership information and any information available about beneficial ownership of companies receiving public procurement contracts (same contracts as above).	Continuous	To increase transparency and accountability	LEG	Not Met. Implemented with delay
Enhancing Monetary Policy and Financial Stability				
Conduct bank stress tests, with input from the IMF, to identify possible credit risk pressures due to the fallout from the COVID-19 pandemic	End-March 2021	To support financial sector stability	MCM	Not Met
Submit the BCSTP organic law to Parliament (MEFP ¶27)	End-February 2021	To strengthen financial supervision and improve governance and oversight	MCM/LEG	Not Met
Submit the revised financial institutions law, in consultation with IMF staff, to Parliament (MEFP ¶27)	End-March 2021	To strengthen financial supervision and improve governance and oversight	MCM/LEG	Not Met
Activate the liquidity management toolkit to reduce excess liquidity during 2021 below the end-2020 levels, including by rolling over existing CD, and issuing CDs as needed.	End-December 2021	Stabilize excess liquidity and support the peg	MCM	
Facilitating Business Activities				
Develop a plan to remove the country from the European Union's Air Safety blacklist	End-March 2021	To facilitate the recovery of the tourism sector	With World Bank support	Not Met

Table 3. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2021-22
(Millions of new dobras, cumulative from beginning of year, unless otherwise specified)

	2021			2022	
	June	Sept.	Dec.	March	June
	Performance Criteria	Indicative Target	Performance Criteria	Indicative Target	Performance Criteria
	Second Review	Second Review	Second Review	Prop.	Prop.
Performance Criteria:					
Floor on domestic primary balance (as defined in the TMU) [2]	-225	-300	-379	-80	-160
Ceiling on changes in net bank financing of the central government (at program exchange rate) [3, 4, 5]	200	300	354	80	160
Floor on net international reserves of the central bank (US$ millions) [2, 4]	25	24	23	25	26
Ceiling on the accumulation of central government's new external payment arrears (US$ millions) [5, 6, 7, 8]	0	0	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the central government or the BCSTP (US$ millions) [5, 6, 7, 8, 9]	0	0	0	0	0
Not to: (i) impose or intensify exchange restrictions, (ii) introduce or modify multiple currency practices, (iii) conclude bilateral payments agreements that are inconsistent with Article VIII, or (iv) impose or intensify import restrictions for balance of payments reasons		Continuous			
Indicative Targets:					
Ceiling on change of central government's new domestic arrears	-20	-30	-60	0	-20
Floor on pro-poor expenditures	300	450	600	157	315
Floor on tax revenue	700	1050	1400	344	751
New concessional external debt contracted or guaranteed with original maturity of more than one year by the central government or the BCSTP (in present value term, US$ millions) [5, 7, 8, 10]	4	7	9	3	6
Memorandum items:					
Ceiling on dobra base money (stock)	1,454	1,520	1,586	1,619	1,612
Transfer from NOA to the budget (US$ millions)	3.2	3.0	3.2	2.7	2.7
Net external debt service payments [11]	65	98	130	41	82
Official external program support [11]	105	105	261	148	148
IMF program disbursement	56	56	112	56	56
Budget support grants	49	49	149	92	92
Domestic arrears clearance (-, exclude debt payment to ENCO)	0	-10	-73	...	...
Treasury-funded capital expenditure	15	20	30	6	14
Ceiling on personnel expenses	599	770	1,070	260	519

Sources: São Tomé and Príncipe authorities; and IMF staff estimates and projections.
[1] Performance at the June 2020 test date is assessed on the second review.
[2] The floor will be adjusted upward or downward according to definitions in the TMU.
[3] The ceiling will be adjusted downward or upward according to definitions in the TMU.
[4] Excluding the National Oil Account (NOA) at the Central Bank.
5 The term "central government" is defined as in ¶5 of the TMU, which excludes the operations of state-owned enterprises. The target has been changed to present value to reflect new Debt policy.
[6] This criterion will be assessed as a continuous performance criterion.
[7] The term "external" is defined on the basis of the residency of the creditor per paragraph 5 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 15688 of the Executive Board (Dec. 5, 2014).
[8] This performance criterion or memorandum item applies not only to debt as defined in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 15688 of the Executive Board (Dec. 5, 2014), but also to commitments contracted or guaranteed for which value has not been received. For further details on the definition of debt and external arrears refer to the TMU, ¶6 and 13.
[9] Only applies to debt with a grant element of less than 35 percent. For further details refer to the TMU, ¶12 and 17.
[10] Only applies to debt with a grant element of at least 35 percent.
[11] As defined in the TMU, valued at the program exchange rate, excludes HIPC-related amortization.

