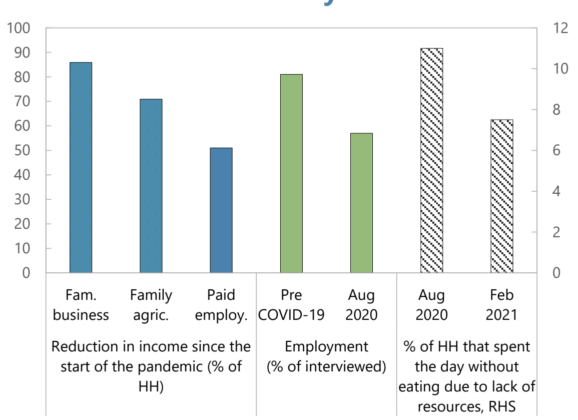
CONTEXT

1. São Tomé and Príncipe is a small, remote, island state economy, with a population of about 200,000, of which about a third lives in extreme poverty. Subsistence agriculture and fisheries are core sectors of the economy. The key exports are cocoa products and tourism services, and the country imports food, fuel, and other essentials. With weak tax revenues, grants remain an important source of financing for economic and social development.[1] Obsolete fossil fuel-based electricity generation and loss-making state-owned energy enterprises (SOEs) hinder the efficient functioning of the economy and pose social challenges.[2] Strong capacity building efforts are critical to strengthen institutions and support reforms.

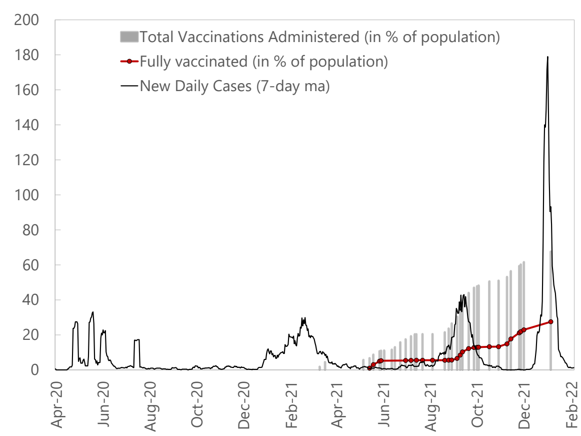
2. São Tomé and Príncipe has maintained macroeconomic stability, despite many challenges. The COVID-19 pandemic exacerbated long-standing socio-economic vulnerabilities, which were further compounded by persistent energy shortages and the floods in end-2021. Timely international support and the authorities' swift actions helped mitigate the impact of the pandemic. Growth declined in 2021 with power outages, while a targeted expansion of the cash transfer and food support programs provided the needed relief to the most vulnerable. Vaccinations for COVID-19 are progressing and about 40 percent of the population has received at least one shot of the vaccine as of mid-January, while 27 percent of the population has received two doses. However, the new COVID-19 variants pose risks for protracting the impact of the pandemic and require renewed actions to mitigate these risks.

Text Figure 1. São Tomé and Príncipe: Impact of COVID-19 on Income and Food Security



Source: National Statistics Institute (INE) COVID-19 Household Monitoring Survey 2020-2021

Text Figure 2. São Tomé and Príncipe: COVID-19 Cases and Vaccination



Source: John Hopkins University, Our World In Data.

[1] See Selected Issues Paper: Human Capital and Infrastructure Financing Gap.

[2] See Selected Issues Paper: Assessing Fiscal Risks and Implications for the Energy Sector.

3. **Fiscal space is narrower than envisaged at the time of the third review, with delays in VAT implementation.** Progress in implementing the 2018 Article IV recommendations has been uneven and mobilizing domestic revenues remains a challenge (Annex 1). In the near term, delays in VAT implementation further limit revenues, while implicit subsidies against a background of rising international fuel prices pose fiscal risks for energy SOEs. Spending pressures from the floods, social, developmental, and COVID-19 related needs remain. At the same time, weak capacity related challenges are compounded by the pandemic and remote work, which further impede reform efforts and accentuate the need for continued technical assistance (TA). In addition, Parliamentary elections expected in October 2022 may further narrow the political window to implement decisive reforms.

4. **The authorities' have well-articulated development plans, including on the COVID-19 pandemic response and on climate change adaptation**. The government's pre-pandemic National Sustainable Development Plan for 2020-2024 aims to accelerate sustainable and job rich economic growth, poverty reduction, and environmental protection. In response to the pandemic, the authorities prepared an interim National Strategy for Socioeconomic Resilience and Mitigation of COVID-19 that sets policy priorities through 2022 with an emphasis on improving the quality of health and social protection. Together, these two plans constitute our new PRGS. The two plans were circulated to the Board in March 2022. On challenges related to climate change, São Tomé and Príncipe faces vulnerabilities due to its geography, fragile ecosystems, and low level of socio-economic development (see Annex 2). However, despite its vulnerability to rising sea levels, the country has enough forests to remove more greenhouse gases than it emits.

5. **The main challenge ahead is to maintain macro-economic stability in the face of the pandemic, damage from the floods, and the forthcoming election cycle.** Policy discussions, aligned with the government's priorities, focused on the need for: i) revenue-based gradual fiscal consolidation with improved spending efficiency to meet the large social and developmental challenges that have been exacerbated by the protracted pandemic and the floods; ii) managing fiscal risks from loss-making SOEs; iii) modernizing the monetary and financial systems, and iv) setting the stage for job rich growth and climate change adaptation.

ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

6. **Largely reflecting exogenous shocks, growth declined, and inflation increased in 2021.** Power outages and the pandemic slowed growth to 1.8 percent in 2021, down from 3 percent in 2020. While inflation was moderate during the first half of 2021, increasing global food and fuel prices pushed headline inflation to 9.5 percent at end-2021. With a recovery in international travel and exports, the current account deficit narrowed to 9.6 percent of GDP and gross international reserves are estimated to have reached US$ 61.8 million (3.5 months of projected imports), supported by external disbursements and the IMF's general SDR allocation in August 2021.

7. Fiscal performance faced challenges but remained prudent in 2021. To mitigate the impact of declining tax revenues on the fiscal balance, the authorities reduced non-essential spending on goods and services and administrative costs in the second half of 2021, following the ministerial order issued in July 2021. At the same time, COVID-related and pro-poor spending increased, and domestic arrears clearances exceeded expectations. As a result of these actions, the domestic primary balance (DPB) is estimated at -3.3 percent of GDP for end-2021 (against a program target of- 3.5 percent of GDP). Public debt is estimated to have increased to 95.6 percent of GDP, with PV of external debt at 24.5 percent of GDP in 2021.

8. The extension of the Debt Service Suspension Initiative (DSSI) through December 2021 and the Fund's Catastrophe and Containment Relief Trust (CCRT) through April 2022 provided some additional temporary relief. The authorities have requested, obtained, and extended deferment of debt service from bilateral official creditors including Portugal and Belgium under the DSSI initiative. The DSSI savings for São Tomé and Príncipe is about US$2.5 million (0.5 percent of GDP) in 2021. With the CCRT fifth tranche covering the period of January to April 2022, São Tomé and Príncipe has received debt service relief of SDR 0.1 million. The total debt service relief received under CCRT amounted to SDR 0.7 million from April 2020 through April 2022.

9. Despite the difficult context, program performance remained broadly on track. All quantitative performance criteria (QPCs) at end-June 2021 were met, except net international reserves (NIR) which was temporarily missed due to lower-than-expected disbursements.[3] The end-September NIR target was met with a substantial margin, partly due to the SDR allocation and seasonality of inflows. The end-June indicative target (IT) on tax revenue was missed amid power outages, but the DPB QPC was met as underperformance on revenues was more than offset by lower spending. The end-September IT on tax revenue was also missed, while the floor on pro-poor spending (IT) and ceiling on clearing domestic arrears (IT) were met. End-September IT for DPB was also met. The continuous PC of zero ceiling of external arrears was missed by US$0.3 million in September due to a temporary liquidity problem, and these arrears were cleared in October 2021.

10. Structural reforms are proceeding slowly (Table 11). The structural benchmark (SB) on the roll-out of the VAT, which was planned for October 2021, has been delayed to 2022, pending implementation of an information technology platform for which the World Bank approved a contract in mid-November 2021. The SB on conducting stress tests on banks' loan portfolios to project the likely impact of COVID-19 pandemic was not met by end-December 2021 and was met at end-February 2022.[4] Submission of the final draft of the BCSTP organic law to Parliament in September 2021 was delayed ensuring its consistency with the draft financial institutions and foreign exchange (FX) laws and is expected to be completed as a Prior Action. The continuous SB

[3] The target was missed by US$ 2.7 million (0.5 percent of GDP).

[4] The authorities sent the results of the stress testing exercise at end-2021 by using the data from 2020. The authorities agreed to update the stress testing with more recent data from end-2021 to better reflect the impact of the pandemic. They shared results of the new stress testing exercise at end-February 2022.

on the fuel pricing mechanism was met at end-June 2021 but was not met for end-September, amid delays in price adjustments.

11. Governance measures regarding COVID-19 spending are being gradually implemented with delays. The continuous SBs on governance transparency were not met for end-June 2021, but substantial progress has been made. In October 2021, the procurement agency submitted a new draft procurement legislation requiring the collection and publication of beneficial ownership information, supported by IMF TA, to the Ministry of Finance (MoF) for its review. The authorities continue to publish COVID-related expenditure reports monthly, but with delays. The publication of procurement contracts and related documents is also irregular. In February 2022, the authorities published the COVID-19 spending reports covering August-December 2021 along with a number of public contracts (about 40 percent of contracts with no objection from COSSIL in 2021). An ex-post audit by the Auditor General of the 2020 COVID-19-related spending package is pending finalization, expected in April 2022 (MEFP ¶23).

12. The authorities used the equivalent of $10 million (about half) of their SDR allocation for budget financing in 2021. In September 2021, MoF and the central bank (BCSTP) signed an on-lending agreement for US$10 million (Dobras 207.2 million)[5] to meet pandemic-related spending needs, repairs of the power grid, renovations of hospitals, schools, and roads. Going forward in 2022, if external financing is less than expected or in case of delays in expected disbursements, the authorities intend to use a quarter of their remaining SDR allocation to support the pandemic and the flood-related spending needs, while the remaining quarter will be retained in reserves

OUTLOOK AND RISKS

13. The economic outlook remains positive. 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 DPB would put public debt on a downward trajectory, supported by a positive growth-interest rate differential in the medium term. Fiscal adjustment coupled with a gradual increase in tourism receipts is expected to strengthen the current account balance, while floods are expected to have negative impacts on the current account balance (to about -9.8 percent of GDP in 2022). International reserves are expected to stabilize at about 3.8 months of imports by 2022, which are considered adequate (see Annex 4).

14. The macroeconomic outlook is subject to significant uncertainty and downside risks (Annex 3). New COVID-19 variants and future pandemic waves pose risks to livelihoods and

[5] The authorities cited Article 28 of the current organic law as the legal basis for this action. In the newly revised draft organic law, such on-lending is provided for in Article 32 (4).

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. 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. The upcoming parliamentary elections in October 2022 could delay legislative reforms and put additional pressure on spending. Any natural disaster could also delay fiscal consolidation. On the upside, accelerated reforms and key infrastructure development projects could promote medium-term growth.

Text Table 1. São Tomé and Príncipe: Medium-Term Macroeconomic Projections
(Program Baseline)

	2020		2021		2022		2023		2024	2025	2026
	3rd Rev	Est.	3rd Rev	Proj.	3rd Rev	Proj.	3rd Rev	Proj.	Proj.	Proj.	Proj.
					Annual percent change						
Real GDP	3.0	3.0	2.1	1.8	2.9	2.3	3.3	2.8	3.5	3.7	4.0
CPI inflation (period average)	9.8	9.8	5.4	8.1	7.0	12.1	5.8	8.7	5.2	5.0	4.4
					Percent of GDP						
Central government domestic primary balance[1]	-3.2	-3.2	-3.5	-3.3	-2.0	-2.8	-0.2	-1.5	0.0	0.7	0.8
Current account balance	-14.1	-10.3	-11.3	-9.6	-7.5	-9.8	-6.7	-7.5	-6.7	-6.3	-6.0
Public sector gross debt[2]	87.4	87.1	87.9	95.6	86.5	94.0	84.3	91.3	86.6	80.8	73.7

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

Authorities' Views

15. **The authorities broadly agreed with staff's assessment of the medium-term outlook and associated risks.** They noted that they have market down growth assumptions in 2022 and 2023 considering the recent impact of floods on agriculture and trade but expect GDP growth to accelerate given the impact of planned infrastructure projects, while normalization of pandemic-related travel restrictions could boost tourism activities. To anchor public debt dynamics, the authorities reiterated policy commitments aimed at growth-friendly gradual fiscal consolidation and implementation of the VAT in 2022, notwithstanding the elections. Revenues from the VAT could support growth-enhancing social and infrastructure spending and help to boost the country's development potential. The authorities expressed concerns about increasing fuel prices, which would put pressure on the cost-of-living and could lead to calls to increase public sector wages. They pointed out that reforming loss-making energy sector SOEs requires a multi-prong reform strategy to address fuel-based energy generation and electricity consumption inefficiencies by implementing market-based fuel pricing mechanisms and management reforms in SOEs.

POLICY DISCUSSIONS

Discussions focused on: i) mitigating the pandemic's impact and rebuilding and strengthening fiscal space to allow for much-needed social, development, and the floods-related spending ii) managing fiscal risks from loss-making SOEs; iii) modernizing monetary and financial systems, and (iv) supporting the recovery from the pandemic and setting the stage for job rich growth strategy and climate change adaptation.

A. Strengthening Fiscal Space for Social and Development Spending

16. **The authorities envisage a more gradual fiscal consolidation in 2022 relative to the path envisaged during the third review** (Text Table 2). The authorities aim to achieve a DPB of 2.8 percent of GDP in 2022, about 0.5 lower than in 2021, while accommodating the flood response and an increase in pro-poor spending. To partly offset the tax revenue shortfall due to delays in the VAT implementation, the authorities issued a cabinet decision in February 2022 to implement additional revenue measures (about 0.5 percent of GDP), including collection of tax arrears, airport tax, and tax surcharges on alcoholic beverages (Text Table 3). If revenues do not materialize as planned, the MoF will issue a resolution to limit administrative spending (MEFP ¶16).

Text Table 2. São Tomé and Príncipe: Domestic Primary Balance, 2021–22
(In percent of GDP)

		2021			2022		
		ECF Third Rev.	Estimates	Diff.	ECF Third Rev.	Auth. Budget	Proj.
I	Total revenue (=1+2)	15.8	14.7	-1.1	17.2	15.7	15.5
I.A	***of Which: Government Domestic Revenue (=I–2.1+3)***	15.6	14.0	***-1.6***	16.7	15.4	15.2
1	Tax revenue	13.3	12.3	-1.0	14.4	13.1	12.9
1.1	*Of which:* oil price differential	0.2	0.6	0.4	0.2	0.2	0.1
2	Nontax revenue	2.5	2.4	-0.2	2.8	2.6	2.5
2.1	*of which: oil revenue*	0.0	*0.1*	0.0	0.3	0.0	0.0
3	Amortization of debt to ENCO	-0.2	-0.6	-0.4	-0.2	-0.2	-0.2
II	Total Domestic expenditure (=4+5+6+7)	19.5	17.5	-2.0	19.1	19.3	18.6
II.A	***Of which: Domestic primary expenditure (=II–4.2)***	***19.1***	***17.3***	**-1.8**	***18.7***	***18.7***	***18.1***
4	Current expenditure	17.8	16.9	-0.9	17.5	17.7	17.4
4.1	Personnel costs	10.0	9.3	-0.7	9.8	10.0	9.9
4.2	Interest due	0.4	0.2	-0.2	0.4	0.7	0.5
4.3	Goods and services	2.4	2.4	0.0	2.4	2.1	2.2
4.4	Transfers	3.2	3.2	0.0	3.2	3.2	3.3
4.5	Other current expenditure	1.8	1.8	0.0	1.7	1.7	1.5
5	Domestic capital expenditure	0.3	0.1	-0.2	0.4	0.3	0.8
5.1	Financed by the Treasury	0.3	0.1	-0.2	0.4	0.3	0.8
5.2	Financed by privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0
6	HIPC Initiative-related social expenditure	0.2	0.1	-0.1	0.2	0.3	0.3
7	COVID-19 spending financed by the Treasury 1/	1.3	0.4	-0.9	1.0	1.0	0.0
III	**Domestic primary balance (= I.A–II.A)**	**-3.5**	**-3.3**	**0.2**	**-2.0**	**-3.2**	**-2.8**

Sources: STP authorities; and Fund staff estimates.

1/ Does not include 23.6 billion dobras in COVID-related wages and salaries in 2021, which are included in personnel costs.

Text Table 3. São Tomé and Príncipe: Additional Revenue Measures, 2022
(In percent of GDP)

Total additional revenue	**0.47**
Collection of tax arrears	0.27
IRS	0.08
IRC	0.02
Consumption tax	0.14
Stamp tax	0.02
Other (including IT etc.)	0.00
Airport tax (Euro 20 per passenger)	0.06
Tax on alcoholic beverages	0.14

Source: São Tomé and Príncipe authorities.

17. Considering the impact of the recent floods, the government plans to prioritize capital spending for reconstruction efforts within the envelope of the approved 2022 budget. The end-December 2021 floods caused damage to infrastructure (bridges, roads, water supply), agriculture, and businesses. The authorities preliminarily estimated total reconstruction needs at about US $ 37.5 million.[6] In the aftermath of the floods, immediate food and other emergency assistance was provided to isolated communities (of about 2,000 people) with donors' support. The priority emergency reconstruction needs focused on collapsed bridges, a clean water supply, and affected businesses are estimated at about US$ 7-8 million. The government has actively pursued project grant financing to meet the priority emergency reconstruction needs, including about US$ 5 million from the World Bank's emergency top-up under the transportation and the social assistance projects, up to US$ 1 million from AfDB to support the flood-affected businesses, and about US$ 1.2 million from other bilateral partners. These funding commitments will be accommodated within the approved 2022 budget envelope, as development partners have signaled their intentions to reallocate and bring forward undisbursed funds under their existing project commitments to support the near-term reconstruction efforts. Other identified infrastructure reconstruction needs were already reflected in the existing commitments by development partners and will be implemented within their project support pipelines in next two-three years

18. To safeguard the credibility of medium-term consolidation the authorities committed to i) strengthen domestic revenue mobilization by introducing the VAT at a 15 percent rate in 2022; ii) contain fiscal risks from implicit subsidies in energy SOEs by adjusting domestic fuel prices; iii) increase social spending and improve targeting for the most vulnerable households; and iv) continue governance and transparency reforms and strengthen PFM and revenue administration:

- *Implement the VAT to anchor the medium-term fiscal consolidation path.* In the last six months, the authorities have taken critical steps to implement the VAT by September 2022 (new SB). They have approved VAT refund regulation and secured the project contract for VAT information

[6] Includes already identified and committed infrastructure reconstruction projects which were affected by the floods.

technology (IT) in November 2021, supported by the World Bank. To ensure timely implementation of the VAT IT project, the governance structure for project execution was established and implemented in January 2022, supported by IMF TA. In addition, the Tax Directorate committed to validate the VAT IT system for taxpayers' registration (Prior Action) and the Customs and Tax Directorates committed to agree on the applicability of the VAT law at customs collection points issued in the Ministerial order (Prior Action). These two Prior Actions are critical to ensure timely roll-out of the VAT IT platform and to enable collection of VAT at customs points. These will be followed by the VAT awareness and communications public information campaign in June 2022, supported by the World Bank (new SB).

- *Maintain pro-poor spending and strengthen social spending programs*. Pro-poor spending commitments (indicative targets) are being implemented. The World Bank-supported program for vulnerable families, which aims to increase the income and consumption of poor households, is being expanded along with skills training programs. The authorities reinforced their commitment to contain the wage bill within the limit of the approved budget by issuing a ministerial order to freeze new hiring in February 2022. As previously programmed, the nominal public wage bill will grow below the rate of GDP growth, consistent with the approved 2022 budget.

- *Manage the impact from rapidly rising world fuel prices on revenues and implicit subsidies*. Implement automatic fuel pricing mechanism with well-calibrated policy decisions to minimize implicit subsidies by adjusting retail fuel prices and fuel tax surcharges (¶24-25 and MEFP ¶38). The impact of these measures on the most vulnerable needs to be mitigated with well-targeted pro-poor spending programs.

- *Implement PFM reforms*. The authorities continue to make progress to strengthen macro-fiscal forecasting. For the first time, they have incorporated in the 2022 budget documents medium-term fiscal framework (MTFF) projections for a three-year period, supported by IMF TA. The authorities are also improving inter-agency cash management coordination mechanisms and strengthening expenditure controls with a view to prevent the accumulation of expenditure arrears. They also plan to implement a commitment ceiling mechanism to manage expenditures commitments in selected spending ministries in 2023. The authorities have expressed their interest in conducting a PIMA assessment to improve the planning and efficiency of public investment programs (MEFP ¶45).

- *Implement revenue administration reforms*. Going forward, there is a need to continue digitalization and modernization of tax administration services by: i) reorganization of the Direção dos Impostos to improve management and strategic planning focused on tax compliance; ii) adoption of modern compliance risk management practices, including audit programs that use information from third parties; and iii) overhauling the current performance monitoring framework including key performance indicators and a rewards program.

- *Strengthen fiscal transparency and governance.* Governance measures regarding COVID-19 spending are being gradually implemented. The authorities are publishing on the MoF's website

public procurement contracts and monthly COVID-19 spending reports, although somewhat irregularly. They are also considering a revised draft of the new Procurement Law, which incorporates beneficial ownership (BO) information collection and publication requirements (Box 1), supported by the IMF and the World Bank TA. Finally, as part of its audit of the government financial accounts, the Auditor General is expected to complete the 2020 COVID-19-related spending audit report by end-April 2022. Currently, procurement documents are collected manually and going forward, the authorities are working with the World Bank to develop an automated system for procurement reporting. Staff will encourage the timely adoption of the revised draft law, which will support the authorities' related commitments to greater procurement transparency. Such reforms will help to strengthen fiscal governance, reduce vulnerabilities to corruption, and improve public sector management, along with ongoing reforms to strengthen the central bank's governance and independence (Section C).

Box 1. São Tomé and Príncipe: Introducing Beneficial Ownership Requirements in the New Draft Procurement Law

In October 2021, the revised draft of the new Procurement Law, which incorporates beneficial ownership (BO) collection and publication requirements, was submitted to the government for its review. The drafting process was supported by the World Bank and IMF and incorporate four main elements related to the collection and publication of beneficial ownership (BO) information:

- *Definition of beneficial ownership*. A cross-reference to a legal definition of BO in the existing AML/CFT Law which is consistent with the FATF standard, was introduced. The rationale for incorporating the cross-reference was provided to help bidders understand their obligations on what information is required.
- *Enabling collection of and requiring bidders to submit beneficial ownership information as part of the bidding process*. A new provision to request the submission of BO information from bidders was included as a specific requirement and applies to both domestic and foreign bidders.
- *Applicability of sanctions specific to submission of beneficial ownership information*. Provisions were amended to encompass BO-related infractions: i) a specific provision that subjects the bidder to applicable sanctions for non-submission of partial or outright inaccurate BO information; ii) a provision that a proposal is not accepted if a document (including BO information) is not provided, and iii) the applicable sanction resulting in the black-listing and publication of non-compliant bidders.
- *Public availability of beneficial ownership information*. The new draft designates the BO information of the awarded bidders for publication along with company name and contract amount. The São Tomé and Príncipe Data Protection Law does not specifically cover BO information or prohibit its publication and has the same level of prevalence as the procurement law; therefore, BO information can be designated for publication. The procurement agency COSSIL will make the final determination about the scope of BO information to be collected and published, e.g., any information in addition to the name of the beneficial owner(s).

