



DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

April 2022

STAFF REPORT FOR 2022 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVERS FOR NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SAO TOME AND PRINCIPE

In the context of the Fourth Review Under the Extended Credit Facility Arrangement, Request for Waivers for Nonobservance of Performance Criteria, Modification of Performance Criteria and Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its March 30, 2022, consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement]
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 30, 2022, following discussions that ended on February 18, 2022, with the officials of Sao tome and Principe on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 14, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Sao tome and Principe.

Selected Issues

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Price: \$18.00 per printed copy

International Monetary Fund
Washington, D.C.



IMF Executive Board Completes Fourth Review Under the Extended Credit Facility and Concludes the 2022 Article IV Consultation for São Tomé and Príncipe

FOR IMMEDIATE RELEASE

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

Washington, DC – On March 30, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the 2022 Article IV consultation¹ and completed the fourth review of the Extended Credit Facility (ECF) arrangement with São Tomé and Príncipe. The Board's decision enables the immediate disbursement of SDR 1.90 million (about US\$2.70 million²). This brings São Tomé and Príncipe's total disbursements under the arrangement to SDR 10.99 million (about US\$15.15 million).

In completing the fourth review, the Executive Board also approved the authorities' request for waivers for nonobservance of performance criteria pertaining to net international reserves at end-June 2021 due to lower-than-expected external disbursements, and continuous performance criterion on non-accumulation of external arrears.

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

Background

São Tomé and Príncipe has maintained macroeconomic stability, despite many challenges. Largely reflecting exogenous shocks, growth declined, and inflation increased in 2021. Power

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team collects economic and financial information and discusses with officials the country's economic developments and policies. The staff prepares a report, which forms the basis for discussion by the Executive Board.

² US dollar amounts have been calculated using today's exchange rate: (1 USD = SDR 0.722916)

outages and the pandemic slowed growth to 1.8 percent in 2021, down from 3 percent in 2020. The economic outlook remains favorable. Growth is projected to rise to 2.3 percent in 2022 and 2.8 percent in 2023. Growth projections are lower than during the third review considering the impact of the floods on agriculture and trade, but are expected to reach 4 percent in the medium term, supported by better infrastructure and a stronger potential for tourism. Expected domestic fuel price adjustments to reflect higher international fuel prices will impact inflation in 2022. Strengthening revenues with an introduction of the VAT in 2022, phasing out pandemic-related spending, and gradually consolidating the domestic primary balance would put public debt on a downward trajectory. Fiscal adjustment coupled with a gradual increase in tourism receipts is expected to strengthen the current account balance in the medium term. International reserves are expected to stabilize (at about 3.8 months of imports) in 2022.

The outlook is subject to downside risks. New COVID-19 variants and future pandemic waves pose risks to livelihoods and challenges to growth and stability. Inward spillovers from increasing international fuel prices may hinder the recovery, worsen power outages and inflation, adversely impact revenues and implicit subsidies. The war in Ukraine, extended global supply chains disruptions could lead to shortages of intermediate and final consumer goods, growth slowdowns, and price surges. Delays in revenue reforms could narrow the fiscal space for social and development spending, while lower-than-expected grant support or delayed disbursements from donors would deteriorate financing options. Delayed EMAE reforms and prolonged power outages could also put additional strain on revenue performance and delay the recovery of growth. On the upside, accelerated reforms and key infrastructure development projects could promote medium-term growth.

Executive Board Assessment³

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

“São Tomé and Príncipe’s performance under the program supported by the IMF’s Extended Credit Facility Arrangement has been broadly satisfactory. Macroeconomic stability has been maintained despite multiple challenges. Looking ahead, an accelerated pace of implementing structural reforms is needed to support inclusive, green growth and improve external competitiveness.

“Implementing a medium-term fiscal framework and strengthening expenditure controls are critical to deliver on the authorities’ fiscal consolidation strategy. Efforts to boost domestic revenue, including the implementation of VAT in 2022, would support growth-enhancing social and infrastructure development programs and put the public debt on a downward trajectory.

“Efforts to modernize monetary and financial legal frameworks should remain a priority. Given inflationary pressures, active liquidity management should continue to anchor the peg to the Euro and support access to credit and economic recovery. Furthermore, the Banco Central

³ At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country’s authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

São Tomé and Príncipe should enhance its capacity to actively manage risks and vulnerabilities in the financial sector.

“Sustained implementation of structural reforms is critical. Efforts to close the infrastructure gap, improve human capital, deepen financial intermediation, clear domestic arrears, reform the energy sector and improve energy efficiency, enhance governance of public enterprises, and support targeted social transfer programs would contribute to inclusive growth.”



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March 14, 2022

EXECUTIVE SUMMARY

Context. São Tomé and Príncipe has maintained macroeconomic stability, despite many challenges. The COVID-19 pandemic exacerbated long-standing socio-economic vulnerabilities, which were further compounded by persistent energy shortages and damages from the floods in end-2021. Growth declined in 2021 with power outages, while a targeted expansion of the cash transfer and food support programs provided needed relief to the most vulnerable. Strong grant financing remains critical for mitigating the impact of the pandemic. Vaccinations are proceeding, although the new COVID-19 variants pose risks for protracting the impact of the pandemic and require renewed actions to mitigate those risks. Parliamentary elections are expected in October 2022.

Program Issues. Despite the difficult context, the ECF-supported program performance has remained broadly on track. All quantitative performance criteria (QPCs) at end-June 2021 were met, except for net international reserves, which was missed due to lower-than-expected disbursements. The continuous performance criterion on zero external arrears was missed in September 2021 due to a temporary liquidity problem, and the external arrears were cleared in October. The end-June and September ITs on tax revenue were missed and structural reforms are proceeding slowly. Going forward, the program objectives remain broadly unchanged, although fiscal consolidation will be somewhat slower than programmed during the third review, reflecting the floods and the delayed implementation of VAT.

Focus of discussions. In 2022, key program objectives are to: implement additional tax measures, enhance tax arrears collections, and restrain spending to available resources to safeguard the fiscal targets and avoid new domestic arrears; safeguard medium-term fiscal consolidation objectives and step up the preparation for implementing the VAT in 2022 (prior

actions); contain fiscal risks from implicit subsidies in the energy SOEs and implement necessary adjustments of prices; maintain the floor on social spending and implement targeted social assistance programs for the most vulnerable; strengthen the Banco Central São Tomé and Príncipe's (BCSTP's) safeguards and submit the organic law to Parliament (prior action); and continue efforts to improve public financial management (PFM), revenue administration, governance, and transparency.

Recommendations. Staff recommends completion of the fourth review considering the authorities' strong actions to meet the end-June 2021 program targets and commitments going forward, notwithstanding very difficult circumstances. Staff also recommends waivers for the nonobservance of the floor on net international reserves, and the continuous PC on non-accumulation of external debt service arrears due to their temporary nature.

Approved By
**Vivek Arora (AFR) and
Stefania Fabrizio
(SPR)**

Discussions for the fourth review of the economic program supported by IMF Extended Credit Facility Arrangement and 2022 Article IV consultations took place remotely during January 18- February 18, 2022. The team comprised E. Kvintradze (head), K. Nassar, W. Rahman-Garrett, K. Wang (all AFR), F. Bardella (FAD), and Mr. Carvalho da Silveira (OED) participated in the discussions. W. Synak, S. Bhutia, and V. Pilouzoué provided research and editorial support.

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