Table 4. São Tomé and Príncipe: Structural Benchmarks 2021

Policy Objectives and Measures	Timing	Macro Rationale	TA involved
Prior actions			
Sign the protocol of information exchange between Customs and Tax Directorates to enable VAT collections to start at Customs			
Strengthening Public Finances			
Rolling out the LED program, as previously agreed with IMF Staff, to replace incandescent/fluorescent light bulbs with LED bulbs in the country, pursuant to the LED program parameters	End-December 2021	To contain fiscal risk	With World Bank support
Introduce the VAT according to the October 2019 law (MEFP ¶17)	End-October 2021	To enhance revenue	With World Bank support
Maintain the current fuel retail prices as long as costs (including taxes and fees) remain below prices, and raise the prices if costs increase, consistent with the automatic fuel price adjustment mechanism, to prevent fuel subsidies.	Continuous	To enhance revenue	No TA involved
Publishing on the Ministry of Finance (MOF) website (i) adjudication notices of public procurement contracts, as required by the Procurement Law (no. 8/2009, articles 29-2, 44-1, and 70-1); (ii) all signed public procurement contracts above the threshold for requiring prior authorization from the Court of Accounts as per the Organic Law (no. 11/2019) (including COVID-19 related); (iii) the ex-post validation of delivery of the contracts —all (i) to (iii) to be published within two weeks documents become available to COSSIL— and (iv) monthly COVID-19 related expenditure reports within a 45-day lag (MEFP ¶22).	Continuous	To increase transparency and accountability	No TA involved
Publishing on the Ministry of Finance's (MOF) website ownership information and any information available about beneficial ownership of companies receiving public procurement contracts (same contracts as above), within two weeks (MEFP ¶22).	Continuous	To increase transparency and accountability	LEG
Enhancing Monetary Policy and Financial Stability			
Conduct bank stress tests, with input from the IMF, to identify possible credit risk pressures due to the fallout from the COVID-19 pandemic	End-December 2021	To support financial sector stability	MCM
Submit the BCSTP organic law to Parliament (MEFP ¶27)	End-September 2021	To strengthen financial supervision and improve governance and oversight	MCM/LEG
Submit to the Government the revised financial institutions law, enhancing the legal framework for bank regulation and supervision, including the powers, responsibilities, and functions of the BCSTP and the prudential requirements for banks. The draft shall be prepared in consultation with IMF staff.	End-December 2021	To strengthen financial supervision and improve governance and oversight	MCM/LEG
Activate the liquidity management toolkit to reduce excess liquidity during 2021 below the end-2020 levels, including by rolling over existing CD, and issuing CDs as needed.	End-December 2021	Stabilize excess liquidity and support the peg	MCM
Facilitating Business Activities			
Develop a plan to remove the country from the European Union's Air Safety blacklist (MEFP ¶39)	End-December 2021	To facilitate the recovery of the tourism sector	With World Bank support

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) contains definitions and adjuster mechanisms that clarify the measurement of quantitative performance criteria and indicative targets in Table 3**, which are attached to the Memorandum of Economic and Financial Policies for 2019-23. Unless otherwise specified, all quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from the beginning of each calendar year.

2. **The program exchange rate** for the purposes of this TMU[1] will be the rates at end-2018, specifically 21.6925 new dobras per U.S. dollar, 24.5 new dobras per euro, 29.17221 new dobras per SDR, and 30.1865 new dobras per UA.

PROVISION OF DATA TO THE FUND

3. **Data with respect to all variables subject to performance criteria and indicative targets will be provided to Fund staff on the frequency described below** (¶26) with a lag of no more than four weeks for data on net international reserves of the Central Bank of São Tomé and Príncipe (BCSTP) and six weeks for other data. The authorities will transmit promptly to Fund staff any data revisions. For variables that are relevant for assessing performance against program objectives but are not specifically defined in this memorandum, the authorities will consult with Fund staff as needed on the appropriate way of measuring and reporting. Performance criteria included in the program are defined below, specifically (i) the floor on domestic primary balance; (ii) the ceiling on changes in net bank financing of the central government; (iii) the floor on net international reserves of the central bank; (iv) the ceiling on central government's outstanding external payments arrears; and (v) the ceiling on the contracting or guaranteeing of new non-concessional external debt by the central government or the BCSTP.