Authorities' Views

19. **The authorities concur with staff's recommendations on fiscal policy and governance and transparency reforms.** They noted that São Tomé and Príncipe has a history of strong fiscal performance and continues to pursue strong fiscal discipline during the pandemic. The authorities

highlighted the use of strict cash management and alignment of spending with available resources as the main policy tool to enforce fiscal discipline. They reiterated their commitments to enhance domestic revenue mobilization, improve spending efficiency, and mobilize grant financing through persistent engagement with development partners, including for the recovery from the floods. They committed to complete two Prior Actions related to VAT implementation to ensure the planned start of VAT collections in September 2022. The authorities have also reiterated an unwavering commitment to transparency and governance reforms. They are working diligently with ministries to publish spending reports and procurement contracts on a more regular basis. They are also supporting the Auditor General to finalize the 2020 COVID-19-related spending audit report.

Public Debt

20. Public debt is deemed sustainable, but the country remains in debt distress due to prolonged unsettled external arrears. Some public debt indicators breach the thresholds under the baseline scenario, but public debt remains on a downward trajectory amid the authorities' commitment to continue fiscal consolidation, implement planned energy sector reforms, and to 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 about 73.7 percent of GDP in 2026. The Fund's general SDR allocation in August 2021 and the final extension for the DSSI until December 2021 provide some additional temporary relief. We expect the present value (PV) of total public and publicly guaranteed (PPG) debt to return below the debt sustainability analysis (DSA) thresholds associated with the country's weak debt-carrying capacity (below 35 percent of GDP) by 2025 after discounting the EMAE's debt and arrears to ENCO. The authorities continue to actively engage with Angola, Brazil, and Equatorial Guinea to regularize outstanding external arrears.[7] Regarding external arrears owed by São Tomé and Príncipe to private creditors, the authorities continue to make good faith efforts to reach agreements.

Authorities' Views

21. The authorities broadly agreed with the assessment. They understood that the main reason for being classified as being in debt distress is the existence of long-standing external arrears and are committed to continuing efforts to regularize their external arrears. The authorities underscored that the probability that the Sonangol debt assumed in the stress test would materialize remains low. They recognized the significant risk to debt sustainability from the EMAE losses, which has translated to arrears to ENCO, and are committed to implementing EMAE reforms. The authorities also reaffirm their commitment to borrow only at concessional terms and at a measured pace to reduce debt vulnerability over time. In addition, they are actively seeking debt rescheduling agreements with Angola, Brazil, and Equatorial Guinea, through active correspondence and high-level meetings.

[7] The government has reached signed agreement with Brazilian government, but the agreement is still pending for final ratification. The negotiations with Angola and Equatorial Guinea are progressing well with technical steps completed, pending the final signed agreements.

B. Managing Fiscal Risks from Loss-Making SOEs

22. An inefficient power sector poses risks for fiscal sustainability and growth.[8] The energy sector in São Tomé and Príncipe has a complex institutional arrangement among the government and two of the largest energy SOEs, EMAE and ENCO (Text Figure 4). These SOEs have long-standing operational inefficiencies which result in recurrent disruptions of the electricity supply and financial losses. The supply of electricity remains unstable with persistent outages. EMAE generates electricity through obsolete and expensive fossil fuel-based power plants and faces significant commercial and technical losses in the distribution grid. ENCO imports fuel for electricity generation. In 2006-2014, ENCO accumulated losses from below-market fuel pricing. Since then, these losses were resolved by implementing the automatic fuel pricing adjustment mechanism. However, delays in implementing price adjustment to reflect increasing international fuel prices may increase losses to ENCO (Box 2).

23. Resolving energy sector inefficiencies requires a multi-pronged reform approach to: i) implement short-term measures to contain EMAE's losses such as installing new meters, improving payment discipline, rolling out LED bulbs program (SB), and fostering a transition to renewable energy sources; ii) rely on the automatic fuel price adjustment mechanism and maintaining retail fuel prices aligned with international markets (continuous SB) to prevent implicit fuel subsidies and contain fiscal risks; and iii) strengthen targeted social transfer programs for the most vulnerable, supported by development partners.

ENCO: Fuel Importing SOE

24. Rising international fuel prices increase near-term fiscal pressures. Since early 2020, São Tomé and Príncipe has benefited from low international fuel prices and cumulative revenues from price differentials between administered retail prices for fuel products and import prices remained positive (about Dobras 36 million) in 2021 (Text Table 4). However, since September 2021 fast-increasing international fuel prices started to erode these price differentials and resulted in losses for ENCO due to below-cost fuel pricing (implicit subsidy) (Box 2).

Text Table 4. São Tomé and Príncipe: Actual Revenues from Fuel Price Differential
(In Millions of Dobras)

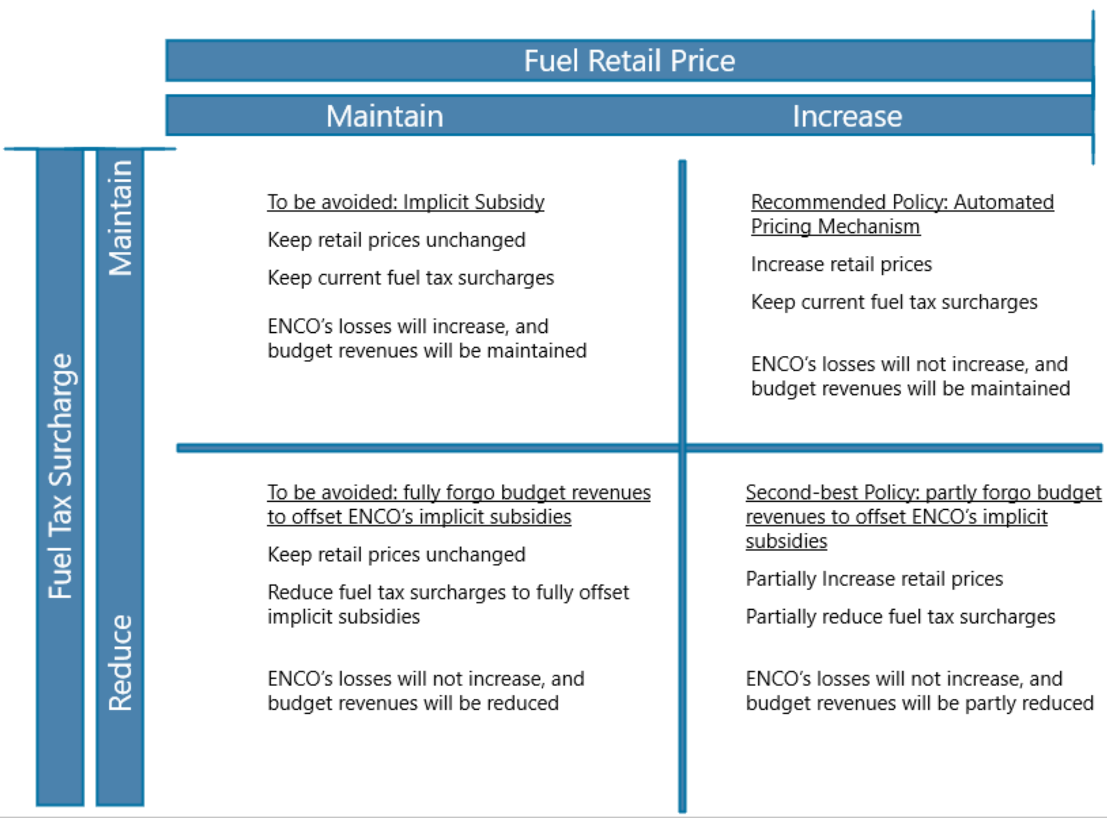
	2020 Act.	Jun. 2021 Act.	Sep. 2021 Est.	Dec. 2021 Est.
Import taxes	571	274	420	531
General import taxes	265	113	207	230
Fuel surcharge	**198**	**107**	**157**	**265**
Gasoline	113	58	86	143
Diesel	85	49	71	122
Kerosene	0	0	0	0
Fuel price differencial	**108**	**54**	**56**	**36**
Arrears payment to ENCO	**85**	**54**	**77**	**67**

Source: GAMAP and staff estimates

[8] See Selected Issues Paper: Assessing Fiscal Risks and Implications for the Energy Sector.

25. Continued reliance on the automatic fuel price adjustment mechanism will help to prevent implicit fuel subsidies and contain fiscal risks (continuous SB). The government has committed to increasing and maintaining retail fuel prices aligned to international markets. Ideally, the government should increase retail prices by 18 to 20 percent following the smoothing formula, which is consistent with the continuous SB.[9] However, given the pressing social considerations amid the pandemic, power outages, and the floods, the authorities are implementing a policy alternative by increasing retail fuel prices by about 10 percent[10] and reducing fuel tax surcharges to prevent implicit fuel subsidies to ENCO (second-best policy in Text Figure 3), which would still result in a breach of continuous SB and weaken the credibility of the automatic nature of the price mechanism, unless additional price adjustments are implemented. To this end, the authorities have committed to implement an additional round of price adjustments (MEFP ¶37-38) within the allowable legal limits. In addition, to mitigate the impact from the fuel price increases on the most vulnerable, targeted social assistance programs to vulnerable families, supported by the World Bank, are expected to continue.

Text Figure 3. São Tomé and Príncipe: Policy Options for Retail Fuel Prices and Fuel Tax Surcharges



Source: IMF Staff

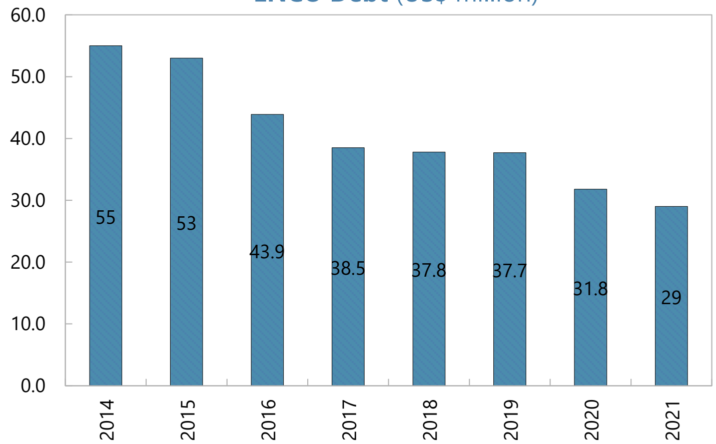
[9] Under the current assumption of an average price of US$ 80.00 per barrel of oil in international markets.

[10] The maximum legal limit for the one-time price increase is 10 percent.

Box 2. São Tomé and Príncipe: ENCO's Losses

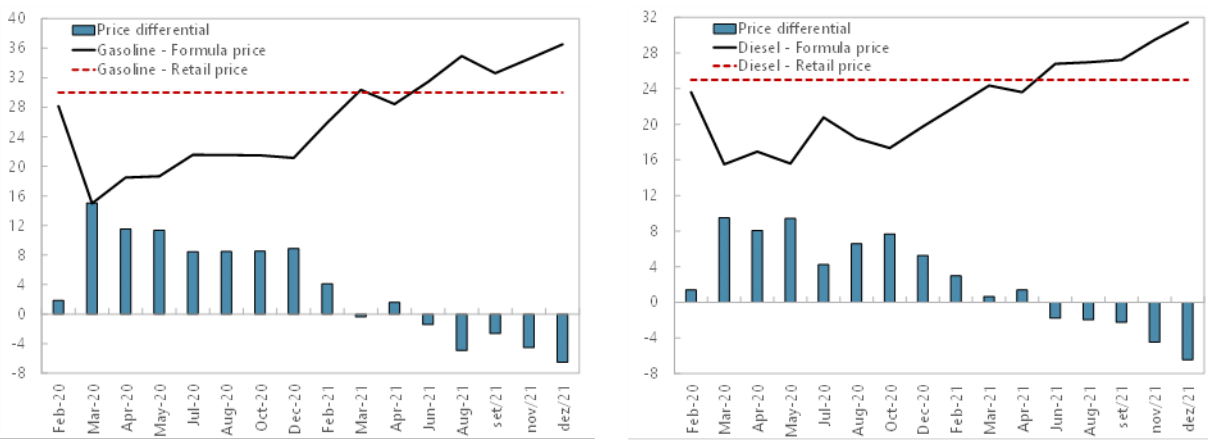
Historically, implicit subsidies from below the market fuel pricing in 2006-2014 resulted in significant losses for ENCO, estimated about US$ 55 million at end-2015. Effective implementation of the automatic fuel price adjustment mechanism prevented further incurrence of losses and allowed reduction in the accumulated stock of the ENCO's debt. Furthermore, during the period of low international prices in 2020 and the first half of 2021, the government has taken the decision to keep administrated prices unchanged and generated revenues from positive fuel price differentials which were used to reduce the ENCO's debt stock. Under the automated fuel price adjustment 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 (see Box 2 IMF Country Report No. 21/202).

ENCO Debt (US$ million)



Ministry of Finance.

Fuel Price Differential for Gasoline and non-EMAE Diesel (STD per liter)



Source: GAMAP. Staff elaboration

EMAE: Electricity SOE

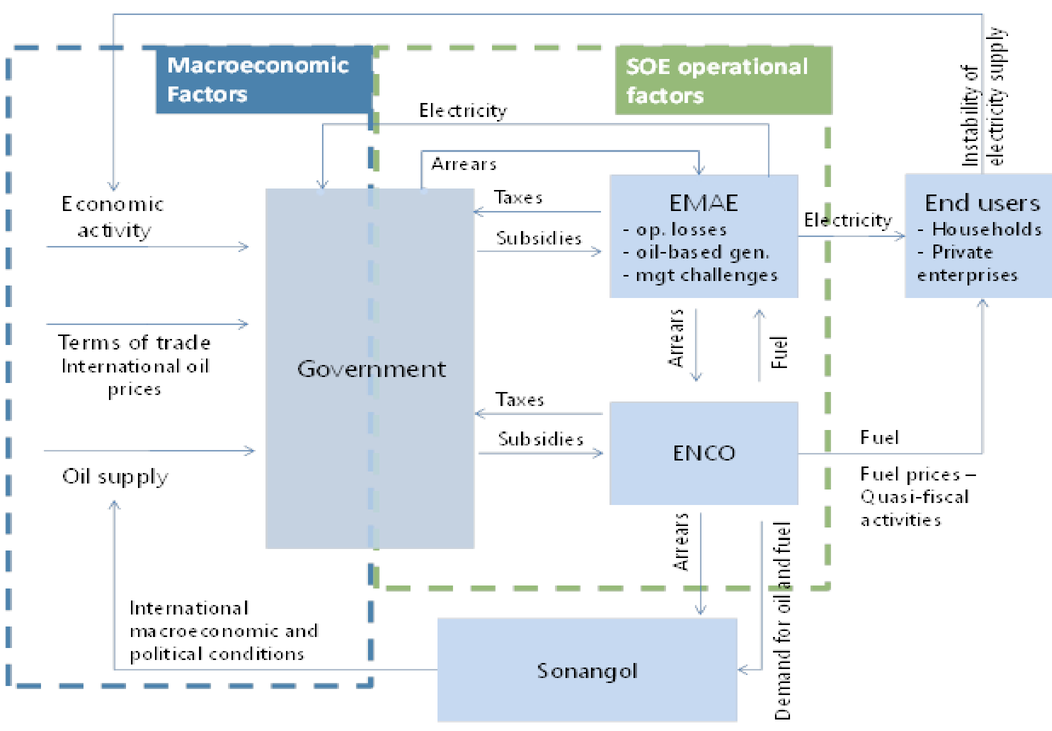
26. Fossil-fuel based electricity power generation is expensive, unreliable, and inadequate to meet São Tomé and Príncipe's needs. Even though the country's electricity tariff is one of the highest in the region, it is insufficient to cover generation costs, reflecting a small scale of operations, an obsolete power generation infrastructure, high fuel costs, and management inefficiencies. Relatedly, electricity tariffs payment discipline is weak. Delays in implementing the Least Cost Development Plan (LCDP) supported by the World Bank—which targeted cost and tariff reductions by shifting the energy generation mix to more sustainable sources, management reforms

in EMAE, and payment collections—were further exacerbated by the pandemic. The recent persistent power outages call for more decisive actions to advance short-term measures to contain EMAE's losses such as installing new meters, improving payment discipline, including ensuring payments of electricity bills by public entities, and rolling out LED bulbs program (SB), and fostering transition to renewable energy sources (Text Table 5) (MEFP ¶39-41).

Authorities' Views

27. The authorities broadly agree with staff's assessment and policy actions needed for reforming EMAE. The authorities are implementing a comprehensive energy sector reform agenda, supported by the World Bank, which aims to modernize the energy sector and increase the share of renewable energy generation, including from hydropower and photovoltaic solar plants. They have reiterated their commitment to EMAE's reform agenda, but also pointed out that some delays in implementing reforms reflect lengthy approval procedures of development partners. On fuel price adjustments, the authorities acknowledge the risk of implicit subsidies. They note that the timing of increasing domestic prices was delayed to March 2022 given the recent floods and the resulting additional pressures on inflation, which required that adequate social support mechanisms were in place to mitigate the negative impact.

Text Figure 4. São Tomé and Príncipe: Operational Flow-Chart for ENCO and EMAE



Source: IMF Staff.

Text Table 5. São Tomé and Príncipe: EMAE/Energy Sector: Expected Key Actions, 2021–2023

Measures	Status	Target date
1. Develop terms of reference of the new executive management team of EMAE for implementing reform measures.	**Completed.** ToRs were developed and the Council of Ministers has approved commencements of competitive selection process for EMAE's senior management.	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 **(SB)**	Technical inspection in the LED factory in China was concluded in January 2022 to allow for fabrication of lamps throughout February and March. LED bulbs expected to arrive in São Tomé and Príncipe in the second quarter of 2022 for distribution.	Mid-2022
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 the 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.	Non-objection from EIB was granted in December. AFAP is negotiating terms of contract with selected bidders.	End-2023
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.	**Broadly achieved.** Decree Law 88 covering i), ii), and iii) was passed in November 2021. The decree provides for the principle of full-cost approach to be applied in the tariff structure. Effective implementation of the new tariff structure depends on regulator AGER.	End-2021

C. Modernizing Monetary and Financial Systems

28. Monetary policy continues to be anchored by the peg to the Euro. The pegged exchange rate (introduced in 2010) has served the small-island import-dependent economy well and external disbursements protected reserve buffers in 2020-2021. The BCSTP broadly has a toolkit in place to help manage liquidity and has been issuing CDs to mop up excess liquidity in 2021.

29. The external position of São Tomé and Príncipe in 2021 was moderately weaker than the level implied by fundamentals and desirable policies (Annex 4). The current account deficit narrowed mainly due to steady recovery of tourism and lower imports of goods and services, in 2021. Over the medium term, the current account deficit and the NIIP-to-GDP ratio will improve at a moderate pace, reflecting fiscal consolidation and stronger service exports. The exchange rate peg has served the country well by reducing average inflation in 2010-2020 to about half of the rate during the previous decade. However, given characteristics of a small, remote island and import-dependent economy, inflation—driven by food and energy prices—remained higher than in the euro area, contributing to the REER appreciation. While São Tomé and Príncipe's level of gross international reserves (GIR) was assessed to be adequate, building strong international reserve buffers are needed given the persistence and magnitude of shocks it faces as a small and fragile developing country with a pegged exchange rate regime. Looking forward, the reserves buffer needs to be strengthened to support the pegged exchange rate. To this end, in the near-term mobilizing external grant financing for growth-enhancing infrastructure and social development projects and avoiding delays in disbursements remain important. In the medium term, continued gradual fiscal consolidation would help to ease the demand pressure, increase fiscal space, and build a higher reserves buffer. On the supply side, structural reforms need to continue to strengthen competitiveness, including by boosting tourism and making energy sector more efficient to lower production costs.

30. Progress is being made in implementing recommendations from the 2019 BCSTP's safeguards assessment but continuous efforts are required (MEFP ¶28): i) the draft of the new BCSTP Law (Organic Law), which improves autonomy, governance provisions, and independent oversight of management, was finalized and is expected to be submitted to Parliament by end-February 2022 (Prior Action) and; ii) implementation of the International Financial Reporting Standards (IFRS) was delayed during the pandemic and the authorities requested IMF TA to make progress on this, which is planned around mid-2022. However, more efforts are needed to implement several outstanding recommendations including the establishment of the Audit Committee, and the strengthening of internal audit and currency operations." In addition, efforts to preserve membership in the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) continue.

31. The impact of the COVID-19 pandemic on the financial sector is yet to be fully determined. Systemwide NPLs decreased from about 29.6 percent in Q4 2020 to an estimated 28.6 percent in Q4 2021, following the expiration of the payment moratorium on NPLs in June 2021. The level of provisioning in the banking sector was about 90 percent in end-2021. BCSTP is addressing the still high level of NPLs with the approval of new regulations in October 2021 which banks are required to comply with by April 2022: i) the regulation on Asset Classification and Provisions establishes prudential requirements for the classification of financial instruments, the constitution of loan-loss provisions, and requires banks to write off eligible NPLs (with a loss classification) within a maximum of 12 months following this classification; ii) the regulation on capital adequacy aims to guarantee that banks maintain adequate levels of own funds, in line with international standards, including the use of a more granular and conservative methodology in the

calculation of risk weighted assets. The BCSTP completed the bank stress tests by end-February 2022 (MEFP ¶30, SB delayed from end-December 2021). Progress to liquidate three banks continues but has been delayed, including due to the pandemic (MEFP ¶32). The BCSTP will also submit a new draft Financial Institutions Law to the Government by end-June 2022 (SB, delayed from end-December 2021). Following the expected completion of the authorities' stress testing exercise to identify possible credit risk pressures from the pandemic by end-February 2022, Fund staff will discuss the results with the authorities and provide feedback on how to strengthen stress testing methodology.

Authorities' Views

32. The authorities agreed with staff's overall assessments and proposed policies. They agreed that the peg serves the country well and recognized the need to further strengthen external buffers. They concurred that continued fiscal consolidation and accelerated structural reforms would be essential to strengthen the external position along with strong efforts to mobilize grant financing. The authorities noted that the BCSTP remains committed to bolstering financial stability and supporting the economy to cope with the pandemic. They also emphasized that new regulations will further reduce the NPL ratios, while on the liquidation of the three banks, they pointed out several exogenous factors that delayed the completion of this process, including the impact of the pandemic and difficulties selling the assets despite a discount offered. They intend to accelerate liquidation process of Banco Equador and complete it in 2022.

D. Setting the Stage for Job-Rich and Blue Growth

33. Promoting strong and inclusive growth in São Tomé and Príncipe would require narrowing the large human capital and infrastructure financing gap.[11] While São Tomé and Príncipe fares slightly better than the average sub-Saharan African country on some infrastructure and social indicators, ensuring universal access to basic services remains a challenge. Considering the country's investment spending efficiency, the initial capital stock, and the capital depreciation rate, about 14 percent of GDP average additional annual investment in 2022-2030 is needed to achieve the human capital and infrastructure SDGs by 2030. However, São Tomé and Príncipe's tax revenue performance falls short by about 4 percent of GDP compared to the peer countries frontier and is not sufficient to meet large social and development needs. To this end, implementing the VAT in 2022 will help to generate domestic resources to support growth-enhancing social and infrastructure development programs. These efforts need to be further reinforced by mobilizing external grant financing and improving public investment efficiency.

34. Structural reforms need to continue to improve external competitiveness. The fast pre-pandemic expansion in tourism has demonstrated the potential for private sector driven growth in this small island economy.[12] However, reaping medium-term benefits from expanding tourism

[11] See Selected Issues Paper: Human Capital and Infrastructure Financing Gap.