DEFINITIONS

4. **For the purposes of this TMU**, **external and domestic** shall be defined on a residency basis.

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

6. **Debt is defined as in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 16919-(20/103) of the Executive Board (October 28, 2020).** "Debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual agreement through the provision of value in the form of assets

[1]Data refer to the mid-point exchange rates published on the BCSTP's webpage for the last day of 2018.

(including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract."

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

8. Domestic primary expenditure comprises all government spending assessed on a commitment basis (*base compromisso*), excluding (1) capital expenditure financed with external concessional loans and project grants, (2) the cost assumed by the budget to pay off small depositors following the liquidation of Banco Equador, and (3) scheduled interest payments. Reporting of government domestic expenditure will be based on the state budget execution prepared every month by the Directorate of Budget and the Directorate of Treasury in the MOF. All capital expenditures financed by budget support grants (including EU's) are treated as part of domestic primary spending, with no exception.

São Tomé and Príncipe: Official External Program Support

	2020 *H1*	2020	2021 *H1*	2021	2022 *H1*	2022	Currency
Projected budgetary support grants							
World Bank	0.0	10.0	0.0	10.0	0.0	6.06	million US dollars
European Union	3.0	5.2	0.0	4.3	0.0	4.10	million euros
African Development Bank	0.0	13.5	1.8	0.0	3.7	0.0	million UA
IMF ECF program	0.0	3.4	1.9	3.8	1.9	3.81	million SDR
IMF RCF	9.0	9.0	0.0	0.0	0.0	0.0	million SDR

Source: Sources: STP authorities; AFDB, WB, and Fund staff estimates.

PERFORMANCE CRITERIA

9. Performance criterion on the floor on domestic primary balance. This performance criterion refers to the difference between government domestic revenue (including oil tax surcharge and excluding oil revenue) and domestic primary expenditure. Planned payment of (price differential) debt to ENCO (¶22) are deducted from the oil surcharge revenue. To control spending, MoF will not approve borrowing by any public entity in the central government other than Treasury (MEFP ¶14, 17). Accordingly, for the purpose of program monitoring, borrowing by any public entity other than Treasury recorded in the monetary survey as loans to the central government will be

added as additional expenditure to the DPD. For reference, the domestic primary balance for end 2020 based on ***hypothetical outturns*** would be -324 million new dobras, broken down as follows:

São Tomé and Príncipe: Domestic Primary Balance
(2020, millions of new dobras)

		ECF Second Rev.	Estimates	Diff.
I	Total revenue (=1+2)	1526	1596	69
I.A	***of Which: Government Domestic Revenue (=I–2.1+3)***	***1525***	***1565***	***39***
1	Tax revenue	1300	1346	46
2	Nontax revenue	226	250	24
2.1	*of which: oil revenue*	*23*	*31*	8
3	Amortization of debt to ENCO	22	0	-22
II	Total Domestic expenditure (=4+5+6+7)	1997	1924	-73
II.A	***Of which: Domestic primary expenditure (=II–4.2)***	***1956***	***1889***	**-67**
4	Current expenditure	1774	1731	-43
4.1	Personnel costs	980	956	-24
4.2	Interest due	42	35	-7
4.3	Goods and services	255	237	-18
4.4	Transfers	318	325	7
4.5	Other current expenditure	179	178	-1
5	Domestic capital expenditure	27	20	-7
5.1	Financed by the Treasury	28	20	-8
5.2	Financed by privatization proceeds	-1	0	1
6	HIPC Initiative-related social expenditure	18	13	-5
7	COVID-19 spending financed by the Treasury 1/	178	160	-17
III	**Domestic primary balance (= I.A–II.A)**	**-475**	**-324**	**150.5**

Sources: STP authorities; and Fund staff estimates.
1/ Does not include 23.6 billion dobras in COVID-related wages and salaries, which are included in personnel costs.

10. Performance criterion on the ceiling on changes in net bank financing of the central government (NCG). This performance criterion refers to the increase (decrease) of net bank financing of the central government, which equals the stock of all outstanding claims on the central government held by the BCSTP and by other depository corporations (ODCs), less the stock of all deposits held by the central government with the BCSTP and with ODCs, plus the increase, if any (with the approval of the ministry of finance) of ODC's credit to the public entities. The balance of the National Oil Account (NOA), deposits from project grants and project loans, contingent liabilities, and social security operations are not included in NCG. All foreign exchange-denominated accounts will be converted to new dobras at the program exchange rate. The relevant data are reported monthly by the BCSTP to the IMF staff. For reference, at end-2020, outstanding net bank financing of the central government (excluding NOA) was 482 million new dobras, and change in net bank financing was -251 million new dobras as illustrated below.

São Tomé and Príncipe: Net Bank Financing
(millions of new dobras)

		2019	2020
I	***Net credit to government by the BCSTP (=I.1-I.2)***	***11***	***(132)***
I.1	BCSTP credit, including use of IMF resources:	305	280
I.2	Government deposits with the BCSTP (excluding NOA)	294	412
	Treasury dobra-denominated accounts	25	76
	Treasury foreign currency-denominated accounts (excl'g NOA)	173	273
	Counterpart deposits	96	63
II	***Net credit to government by ODCs***	***722***	***615***
II.1	ODC's credit to the government	908	780
II.2	Government deposits with ODCs	186	165
III	***Net bank financing of the government (excluding NOA) (=I+II)***	***733***	***482***
IV	***Changes during 2020 in net bank financing of the central government (NCG)***	**...**	***(251)***

Source: STP Authorities and Staff calculations.

11. Performance criterion on the floor on net international reserves (NIR) of the BCSTP. The NIR of the BCSTP are defined for program-monitoring purposes as short-term (i.e., original maturities of one year or less), tradable foreign assets of the BCSTP minus short-term external liabilities, as well as all liabilities to the IMF. All short-term foreign assets that are not fully convertible external assets nor readily available to and controlled by the BCSTP (i.e., they are pledged or otherwise encumbered external assets, including but not limited to the HIPC umbrella SDR account and assets used as collateral or guarantees for third-party liabilities) will be excluded from the definition of NIR. Securities whose market value on the last day of the year differs by over 20 percent from their original nominal issue price will be assessed at their market value as reported by the BCSTP's Markets Department. The balance of (1) NOA at the BCSTP, (2) banks' deposits related to capital or licensing requirements, and (3) banks' reserves denominated in foreign currency are excluded from the program definition of NIR. All values are to be converted to U.S. dollars at the actual mid-point market exchange rates prevailing at the test date. For reference, at end-2020 NIR was 813 million new dobras (or $37 million, using the exchange rate of 21.6925 new dobras per U.S. dollar), calculated as follows:

12. Performance criterion on the ceiling on the contracting or guaranteeing of new non-concessional external debt by the central government or the BCSTP. This continuous performance criterion covers the contracting or guaranteeing of new external debt of any maturity (including overdraft positions but excluding short-term import-related and supplier credits) by the central government and/or the BCSTP. Debt is considered non-concessional if it includes a grant element less than 35 percent. The grant element is the difference between the nominal value of the debt and its net present value, expressed as a percentage of the nominal value. The ceiling on the

contracting or guaranteeing of new non-concessional external debt applies to present value of all new non-concessional external debt. The net present value of the debt at the date on which it is contracted is calculated by discounting the stream of debt service payments at the time of the contracting. The discount rate used for this purpose is 5 percent. For program purposes, a debt is considered contracted on the signature date of the contract, unless it is specified in the contract that it becomes effective upon ratification by the parliament. In the latter case, the debt is considered contracted upon ratification by parliament. This performance criterion does not apply to IMF resources. Debt being rescheduled or restructured is excluded from this ceiling to the extent that such non-concessional debt is used for debt management operations that improve the overall public debt profile. Medium- and long-term debt will be reported by the Debt Management Department of the MOF (as appropriate), measured in U.S. dollars at the prevailing exchange rates published by the BCSTP. The government should consult with IMF staff before contracting or guaranteeing new debt obligations.