[12] See Selected Issues Paper: Tourism Sector in São Tomé and Príncipe.

services would require a comprehensive approach focused on developing the human capital through education programs, building infrastructure including a reliable power supply, expanding transportation links, and improving business environment with linkages to small and medium business and local communities. In the near term, tourism recovery would depend on ongoing COVID-19 vaccinations, management of any new COVID-19 variants, the reopening of air travel, and health safety protocols. Takings steps to remove the country from the European Union's Air Safety blacklist (SB) to improve air transport connections remains a priority, along with improving airport facilities, and operationalizing tourism schools for youth training programs.

35. Energy inefficiencies challenge the fragile climate-related balance in this small-island state. The authorities have progressively built an institutional framework to support climate change and adaptation. However, São Tomé and Príncipe's electricity is largely produced by burning diesel fuel and the energy sector is the country's largest emitter of the carbon dioxide. Persistent power outages and an unreliable power grid also trigger the use of private diesel generators, further exacerbating air pollution. To address these long-standing challenges, implementation of a comprehensive energy sector reform agenda, supported by the World Bank to modernize the energy sector and increase the share of renewable energy generation and a continued reliance on the automatic fuel price adjustment mechanism (continuous SB) remain important.

Authorities' Views

36. The authorities broadly agree with staff's recommendations to balance fiscal policies, implement structural reforms, and mobilize external grant financing to meet large social and development needs. They reiterated their commitment to enhancing domestic revenue mobilization (by implementing the VAT in 2022), improving investment spending efficiency (by strengthening the capacity of the Fiduciary Agency for Project Management (AFAP)), as well as seeking TA in conducting the PIMA as soon as possible. They emphasized strong efforts to mobilize external grant financing and saw merit in improving the legal framework for private sector participation in infrastructure projects. They also viewed modernizing energy sector, building climate resilience, and tourism friendly infrastructure as part of their build better approach in the context of the flood-related reconstruction efforts.

PROGRAM ISSUES, SAFEGUARDS, AND RISKS

37. Extensions and revisions to program conditionality are proposed. Amid VAT slippages and the floods, QPCs and ITs for end-March and end-June 2022 are proposed to be modified to reflect more gradual fiscal consolidation than programmed during the third review. The timing and definition of unmet SBs are proposed to be revised to account for recent progress and allow time for harmonization and consensus building. Additional conditionality is added on preparatory steps for the VAT implementation and the BCSTP organic law (prior actions).

38. The program is fully financed for the remainder of the program, although subject to risks. While there have been delays in disbursements during 2021, there are firm commitments for financing over the next 12 months during the remainder of the program (Text Table 6).

39. The capacity to repay the Fund remains adequate but is subject to significant risks. Credit outstanding would peak in 2022 at 7.4 percent of GDP. Risks are mitigated by the authorities' commitment to continue fiscal consolidation, implement EMAE's planned reforms, and borrow externally only on concessional terms and at a measured pace. The country's capacity to repay the Fund is subject to significant downside risks from lower economic growth and revenues, contingent liabilities from EMAE, ENCO, and the materialization of other fiscal risks that could reduce the government's debt service capacity. These downside risks may generate additional debt and require policies to restore debt sustainability, including the need to revise the macro framework and fiscal program while preserving social spending. 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 and at a measured pace.

40. Prompt Fund support is considered essential for the successful implementation of the country's adjustment program. São Tomé and Príncipe 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 good prospects exist for the removal of exchange controls. Staff supports the completion of the financing assurances review.

Text Table 6. São Tomé and Príncipe: External Financing
(In Millions of U.S. Dollars)

	2020 Act.	2021 Est.	2022 Proj.
Total	**71.3**	**46.2**	**80.7**
Grants [1]	**48.0**	**39.2**	**65.7**
World Bank	20.6	31.4	31.8
African Development Bank	13.6	1.0	6.8
European Union (EU)	5.9	0.5	4.6
Others	7.9	6.3	22.5
Loans	**23.3**	**7.0**	**15.0**
African Development Bank	3.6	0.7	1.9
IMF	17.5	5.1	5.1
Others	2.2	1.2	8.0

Sources: São Tomé and Príncipe authorities; AfDB, World Bank, and Fund staff estimates.
[1] Grants amount excludes HIPC interim assistance.

STATISTICAL ISSUES, CAPACITY DEVELOPMENT, AND OUTREACH

41. Further efforts are needed to improve the economic data, although they are broadly adequate for surveillance. Enhancing the macro-fiscal forecasting capacity remains a priority and the macro-fiscal unit composed of representatives from MoF, BCSTP, and INE, should continue improving their projections. The National Statistics Institute (INE) compiled new national accounts series (2008-2019) supported by IMF TA, which is expected to become available in 2022. The authorities also received IMF TA to improve balance of payments (BOP) statistics and extend the coverage of the international investment position (IIP). The BCSTP is working to implement the TA recommendations to ensure better quality and broader coverage of the bank balance sheet data for BOP and IIP compilation, reclassification, and the reporting of reserve assets.

42. Capacity development (CD) remains instrumental for reforms' implementation. São Tomé and Príncipe has received intensive IMF CD support. Past CD reflected demands from the authorities and the reform priorities identified in the context of the Fund-supported program. Key achievements include implementation of the automatic fuel pricing mechanism, adoption of the VAT law, and drafting of the BCSTP Organic Law. However, the pandemic-related restrictions in addition to endemic weak capacity constraints slowed the absorption of CD activities. Going forward, the CD priority areas include enhancing domestic revenue mobilization, improving public financial management and debt recording, and strengthening financial sector regulations and the legal framework (see Annex 5).

43. The authorities request an extension of approval of the existing exchange restrictions and multiple currency practice. São Tomé and Príncipe currently has measures that give rise to two exchange restrictions and one multiple currency practice under Article VIII.[13] The IMF Executive Board granted temporary approval of these measures in February 2021 for 12 months.[14] The authorities have requested an additional one-year extension of such measures. Actions taken under the program will help ensure the stability of the peg while supporting the removal of the exchange restrictions, and an extension is needed as these policies are still being implemented. Therefore, staff supports the request by the authorities, given that (a) the measures giving rise to the exchange restrictions are imposed for BOP reasons, necessary and temporary, and (b) the measure giving rise to the multiple currency practice is imposed for BOP reasons, temporary, and non-discriminatory. The exchange rate arrangement is a conventional peg against the euro, which became the new

[13] These exchange measures include: (i) an exchange restriction arising under Articles 3(g) and 18 of the Investment Code of 2016 due to limitations on the transferability of net income from investments; and (ii) an exchange restriction arising from limitations on the availability of foreign exchange for payments of current international transactions, due to the rationing of foreign exchange by BCSTP. The latter exchange restriction also gives rise to a multiple currency practice as it has resulted in the channeling of transactions to the parallel market where the exchange rate is at a spread of more than two percent from the exchange rate in the formal market.

[14] See Informational Annex.

reference currency for the peg on January 1, 2010. The Organic Law of the BCSTP authorizes it to make decisions regarding exchange rate policy.

STAFF APPRAISAL

44. Macroeconomic stability has been maintained despite multiple challenges. Growth is projected to rise to 2.3 percent in 2022 and to reach 4 percent in the medium term, supported by better infrastructure and a stronger potential for tourism. Based on the external sector assessment (see Annex 4), the external position of São Tomé and Príncipe in 2021 was moderately weaker than the level implied by fundamentals and desirable policies. The current account is expected to worsen slightly in 2022 due to the negative impact of the floods and to gradually narrow in the medium term. The macroeconomic outlook is subject to downside risks. The new COVID-19 variants, natural disasters, and inward spillovers from increasing international fuel prices may hinder the recovery, worsen power outages and inflation, and adversely affect revenues and implicit subsidies. On the upside, accelerated reforms and key infrastructure development projects could promote medium-term growth.

45. Growth-friendly fiscal consolidation is key for addressing immediate social and economic needs while preserving debt sustainability. São Tomé and Príncipe's remains to be in debt distress due to the ongoing regularization of post-HIPC sovereign arrears, while PPG external and total debt remain sustainable (see DSA). Strengthening revenues and gradually consolidating the DPB would bring the primary deficit close to balance in 2024 and put the public debt on a downward trajectory. Implementing the VAT in 2022 will help to generate domestic resources to support growth-enhancing social and infrastructure development programs. These efforts need to be further reinforced by improving public investment efficiency. In the face of weak external buffers and considerable fiscal needs, efforts towards mobilizing grant and concessional financing should continue. Also important is the steadfast implementation of revenue-enhancing measures, including the collection of tax arrears. Going forward, implementing a medium-term fiscal framework, and strengthening expenditure controls, including by piloting a commitment ceiling mechanism, are critical to deliver on the authorities' fiscal consolidation strategy.

46. Modernizing monetary and financial legal frameworks remain a priority. Given inflation pressures, monetary policy should continue to be anchored by the peg to the Euro and use active liquidity management. The authorities' actions to submit the new Organic Law of the BCSTP to the Parliament and their progress in implementing the remaining safeguards recommendations are welcome and efforts should continue to be made to implement the overdue recommendations. 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, further 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, improving stress testing and strengthening supervision practices are integral components for the authorities to focus on to modernize the BCSTP.

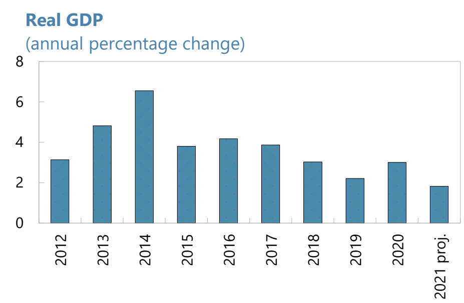
47. Structural reforms are needed to support growth and improve external competitiveness. Reaping medium-term benefits from expanding tourism services will require a comprehensive approach focused on developing the human capital through education programs, building the infrastructure, expanding transportation links, and improving business environment with linkages to small and medium business and local communities. Increasing international fuel prices and shortages in electricity supply accentuate the need for comprehensive reforms of the energy sector with a view to diversify away from thermo-electrical sources and improve energy efficiency. In the near term, reforming EMAE could help to provide lower-cost and reliable electricity, a cornerstone to unlocking the country's development and growth potential. Also, automatic fuel price adjustment is needed to prevent implicit fuel subsidies and contain fiscal risks. These efforts need to be supported with stronger targeted social transfer programs for the most vulnerable.

48. Staff recommends the completion of the fourth review under the ECF arrangement. The authorities' economic policies for 2022 are consistent with the program's objectives. The authorities met the end-June 2021 quantitative targets for the review, except for the temporary deviations with respect to net international reserves and external arrears which were corrected. Staff recommends waivers for the nonobservance of the floor on net international reserves, and the continuous PC on non-accumulation of external debt service arrears. Staff supports the establishment and modification of quantitative performance criteria, indicative targets, and structural benchmarks for end-March and end-June 2022 as well as the completion of the financing assurances review. Staff also supports the fifth disbursement in the amount of SDR 1.9 million.

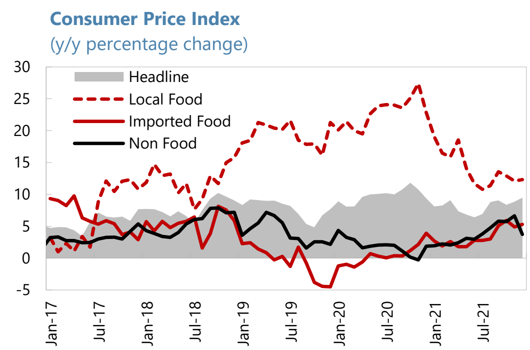
49. Staff recommends that the next Article IV Consultation for São Tomé and Príncipe be held on the 24-month cycle.

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

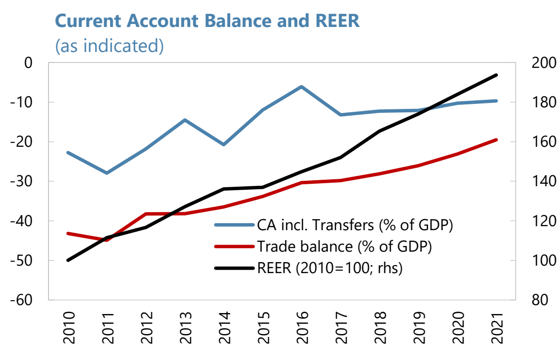
Real GDP growth is estimated at 1.8 percent in 2021, weighed down by power outages



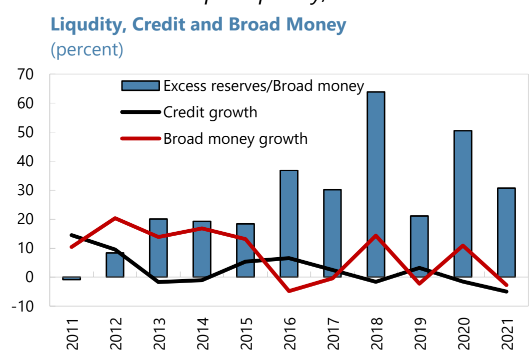
Headline inflation rose to 9.5 percent (y-o-y) by end-December, driven by high food prices



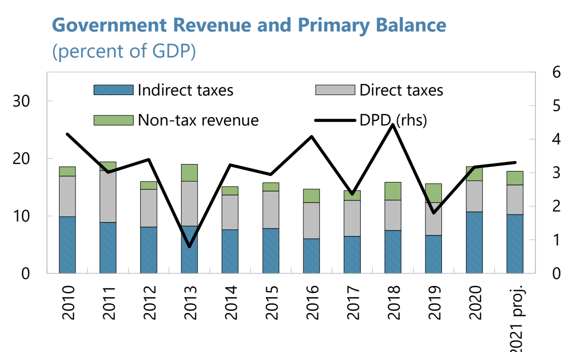
With a recovery in international travel and exports, the current account narrowed in 2021 …



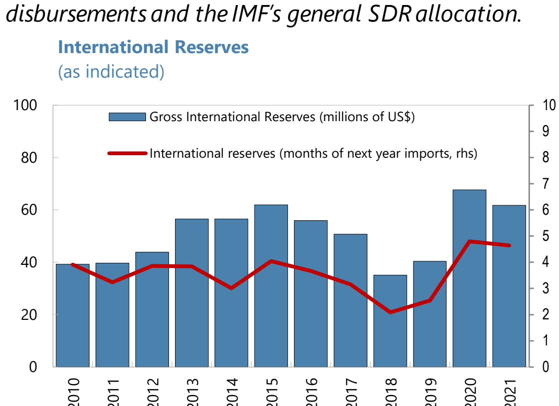
Credit growth decelerated despite the central bank's actions to ensure ample liquidity, and



…the domestic primary balance (DPB), excluding grants, remained broadly unchanged.



…and international reserves increased, reflecting external disbursements and the IMF's general SDR allocation.

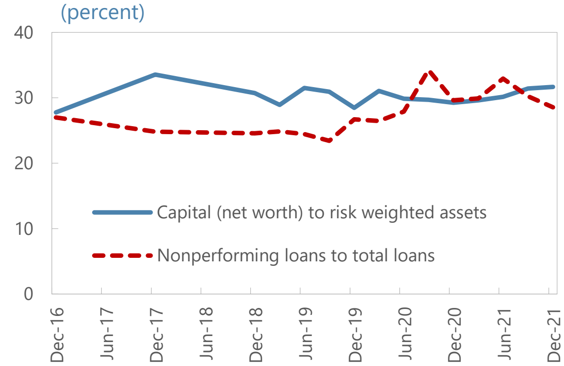


Sources: São Tomé and Príncipe authorities; Information Notice System and IMF staff estimates

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

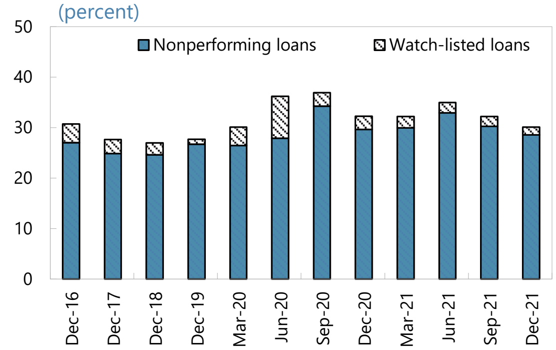
Banks remain well capitalized, but the pandemic is weighing on their asset quality. Repayments of arrears contributed to an improvement in banks' NPLs in 2021…

Capital Adequacy and NPLs
(percent)



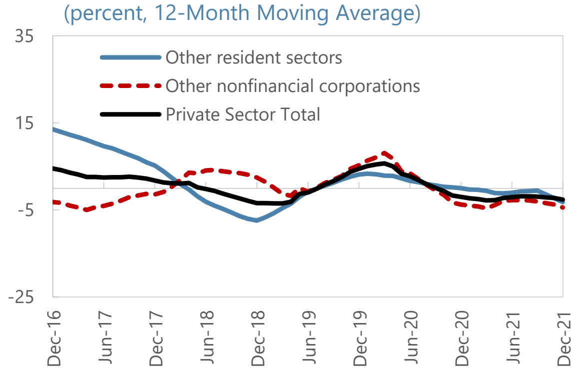
and a decline in watch-listed loans.

Past Due Loans to Gross Loans
(percent)



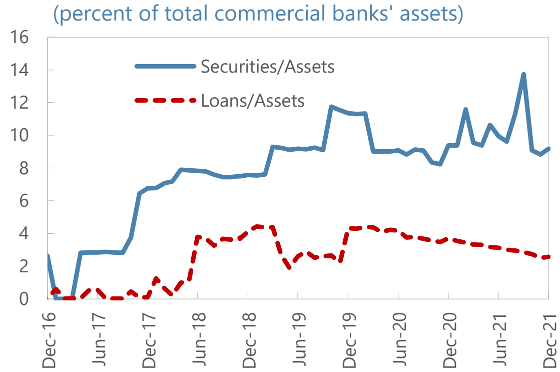
Private sector credit growth declined during the pandemic.

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



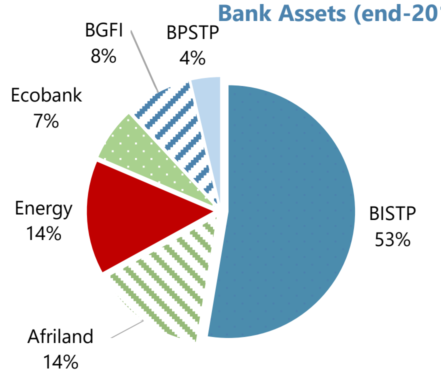
Meanwhile, banks' exposure to the government increased.

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



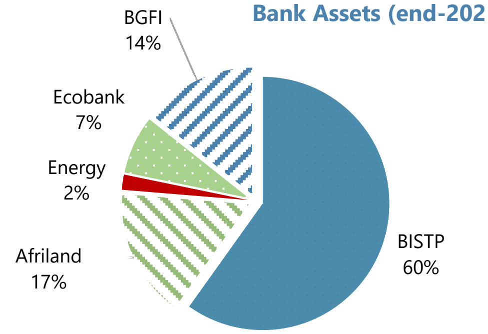
The banking system has become more concentrated…

Bank Assets (end-2016)



…as the share of the largest bank's total assets increased.

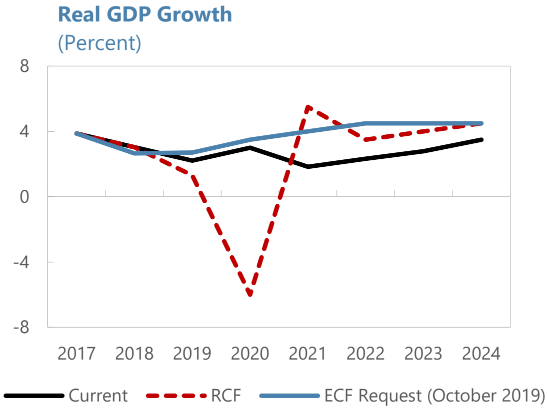
Bank Assets (end-2021)



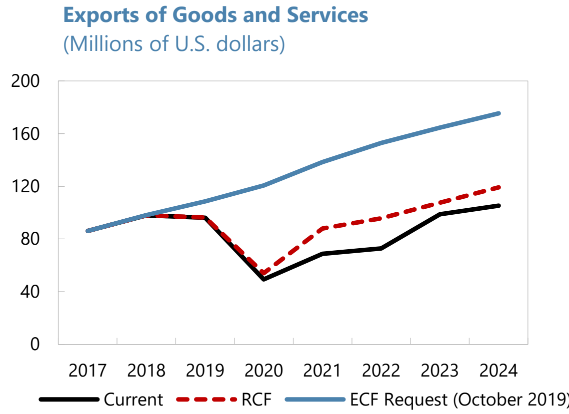
Sources: São Tomé and Príncipe authorities, IMF Financial Access Survey, and IMF staff estimates and projections.

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

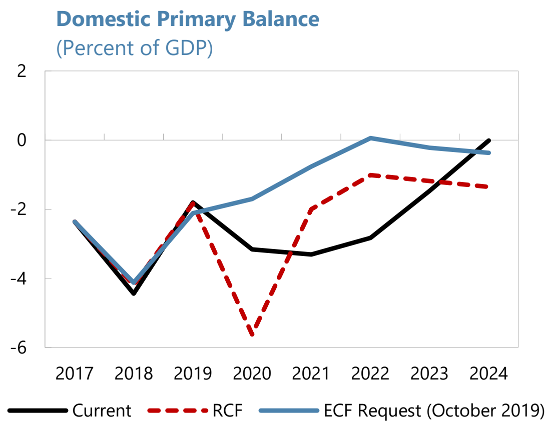
International support and the authorities' swift actions helped mitigate the impact of the pandemic so far ...



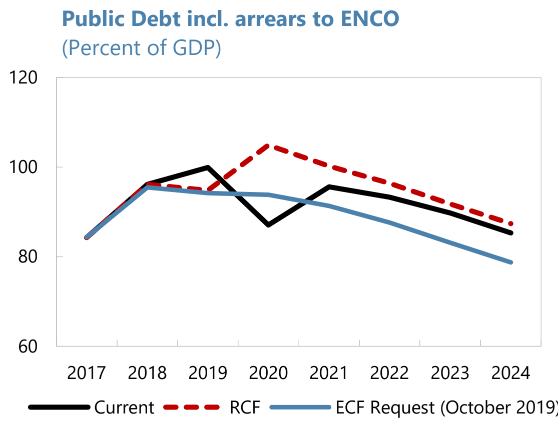
...exports declined due to a sharp drop in tourist arrivals.



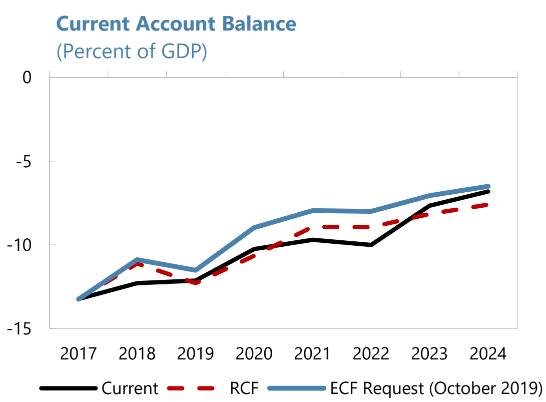
Following loose fiscal policy during the pandemic, a gradual fiscal consolidation is expected in the period ahead...