São Tomé and Príncipe: International Reserves

(millions of new dobras)

		Dec-20
I	***Gross international reserves***	**1502**
	Cash	**35**
	Demand deposits	**851**
	Term deposits (excl. National Oil Account)	**243**
	Securities other than shares	**371**
	Accrued interest on securities	**-21**
	Reserve position in the Fund	0
	SDR holdings	**23**
II	***Foreign exchange liability***	**689**
	Short-term bilateral liabilities	20
	Liabilities to the IMF	537
	Banks' reserves denominated in foreign currency	133
	Banks' guaranteed deposits denominated in foreign currency	0
III	**Net international reserves (NIR) (=I - II)**	**813**
IV	***Net other foreign assets***	**281**
	Other foreign assets	485
	Medium and long-term liabilities (including SDR allocation)	204
	Net foreign assets (III+IV)	**1094**
	Memorandum item: National Oil Account (NOA)	**329**

Source: STP Authorities and Staff calculations.

13. Performance criterion on the ceiling on the accumulation of central government's new external payment arrears. This is a continuous performance criterion. New central government external payment arrears consist of external debt service obligations (principal and interest) that have not been paid at the time they are due, as specified in the contractual agreement, subject to any applicable grace period. This performance criterion does not apply to arrears resulting from the nonpayment of debt service for which a clearance framework has been signed by the debtor and creditor before the relevant payment comes due or for which the government has sought rescheduling or restructuring as of March 2019.

INDICATIVE TARGETS

14. Ceiling on change of central government's new domestic arrears is set on the difference between expenditure on a commitment basis and cash payments (amounts past due after 40 days and unpaid).

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

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

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

Economic Classification of Expenditures

Code	Economic classification of current expenditure	Education	Health	Social Security and Assistance	Housing and Community Services	Culture and Sport	Fuel and Energy	Agriculture and Fisheries
310000	Personnel Expenses	x	x					
331210	Specialty Durable Goods	x	x					
331290	Other Durable Goods	x	x					
331120	Fuels and Lubricants[1]	x	x					
331130	Foodstuffs, Food[1] and Accommodation	x	x					
331140	Specialized Current Consumable Materials (Specific to Each Sector)	x	x					
331190	Other Consumer Non Durable Goods	x	x					
332110	Water and Energy Services	x	x					
332120	Communication Services	x	x					
332130	Health services	x	x					
332220	Maintenance and Conservation Services	x	x					
353900	Other Miscellaneous Current Expenses	x	x	x				
352200	Transfers to non-profit institutions (private)		x	x				
352310	Retirement Pension and Veterans		x	x				
352320	Family Benefit		x	x				
352330	Scholarships	x						
352390	Other Current Transfers to Families		x	x				
353100	Unemployment Fund		x	x				
Code	**Economic classification of capital expenditure**							
411110	Feasibility Study and Technical Assistance	x	x	x	x	x	x	x
411120	Procurement and Construction of Real Estate	x	x	x	x	x	x	x
411200	Rehabilitation Works and Facilities	x	x	x	x	x	x	x
411300	Means and Equipments of Transportation	x	x	x	x	x	x	x
411400	Machinery and Equipment	x	x	x	x	x	x	x
411900	Other Fixed Capital Goods	x	x	x	x	x	x	x
412000	Stocks	x	x	x	x	x	x	x

Source: Diário da Republica de São Tome e Principe No. 21 - May 7, 2008, pages 12-13.

[1] Expenditures on fuels and lubricants (*combustiveis e lubrificantes*) that are affected for administrative purposes are excluded. Likewise, food (*alimentação*) and clothing and shoes (*roupas e calçados*) supplied to administrative staff are excluded.

16. Floor on tax revenue is set on tax revenue that includes direct and indirect taxes as well as recovery of tax arrears and additional collection efforts.

17. New concessional external debt contracted or guaranteed by the central government or the BCSTP measures the present value of such debt with a grant element of at least 35 percent, and the limits on this debt are cumulative from the beginning of each calendar year. The ceiling on

the contracting or guaranteeing of new concessional external debt applies to present value of all new concessional external debt. The present value of the debt is calculated on the date on which it is contracted by discounting the future stream of payments of debt service due on this debt using a discount rate of five percent.

MEMORANDUM ITEMS

18. Net external debt service payments by the central government are defined as debt service due less the accumulation of any new external payment arrears, as defined under the performance criterion on the ceiling on central government's outstanding external payment arrears.

19. Official external program support is defined as budget support grants and budget support loans, including disbursements from the IMF under the ECF and RCF arrangement, and other exceptional financing provided by foreign official entities and incorporated into the budget. Budget support grants include in-kind aid when the products are sold by the government and the receipts are used to finance a budgeted spending item.

20. Treasury-funded capital expenditure is part of domestic primary expenditure and covers public investment projects that are not directly financed by project grants and concessional project loans. It includes government's co-financing of capital projects financed mainly by project grants and loans. It includes spending on new construction, rehabilitation, and maintenance. Expenditure on wages and salaries and the purchase of goods and services related to the projects will not be classified as capital expenditure.

21. Ceiling on base money is set on the sum of currency issued—which consists of currency outside depository corporations and cash in vaults—and bank reserves denominated in new dobras. Bank reserves refer to reserves of commercial banks (in new dobras) held with the central bank and include reserves in excess of the reserve requirements.

22. Planned payment of debt to ENCO is the targeted amount to be deducted from the oil surcharge to pay back debt to ENCO during the year as discussed in paragraph 9. Higher than planned payments are not excluded from the revenue and will be included in domestic debt service. The planned annual payment is US$1.2 million and US$1.3 million in 2021 and 2022, respectively, half of which will be paid during the first semester.

23. Domestic arrear clearance is measured as changes in the stock of government arrears to domestic suppliers, excluding debt payments to ENCO as defined in paragraph 14.

24. Ceiling on personnel expenses is the targeted amount of ceiling to measure personnel costs as part of current expenditure of the central government.

USE OF ADJUSTERS

25. The performance criterion on the domestic primary balance will have one adjuster. The floor on the domestic primary balance will be adjusted upward for the shortfall of budgetary grants

and downward if the government receives more than projected budget support grants and privatization receipts in 2021 and 2022; the adjustment down will be capped at 26 million new dobras (a little over ¼ percent of 2020 GDP) for the second semester of 2021 and 26 million new dobras for the first semester of 2022.[2] The adjustment upward will be capped at 51 million new dobras in 2021. For program purpose, the projected privatization proceeds are 0 in 2021 and 2022.

26. The performance criteria on net bank financing of the central government and net international reserves of the central bank will be subject to the following adjusters based on deviations calculated cumulatively from end-December 2020 or end-December 2021, as appropriate (MEFP Attachment I, Table 3):

- ***Adjusters on ceilings on changes in net bank financing of the central government (NCG)***: Quarterly differences between actual and projected receipts of budget transfers from the NOA, budget support grants, net external debt service payments, and domestic arrears will be converted to new dobras at the program exchange rate and aggregated from end-December 2020 or end-December 2021, as appropriate, to the test date. The ceilings will be adjusted:
    - (i) downward (upward) by cumulative deviations downward (upward) of actual from projected net external debt service payments (exclude HPIC),
    - (ii) downward (upward) by deviation upward (downward) in budget transfers from the NOA,
    - (iii) downward by deviation upward of budget support grants in excess of 26 and 26 million new dobras in the second semester of 2021 and the first semester of 2022 respectively; upward by deviation downward of budget support grants in excess of at 51 million new dobras.
    - (iv) downward (upward) by deviation upward (downward) of domestic arrears.

The combined application of all adjusters at any test date is capped at the equivalent of US$5 million at the program exchange rate. If the IMF makes a new SDR allocation to its membership, the ceiling on changes in NCG in 2022 will be adjusted upward by the SDR allocation on-lent to the central government by the BCSTP, but not by more than additional US$8.1 million.

- ***Adjusters for the floor on net international reserves (NIR) of the BCSTP***: Quarterly differences between actual and projected receipts of budget transfers from the NOA, budget support grants and loans, net external debt service payments, and domestic arrears in new dobras, will be converted to U.S. dollars at the program exchange rate and aggregated from end-December 2020 or end-December 2021, as appropriate, to the test date. The floor will be adjusted upward (downward):

[2] Grants and related expenditures to cover the cost of the elections will be excluded from the measurements of the domestic primary deficit.