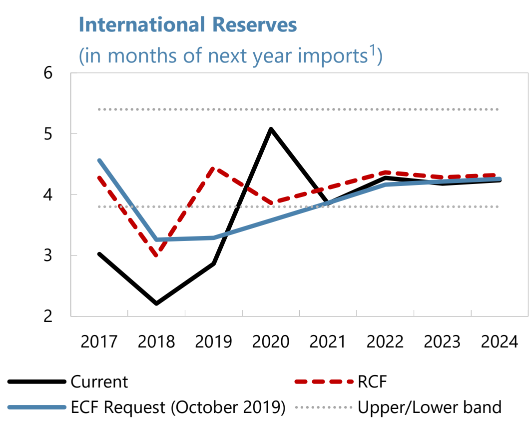
...which would put public debt on a declining path.



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



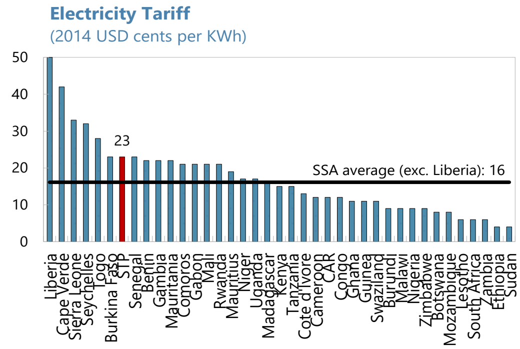
...and international reserves would increase.



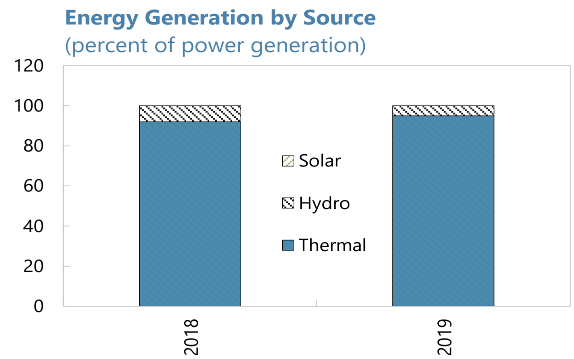
Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections
1/ Imports of goods and services, including investment and technical assistance.

Figure 4. São Tomé and Príncipe: An Unsustainable Energy Sector

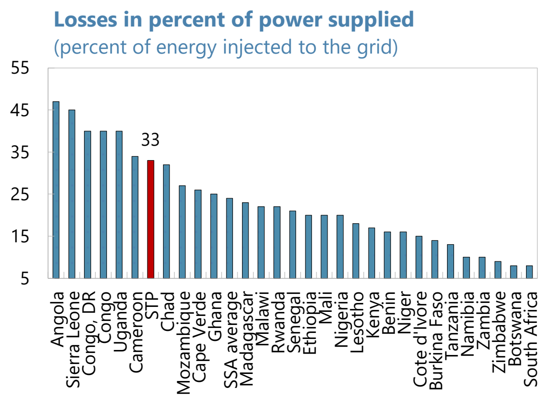
Electricity tariffs in São Tomé and Príncipe are above the sub-Saharan African average…



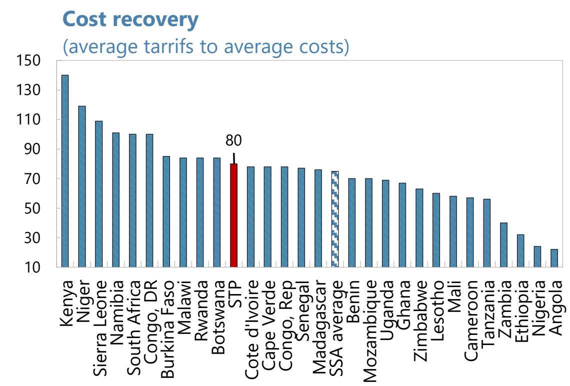
…reflecting the country's dependence on expensive thermal electricity generation.



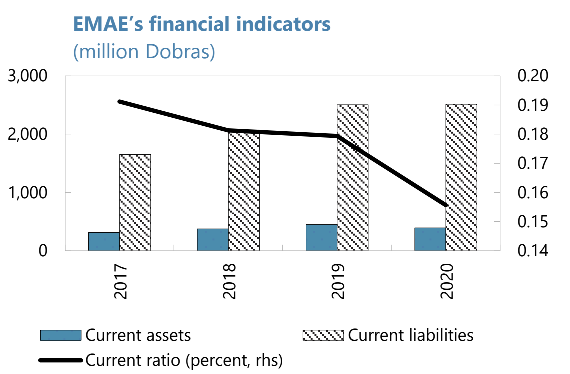
In addition, total losses (technical and commercial) are among the highest in the region…



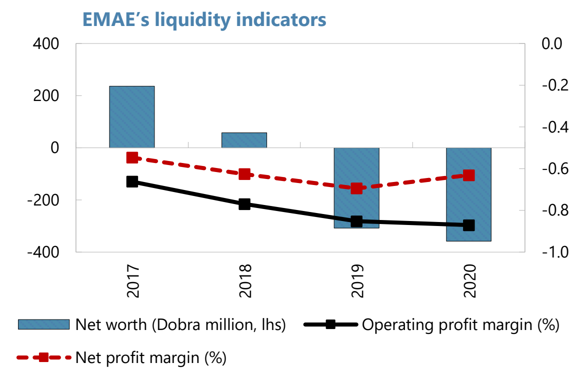
…preventing the sector from achieving cost recovery despite the high tariffs.



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



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 – World Bank Group 2016

Table 1. São Tomé and Príncipe: Selected Economic Indicators, 2018–27

(Annual Change in Percent, Unless Otherwise Indicated)

	2018	2019	2020	2021		2022		2023	2024	2025	2026	2027
				Third Rev.	Est.	Third Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
National income and prices												
GDP at constant prices	3.0	2.2	3.0	2.1	1.8	2.9	2.3	2.8	3.5	3.7	4.0	4.0
GDP deflator	2.6	7.0	5.6	2.7	3.1	2.0	3.2	3.9	3.0	3.2	4.1	4.7
Consumer prices (End of period)	9.0	7.7	9.4	4.7	9.5	6.2	12.1	5.0	5.0	5.0	5.0	5.0
Consumer prices (Period Average)	7.9	7.7	9.8	5.4	8.1	7.0	12.1	8.7	5.2	5.0	4.4	5.0
External trade												
Exports of goods and nonfactor services	13.9	-1.9	-48.7	18.4	39.3	48.0	6.0	35.6	6.5	10.0	5.4	5.5
Imports of goods and nonfactor services	4.3	-5.3	-11.4	9.4	5.9	2.9	19.7	-0.6	5.7	6.3	5.2	1.9
Exchange rate (new dobras per US$; end of period) [1]	21.5	22.0	20.1	...	...	...	...	...	...	...	...	...
Real effective exchange rate (period average, depreciation = -	8.8	5.3	5.7	...	...	...	...	...	...	...	...	...
Money and credit												
Base money	0.8	-7.4	31.0	-10.8	12.7	1.3	4.9	4.1	...	...	...	...
Broad money (M3)	14.3	-2.2	10.9	7.5	-2.7	5.2	5.6	6.8	...	...	...	...
Credit to the economy	-1.6	3.2	-1.6	0.4	-5.0	4.7	2.2	2.2	...	....	....	....
Velocity (GDP to broad money; end of period)	2.9	3.0	2.8	3.0	3.3	3.0	3.3	3.3	...	...	...	...
Central bank reference interest rate (percent)	9.0	9.0	9.0	...	...	...	...	...	...	...	...	...
Average bank lending rate (percent)	19.9	19.1	19.1	...	...	...	...	...	...	...	...	...
Government finance (in percent of GDP)												
Total revenue, grants, and oil signature bonuses	24.1	22.0	26.0	25.7	22.5	24.8	28.4	24.5	25.8	26.2	26.1	26.2
Of which: tax revenue	12.8	12.3	13.1	13.3	12.3	14.4	12.9	13.7	14.9	15.5	15.5	15.6
Nontax revenue	3.1	3.3	2.4	2.5	2.4	2.8	2.5	2.6	2.7	2.9	3.0	3.2
Grants	8.3	6.4	10.5	9.9	7.8	7.6	12.9	8.2	8.2	7.9	7.6	7.5
Total expenditure and net lending	26.0	22.1	23.1	27.2	24.7	24.2	28.8	25.9	25.7	25.5	25.5	25.0
Personnel costs	9.3	9.0	9.3	10.0	9.3	9.8	9.9	9.6	9.6	9.6	9.6	9.6
Interest due	0.4	0.7	0.3	0.4	0.2	0.4	0.5	0.5	0.5	0.4	0.3	0.3
Nonwage noninterest current expenditure	7.0	7.5	7.2	7.4	7.4	7.3	7.0	7.3	7.3	7.3	7.3	7.3
Treasury funded capital expenditures	1.4	0.1	0.2	0.3	0.1	0.4	0.8	0.3	0.3	0.3	0.4	0.5
Donor funded capital expenditures	7.8	4.7	3.0	7.4	6.6	6.1	10.2	7.9	7.8	7.7	7.7	7.1
HIPC Initiative-related capital expenditure	0.1	0.1	0.1	0.2	0.1	0.2	0.3	0.2	0.2	0.2	0.2	0.2
COVID-19 spending	...	...	2.9	1.5	1.0	1.0	1.0	...				
Domestic primary balance [2]	-4.2	-1.8	-3.2	-3.5	-3.3	-2.0	-2.8	-1.5	0.0	0.7	0.8	0.9
Net domestic borrowing	3.4	0.0	-2.3	1.3	2.3	-0.1	0.8	0.1	-1.0	-1.4	-1.3	-1.9
Overall balance (commitment basis)	-1.9	-0.1	2.9	-1.5	-2.2	-0.5	-1.4	-1.4	0.1	0.7	0.6	1.2
Public Debt [3]	96.2	99.9	87.1	87.9	95.6	86.5	94.0	91.3	86.6	80.8	73.7	66.7
Of which: EMAE's debt to ENCO	23.3	28.9	24.2	26.0	28.3	29.0	31.3	31.5	30.9	29.5	27.9	25.5
External sector												
Current account balance (percent of GDP)												
Including official transfers	-12.3	-12.1	-10.3	-11.3	-9.6	-7.5	-9.8	-7.5	-6.7	-6.3	-6.0	-4.6
Excluding official transfers	-21.0	-18.5	-20.7	-21.2	-17.4	-15.1	-22.8	-15.7	-14.8	-14.2	-13.6	-12.1
PV of external debt (percent of GDP)	26.6	27.2	25.7	24.4	24.5	24.2	25.3	24.5	23.5	22.3	20.8	19.9
External debt service (percent of exports) [4]	2.6	4.5	5.2	11.6	6.7	8.4	10.4	8.7	10.7	10.9	11.3	7.6
Export of goods and non-factor services (US$ millions)	98.0	96.2	49.3	61.2	68.7	90.5	72.9	98.8	105.3	115.8	122.1	128.7
Gross international reserves [5]												
Millions of U.S. dollars	35.1	40.4	67.6	63.4	61.8	70.3	67.6	70.7	75.9	79.9	81.7	86.1
Months of imports of goods and services	2.2	2.9	4.5	4.0	3.5	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Months of imports of goods and nonfactor services [6]	3.0	4.4	6.9	5.7	5.6	5.9	5.9	6.0	6.2	6.2	6.5	6.5
National Oil Account (US$ millions)	19.5	18.8	16.4	13.5	13.6	12.5	11.2	9.2	7.5	6.0	4.7	3.5
Memorandum Item												
Gross Domestic Product												
Millions of new dobra	8,619	9,424	10,247	10,750	10,759	11,281	11,365	12,139	12,938	13,853	14,999	16,322
Millions of U.S. dollars	415.6	430.7	477.3	533.6	519.7	530.9	530.9	576.1	621.1	671.6	732.8	797.4
Per capita (in U.S. dollars)	1,989	2,022	2,190	2,393	2,331	2,524	2,339	2,483	2,621	2,775	2,851	3,042

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, ENCO debt repayment, grants, scheduled interest payments, and foreign-financed capital outlays per definition in TMU.

[3] Total public and publicly guaranteed debt as defined in DSA, which includes EMAE's debt to ENCO.

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

[5] Gross international reserves exclude the balance of National Oil Account at the BCSTP and banks' reserves denominated in foreign currency.

[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, 2018–27
(Millions of New Dobra)

	2018	2019	2020	2021		2022			2023	2024	2025	2026	2027
				Third Rev.	Est.	Third Rev.	Auth. Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants [1]	2081	2073	2667	2767	2422	2793	3415	3230	2968	3338	3626	3913	4274
Total revenue	1365	1468	1596	1702	1583	1939	1772	1759	1972	2281	2537	2776	3053
Tax revenue	1099	1160	1346	1428	1325	1621	1477	1471	1662	1931	2142	2326	2538
Consumption taxes	157	151	220	242	240	242	240	296	407	589	700	759	828
Import taxes	486	472	571	611	532	628	626	601	642	685	733	794	864
Of which: oil price differential *(GAMAP)*	…	…	108	…	68	…	…	7	0	0	0	0	0
Other taxes	456	538	555	817	554	751	610	573	612	657	709	772	846
Nontax revenue [2]	266	308	250	274	258	318	295	289	310	350	395	451	515
Of which: oil revenue	212	70	31	2	7	31	2	2	7	9	10	10	10
Grants	715	605	1071	1065	839	854	1643	1471	997	1057	1089	1137	1221
Project grants	557	333	327	604	554	489	1252	948	607	647	693	750	816
Nonproject grants	125	186	703	438	257	299	327	458	318	339	327	318	346
HIPC Initiative-related grants	33	86	41	23	27	66	64	64	72	71	70	69	59
Total expenditure	2243	2079	2367	2925	2659	2845	3505	3385	3141	3325	3532	3825	4075
Of which: domestic primary expenditure	1536	1568	1889	2059	1864	2113	1921	2166	2122	2252	2409	2621	2873
Current expenditure	1436	1616	1731	1913	1820	1978	1995	1980	2121	2248	2390	2585	2803
Personnel costs	798	848	956	1070	998	1106	1127	1125	1171	1241	1328	1438	1565
Interest due	34	66	35	43	23	44	74	59	64	63	50	52	46
Goods and services	260	235	237	260	261	270	237	248	291	311	332	360	392
Transfers	273	268	325	348	345	365	360	372	388	414	443	480	522
Other current expenditure	71	199	178	192	194	192	196	176	206	220	235	255	277
Capital expenditure	795	454	330	823	721	727	1360	1255	991	1049	1114	1212	1237
Financed by the Treasury	122	9	20	29	13	40	38	95	36	39	42	60	82
Financed by external sources	673	445	310	794	709	687	1322	1160	955	1010	1073	1152	1155
HIPC Initiative-related capital expenditure	12	9	13	23	11	26	37	37	29	28	28	28	35
COVID-19 spending	…	…	293	165	107	113	113	113	…	…	…	…	…
Financed by the Treasury	…	…	160	136	44	113	113	0	…	…	…	…	…
Financed by external sources	…	…	132	29	63	0	0	113	…	…	…	…	…
Domestic primary balance [2]	-362	-170	-324	-379	-356	-225	-364	-321	-179	-1	98	125	149
Overall fiscal balance (commitment basis)	-162	-6	300	-158	-238	-52	-90	-156	-173	12	94	88	199
Net change in external arrears	0	0	0	0	0	0	0	0	0	0	0	0	0
Net change in domestic arrears	76	-100	-159	-73	-13	-23	0	-50	-23	-23	-23	-23	-23
Float and statistical discrepancies	186	63	0	0	0	0	0	0	0	0	0	0	0
Overall fiscal balance (cash basis)	100	-43	142	-231	-250	-75	-90	-206	-197	-11	70	65	176
Financing	-100	43	-142	231	250	75	90	206	197	11	-70	-65	-176
Net external	67	26	45	53	3	86	-32	90	211	170	159	155	167
Disbursements	116	96	116	190	154	198	70	212	348	363	380	402	339
Program financing (loans) [3]	16	46	0	0	0	0	0	0	0	0	0	0	0
Scheduled amortization	-65	-116	-71	-137	-151	-112	-102	-122	-137	-193	-221	-247	-172
Net domestic	-167	17	-186	178	247	-11	122	116	-14	-159	-229	-220	-343
Net bank credit to the government	-167	17	-186	198	314	8	147	141	7	-138	-209	-200	-322
Banking credit (net, excluding National Oil Account) [3]	0	0	-239	135	246	-14	92	86	14	-129	-199	-189	-312
Banking system credit (gross, excluding National Oil Account	0	0	-190	135	312	-14	92	168	14	-129	-199	-189	-312
Amortization of domestic debt	0	0	-50	0	-65	0	0	-82	0	0	0	0	0
National Oil Account	-167	17	53	63	68	22	55	55	-7	-9	-10	-10	-10
Nonbank financing	0	0	0	-20	-68	-20	-25	-25	-21	-21	-21	-20	-20
Of which: Amortization payments to ENCO	…	…	…	-20	-68	-20	-25	-25	-21	-21	-21	-20	-20
Financing gap (+ = deficit/ - = surplus)	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items													
Gross Domestic Product	8619	9424	10247	10750	10759	11281	11294	11365	12139	12938	13853	14999	16322
Public debt (in percent of GDP)	96	100	87	88	96	86	…	94	91	87	81	74	67
EMAE loss	349	388	…	…	…	…	…	…	…	…	…	…	…

Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections.
[1] Revenue is measured on a cash basis.
[2] Excludes oil related revenues, ENCO debt repayment, grants, scheduled interest payments, and foreign-financed capital outlays per definition in TMU.
[3] Includes use of IMF program support.

Table 2b. São Tomé and Príncipe: Financial Operations of the Central Government, 2018–27
(In Percent of GDP)

	2018	2019	2020	2021		2022			2023	2024	2025	2026	2027
				Third Rev.	Est.	Third Rev.	Auth. Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants [1]	**24.1**	**22.0**	**26.0**	**25.7**	**22.5**	**24.8**	**30.3**	**28.4**	**24.5**	**25.8**	**26.2**	**26.1**	**26.2**
Total revenue	15.8	15.6	15.6	15.8	14.7	17.2	15.7	15.5	16.2	17.6	18.3	18.5	18.7
Tax revenue	12.8	12.3	13.1	13.3	12.3	14.4	13.1	12.9	13.7	14.9	15.5	15.5	15.6
Consumption taxes	1.8	1.6	2.1	2.3	2.2	2.1	2.1	2.6	3.4	4.6	5.1	5.1	5.1
Import taxes	5.6	5.0	5.6	5.7	4.9	5.6	5.6	5.3	5.3	5.3	5.3	5.3	5.3
Of which: oil price differential *(GAMAP)*	…	…	1.1	…	0.6	…	…	0.1	0.0	0.0	0.0	0.0	0.0
Other taxes	5.3	5.7	5.4	7.6	5.1	6.7	5.4	5.0	5.0	5.1	5.1	5.1	5.2
Nontax revenue [2]	3.1	3.3	2.4	2.5	2.4	2.8	2.6	2.5	2.6	2.7	2.9	3.0	3.2
Of which: oil revenue	2.5	0.7	0.3	0.0	0.1	0.3	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Grants	8.3	6.4	10.5	9.9	7.8	7.6	14.6	12.9	8.2	8.2	7.9	7.6	7.5
Project grants	6.5	3.5	3.2	5.6	5.2	4.3	11.1	8.3	5.0	5.0	5.0	5.0	5.0
Nonproject grants	1.5	2.0	6.9	4.1	2.4	2.7	2.9	4.0	2.6	2.6	2.4	2.1	2.1
HIPC Initiative-related grants	0.4	0.9	0.4	0.2	0.2	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4
Total expenditure	**26.0**	**22.1**	**23.1**	**27.2**	**24.7**	**25.2**	**31.1**	**29.8**	**25.9**	**25.7**	**25.5**	**25.5**	**25.0**
Of which: Domestic primary expenditure	17.8	16.6	18.4	19.1	17.3	18.7	17.0	19.1	17.5	17.4	17.4	17.5	17.6
Current expenditure	16.7	17.1	16.9	17.8	16.9	17.5	17.7	17.4	17.5	17.4	17.3	17.2	17.2
Personnel costs	9.3	9.0	9.3	10.0	9.3	9.8	10.0	9.9	9.6	9.6	9.6	9.6	9.6
Interest due	0.4	0.7	0.3	0.4	0.2	0.4	0.7	0.5	0.5	0.5	0.4	0.3	0.3
Goods and services	3.0	2.5	2.3	2.4	2.4	2.4	2.1	2.2	2.4	2.4	2.4	2.4	2.4
Transfers	3.2	2.8	3.2	3.2	3.2	3.2	3.2	3.3	3.2	3.2	3.2	3.2	3.2
Other current expenditure	0.8	2.1	1.7	1.8	1.8	1.7	1.7	1.5	1.7	1.7	1.7	1.7	1.7
Capital expenditure	9.2	4.8	3.2	7.7	6.7	6.4	12.1	11.0	8.2	8.1	8.0	8.1	7.6
Financed by the Treasury	1.4	0.1	0.2	0.3	0.1	0.4	0.3	0.8	0.3	0.3	0.3	0.4	0.5
Financed by external sources	7.8	4.7	3.0	7.4	6.6	6.1	11.7	10.2	7.9	7.8	7.7	7.7	7.1
HIPC Initiative-related capital expenditure	0.1	0.1	0.1	0.2	0.1	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2
COVID-19 spending	…	…	2.9	1.5	1.0	1.0	1.0	1.0	…	…	…	…	…
Financed by the Treasury	…	…	1.6	1.3	0.4	1.0	1.0	0.0	…	…	…	…	…
Financed by external sources	…	…	1.3	0.3	0.6	0.0	0.0	1.0	…	…	…	…	…
Domestic primary balance [2]	-4.2	-1.8	-3.2	-3.5	-3.3	-2.0	-3.2	-2.8	-1.5	0.0	0.7	0.8	0.9
Overall fiscal balance (commitment basis)	-1.9	-0.1	2.9	-1.5	-2.2	-0.5	-0.8	-1.4	-1.4	0.1	0.7	0.6	1.2
Net change in external arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net change in domestic arrears	0.9	-1.1	-1.5	-0.7	-0.1	-0.2	0.0	-0.4	-0.2	-0.2	-0.2	-0.2	-0.1
Float and statistical discrepancies	2.2	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (cash basis)	**1.2**	**-0.5**	**1.4**	**-2.2**	**-2.3**	**-0.7**	**-0.8**	**-1.8**	**-1.6**	**-0.1**	**0.5**	**0.4**	**1.1**
Financing	**-1.2**	**0.5**	**-1.4**	**2.2**	**2.3**	**0.7**	**0.8**	**1.8**	**1.6**	**0.1**	**-0.5**	**-0.4**	**-1.1**
Net external	0.8	0.3	0.4	0.5	0.0	0.8	-0.3	0.8	1.7	1.3	1.1	1.0	1.0
Disbursements	1.3	1.0	1.1	1.8	1.4	1.8	0.6	1.9	2.9	2.8	2.7	2.7	2.1
Program financing (loans) [3]	0.2	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-0.8	-1.2	-0.7	-1.3	-1.4	-1.0	-0.9	-1.1	-1.1	-1.5	-1.6	-1.6	-1.1
Net domestic	-1.9	0.2	-1.8	1.7	2.3	-0.1	1.1	1.0	-0.1	-1.2	-1.7	-1.5	-2.1
Net bank credit to the government	-1.9	0.2	-1.8	1.8	2.9	0.1	1.3	1.2	0.1	-1.1	-1.5	-1.3	-2.0
Banking credit (net, excluding National Oil Account)	0.0	0.0	-2.3	1.3	2.3	-0.1	0.8	0.8	0.1	-1.0	-1.4	-1.3	-1.9
National Oil Account	-1.9	0.2	0.5	0.6	0.6	0.2	0.5	0.5	-0.1	-0.1	-0.1	-0.1	-0.1
Nonbank financing	0.0	0.0	0.0	-0.2	-0.6	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
Of which: Amortization payments to ENCO	…	…	…	-0.2	-0.6	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-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	0.0
Memorandum items													
Nominal GDP (Millions of new dobra)	8,619	9,424	10,247	10,750	10,759	11,281	11,281	11,365	12,139	12,938	13,853	14,999	16,322
Public debt	96	100	87	88	96	86	…	94	91	87	81	74	67
EMAE loss	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] Excludes oil related revenues, ENCO debt repayment, grants, scheduled interest payments, and foreign-financed capital outlays per definition in TMU.

[3] Includes use of IMF program support.

Table 3a. São Tomé and Príncipe: Balance of Payments, 2018–27

(Millions of U.S. dollars)

	2018	2019	2020	2021		2022		2023	2024	2025	2026	2027
			Est.	Third Rev.	Proj.	Third Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Trade balance	**-116.8**	**-112.3**	**-110.4**	**-123.2**	**-118.0**	**-125.5**	**-143.2**	**-132.4**	**-142.1**	**-149.1**	**-160.0**	**-159.8**
Exports, f.o.b.	16.0	14.1	13.9	19.4	17.6	22.0	20.1	25.1	24.7	29.7	31.2	32.8
Cocoa	8.2	6.9	6.7	8.2	7.8	10.1	8.2	14.3	14.9	15.5	16.4	17.2
Re-export	6.8	3.4	2.2	4.8	2.2	4.3	3.6	3.1	3.0	6.2	6.3	6.7
Imports, f.o.b.	-132.9	-126.4	-124.4	-142.6	-135.6	-147.5	-163.3	-157.4	-166.7	-178.8	-191.2	-192.6
Food	-31.1	-31.3	-32.4	-34.8	-34.7	-35.0	-34.7	-34.3	-34.2	-36.2	-38.3	-40.6
Petroleum products	-33.6	-34.2	-24.6	-38.4	-35.9	-41.5	-37.1	-34.2	-34.1	-34.4	-35.1	-37.2
Non-oil investment goods	-31.3	-23.5	-27.3	-31.3	-28.0	-35.7	-52.5	-46.1	-52.9	-59.4	-64.9	-57.3
Oil sector related investment goods	-19.6	-25.5	-31.3	-25.2	-31.8	-22.4	-26.8	-26.7	-27.6	-29.8	-29.4	-44.7
Other	-17.2	-11.9	-8.7	-12.9	-5.2	-12.9	-12.3	-16.0	-18.0	-19.0	-23.4	-12.7
Services and income (net)	**13.5**	**16.2**	**-4.5**	**-5.5**	**13.5**	**20.6**	**7.7**	**24.1**	**29.1**	**31.6**	**36.0**	**37.4**
Exports of nonfactor services	82.0	82.1	35.4	41.8	51.2	68.5	52.8	73.8	80.6	86.1	90.9	96.0
Of which : travel and tourism	68.0	66.6	16.4	29.7	30.7	63.0	33.4	53.1	58.6	62.8	66.6	70.7
Imports of nonfactor services	-68.6	-64.5	-44.7	-44.5	-43.4	-45.1	-50.8	-55.4	-58.1	-60.3	-60.4	-63.7
Factor services (net)	0.1	-1.5	4.8	-2.7	5.7	-2.9	5.8	5.7	6.6	5.9	5.5	5.1
Of which: oil related	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Private transfers (net)	**16.3**	**16.3**	**16.1**	**15.6**	**13.9**	**18.3**	**14.7**	**17.7**	**20.8**	**22.3**	**24.2**	**26.3**
Official transfers (net)	**36.0**	**27.6**	**49.9**	**52.9**	**40.5**	**43.4**	**68.7**	**47.3**	**50.7**	**52.8**	**55.6**	**59.7**
Of which : Project grants (excluding HIPC grants)	26.9	15.2	15.2	27.8	26.8	24.9	44.3	28.8	31.1	33.6	36.6	39.9
Nonproject grants	6.0	8.5	32.8	21.2	12.4	14.0	21.4	15.1	16.3	15.8	15.6	16.9
HIPC Initiative-related grants	1.6	3.9	1.9	3.3	1.3	3.3	3.01	3.40	3.4	3.4	3.4	2.9
Current account balance												
Including official transfers	-51.1	-52.2	-48.9	-60.2	-50.1	-43.3	-52.1	-43.4	-41.4	-42.3	-44.3	-36.5
Excluding official transfers	-87.1	-79.9	-98.8	-113.1	-90.6	-86.6	-120.8	-90.7	-92.1	-95.1	-99.9	-96.1
Capital and financial account balance	**58.3**	**43.2**	**45.1**	**39.5**	**32.2**	**39.4**	**45.1**	**46.1**	**46.8**	**49.8**	**46.9**	**36.4**
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	58.3	43.2	45.1	39.5	32.2	39.4	45.1	46.1	46.8	49.8	46.9	36.4
Foreign Direct Investment	21.1	30.0	32.7	30.4	37.4	33.3	37.9	38.4	38.9	39.7	40.9	44.1
Portfolio Investment (net)	21.7	7.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil signature bonuses	10.2	3.2	1.4	0.1	0.4	1.6	0.1	0.3	0.4	0.5	0.5	0.5
Other investment (net)	5.3	2.4	10.5	9.0	-5.5	4.6	7.0	7.3	7.5	9.6	5.5	-8.2
Assets	-9.5	-8.5	-8.6	-8.9	-8.9	-9.2	-9.2	-9.4	-9.6	-9.8	-10.0	-10.2
Public sector (net)	1.9	-1.5	0.9	4.3	-1.1	4.5	3.0	10.0	8.1	7.7	7.6	8.2
Project loans	5.6	4.4	5.4	9.4	2.3	10.2	8.7	16.5	17.4	18.4	19.7	16.6
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	-3.7	-5.9	-4.5	-5.1	-3.4	-5.7	-5.7	-6.5	-9.3	-10.7	-12.1	-8.4
Of which : HIPC Initiative-related grants	-1.4	-3.4	-1.7	-1.0	-1.1	-3.0	-2.7	-3.0	-3.1	-3.1	-3.1	-2.6
Private sector (net)	12.9	12.4	18.2	13.6	4.5	9.2	13.2	6.7	8.9	11.7	8.0	-6.1
Commercial banks	-5.0	-1.5	10.1	0.0	-4.4	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.0
Short-term private capital	17.9	13.9	8.1	13.6	8.9	9.2	13.3	6.8	9.0	11.8	8.0	-6.1
Errors and omissions	-15.3	9.1	-8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-8.1**	**0.1**	**-12.7**	**-20.7**	**-17.9**	**-3.8**	**-7.1**	**2.7**	**5.4**	**7.5**	**2.6**	**0.0**
Financing	8.1	-0.1	12.7	20.7	17.8	3.8	7.1	-2.7	-5.3	-7.5	-2.6	0.0
Change in official reserves, excl. IMF and NOA (increase	15.8	-3.1	-9.4	12.3	9.8	-1.7	0.0	-3.7	-5.9	-6.6	0.0	-0.7
Use of Fund resources (net)	0.5	2.3	19.6	4.7	4.7	4.5	4.5	-0.7	-0.8	-2.0	-3.4	0.0
Purchases	0.9	2.7	17.5	5.1	5.1	5.1	5.1	0.0	0.0	0.0	0.0	0.0
ECF augmentation			2.0									
Repurchases (incl. MDRI repayment)	-0.4	-0.4	0.0	-0.4	-0.4	-0.6	-0.6	-0.7	-0.8	-2.0	-3.4	0.0
National Oil Account (increase = -)	-8.2	0.7	2.2	3.1	2.8	1.0	2.6	1.7	1.3	1.1	0.9	0.7
Exceptional financing (IMF CCRT)	0.0	0.0	0.4	0.6	0.6	…	…	…	…	…	…	…
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:												
Current account balance (percent of GDP)												
Including official transfers	-12.3	-12.1	-10.3	-11.3	-9.6	-7.5	-9.8	-7.5	-6.7	-6.3	-6.0	-4.6
Excluding official transfers	-21.0	-18.5	-20.7	-21.2	-17.4	-15.1	-22.8	-15.7	-14.8	-14.2	-13.6	-12.1
Debt service ratio (percent of exports) [1]	2.6	4.5	5.2	11.6	6.7	8.4	10.4	8.7	10.7	10.9	11.3	7.6
Gross international reserves [2]												
Millions of U.S. dollars	35.1	40.4	67.6	63.4	61.8	70.3	67.6	70.7	75.9	79.9	81.7	86.1
Months of imports of goods and services	2.2	2.9	4.5	4.0	3.5	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Months of imports of goods and nonfactor services[3]	3.0	4.4	6.9	5.7	5.6	5.9	5.9	6.0	6.2	6.2	6.5	6.5

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 balance of National Oil Account at the BCSTP and banks' reserves denominated in foreign currency.

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

Table 3b. São Tomé and Príncipe: Balance of Payments, 2018–27

(In Percent of GDP)

	2018	2019	2020	2021		2022		2023	2024	2025	2026	2027
			Est.	Third Rev.	Proj.	Third Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Trade balance	**-28.1**	**-26.1**	**-23.1**	**-23.1**	**-22.7**	**-21.9**	**-27.0**	**-23.0**	**-22.9**	**-22.2**	**-21.8**	**-20.0**
Exports, f.o.b.	3.9	3.3	2.9	3.6	3.4	3.8	3.8	4.3	4.0	4.4	4.3	4.1
Cocoa	2.0	1.6	1.4	1.5	1.5	1.8	1.5	2.5	2.4	2.3	2.2	2.2
Re-export	1.6	0.8	0.5	0.9	0.4	0.8	0.7	0.5	0.5	0.9	0.9	0.8
Imports, f.o.b.	-32.0	-29.3	-26.1	-26.7	-26.1	-25.7	-30.8	-27.3	-26.8	-26.6	-26.1	-24.2
Food	-7.5	-7.3	-6.8	-6.5	-6.7	-6.1	-6.5	-6.0	-5.5	-5.4	-5.2	-5.1
Petroleum products	-8.1	-7.9	-5.2	-7.2	-6.9	-7.2	-7.0	-5.9	-5.5	-5.1	-4.8	-4.7
Non-oil investment goods	-7.5	-5.5	-5.7	-5.9	-5.4	-6.2	-9.9	-8.0	-8.5	-8.9	-8.9	-7.2
Oil sector related investment goods	-4.7	-5.9	-6.6	-4.7	-6.1	-3.9	-5.0	-4.6	-4.4	-4.4	-4.0	-5.6
Other	-4.1	-2.8	-1.8	-2.4	-1.0	-2.2	-2.3	-2.8	-2.9	-2.8	-3.2	-1.6
Services and income (net)	**3.2**	**3.8**	**-0.9**	**-1.0**	**2.6**	**3.6**	**1.5**	**4.2**	**4.7**	**4.7**	**4.9**	**4.7**
Exports of nonfactor services	19.7	19.1	7.4	7.8	9.8	12.0	9.9	12.8	13.0	12.8	12.4	12.0
Of which : travel and tourism	16.4	15.5	3.4	5.6	5.9	11.0	6.3	9.2	9.4	9.3	9.1	8.9
Imports of nonfactor services	-16.5	-15.0	-9.4	-8.3	-8.3	-7.9	-9.6	-9.6	-9.4	-9.0	-8.2	-8.0
Factor services (net)	0.0	-0.3	1.0	-0.5	1.1	-0.5	1.1	1.0	1.1	0.9	0.8	0.6
Of which: oil related	0.0	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)	**3.9**	**3.8**	**3.4**	**2.9**	**2.7**	**3.2**	**2.8**	**3.1**	**3.4**	**3.3**	**3.3**	**3.3**
Official transfers (net)	**8.7**	**6.4**	**10.5**	**9.9**	**7.8**	**7.6**	**12.9**	**8.2**	**8.2**	**7.9**	**7.6**	**7.5**
Of which : Project grants (excluding HIPC grants)	6.5	3.5	3.2	5.2	5.2	4.3	8.3	5.0	5.0	5.0	5.0	5.0
Nonproject grants	1.5	2.0	6.9	4.1	2.4	2.7	4.0	2.6	2.6	2.4	2.1	2.1
HIPC Initiative-related grants	0.4	0.9	0.4	0.6	0.2	0.6	0.6	0.6	0.5	0.5	0.5	0.4
Current account balance												
Including official transfers	-12.3	-12.1	-10.3	-11.3	-9.6	-7.5	-9.8	-7.5	-6.7	-6.3	-6.0	-4.6
Excluding official transfers	-21.0	-18.5	-20.7	-21.2	-17.4	-15.1	-22.8	-15.7	-14.8	-14.2	-13.6	-12.1
Capital and financial account balance	**14.0**	**10.0**	**9.4**	**7.4**	**6.2**	**6.9**	**8.5**	**8.0**	**7.5**	**7.4**	**6.4**	**4.6**
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	14.0	10.0	9.4	7.4	6.2	6.9	8.5	8.0	7.5	7.4	6.4	4.6
Foreign Direct Investment	5.1	7.0	6.8	5.7	7.2	5.8	7.1	6.7	6.3	5.9	5.6	5.5
Portfolio Investment (net)	5.2	1.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil signature bonuses	2.5	0.7	0.3	0.0	0.1	0.3	0.0	0.1	0.1	0.1	0.1	0.1
Other investment (net)	1.3	0.6	2.2	1.7	-1.1	0.8	1.3	1.3	1.2	1.4	0.8	-1.0
Assets	-2.3	-2.0	-1.8	-1.7	-1.7	-1.6	-1.7	-1.6	-1.5	-1.5	-1.4	-1.3
Public sector (net)	0.5	-0.3	0.2	0.8	-0.2	0.8	0.6	1.7	1.3	1.1	1.0	1.0
Project loans	1.3	1.0	1.1	1.8	0.4	1.8	1.6	2.9	2.8	2.7	2.7	2.1
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	-0.9	-1.4	-0.9	-1.0	-0.7	-1.0	-1.1	-1.1	-1.5	-1.6	-1.6	-1.1
Of which : HIPC Initiative-related grants	-0.3	-0.8	-0.4	-0.2	0.0	-0.5	0.0	-0.5	-0.5	-0.5	-0.4	-0.3
Private sector (net)	3.1	2.9	3.8	2.6	0.9	1.6	2.5	1.2	1.4	1.7	1.1	-0.8
Commercial banks	-1.2	-0.3	2.1	0.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term private capital	4.3	3.2	1.7	2.6	1.7	1.6	2.5	1.2	1.4	1.8	1.1	-0.8
Errors and omissions	**-3.7**	**2.1**	**-1.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-2.0**	**0.0**	**-2.7**	**-3.9**	**-3.4**	**-0.7**	**-1.3**	**0.5**	**0.9**	**1.1**	**0.4**	**0.0**
Financing	1.9	0.0	2.7	3.9	3.4	0.7	1.3	-0.5	-0.9	-1.1	-0.4	0.0
Change in official reserves, excl. IMF and NOA (increase= -)	3.8	-0.7	-2.0	2.3	1.9	-0.3	0.0	-0.6	-0.9	-1.0	0.0	-0.1
Use of Fund resources (net)	0.1	0.5	4.1	0.9	0.9	0.8	0.8	-0.1	-0.1	-0.3	-0.5	0.0
Purchases	0.2	0.6	3.7	1.0	1.0	0.9	1.0	0.0	0.0	0.0	0.0	0.0
National Oil Account (increase = -)	-2.0	0.2	0.5	0.6	0.5	0.2	0.5	0.3	0.2	0.2	0.1	0.1
Exceptional financing (IMF CCRT)	0.0	0.0	0.1	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:												
Debt service ratio (percent of exports) [1]	2.6	4.5	5.2	11.6	6.7	8.4	10.4	8.7	10.7	10.9	11.3	7.6
Gross international reserves [2]												
Millions of U.S. dollars	35.1	40.4	67.6	63.4	61.8	70.3	67.6	70.7	75.9	79.9	81.7	86.1
Months of imports of goods and services	2.2	2.9	4.5	4.0	3.5	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Months of imports of goods and nonfactor services [3]	3.0	4.4	6.9	5.7	5.6	5.9	5.9	6.0	6.2	6.2	6.5	6.5

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 balance of National Oil Account at the BCSTP and banks' reserves denominated in foreign currency.

[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, 2018–27

(Millions of New Dobra)

	2018	2019	2020	2021		2022		2023	2024	2025	2026	2027
				Third Rev.	Est.	Third Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	**1,416**	**1,502**	**1,555**	**1,326**	**1,156**	**1,391**	**1,210**	**1,583**	**1,702**	**1,826**	**1,945**	**2,054**
Claims on nonresidents	1,798	1,939	2,316	2,242	2,490	2,390	2,544	2,556	2,650	2,715	2,720	2,829
Official foreign reserves	1,352	1,447	1,831	1,760	1,920	1,917	1,961	1,971	2,043	2,094	2,098	2,182
Other foreign assets	446	492	485	482	570	474	582	585	607	622	623	648
Liabilities to nonresidents	-382	-437	-762	-916	-1,334	-1,000	-1,334	-973	-948	-889	-775	-775
Short-term liabilities to nonresidents[1]	-169	-222	-557	-712	-688	-799	-799	-775	-752	-693	-579	-579
Other foreign liabilities	-213	-215	-205	-204	-646	-200	-535	-198	-196	-196	-196	-196
Net domestic assets	**80**	**-117**	**359**	**291**	**999**	**247**	**1,052**	**771**	**791**	**826**	**908**	**1,039**
Net domestic credit	133	-90	-140	41	367	127	364	442	474	509	503	484
Claims on other depository corporations	195	190	198	198	198	198	198	198	198	198	198	198
Net claims on central government	-201	-418	-479	-304	25	-226	22	100	132	167	161	142
Claims on central government	310	305	280	355	784	433	780	859	890	925	920	900
Liabilities to central government	-511	-723	-758	-659	-758	-659	-758	-758	-758	-758	-758	-758
Claims on other sectors	139	138	141	147	144	154	144	144	144	144	144	144
Other items (net)	-53	-27	498	250	632	120	688	329	318	317	404	555
Base money (M0)	**1,496**	**1,385**	**1,913**	**1,617**	**2,156**	**1,638**	**2,262**	**2,354**	**2,493**	**2,652**	**2,853**	**3,085**
Currency issued	393	411	432	436	486	440	510	531	563	598	644	696
Bank reserves	1,103	974	1,482	1,181	1,669	1,198	1,752	1,823	1,930	2,054	2,209	2,389
Of which : domestic currency	947	843	1,349	1,069	1,398	1,084	1,465	1,526	1,616	1,725	1,876	2,038
Of which: foreign currency	157	131	133	112	271	114	287	296	314	328	334	352
Memorandum items:												
Gross international reserves (US$ millions) [2]	35.1	40.4	67.6	63.4	61.8	70.3	67.6	70.7	75.9	79.9	81.7	86.1
Months of imports of goods and services	2.2	2.9	4.5	4.0	3.5	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Months of imports of goods and nonfactor services[3]	3.0	4.4	6.9	5.7	5.6	5.9	5.9	6.0	6.2	6.2	6.5	6.5
Gross international reserves (US$ millions) inc. commercial banks reserves	42.4	46.4	74.2	69.1	74.3	76.1	81.1	84.8	91.0	95.9	98.0	103.3
Months of imports of goods and services	2.7	3.3	5.0	4.3	4.2	4.4	4.6	4.5	4.6	4.6	4.6	4.5
Months of imports of goods and nonfactor services[3]	3.7	5.0	7.6	6.2	6.8	6.4	7.1	7.2	7.5	7.4	7.9	7.8
Net international reserves (US$ millions) [4]	27.2	30.4	39.8	27.6	30.0	29.4	30.0	33.7	39.6	46.2	53.3	57.7
Months of imports of goods and services	1.7	2.2	2.7	1.7	1.7	1.7	1.7	1.8	2.0	2.2	2.5	2.5
Months of imports of goods and nonfactor services[3]	2.4	3.3	4.1	2.5	2.7	2.5	2.6	2.9	3.2	3.6	4.3	4.3
National Oil Account (US$ millions)	19.5	18.8	16.4	13.5	13.6	12.5	11.2	9.2	7.5	6.0	4.7	3.5
Commercial banks reserves in foreign currency (US$ millions)	7.3	7.0	5.7	5.6	12.5	5.8	13.5	14.1	15.2	16.0	16.3	17.2
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)	0.8	-7.4	31.0	-10.8	12.7	1.3	4.9	4.1	5.9	6.4	7.6	8.1

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 balance of National Oil Account at the BCSTP and banks' reserves denominated in foreign currency.

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

[4] Net international reserves exclude the balance of National Oil Account at the BCSTP and banks' reserves denominated in foreign currency.