- (i) by the cumulative deviation downward (upward) of actual from projected net external debt service payments of the central government;
- (ii) by deviations upward (downward) for budget transfers from the NOA;
- (iii) by deviations upward (downward) of budget support grants and loans. Budget support loans in 2020 and 2021 are projected to be 0; and
- (iv) adjusted upward by US$10 million if a new allocation of SDRs to São Tomé and Príncipe in 2022, should the IMF make a new allocation to its membership.

The combined application of all adjusters at any test date is capped at the equivalent of US$10 million at the program exchange rate, provided that, if additional SDR allocation is made, the cap shall be increased to US$20 million pursuant to adjustor (iv) above.

DATA REPORTING

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

1) **Fiscal Data:** The Directorate of Treasury and Directorate of Budget at the MOF will provide the following information to IMF staff, within three weeks after the end of each month or quarter, except for the public investment program (PIP), which will be provided three months after each quarter:

- Monthly data on central government operations for revenues, expenditure, and financing, including detailed description of net earmarked resources (*recursos consignados*), on commitment (*compromisso*) and cash payments (*caixa*);
- Monthly data on net credit to the government by the BCSTP, recorded account by account in a format fully compatible with the monetary accounts of the BCSTP;
- Monthly detailed data on tax and nontax revenues;
- Monthly detailed data on domestically financed capital expenditure on commitment (*compromisso*) and cash payments (*caixa*);
- Monthly data on domestic arrears by type and by creditor;
- Quarterly data on implicit arrears to ENCO on account of fuel retail prices eventually not covering import costs, distribution margins and applicable taxes;
- Quarterly data on EMAE's arrears to ENCO;
- Monthly data on official external program support (non-project);

- Quarterly data on the execution of the public investment program (PIP) by project and sources of financing;
- Quarterly data on the execution of Treasury-funded capital expenditure by project type, amount, timetable of execution, and progress of execution;
- Quarterly data on project grant and loan disbursement (HIPC and non-HIPC);
- Quarterly data on bilateral HIPC debt relief;
- Quarterly information on the latest outstanding petroleum price structures and submission of new pricing structures (within a week of becoming available).
- Quarterly pro-poor expenditure.

2) **Monetary Data:** The BCSTP will provide the IMF staff, within three weeks from the end of each month, the monetary accounts of the BCSTP. Other monetary data will be provided within six weeks after the end of each month for monthly data, within two months after the end of each quarter for quarterly data, and within two months after the end of the year for annual data. The BCSTP will provide the following information to IMF staff:

- Daily data on exchange rates, to be posted on the central bank's website;
- Daily data on interest rates, to be posted on the central bank's website;
- Daily liquidity management table, including base money (in new dobras) and currency in circulation, to be posted on the central bank's website;
- Daily net international reserve position, to be posted on the central bank's website;
- Monthly balance sheet data of BCSTP (in IMF report form 1SR, with requested memorandum items);
- Monthly consolidated balance sheet data of other depository corporations (in IMF report form 2SR);
- Monthly consolidated depository corporations survey (in IMF survey 3SG);
- Monthly monetary aggregates (in IMF report form 5SR);
- Monthly BCSTP and market interest rates (in IMF report form 6SR);
- Monthly NOA flows data;
- Monthly central bank foreign exchange balance (*Orçamento cambial*);
- Quarterly table on bank prudential ratios and financial soundness indicators;
- Quarterly data on the BCSTP's financial position (profit and loss statement, deficit, budget execution, etc.).

3) **External Debt Data:** The Directorate of Treasury at the MOF will provide the IMF staff, within two months after the end of each month the following information:

- Monthly data on amortization and interest on external debt by creditor; paid, scheduled, in arrears, and subject to debt relief or rescheduled;
- Quarterly data on disbursements for foreign-financed projects and program support loans;
- Annual data on future borrowing plans.

4) **National Accounts and Trade Statistics:** The following data will be provided to the IMF staff:

- Monthly consumer price index data provided by the National Institute of Statistics within one month after the end of each month;
- Monthly data on imports (value of imports, import taxes collected, and arrears) and commodity export values, provided by the Customs Directorate at the MOF, within two months after the end of each month;
- Monthly data on petroleum shipments and consumption (volumes and c.i.f. prices, by product), provided by the Customs Directorate.