Table 5. São Tomé and Príncipe: Monetary Survey, 2018–23

(Millions of New Dobra)

	2018	2019	2020	2021		2022		2023
				Third Rev.	Est.	Third Rev.	Proj.	Proj.
Net foreign assets	**1,636**	**1,760**	**1,587**	**1,358**	**1,286**	**1,423**	**1,339**	**1,712**
Net foreign assets of the BCSTP	1,416	1,502	1,555	1,326	1,156	1,391	1,210	1,583
Net foreign assets of other depository corporations	220	258	32	32	129	32	129	129
Net domestic assets	**1,429**	**1,238**	**1,736**	**2,213**	**1,946**	**2,332**	**2,075**	**1,934**
Net domestic credit	2,228	2,158	2,030	2,237	2,215	2,346	2,213	2,181
Net claims on central government	94	-43	-137	61	156	69	109	30
Claims on central government	977	1,213	1,059	1,158	1,223	1,166	1,176	1,097
Liabilities to central government	-883	-1,256	-1,196	-1,097	-1,067	-1,097	-1,067	-1,067
Claims on other sectors	2,134	2,202	2,167	2,176	2,059	2,277	2,105	2,151
Other items (net)	-799	-921	-294	-24	-269	-14	-138	-246
Broad money (M3)	**3,066**	**2,998**	**3,323**	**3,571**	**3,232**	**3,755**	**3,414**	**3,646**
Local currency liabilities included in broad money (M2)	2,325	2,293	2,623	2,819	2,513	2,964	2,654	2,835
Money (M1)	1,849	1,907	2,244	2,387	2,203	2,485	2,399	2,507
Currency outside depository corporations	314	315	347	369	417	384	550	530
Transferable deposits in dobra	1,535	1,592	1,897	2,018	1,786	2,101	1,849	1,978
Other deposits in dobra	476	386	379	432	310	479	255	328
Foreign currency deposits	741	704	700	752	752	791	774	774
Memorandum items:								
Velocity (ratio of GDP to M3; end of period)	2.9	3.0	2.8	3.0	3.3	3.0	3.3	3.3
Money multiplier (M2/M0)	2.0	2.2	1.8	2.2	1.5	2.3	1.5	1.5
Base money (12-month growth rate)	0.8	-7.4	31.0	-10.8	12.7	1.3	4.9	4.1
Claims on other resident sectors (12-month growth rate)	-1.6	3.2	-1.6	0.4	-5.0	4.7	2.2	2.2
Broad money (12-month growth rate)	14.3	-2.2	10.9	7.5	-2.7	5.2	5.6	6.8
Eurorization ratio	26.2	25.6	26.2	26.6	26.6	…	…	…

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

Table 6. São Tomé and Príncipe: Financial Soundness Indicators, 2017–21

(Percent)

	2017 Dec.	2018 Dec.	2019 Dec.	2020 Mar.	2020 Jun.	2020 Sep.	2020 Dec.	2021 Mar.	2021 Jun.	2021 Sep.	2021 Dec (prel)
Capital Adequacy											
Regulatory capital to risk-weighted assets	33.6	30.7	28.5	31.1	29.9	29.7	29.2	29.6	30.2	31.4	31.7
Percentage of banks (out of total number) with regulatory capital to risk-weighted assets											
... greater or equal to 10 percent	100.0	100.0	100.0	100.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0
... between 6 and 10 percent	0.0	0.0	0.0	0.0	20.0	20.0	0.0	0.0	0.0	0.0	0.0
... below 6 percent minimum	0.0	0.0	0.0	0.0	0.0	0.0	20.0	20.0	20.0	20.0	20.0
Capital (net worth) to assets	24.0	20.8	18.9	18.9	18.4	17.7	18.1	17.9	17.6	18.0	18.1
Deposits with banks below 6 percent capital to assets											
... (in millions of dobras)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
... (percent of deposits)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
... (percent of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Asset quality											
Foreign exchange loans to total loans	17.2	9.7	8.4	8.3	8.2	8.2	7.8	7.7	7.6	7.7	7.9
Past-due loans to gross loans	27.6	26.9	28.1	30.1	36.2	36.9	32.3	32.2	34.9	32.2	30.1
Non-performing loans/total credit											
Nonperforming loans/credit (IFRS definition)	24.9	24.6	26.7	26.5	27.9	34.2	29.6	29.9	32.9	30.3	28.6
Watch-listed loans	2.8	2.3	1.4	3.6	8.3	2.7	2.6	2.3	2.0	2.0	1.6
Provision as percent of past-due loans	80.0	79.7	83.8	78.8	70.1	71.5	77.7	79.3	77.1	83.9	86.8
Earnings and profitability											
Return on assets	-0.6	-0.1	-0.2	0.5	0.3	0.0	0.8	0.6	0.6	1.1	1.6
Return on equity	-3.0	-0.8	-1.4	2.7	2.0	-0.3	4.8	3.6	3.9	6.5	9.8
Expense (w/ amortization & provisions)/income	112.8	106.7	108.0	89.3	101.5	116.1	101.2	95.1	94.1	93.7	90.0
Liquidity											
Liquid assets/total assets	49.7	50.1	40.1	46.1	45.5	46.7	47.7	49.8	49.8	45.8	52.2
Liquid assets/short term liabilities	69.1	66.3	51.6	59.0	57.8	58.8	59.6	62.8	62.8	57.8	68.1
Loan/total liabilities	53.1	51.6	51.3	49.1	48.9	48.6	47.2	43.6	43.6	42.3	40.7
Foreign exchange liabilities/total liabilities	28.6	25.8	25.5	25.9	25.8	24.4	22.6	25.7	22.8	22.8	24.3
Loan/deposits	59.7	59.1	59.5	65.0	63.1	64.0	65.2	69.1	69.0	64.3	46.5
Sensitivity to market risk											
Foreign exchange liabilities to shareholders funds	90.5	98.2	109.0	111.3	114.8	113.1	102.8	117.7	106.5	104.0	110.4

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

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
						Third Rev.	Proj.	Third Rev.	Proj.	Proj.	Proj.
Gross financing requirements	**-66.8**	**-92.0**	**-71.8**	**-83.3**	**-108.3**	**-106.3**	**-84.7**	**-94.6**	**-127.1**	**-101.6**	**-108.1**
Current account, excluding official transfers	-69.6	-91.5	-87.1	-79.9	-98.8	-113.1	-90.6	-86.6	-120.8	-90.7	-92.1
Exports, f.o.b.	13.6	15.6	16.0	14.1	13.9	19.4	17.6	22.0	20.1	25.1	24.7
Imports, f.o.b.	-119.1	-127.7	-132.9	-126.4	-124.4	-142.6	-135.6	-147.5	-163.3	-157.4	-166.7
Services and income (net)	19.9	3.9	13.5	16.2	-4.5	-5.5	13.5	20.6	7.7	24.1	29.1
Private transfers	15.9	16.7	16.3	16.3	16.1	15.6	13.9	18.3	14.7	17.7	20.8
Financial account	-3.9	-7.2	-0.4	-0.4	0.0	-5.5	-3.8	-6.3	-6.3	-7.3	-10.0
Scheduled amortization	-4.0	-4.4	0.0	0.0	0.0	-5.1	-3.4	-5.7	-5.7	-6.5	-9.3
IMF repayments	-0.9	-0.2	-0.4	-0.4	0.0	-0.4	-0.4	-0.6	-0.6	-0.7	-0.8
Change in net external reserves (- = increase)	6.8	6.7	15.8	-3.1	-9.4	12.3	9.8	-1.7	0.0	-3.7	-5.9
Available funding	**66.5**	**89.4**	**75.4**	**89.2**	**112.8**	**106.3**	**84.7**	**94.6**	**127.1**	**101.7**	**108.1**
National Oil Fund (net)	2.1	2.5	2.1	3.9	3.6	3.2	3.1	2.6	2.7	2.1	1.8
Oil signature bonuses	3.3	2.3	10.2	3.2	1.4	0.1	0.4	1.6	0.1	0.3	0.4
Saving (- = accumulation of oil reserve fund)	-1.2	0.1	-8.2	0.7	2.2	3.1	2.8	1.0	2.6	1.7	1.3
Expected disbursements	54.9	49.1	41.6	32.0	55.3	62.3	42.8	53.6	77.4	63.8	68.2
Multilateral HIPC interim assistance	2.9	3.1	1.6	3.9	1.9	3.3	1.3	3.3	3.0	3.4	3.4
Grants, excluding HIPC interim assistance	45.6	38.6	34.4	23.7	48.0	49.5	39.2	40.1	65.7	43.9	47.3
Concessional loans	6.4	7.4	5.6	4.4	5.4	9.4	2.3	10.2	8.7	16.5	17.4
Project loans	6.4	7.4	5.6	4.4	5.4	9.4	2.3	10.2	8.7	16.5	17.4
Program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector (net)	7.7	35.0	30.8	50.6	33.9	35.1	33.0	33.3	41.9	35.7	38.2
IMF ECF	1.8	2.8	0.9	2.7	5.2	5.1	5.1	5.1	5.1	0.0	0.0
IMF CCRT	...	...	...	...	0.4	0.6	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**	**0.0**	**0.0**
Other programmatic support	...	...	...	...	... ...	...	...	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, 2022–36

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Fund obligations based on existing credit (millions of SDRs)															
Principal	0.5	0.8	0.8	2.0	3.6	4.0	3.8	3.6	2.3	0.6	0.0	0.0	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	0.5	0.8	0.8	2.0	3.6	4.4	4.9	4.8	3.5	1.7	0.8	0.0	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
Total obligations based on existing and prospective credit															
Millions of SDRs	0.5	0.8	0.8	2.1	3.7	4.4	4.9	4.8	3.5	1.8	0.8	0.0	0.0	0.0	0.0
Millions of U.S. dollars	0.7	1.1	1.2	3.0	5.3	6.5	7.2	7.0	5.1	2.6	1.2	0.1	0.1	0.1	0.1
Percent of exports of goods and services	1.1	1.5	1.2	2.9	4.4	5.0	5.3	4.9	3.4	1.6	0.7	0.0	0.0	0.0	0.0
Percent of debt service [1]	9.9	13.1	10.2	24.0	38.7	66.1	75.4	74.3	52.3	26.2	12.1	0.6	0.6	0.6	0.6
Percent of quota	3.6	5.3	5.4	14.1	24.7	29.9	33.3	32.5	23.8	11.8	5.4	0.3	0.3	0.3	0.3
Percent of gross international reserves [2]	1.1	1.6	1.5	3.8	6.5	7.5	7.7	7.5	6.1	3.1	1.4	0.1	0.1	0.1	0.1
Percent of GDP	0.1	0.2	0.2	0.4	0.7	0.8	0.8	0.8	0.5	0.2	0.1	0.0	0.0	0.0	0.0
Outstanding Fund credit															
Millions of SDRs	27.2	26.4	25.7	23.6	20.0	15.6	10.7	6.0	2.5	0.8	0.0	0.0	0.0	0.0	0.0
Millions of U.S. dollars	38.4	37.7	36.9	34.3	29.2	22.8	15.7	8.7	3.6	1.1	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	54.5	51.8	37.4	32.6	23.9	17.7	11.5	6.1	2.4	0.7	0.0	0.0	0.0	0.0	0.0
Percent of debt service [1]	506.2	439.3	328.7	272.2	211.4	233.0	164.0	92.1	36.7	11.4	0.0	0.0	0.0	0.0	0.0
Percent of quota	183.6	178.6	173.4	159.6	135.1	105.5	72.4	40.3	16.7	5.1	0.0	0.0	0.0	0.0	0.0
Percent of gross international reserves [2]	56.7	53.4	48.7	42.9	35.8	26.5	16.7	9.3	4.3	1.3	0.0	0.0	0.0	0.0	0.0
Percent of GDP	7.4	6.5	5.9	5.1	4.0	2.9	1.8	0.9	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Net Use of Fund Credit (millions of SDRs)	-0.5	-0.8	-0.8	-2.0	-3.6	-4.4	-4.9	-4.8	-3.5	-1.7	-0.8	0.0	0.0	0.0	0.0
Disbursements	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
Repayments	0.5	0.8	0.8	2.0	3.6	4.4	4.9	4.8	3.5	1.7	0.8	0.0	0.0	0.0	0.0
Memorandum items:															
Exports of goods and services (millions of U.S. dollars)	70.4	72.9	98.8	105.3	122.1	128.7	135.8	143.3	151.3	159.5	168.3	177.6	187.4	197.8	208.8
Debt service (millions of U.S. dollars)	7.6	8.6	11.2	12.6	13.8	9.8	9.5	9.5	9.8	9.7	9.6	9.6	9.4	9.3	9.0
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	70.7	75.9	79.9	81.7	86.1	93.7	93.7	84.4	83.6	83.0	82.4	81.7	81.0	80.9
GDP (millions of U.S. dollars)	519.7	576.1	621.1	671.6	732.8	797.4	859.9	927.4	1000.5	1078.5	1141.8	1209.1	1280.8	1357.0	1438.2

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 exclude the balance of National Oil Account at the BCSTP and banks' reserves denominated in foreign currency.

Table 9. São Tomé and Príncipe: 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 2021–2022

(Millions of New Dobra, 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	
	Third Review	With Adjusters	Prel.	Status	Third Review	With Adjusters	Prel.	Status	Third Review	Third Review		Third Review	Prop.
Performance Criteria:													
Floor on domestic primary balance (as defined in the TMU)[1]	-225	-250	-229	Met	-300	-326	-278	Met	-379	-80	-125	-160	-162
Ceiling on changes in net bank financing of the central government (at program exchange rate)[2, 3, 4]	200	254	212	Met	300	379	340	Met	354	80	125	160	162
Floor on net international reserves of the central bank (US$ millions)[1, 3]	25	23	20	Not met	24	24	33	Met	23	25	27	26	28
Ceiling on the accumulation of central government's new external payment arrears (US$ millions)[4, 5, 6, 7]	0		0	Met	0		0.3	Not met	0	0	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the central government or the BCSTP (in nominal value, US$ millions)[4, 5, 6, 7, 8]	0		0	Met	0		0	Met	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: Met												
Indicative Targets:													
Ceiling on change of central government's new domestic arrears	-20		-38.5	Met	-30		-37.6	Met	-60	0	0	-20	-20
Floor on pro-poor expenditures	300		420	Met	450		709	Met	600	157	157	315	315
Floor on tax revenue	700		622	Not met	1050		986	Not met	1400	344	310	751	679
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)[4, 6, 7, 9]	4		0	Met	7		0	Met	9	3	0	6	0
Memorandum items:													
Ceiling on dobra base money (stock)	1,454		1,949		1,520		1,828		1,586	1,619	1,960	1,612	1,925
Transfer from NOA to the budget (US$ millions)	3.2		3.1		3.0		3.1		3.2	2.7	2.6	2.7	2.6
Net external debt service payments[10]	65		31		98		37		130	41	41	82	82
Official external program support[10]	105		58		105		114		261	148	156	148	262
IMF program disbursement	56		58		56		114		112	56	59	56	59
Budget support grants	49		0		49		0		149	92	97	92	203
Domestic arrears clearance (-, exclude debt payment to ENCO)	0		-39		-10		-38		-73	...	...	...	...
Treasury-funded capital expenditure	15		7		20		10		30	6	15	14	34
Ceiling on personnel expenses	599		488		770		734		1,070	260	264	519	528

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

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

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

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

[4] The term "central government" is defined as in ¶5 of the TMU, which excludes the operations of state-owned enterprises.

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

[6] 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. 16919-(20/103) of the Executive Board (October 28, 2020).

[7] 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 17.

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

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

[10] 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	Status	Macro Rationale	TA involved
Prior actions				
Tax Directorate to validate the first module of the VAT IT system for taxpayers' registration (MEFP ¶16)			To enhance revenue	With the World Bank support
Customs and Tax Directorates to agree technical understandings on applicability of the VAT law at customs collection points issued in Ministerial Order (MEFP ¶16)			To enhance revenue	
Submit the BCSTP organic law to Parliament (MEFP ¶28)			To strengthen financial supervision and improve governance and oversight	LEG
Strengthening Public Finances				
Implement VAT awareness and communications public information campaign (MEFP ¶18)	End-June 2022		To enhance revenue	With World Bank support
Introduce the VAT at a 15 percent rate according to the October 2019 law (MEFP ¶16)	End-October 2021	Not met. Rescheduled to end-Sept 2022. Two prior actions added.	To enhance revenue	With World Bank support
Continue relying on the automatic fuel price adjustment mechanism and maintaining retail fuel prices aligned to international markets (continuous SB) to prevent implicit fuel subsidies and contain fiscal risks (MEFP ¶16)	Continuous	End-June: Met. End-September: Not met.	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 ¶23).	Continuous	Not met. Implemented with delays.	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 ¶23).	Continuous	Not met. Implemented with delays.	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	Not met. Met end-Feb. 2022.	To support financial sector stability	MCM
Submit the BCSTP organic law to Parliament (MEFP ¶28)	End-September 2021	Not met. To be implemented as a prior action.	To strengthen financial supervision and improve governance and oversight	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	Not met. Rescheduled to end-June 2022.	To strengthen financial supervision and improve governance and oversight	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	Met	Stabilize excess liquidity and support the peg	MCM
Facilitating Business Activities and Energy Efficiency				
Develop a plan to remove the country from the European Union's Air Safety blacklist (MEFP ¶39)	End-December 2021	Not met. Rescheduled to end-September 2022.	To facilitate the recovery of the tourism sector	With World Bank support
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 (MEFP ¶40)	End-December 2021	Not met. Rescheduled to end-June 2022.	To contain fiscal risk	With World Bank support

Annex I. Implementation of Past IMF Advice

Recommendations from 2018 Article IV Consultation	Status
Fiscal	
Over medium-term, reduce debt level by continuing fiscal consolidation and borrowing only on concessional terms at a measured pace.	Partially achieved. Public debt is on a downward trajectory, reflecting relatively good fiscal outcomes and borrowing externally only on concessional terms and at a measured pace.
Enhance tax arrears collection and restrain spending to available resources to safeguard fiscal targets and avoid new domestic arrears.	Partially achieved. Given the need to maintain pro-poor spending and strengthen social sending, particularly during the COVID-19 pandemic, public spending in 2020 was financed with support from development partners and with higher tax revenues.
Step up preparation for transition to VAT in 2019 to increase revenue mobilization.	Ongoing with delays. Authorities planned to introduce the VAT in July 2021, then delayed to October 2021. This is currently delayed until 2022. VAT refund regulation and complimentary excise tax code were approved in November 2021.
On tax administration, implement a more systematic inspection of large taxpayers and wider computer-based surveillance of taxpayers. Establish a dedicated large taxpayers' unit.	Partially achieved. The authorities are closely monitoring tax collection from large taxpayers, including through e-invoicing and launched a recovery program in 2021 to recover tax obligations from large taxpayers.
On public financial management, improve budget preparation and execution.	Partially achieved. The authorities have strengthened macro-fiscal forecasting, prepared medium-term fiscal framework projections for a three-year period starting with the 2022 budget.
Financial	
Continue to implement strategy for reducing NPLs and strengthen risk-based supervision. Introduce a requirement for banks to write off a loan when it is past-due for a certain period.	Partially achieved/ongoing. The authorities passed a NAP (regulation) in November 2021 to write off eligible NPLs.
Improve banking regulation and supervision.	Partially achieved. Pandemic-related restrictions and staffing constraints led to delays. The authorities completed drafting the banking supervision manual but plans for field testing are delayed until pandemic conditions ease.
External and Structural	
Continue to reform EMAE (state-owned electricity company) to contain its losses and associated fiscal risks. Identify short-term measures to improve SOE's operational performance, notably in reducing staff costs and accelerating arrears collection.	Limited progress. Implementation of the authorities' management improvement plan has been limited, partly due to the pandemic, and EMAE continues to accumulate significant debt and arrears.
Develop a medium-term debt management strategy, establish a debt database, and train officials on debt management, including T-bill issuance.	Partially achieved. The authorities published a medium-term debt management strategy, are creating a database to perform debt service projections.
Safeguards	
Strengthen BSCTP law.	To be completed by end-February 2022. New BCSTP organic law was finalized and is expected to be submitted to Parliament by end-February 2022.
Implement IFRS with TA	Delayed. TA from the Central Bank of Brazil was delayed during the pandemic. Authorities requested TA from IMF in December 2021 to move forward on this front.

Annex II. Climate Change in São Tomé and Príncipe

1. **Background.** São Tomé and Príncipe, composed of two main islands and various smaller islands and islets, is especially vulnerable to climate change due to its geography, the fragility of its ecosystems, such as coastal mangroves, and low level of social-economic development. President Vila Nova reported at the November 2021 UN Conference on Climate Change (COP26) that the country had lost four percent of its territory from rising sea levels. Despite these vulnerabilities, the country is an absolute sink of greenhouse gases, contributing to the sequestration of carbon dioxide.

2. **Key economic sectors** such as agriculture and fisheries are supported by functional and intact forests and coastal ecosystems, but forest over-exploitation and the destruction of mangroves though unsustainable practices are increasing the vulnerability of communities who depend on natural resources for their livelihood. Extreme climate events and climate change are accelerating these trends with rising sea levels, flash floods, and worsening coastal erosion jeopardizing private and public assets and infrastructure, especially in the most vulnerable communities.

3. **Nationally Determined Contributions (NDC).** São Tomé and Príncipe is contributing to the global effort to reduce emissions through the Paris Agreement and subsequent annual COP meetings in the context of the United Nations' Framework Convention on Climate Change (UNFCC). In its NDC, updated in June 2021, the country committed to adaptation initiatives to lessen the country's vulnerability to climate change, including by increasing efforts to promote the resilience of its most vulnerable communities. The authorities also committed to reduce greenhouse gas emissions by 27 percent by 2030 through mitigation measures that include increasing the share of renewable energy in the national grid, reducing power grid losses and improving energy efficiency, and reducing the transport sector's carbon footprint.[1] The authorities estimate the cost of achieving the country's mitigation goals is US$150 million and that implementation will require significant assistance from development partners in the form of grants, support to implement projects, capacity building, and the transfer of technology.

4. **Institutional, legal, and policy framework.** The authorities have progressively built an institutional framework to support climate change and adaptation, with the National Committee on Climate Change established in 2012 to coordinate initiatives and raise awareness on the effect of climate change. The legal and policy framework has also been developed to support climate change, starting with a Basic Law on Environment to establish the legal framework in1999 and including the National Strategy for Disaster Risk Management which identifies strategic priorities for disaster prevention, mitigation, and response actions to reduce the effect of climate disasters during 2016-2021.

[1] São Tomé and Príncipe signed the UNFCC in 1992 and ratified it in 1999. The country submitted its first Nationally Determined Contributions (NDC) in October 2015, which became part of the Paris Agreement in December 2015, and led to São Tomé and Príncipe's adherence to the NDC Partnership in 2016. Its NDC was updated in June 2021.

5. Energy sector. The energy sector, which includes the transport sector, is the country's largest emitter of carbon dioxide and one of the most vulnerable to climate change. São Tomé and Príncipe's electricity is expensive, inefficient and is largely produced by burning diesel fuel, which contributes to air pollution and carbon dioxide emissions. The unreliability of the existing power grid also leads most businesses to use expensive and polluting private diesel generators instead of depending on the grid. The authorities are implementing a comprehensive reform agenda, established in 2018 with World Bank support, to modernize the energy sector and increase the share of renewable energy production, including from hydropower and photovoltaic solar plants, from 5 percent to 45 percent by 2024. Fund staff will reinforce the need to continue relying on the automatic fuel price adjustment mechanism and maintaining retail fuel prices aligned to international markets (continuous SB) to prevent implicit fuel subsidies and contain fiscal risks.

6. Other climate adaptation initiatives. To increase São Tomé and Príncipe's resilience to climate change and related disasters, the authorities are implementing several initiatives with World Bank assistance, including to make the water system better able to withstand climate events like drought and supporting road rehabilitation to improve resilience to coastal flooding and coastal erosion. A World Bank supported social protection program is creating a shock response window to allow a quick response to climate-relate events. Ongoing work shows how the poor are more likely to live in areas with elevated climate hazards and the role social protection programs can play to strengthen resilience.

7. Challenges. Several gaps remain to climate adaptation planning including limited institutional and technical capacity and resources for implementation, lack of climate information and existing gaps in climate modeling, climate risk and vulnerability analyses, and low environmental awareness among domestic stakeholders. In addition, there in inadequate consideration of climate change in medium- and long-term development projects and climate change adaptation is fragmented through various projects without a comprehensive framework in place yet for a coordinated approach.

Annex III. Risk Assessment Matrix[1]

Sources of Risks	Likelihood of Risk	Expected Impact of Risk	Policy Responses
External Risks			
Outbreaks of lethal and highly contagious Covid-19 variants lead to subpar/volatile growth	High Rapidly increasing hospitalizations and deaths, due to low vaccination rates or caused by vaccine-resistant variants, force lockdowns and increased uncertainty about the course of the pandemic. Policies to cushion the economic impact are prematurely withdrawn or for many EMDEs, constrained by lack of space.	High The recovery is delayed with scarring effects, compounding vulnerabilities in the economy. The needed containment measures would negatively affect economic activity, especially the tourism sector with reduced demand. Prolonged pandemic could lead to an increase in unemployment and reduce productivity growth.	• Limited fiscal space to cushion the economic impact requires careful spending prioritization for social and health response and sustained revenue mobilization efforts. • Implement health safety protocols, mobilize donors' support, and step-up vaccinations, including for new variants. • Implement the tourism development strategy, improve agricultural productivity. • Continue strengthening the financial sector and its capacity to support growth.
Rising and volatile food and energy prices	High Commodity prices are volatile and trend up amid pent-up demand and supply disruptions, conflicts, or a bumpy transition to renewable energy sources. This leads to bouts of price and real sector volatility, including acute energy crises in some countries.	High The higher energy prices would impact revenues, implicit subsidies, and fiscal budget implementation. It could also worsen the power outage situation and inflationary effects.	• Accelerate structural reforms in the energy sector and implement credible medium-term revenue-based fiscal consolidation to support investor confidence. • Improve the cost-efficiency of electricity generation and distribution to reduce fuel imports. • Continue implementing automated fuel pricing formula to avoid implicit subsidies.
Higher frequency of natural disasters related to climate change	Medium Small island economies are frequently hit by natural disasters, such as floods, storms, and droughts. Increases in sea levels exacerbate these extreme events along the coasts.	High Natural hazards and climate change could cause severe economic damage to smaller economies susceptible to disruption. They cause human losses, negatively impact agriculture and infrastructure, make transport difficult, reduce the population's living standards, and accelerate emigration from these economies.	• Improve climate and disaster resilience in development sectors such as agriculture, transport, tourism, energy, and urban development. • Strengthen food security, cash transfers, and food support programs. • Build-up fiscal and reserve buffers.
Delays in donor disbursements	Medium Frequent delays in donor disbursements related to delays in project	High The country heavily depends on external support, and delayed disbursements would undermine	• Improve coordination on externally financed projects to avoid delays. • Build up fiscal and reserve buffers.

[1] The Risk Assessment Matrix shows events that could materially alter the baseline path. The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline. ("Low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more.) The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Sources of Risks	Likelihood of Risk	Expected Impact of Risk	Policy Responses
	implementation and/or other coordination issues.	growth and exacerbate loss of international reserves.	
Extended global supply chains disruptions	High Persistent disruptions in the production and shipment of components caused by lockdowns and logistical bottlenecks continue until 2023.	Medium As a small island which relies on imports, this could lead to shortages of intermediate and final consumer goods, growth slowdowns, and price surges, compounded by the passthrough from currency depreciations in vulnerable countries.	• Develop a strategy to ensure price stability of major intermediate and final consumer goods. • Diversify the economy in the medium to long run to increase competitiveness.
		Domestic Risks	
Widespread social discontent and political instability	Medium Social tensions erupt as the imposition of vaccine mandates and mobility restrictions and/or a withdrawal of pandemic-related policy support—amid increasing prices of essentials, slower growth, and rising inequality—result in higher unemployment and heavier household debt burdens. Political instability triggers capital outflows.	Low Social tensions cause economic disruptions and political instability, and negatively affect the overall growth of other countries, which could potentially harm the recovery of exports of goods and services of this country. However, the security and political situation of this country has been quite stable, so the impact is likely to be low.	• Give priority to socio-economic stability and strengthen COVID-19 response. • Continue targeting the vulnerable population by ensuring adequate access to healthcare and social assistance, including cash transfer and food support programs. • Continue diversifying the tourist base.
Fiscal policy slippages due to upcoming Parliamentary elections in mid-2022	Medium Spending pressures due to elections and delays in legislative reforms.	High Delays in fiscal consolidation and pressures on debt sustainability due to expansive fiscal policies, including COVID-19 spending, elections spending, weak revenue mobilization, and implicit subsidies to SOEs. Delays in legislative reforms.	• Continue revenue mobilization reforms and focus on priority pro-poor spending. • Implement PFM, cash management and budget execution reforms. • Implement SOE reforms. • Identify fiscal measures to create additional fiscal space. • Ensure transparency of fiscal spending through governance reforms.
Limited implementation capacity	High Weak capacity environment further compounded by remote work arrangement. Delays in TA and trainings due to COVID-19 related travel restrictions.	Medium Weak absorption of technical assistance and delays in capacity building affect pace of reform implementation.	• Continued delivery of well-tailored hands-on CD and resuming travel to the extent possible. • Strengthening absorption of TA through improved coordination mechanisms at ministerial levels. • Continued governance and transparency reforms. • Establishing IMF Resident Representative Office

Sources of Risks	Likelihood of Risk	Expected Impact of Risk	Policy Responses
Financial instability	Medium Rising Bank NPLs due to the resurgence of COVID-19 raises concerns in some banks, even as domestic liquidity is ample. Lack of alternatives to sovereign debt reignites concerns around sovereign-bank nexus.	Low Continued high NPLs could further stall already anemic credit growth, and insufficient banking regulation could overlook financial stability risks. Reduced profitability and capital adequacy, negatively affecting financial intermediation.	• Increase provisions and capital to absorb losses; maintain prudential standards. • Discuss loan reprofiling for clients with strong business models.

Annex IV. External Sector Assessment

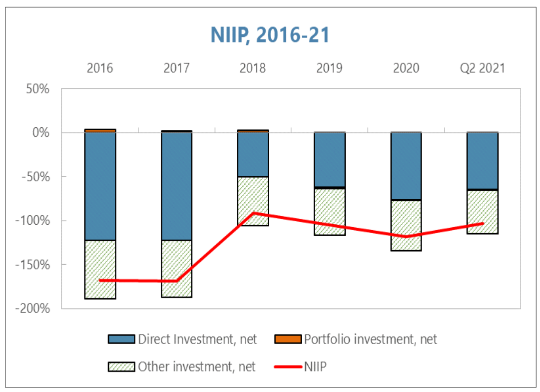
Overall Assessment: *The external position of São Tomé and Príncipe in 2021 was moderately weaker than the level implied by fundamentals and desirable policies. The current account improved in 2021 with some recovery in travel exports, while it is expected to worse slightly in 2022 due to negative impacts of the floods. Over the medium term, the current account deficit is set to gradually narrow. The* net international investment position (*NIIP) is projected to widen temporarily before gradually improving over the medium term.*

Potential Policy Responses: *Short-term policies should focus on containing the COVID-19 outbreak and its economic consequences and support the recovery which would help reduce imbalances. Maintaining financial stability through continued efforts would be essential for external rebalancing by strengthening the current account and NIIP. As a small-island economy that depends extensively on imports, the pegged exchange rate regime has served the country well by anchoring inflation. The external imbalance underscores the need for structural reforms to strengthen competitiveness especially of the tourism sector, diversify the economy, reduce the reliance on oil imports with energy reforms, and improve the efficiency of implementing externally funded projects to avoid disbursement delays. Gradual fiscal consolidation would help to increase fiscal space and build a higher reserves buffer in the medium term. Financial reforms will be essential to reduce vulnerability in the financial sector.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Over the past five years, the NIIP increased from low levels of -168 and -169 percent of GDP in 2016 and 2017. The NIIP declined to -118 percent of GDP in 2020, with higher direct investment liabilities and lower other investment liabilities. Gross liabilities increased to 161 percent of GDP in 2020, mainly driven by higher direct investment liabilities. Gross assets remained relatively stable at 43 percent of GDP in 2020. In the first two quarters of 2021, the NIIP increased to -103 percent of GDP, with lower direct investment liabilities and lower other investment liabilities. Under the IMF staff's baseline scenario, the NIIP is projected to gradually improve through the medium term on the back of lower CA deficits.

Assessment. External vulnerabilities have been reduced with the strengthening of the NIIP in recent years, although it increased somewhat with the larger size of the NIIP due to the pandemic in 2020. The NIIP remains broadly sustainable but vulnerabilities remain with the significant size of NIIP. A projected reduction in the CA deficit suggest that the NIIP-to-GDP ratio will improve at a moderate pace in the medium term.



2020 (% GDP)	NIIP: -118	Gross Assets: 43	Debt Assets NA[1/]	Gross Liab.: 161	Debt Liab.: NA

[1/]Note the information on IIP is relatively limited for São Tomé and Príncipe. Recently there are IMF STA Technical Assistance missions to work on improving the coverage and quality of IIP data.

Current Account

Background. The overall CA deficit narrowed to 10.3 percent of GDP in 2020 mainly due to significant increases in official transfers and lower imports, which compensated for declines in services exports in the wake of the pandemic, compared to 12.1 percent of GDP in 2019. This narrowing continued the trend of gradual declining CA deficit since 2017. The services balance worsened reflecting significantly lower travel exports (to US$16 million in 2020 from around US$67 million in 2019), which partially offset by lower services imports. While income improved largely due to higher secondary income driven by official transfers. The overall CA deficit is projected to improve to 9.6 percent of GDP in 2021, mainly due to steady recovery of tourism and lower imports of goods and services.

São Tomé and Príncipe: Model Estimates for 2021 (in percent of GDP)

	CA model	REER model	ES model
CA-Actual	**-9.6**		
Cyclical contributions (from model) (-)	0.0		
COVID-19 adjustor (+) 1/	1.6		
Additional temporary/statistical factors (+)	0.0		
Natural disasters and conflicts (-)	-0.1		
Adjusted CA	**-7.9**		
CA Norm (from model) 2/	**-6.1**		
Adjustments to the norm (+)	0.0		
Adjusted CA Norm	**-6.1**		
CA Gap	**-1.8**	**-1.0**	
o/w Relative policy gap	1.7		
Elasticity	-0.21		
REER Gap (in percent)	**8.7**	**4.9**	

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (4.4 percent of GDP).
2/ Cyclically adjusted, including multilateral consistency adjustments.

Assessment. The EBA-lite CA Model estimates the CA norm at -6.1 percent of GDP, and the adjusted CA at -7.9 percent of GDP in 2021 after adjusting for cyclical contributions and additional COVID-19 adjustor to account for the effects of tourism changes due to the pandemic. The CA gap is -1.8 percent of GDP. Policy gaps, reflecting deviations of current policy settings in São Tomé and Príncipe and the rest of the world (ROW) from their desired settings, contribute 1.7 percentage point. Using the EBA-lite REER model, it implies a CA gap of -1 percent of GDP. Based on both CA and REER models, IMF staff assesses the CA gap to be in the range of -1.8 to -1 percent for 2021, which corresponds to an assessment that the external position was moderately weaker with the level warranted by fundamentals and desirable policy settings in 2021.

Real Exchange Rate

Background. In 2021, the real effective exchange rate (REER), based on Consumer Price Index, appreciated by 6 percent relative to its 2020 average. Since the introduction of the exchange rate peg to the euro in January 2010, the REER has appreciated by 84 percent in the next decade, as the gradual disinflation process was too slow to close the inflation differential with trading partners. The peg has helped to reduce average inflation to 8 percent during 2010-2020, half its rate during the previous decade. Although a substantial reduction, inflation has remained much higher than in the euro area, contributing to the REER appreciation. Average Euro area inflation was 1.3 percent in 2010-20 compared to 8.4 percent in São Tomé

and Príncipe, implying prices increases of 124 percent in São Tomé and Príncipe during the period versus only 14 percent in the euro area.

Assessment. The EBA-lite REER model estimates an overvaluation of 4.9 percent in 2020. The REER gap derived from the IMF staff's CA gap assessment, with an estimated elasticity of -0.21, implies that the real exchange rate was overvalued by 8.7 percent. Considering all estimates and the uncertainties around them, staff's assessment is based on the EBA-lite CA model and REER model and estimates the REER gap to be in the range of 4.9 to 8.7 percent in 2021.

Capital and Financial Accounts: Flows and Policy Measures

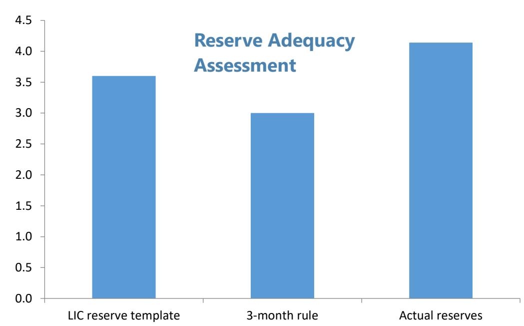
Background. Net capital and financial inflows declined to 9.4 percent of GDP in 2020, compared to the inflows of 10 percent of GDP in 2019, mainly reflecting the declines in net FDI inflows and portfolio investment inflows. Net financial inflows are expected to decline to 6.4 percent of GDP in 2021.

Assessment. With sizable external debt of the public sector, São Tomé and Príncipe remains exposed to financial market risks. The prolonged pandemic and sustained financial market volatility could increase vulnerability. Implementing important financial reforms would be important to ensure financial stability.

FX Intervention and Reserves Level

Background. Gross international reserves reached US$67.6 million (at around 4.5 months of projected imports) in 2020. Gross international reserves are declined to US$61.8 million (at around 3.5 months of projected imports) by end-2021, while financial support from development partners and disbursements under the IMF's SDR allocation and ECF would help to finance the country's external needs.

Assessment. São Tomé and Príncipe needs to build strong international reserve buffers given the persistence and magnitude of shocks it faces as a small and fragile LIC with a pegged exchange rate regime. São Tomé and Príncipe's 2021 level of gross international reserves (GIR) is adequate compared to the benchmarks. GIR corresponded to 4.1 of months of current imports in 2021, which is above the standard metrics of 3 months of imports rule. The IMF LIC reserve metric, also known as the ARA metric for credit-constrained countries, which balances the benefits and opportunity costs of holding reserves suggests that the optimal reserves metric for São Tomé and Príncipe is of 3.6 months of imports. Results of adequate reserve level using the LIC reserve metric template have taken consideration of country specificities, such as being a small state, having a fixed exchange rate peg, and having an IMF arrangement. Furthermore, São Tomé and Príncipe has access to extra reserve buffers in the form of exceptional access to deposit at the National Oil Account (NOA) and a contingent credit line from Portugal in case reserves fall below 3 months of imports.



Annex V. Capacity Development

1. Recent capacity development (CD) activities have been well integrated with Fund-supported program priorities. São Tomé and Príncipe is the active user of technical assistance (TA)[1] and has also benefits from trainings resources.[2] Recent CD activities have focused on: (i) strengthening revenue administration and tax policy reforms; (ii) enhancing PFM systems; (iii) improving banking regulations, resolution, and supervision; (iv) reforming central bank governance and operations; and (v) creating stronger macroeconomic statistics.

2. CD has helped the country progress in several macro-critical areas (Table 1). Key achievements include but not limited to: implementing the automatic fuel pricing mechanism to limit fuel subsidies and manage fiscal risks; adopting the VAT law and preparing implementation to strengthen revenue generation capacity and meet large social and development spending needs; enhancing the macro-fiscal forecasting function and incorporating medium-term fiscal projections in the budget cycle to strengthen the national budgeting process; drafting central bank organic law and financial institutions laws and adopting risk based supervision with a view of modernizing monetary and financial management and; strengthening macroeconomic statistics; and improving transparency of public procurement processes.

3. Going forward CD activities will continue to focus on macro-critical reform objectives (Table 2). Pandemic posed challenges for CD delivery due to human capacity constraints and recent limitations on travel during the COVID-19 pandemic. These challenges have been partly overcome by remote mission delivery; however, the pace of implementation of CD advice slowed. Going forward CD priorities will focus on:

- **Revenues.** Enhancing revenue mobilization by supporting the new VAT to create fiscal space for social and capital spending.
- **PFM.** Improving public financial management (PFM), particularly on budget preparation and execution and expenditure controls.
- **PIM.** Improving public investment management (PIM) to strengthen selection and implementation of public investment projects.
- **Climate.** Assessing climate vulnerabilities, general preparedness, and considering climate adaptation policies.
- **SOEs.** Strengthening oversight of SOEs to prevent recurrent losses from public companies, particularly in the energy sector.
- **Debt.** Promoting debt sustainability by improving debt recording.
- **Macro-financial.** Implementing International Financial Reporting Standards (IFRS), updating prudential regulations, and implementing risk-based supervision. Reforming monetary and financial legal frameworks.

[1] São Tomé and Príncipe has received about forty TA missions over the period FY19-FY22.

[2] Training occurs primarily through AFRITAC and in the context of TA and through participation in online courses.

- **Statistics.** Improving the quality, timeliness, and compilation of statistics, including on GDP, national accounts, and government finance.

Table 1. Sao Tome and Principe: TA Delivered 2019–2021

Date	
Nov-21	STA remote mission on government financial statistics (coverage expansion)
Nov-21	FAD remote mission on tax policy and VAT administration reform
Sept-21	STA remote mission on external sector statistics
Aug-21	FAD follow-up on cash flow and TSA implementation
Jul-21	FAD remote mission on PFM (budget preparation)
Jul-21	STA remote mission on real sector national accounts
May 21	LEG remote mission to reform the financial institutions law
Apr-21	FAD remote mission on PFM (improve budget execution & accounting)
Apr-21	FAD remote mission on tax and customs administration (tax debt management)
Apr-21	MCM remote mission to review draft foreign exchange law
Apr-21	STA remote mission on government finance statistics
Mar-21	FAD remote mission on VAT implementation and IT solutions
Dec-20	FAD remote mission on PFM (improve methodological manual on macro-fiscal forecasts)
Dec-20	FAD remote mission on tax policy
Nov-20	AFRITAC remote mission to review & upgrade off-site/on-site supervision
Oct-20	FAD remote mission on VAT
Sept-20	STA remote mission on government finance statistics
Jun-20	FAD remote mission on customs administration
Jun-20	FAD remote mission on PFM (improve methodological manual on macro-fiscal forecasts)
Jun-20	STA remote mission on national accounts statistics
Jun-20	AFRITAC remote mission to draft banking supervision manual
May-20	MCM remote mission on bank rating model & prudential regulation
Feb-20	FAD mission on tax administration
Feb-20	FAD mission on PFM
Feb-20	LEG mission to reform the financial institutions law
Jan-20	FAD mission on PFM (macro-fiscal multi-year planning)
Dec-19	LEG mission on reform of central bank law
Nov-19	FAD mission on PFM (budget execution & controls, management of arrears)
Nov-19	FAD mission on tax administration
Nov-19	FAD mission on tax policy (VAT and excise implementation)
Nov-19	MCM mission to draft a prudential regulation on risk management
Nov-19	STA mission on national accounts statistics
Sept-19	STA mission on government finance statistics
Sept-19	FAD mission on tax and customs administration
Aug-19	MCM mission on monetary operations & debt market development

Table 1. Sao Tome and Principe: TA Delivered 2019–2021 (concluded)

Aug-19	FAD mission on tax administration
Jul-19	FAD mission on tax and customs administration
May-19	STA mission on government finance statistics
May-19	FAD mission on tax administration
May-19	FAD mission on tax and customs administration
May-19	STA mission on national accounts statistics

Table 2. Sao Tome and Principe: CD Forward Looking Priorities and Objectives 2022–2023

Priorities	Objectives
Tax Policy and Revenue Administration	Strengthen tax and customs administration
	Support the implementation of VAT reform
	Revision of tax incentives
Public Financial Management	Improve budget preparation, execution, and control of expenditures
	Enhance the macro-fiscal model
	Strengthen PFM practices
Financial Sector Regulation and Supervision	Enhance legal framework, including revising the Financial Institution Law and drafting the organic law
	Implement IFRS
	Update prudential regulations
	Implement risk-based supervision
Debt	Strengthen debt recording, reporting, and monitoring
Statistics	Improve the quality and compilation of GDP, national accounts, and government finance statistics
Public Investment Management Assessment (PIMA)	Improve planning and efficiency of public investment programs
Climate Macroeconomic Assessment Program (CMAP)	Assess and advise on climate vulnerability and general preparedness

Appendix I. Letter of Intent

São Tomé, March 7, 2022

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 fourth review of the program supported by the Extended Credit Facility (ECF) arrangement and approve the fifth disbursement based on performance under end-June 2021 performance criteria (PC) and the completion of prior actions.

The attached Memorandum of Economic and Financial Policies (MEFP) describes the progress made in recent months toward the objectives laid out in our program supported by the Extended Credit Facility (ECF). It also updates the previous MEFP and highlights the policy steps to be taken in the period ahead. These policies are anchored by the government's new Poverty Reduction and Growth Strategy (PRGS) the successor of our National Development Plan 2017-2021. Our new PRGS consists of our medium-term National Sustainable Development Plan (2020-2024) and our National Strategy for Socioeconomic Resilience and Mitigation of COVID-19 plan.

Program implementation has remained steadfast since the conclusion of the third review in August 2021. We observed most of the quantitative performance criteria (QPC) for end-June 2021 and continuous PCs for June 2021. However, we missed the end-June 2021 QPC on net international reserves (NIR) by a small margin as disbursements fell short of expectations. There was also a temporary breach of the continuous PC of zero ceiling on external arrears by US$ 0.3 million in September due to liquidity problems, and these were paid in full in October 2021. We would like to request that the IMF Executive Board approve waivers for the nonobservance of the program targets on net international reserves at end-June 2021 and the continuous PC of zero ceiling on external arrears at end-September 2021 due to the temporary nature of these breaches, and modifications to the PCs for end-June 2022.

Additionally, as a sign of our commitment to the program, we completed three prior actions for the fourth review. While implementation of VAT got delayed from the initial timeline as we were negotiating information technology contract, we remain committed to implementing the VAT in September 2022. To this end, we have secured VAT information technology implementation contact with the support from the World Bank and prepared for taxpayer registration and applicability of VAT at customs check points (prior actions). Moreover, to strengthen safeguards of the central bank, we will also submit the new organic law to Parliament by end-February 2022 (prior action), which was also delayed from the initial timeline.

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 of the reviews 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 address the COVID-19 pandemic in 2020-21.

Vaccinations for COVID-19 are proceeding as planned. However, growth is estimated to have declined in 2021, weighed down by the spread of new COVID-19 variants. These developments have been compounded by the significant by the floods at end-December 2021.

Despite difficult context, progress has been made in implementing structural benchmarks through end-December 2021. We remain committed to strengthening governance and fulfilling our commitment on fostering full transparency in all COVID-19-related spending. We are publishing procurement documents, COVID-related expenditure reports, and are reviewing the draft Public Procurement Law to enable the collection and publication of beneficial ownership information. While progress is being made in strengthening the central bank and in advancing the implementation of outstanding safeguards assessment recommendations, structural benchmarks related to new central bank organic law and stress testing were implemented with delays and the structural benchmark for the financial institutions law is expected to be completed by end-June 2022. In addition, we will continue to rely on the automatic fuel price adjustment mechanism to prevent implicit fuel subsidies and contain fiscal risks. Furthermore, due to capacity constraints and travel restrictions, there were delays in reforms in the state-owned utility company (EMAE) and in developing 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 the period ahead. We believe that the policies contained in the October 2019, July 2020, February 2021, August 2021 MEFP, and the attached supplementary MEFP are adequate to achieve the objectives of the program. We stand ready to take additional measures should they be needed to meet the objectives of the economic program and will consult with the IMF in advance of any necessary revisions to the policies contained in this letter and attached Memorandum, in line with Fund policies on such matters. 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. Engrácio do Sacramento Soares da Graça, Minister of Planning, Finance, and the Blue Economy	Mr. Américo Soares De Barros, Governor of the Central Bank of São Tomé and Príncipe

Attachment I. Supplementary Memorandum of Economic and Financial Policies for 2022

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, February 26, 2021, and August 27, 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 2022 and beyond, also keeping in mind the limitations on implementing new policy measures imposed by the COVID-19 pandemic and the impact of the floods at end-December 2021.

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.** Despite difficult context, we overperformed on the domestic primary deficit target for end-June 2021. We also met other QPCs for end-June 2021, except for the QPC on NIR, which was missed by a small margin reflecting lower-than-expected disbursements. Due to liquidity problems, there was also a temporary breach of the continuous PC of zero ceiling on external arrears by US$ 0.3 million in September, which were fully paid in October 2021. Due to capacity constraints and the COVID pandemic, we faced delays in implementing structural benchmarks, although some progress was achieved.

3. **Considering significant health, social, and economic challenges, we remain committed to the objectives of the ECF-supported program.** Ongoing support from IMF and development partners has helped us to manage our external financing needs in the face of the COVID pandemic. We have developed our National Deployment and Vaccination Plan (NDVP) and aim to vaccinate more than 70 percent of the population by mid-2022, supported by the COVAX initiative and the World Bank. As of end-Jan 2022, we have vaccinated 40.6 percent of people with at least one dose, of which 28 percent have received two doses. We continue to face the economic, health, and social consequences of the pandemic, compounded by damages from the end-December 2021 floods.

4. **We will continue to anchor the ECF program in our National Sustainable Development Plan (NSDP).** Working closely with the UNDP, we have completed NSDP, São Tomé and Príncipe's medium term poverty reduction and economic growth strategy for the period 2020 – 2024. Since its launch in early 2020, a second plan entitled National Socioeconomic Resilience and Mitigation Plan for COVIC-19 (NSRMP) for 2020 – 2022 has being prepared that sets policy priorities with emphasis on improving the quality of health and social protection. 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. These two plans serve as a basis for our Poverty Reduction and Growth Strategy (PRGS).

RECENT ECONOMIC DEVELOPMENTS

5. Weak external demand and COVID-19 containment measures continued to create exceptional external and fiscal financing needs.

- 2021 growth is estimated at 1.8 percent, down from 3 percent in 2020, supported by public spending. Growth is expected around 2.3 percent in 2022, which is downward revision compared to previous forecast of 2.9 percent, reflecting the recent impact of floods, continuous transfers to vulnerable households, and rebuilding of critical infrastructure.

- Grant financing in 2021 declined compared to 2020. We accommodated COVID-related and social spending and implemented other expenditure containment measures to offset shortfalls in tax revenues. As a result, the domestic primary balance (DPB) is estimated at 3.3 percent of GDP, similar to the outcome in 2020.

- The current account deficit remained about 10 percent in 2021, reflecting increases in fuel imports, and a slow recovery in tourism and higher. Gross international reserves, excluding the NOA account and including commercial bank deposits, reached US$ 75 million, supported by external disbursements and the IMF's general SDR allocation.

- With the recent review of the public debt stock, 2021 public debt is expected to increase to 95.6 percent of GDP[1], largely reflecting the fiscal performance.

6. Two days of torrential rains during December 28-29, 2021, caused floods and damages to infrastructure, which we estimated at about US$ 37.5 million. We extended the state of emergency until February 15, 2022. Development partners are helping in providing immediate and targeted emergency and social support to affected households. Development partners are also firming up grant financing for the reconstruction by relocating and bringing forward undisbursed funds under their infrastructure and transportation project commitments. Coordination efforts are ongoing in validating, prioritizing, and defining the scope of reconstruction projects following their project implementation procedures.

7. While the pandemic and uncertain macroeconomic conditions negatively impacted the banking sector in 2020, financial sector conditions stabilized in 2021. Banks remain adequately capitalized and, systemwide NPLs, although still high at about 28 percent in Q4 2021, have decreased from 29.6 percent in Q42020. Credit growth to the private sector remained low, despite ample liquidity.

[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.

PROGRAM PERFORMANCE

8. **We have made steady progress under the ECF program in 2021.** We met four out of five QPC targets and three out of four indicative targets (IT) for end-June 2021. While tax revenue underperformed the IT at end-June 2021 due to slow revenue collections amid electricity blackouts, we contained non-priority spending and met the DPB QPC target. We also met the end-June 2021 net bank financing QPC target, but missed the NIR target by a small margin, reflecting lower-than-expected disbursements. Preliminarily, program performance for end-September and end December 2021 remained broadly on track. However, there was a temporary breach in the continuous PC for the zero ceiling on external arrears, which was fully paid in October 2021.

9. **The pandemic has delayed structural reforms.** We published monthly COVID-related spending reports and public procurement contracts with delays. Moreover, for these contracts, we have made public the ownership information and prepared a new Procurement Law incorporating beneficial ownership (BO) information collection and publication requirements. We have faced delays in submitting the draft BCSTP organic law to parliament, revising the financial institutions law, implementing the EMAE and energy sector reform plan, and defining a strategy to remove the country from the EU air safety blacklist.

OUTLOOK, RISKS AND STRATEGY

10. **The outlook for 2022 remains challenging, complicated by damages caused by the floods.** We foresee additional fiscal and external account pressures as we seek financial support for the reconstruction of critical infrastructure. Economic recovery will depend on the timeliness of committed financial support (grants) from our development partners. Real GDP is expected to grow by about 2.3 percent in 2022, revised downward from previous projections, before stabilizing at around 4 percent over the medium term. In this context, we expect the primary fiscal deficit to approach a near balance by 2024, and public debt to remain on a declining path. Floods are expected to delay improvements in current account in 2022. In the medium-term, fiscal consolidation, a recovery in tourism receipts, and reforms in the oil-dependent energy sector would improve the current account balance and international reserves.

11. **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 2026. 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 (2.2 percent of GDP). An agreement with the Brazilian government was reached, pending ratification by the Brazilian Senate. The negotiations with Angola and Equatorial Guinea are progressing well with technical steps completed, pending the final signed agreements. In 2019 we also reached an agreement with the government of Angola and EMAE to

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

pay back arrears to ENCO on concessional terms, significantly alleviating the debt burden in present value terms.

12. The outlook is subject to significant uncertainty and downside risks. The impact of the current and potential future pandemic waves and natural disasters present challenges for livelihoods, growth, and stability. Other downside risks include increasing fuel prices that could worsen power outages, inflation and decrease revenues, less fiscal space for social and development needs from delayed revenue reforms, delayed or insufficient donor grants, and delayed EMAE reforms. The outlook depends on sustained and increased grant support from external donors to maintain debt sustainability and provide needed financial resources to address existing as well as new needs from the recent torrential rains. Hence, a steadfast implementation of the ECF program is necessary to catalyze additional bilateral and multilateral financing. On the upside, accelerated structural reforms and key infrastructure development projects could support stronger medium-term growth.

13. 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 and recent torrential rains. Our strategy is focused on: preserving fiscal sustainability, safeguarding financial stability, and accelerating reforms in the energy sector to support growth and external vulnerabilities.

POLICY OBJECTIVES FOR 2022

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

A. Fiscal Policy and Transparency

14. Our priorities are to vaccinate and protect our population from the pandemic and to start reconstruction following the floods. We intend to continue targeted social programs to protect the most vulnerable, support the unemployed, maintain incentives for businesses to retain employees, and implement social distancing rules. At the same time, we will start the reconstruction of our roads, bridges, and drinking water supply systems destroyed by the floods.

15. We are determined to meet the end-June 2022 DPB fiscal target. We will maintain expenditures within the 2022 budget limits. In this context, we will introduce additional revenue measures in 2022 and prioritize capital spending to put the end-June DPB target within reach. Also, if revenues do not materialize as planned, we will curtail non-essential administrative spending. To support revenues in the reminder of 2022, we are planning to introduce the VAT in September 2022.

16. We are committed to delivering on the 2022 DPB target of 2.8 percent of GDP, reflecting our flood-related reconstruction efforts. COVID-19 related expenditures will continue 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 September 2022 **(structural benchmark)**.
- Tax Directorate will validate the first module of the VAT IT system for taxpayers' registration **(Prior Action).**
- Customs and Tax Directorates will agree technical understandings on applicability of the VAT law at customs collection points, which issued in a ministerial order **(Prior Action)**
- Collection of tax arrears (Dobras 30.56 million).
- Alcohol tax surcharges (Dobras 16 million).
- Introduction of an airport tax (Euro 20 per passenger, Dobras 7 million)
- To contain personnel costs within the spending limits, ministerial order was issued in February 2022 freezing new public sector hiring
- Contingency measures reducing administrative costs by about 20 percent in case revenues do not materialize which includes goods and services, travel and other non-essential spending lines.
- Continue relying on the automatic fuel price adjustment mechanism and maintaining retail fuel prices aligned to international markets (continuous SB) to prevent implicit fuel subsidies and contain fiscal risks.

17. Over the medium term, we will continue implementing policies agreed under the program to approach a balanced DPB 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 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 2023-24 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 serviços de cobrança*) constant in nominal terms in 2023 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.

18. We have made progress is adopting complimentary legal frameworks for implementing VAT. In November 2021, the President enacted VAT refund regulations, and these were also harmonized with the excise tax decree. We are also working on adapting the stamp tax decree to fully align with the VAT. Furthermore, Customs and Tax Directorates will agree technical understandings on applicability of the VAT law at customs collection points, which issued in a ministerial order (**Prior Action**). We will also implement VAT awareness and communications public information campaign by end-June 2022 (new **Structural Benchmark**)

19. IT system preparations are under way for introducing the VAT in September 2022 (Structural Benchmark). We have recently signed a contract with the IT developer to roll out the VAT IT platform at the Tax Directorate, supported by the World Bank. The contract includes a VAT Project Governance Plan, 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. In December 2021 we issued the ministerial order n. 89/2021 establishing the project governance committee and the technical committee to support the VAT IT project implementation. The governance committee held the first meeting in January 2022 and approved the project workplan which entails a detailed sequence of steps to ensure the VAT IT project completion by August 2022. As next immediate step in the workplan, Tax Directorate will validate the first module of the VAT IT system for taxpayers' registration (**Prior Action**).

20. We continue to strengthen 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 undertake a comprehensive tax administration diagnostic assessment (TADAT) of our current revenue administration practices before the end of 2022.

21. We started publishing detailed statistics on tax collections 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. We will improve DI's access to third-party sources of data, which will allow for cross-checking of 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.

22. 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, for the first time, we have incorporated in the 2022 budget documents medium-term fiscal framework (MTFF) projections for a three-year period.

2) *Strengthening cash management coordination mechanism.* Treasury. BCSTP, and debt management office will ensure adequate planning for debt service and other financing needs consistent with the budget, the government's cashflow, and BCSTP's FX cashflow. To this end, we published the calendar of treasury bills auctions in February 2022.

3) *Strengthening expenditure control, preventing the accumulation of arrears and updating the arrears clearance plan to cover all domestic arrears.* In the 2023 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 2022, 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 the support of the World Bank and IMF, we drafted a new 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. During 2022 we will continue taking steps towards adopting the new draft procurement law with beneficial ownership information-related provisions and strengthening transparency of procurement contracts and supporting documents.

23. 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. Publications have been delayed in the second half of 2021 due to operational difficulties, but we have restored regular publication of these documents in February

2022. The COVID-spending report covering the period Aug-Dec 2021 was published in February 2022, along with a number of public contracts (about 40 percent of contracts with no objection from COSSIL).

- 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

- With IMF and World Bank support, we finalized a revised draft of the new Procurement Law, which incorporates beneficial ownership (BO) information collection and publication requirements. The draft is currently under review by the government and will enable the collection and publication of beneficial ownership information.

- Finally, as part of its audit of the government financial accounts, the Auditor General will publish the 2020 COVID-19-related spending audit report by end-April 2022. The auditing has been concluded in December 2021 and Auditor General is currently in the stage of receiving comments from sectors to finalize the audit report, which will be approved by the Auditor General Board to be submitted to National Assembly and gain public domain.

- Currently we have no integrated system, and all procurement 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. 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.

24. We welcomed the Fund's general SDR allocation in August 2021 and the recent final extension of the DSSI until December 2021, which provided additional temporary relief. We used the equivalent of US$10 million (about half) allocation for budget financing in 2021. To this end, in September 2021, MoF and the central bank (BCSTP) signed an on-lending agreement for US$10 million (Dobras 207.2 million) to meet pandemic related spending needs, repairs of the power grid, renovations of hospitals, schools, and roads. In face of the flood-related state of emergency and in case of delays in expected disbursements, we intend to use US$2.3 million out of the remaining SDR allocation in 2022.

B. Monetary Policy, Foreign Exchange Reserves, and Safeguards

25. We remain committed to improving our monetary policy framework to support the peg, including by actively managing liquidity. The BCSTP broadly has a toolkit in place to help manage liquidity and has been issuing Certificate of Deposits (CDs) each month throughout 2021 to

mop up excess liquidity and to support the exchange rate peg. We removed the restrictions on the amount and frequency to access the Standing Credit Facility and extended our liquidity forecasting framework to one month using historic data. The minimum reserve requirements for domestic currency and for foreign currency remained at 18 percent and 21 percent respectively during 2021.

26. To improve monetary policy management, we will continue strengthening the coordination of monetary and fiscal policies. Staffing constraints and pandemic-related work restrictions during 2021 continued to hamper our efforts in reconciling quarterly monetary and treasury data on fiscal financing. In 2021, we have completed the reconciliation for annual 2020, Q1, and Q2 2021 fiscal financing and we will continue this practice of regular reconciliations.

27. 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 currency practice. We will seek approval from the IMF for the existing exchange rate restrictions and multiple currency practice and will consult the IMF when revising relevant regulations or laws.

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

1) *Submission of draft Organic Law to Parliament*. We drafted the new BCSTP Organic Law, supported by IMF TA, to improve the autonomy and governance provisions and increase our Central Bank's independent oversight. This structural benchmark was delayed from end-September 2021 to harmonize it with the draft financial institutions law and the draft foreign exchange law. After this harmonization, the Organic Law was sent to the government on January 28, 2022 and is expected to be submitted to Parliament by end-February, 2022 (**prior action)** (structural benchmark delayed from end-September 2021).

2) *Implementation of International Financial Reporting Standards (IFRS)*. Our technical assistance with the Bank of Brazil on IFRS lapsed during 2020 due to the pandemic. We have requested technical assistance from the IMF in December 2021 to make progress on this front.

3) *Audit of Financial Statements:* The 2020 external audit of BCSTP's financial statements was delayed due to the pandemic. However, external auditors started conducting the audit in January 2022 and we expect that it will be finalized by end-April 2022. We plan to share the audited accounts and accompanying management letter with the Fund at that time

4) *Addressing legacy debts*. We will finalize a memorandum of understanding between MoF and BCSTP on legacy government debts by end-April 2022. On January 25, 2022 BCSTP sent draft agreement to MoF for its consideration.

5) *Reforming Financial Institutions Law*. We are in the final stages of preparing a draft of the financial institutions law, supported by IMF technical assistance, to strengthen bank regulation and supervision legal framework. Capacity and pandemic-related constraints have delayed completion of the structural benchmark, which was supposed to be submitted to the government by end-December 2021. We plan to complete a draft of the law by end-March, and following IMF TA inputs, send it to the Government by end-June 2022.

6) *Maintaining GIABA membership*. 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.

7) *Implementing Safeguards recommendations*. We are committed to implementing the outstanding safeguards recommendations, including to finalize and send the Organic Law to Parliament (prior action), implement International Financial Reporting Standards with IMF TA, complete the 2020 audit of the BSCTP's financial statements, improve internal audit capacity, finalize the memorandum of agreement on legacy government debt, and complete drafting the financial institutions law and send it to the government. 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

29. While the pandemic adversely affecting banks' asset quality in 2020, the impact of COVID-19 on the financial sector is yet to be fully determined. The systemwide NPL ratio decreased from 29.6 percent in Q4 2020 to about 28.6 percent in Q42021 despite the expiration of the loan payment moratorium at the end of June 2021. In addition, the level of provisioning in the banking sector was about 90 percent in end-2021. The approval of two new regulations issued in October 2021 are expected to further reduce the NPL ratio. The first regulation on Assets Classification and Provisions requires banks with exposures classified as "losses" to write these off within a maximum of 12 months following this classification. The second regulation on Capital Adequacy aims to guarantee that banks maintain adequate levels of own funds, in line with international standards. Banks will have six months (until April 2022) to comply with these new regulations. Credit growth to the private sector remains low, despite ample liquidity.

30. We are taking steps to improve stress testing capacity to monitor banks' asset quality and bolster financial stability. As part of our commitment to building capacity, we perform regular stress tests of loan portfolios to assess the soundness of banks. We are also committed to carry out an additional stress testing exercise on bank's loan portfolios to project the likely impact of COVID-19 on bank income and solvency (structural benchmark due at end-December 2021). The completion of stress testing was delayed given the expiration in June 2021 of the loan payment moratorium and will be completed by end-February 2022.

31. Efforts to strengthen supervisory capacity has slowed due to pandemic constraints. With the support of AFRITAC technical assistance, we completed the drafting of the Manual on Banking Supervision. However, BCSTP staff have been unable to field test the risk-rating manual due to pandemic-related lockdown measures.

32. We are continuing efforts to complete the liquidation of three banks, but face challenges, including due to the lack of a modern, legal framework and the pandemic.

- On **Energy Bank**, the BCSTP's Board of Directors decided on January 11, 2022 to cancel the authorization to operate Energy Bank effective as of January 17, 2022, following unsuccessful attempts to implement reorganization and resolution measures.

- **Banco Equador's** liquidation process is ongoing. The liquidator confirmed that the process of submitted the debtors' cases to the court is well underway, although limited human resources and a complex legal framework continue to pose challenges. The courts and liquidator provided an incentive for debtors to fully settle their debts with a forty percent discount, which expired in end-December 2021 and has been extended until March 31, 2022. Despite the discounts offered on the sale of the buildings, these were not sold. We intend to accelerate the liquidation process and complete it in 2022.

- For **Banco Privado**, a process is underway to negotiate the assets between the shareholders and the Board of the BSCTP.

33. Improving access to finance for SMEs, and financial inclusion more generally, remains a key area of focus for us. We implemented the credit line (US$3 million) to help increase access to finance for SMEs in 2021, supported by AfDB. In response to the floods, we are drafting a decree to extend further US$3 million line of credit to affected SMEs.

Exchange Restrictions

34. We request a new temporary approval from the IMF Executive Board for exchange restrictions and a multiple currency practice under Article VIII. As the previous approval of these measures granted by the IMF Executive Board expires in February 2022 or during the current Article IV consultation, whichever is sooner, we therefore request an additional one-year extension of such measures. The proposed actions taken under the ECF-supported program will help ensure the stability of the peg while supporting the removal of the exchange restrictions, and an extension is needed as these policies are still being implemented. The measures giving rise to the exchange restrictions are imposed for BOP reasons, necessary and temporary, and the measure related to the multiple currency practice is imposed for BOP reasons, temporary, and non-discriminatory.

D. External Debt

35. Given the high debt level, we will continue to borrow cautiously. We will continue relying on grant financing and 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 public debt to GDP ratio remain below the high-risk debt distress threshold (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. The ongoing IMF Technical Assistance mission on public sector debt statistics will also be very helpful to further improve the statistics of debt.

E. Managing Fiscal Risks from Loss-Making SOEs

37. We have been relying on the automatic fuel price adjustment mechanism to prevent implicit subsidies to ENCO and generate budget revenues. Since early 2020, São Tomé and Príncipe has benefited from low international fuel prices and cumulative revenue inflows from price differentials between administered retail prices for fuel products and the import prices remained positive in 2021 (Text Table 1).

Text Table 1. Actual Revenues from Fuel Price Differential

(In Millions of Dobras)

	2020 Act.	Jun. 2021 Act.	Sep. 2021 Est.	Dec. 2021 Est.
Import taxes	571	274	420	531
General import taxes	265	113	207	230
Fuel surcharge	**198**	**107**	**157**	**265**
Gasoline	113	58	86	143
Diesel	85	49	71	122
Kerosene	0	0	0	0
Fuel price differencial	**108**	**54**	**56**	**36**
Arrears payment to ENCO	**85**	**54**	**77**	**67**

Source: GAMAP. Staff elaboration

* Fuel surcharge data on last column reflects information up to August 2021.

38. However, raising international fuel prices increase near-term fiscal pressures which we plan to address through a combination of increasing retail prices and reducing tax surcharges to prevent additional losses to ENCO. Current social circumstances in the country - amid the pandemic, power outages, and rising inflation – do not allow implementing the full increase in retail fuel prices. To this end, we took the decision (Ministerial Order 21, December 23, 2021) to partially increase retail prices and reduce fuel tax surcharges within the price formula to prevent implicit fuel subsidies to ENCO. This policy was scheduled to be implemented starting on January 1st,2022 but had to be suspended after the floods. We have shifted the start date for policy implementation to March 1st, 2022. Furthermore, if higher prices prevail in the markets, additional fuel price adjustment will be timely considered in accordance with the automated price adjustment mechanism. To cushion the impact on the most vulnerable households, MOF will continue cash transfer programs and top them up in 2022, supported by the WB.

39. 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. (**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.

40. Our near-term priority actions include improving consumption efficiency:

a. We are preparing for replacing incandescent/fluorescent light bulbs with LED bulbs in the country, pursuant to the LED program parameters by end-June 2022 **(structural benchmark)**, supported with US$2 million funding from the World Bank. The LED bulb procurement process was delayed due to pandemic. in January 2022, we concluded required technical inspections in the LED factory in China and expect the shipment in Q2 2022.

b. After LED program is completed, we will approve a law to ban the importation of incandescent/fluorescent lamps by end-2022. We have a draft law prepared on which we will conduct outreach to stakeholders and importers, raising awareness and helping them access LED suppliers.

41. 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-operational. 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 to address immediate capacity constraints, in consultation with development partners.

F. The Implementation of Other Structural Reforms

42. 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, which damages agriculture, fisheries, and eventually tourism. As a signatory to the UN's Framework Convention on Climate change, we updated the Nationally Determined Contributions document in June 2021 and participated in the COP26 meetings in fall 2021. We began work on the Fourth Communication Report for our country on climate change.

43. 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. However, with the pandemic, we were unable to meet our goal of finalizing the plan to remove the country from the air safety blacklist by end-December 2021 (Structural Benchmark), and we now expect to have the plan completed by end-September 2022. To this end, we managed to secure the visit from international air safety regulator (ICAO) to assess progress. 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.

Improving Economic Statistics

44. We are continuing to improve economic data, which is constrained by a lack of capacity. The National Statistics Institute (INE) compile improved national account series (2008-2019), which is expected to be available in 2022, with the assistance of IMF TA. We are working on improving our balance of payment statistics, including recording imports related to petroleum exploration FDI and refining estimation of tourist receipts with the recent IMF TA mission on balance of payments statistics.

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

Measures	Status	Target date
1. Develop terms of reference of the new executive management team of EMAE for implementing reform measures.	**Completed.** ToRs were developed and the Council of Ministers has approved commencements of competitive selection process for EMAE's senior management.	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)**	Technical inspection in the LED factory in China was concluded in January 2022 to allow for fabrication of lamps throughout February and March. LED bulbs expected to arrive in STP in the second quarter of 2022 for distribution.	mid-2022
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.	Non-objection from EIB was granted in December. AFAP is negotiating terms of contract with selected bidders.	end-2023
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.	**Broadly achieved.** Decree Law 88 covering i), ii), and iii) was passed in November 2021. The decree provides for the principle of full-cost approach to be applied in the tariff structure. Effective implementation of the new tariff structure depends on regulator AGER.	End-2021

Capacity Development

45. Continued hands-on technical assistance is essential to build capacity. We appreciate the Fund's continued intensive capacity development efforts, particularly during the pandemic. Given limited staff capacity, on-the-job training is especially important. We have also discussed and updated with IMF staff our medium-term capacity development strategy, which includes enhancing domestic revenue mobilization—notably, implementing the VAT— improving public financial management and debt recording, strengthening financial sector regulations and the legal framework, and strengthening the accuracy of balance of payment statistics. We will also undertake PIMA assessment with a view to improve planning and efficiency of public investment management.

PROGRAM MONITORING

46. The program will be monitored on a semi-annual basis, through quantitative and/or continuous performance criteria and indicative targets (Table 1) and structural benchmarks (Table 2). Quantitative targets are set for end-December 2021, and end-June 2022, while those for end-September 2021 and end-March 2022 are indicative targets. 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 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
	Third Review	With Adjusters	Prel.	Status	Third Review	With Adjusters	Prel.	Status	Third Review		Prop.
Performance Criteria:											
Floor on domestic primary balance (as defined in the TMU)[1]	-225	-250	-229	Met	-300	-326	-278	Met	-379	-125	-162
Ceiling on changes in net bank financing of the central government (at program exchange rate)[2, 3, 4]	200	254	212	Met	300	379	340	Met	354	125	162
Floor on net international reserves of the central bank (US$ millions)[1, 3]	25	23	20	Not met	24	24	33	Met	23	27	28
Ceiling on the accumulation of central government's new external payment arrears (US$ millions)[4, 5, 6, 7]	0		0	Met	0		0.3	Not met	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the central government or the BCSTP (in nominal value, US$ millions)[4, 5, 6, 7, 8]	0		0	Met	0		0	Met	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: Met										
Indicative Targets:											
Ceiling on change of central government's new domestic arrears	-20		-38.5	Met	-30		-37.6	Met	-60	0	-20
Floor on pro-poor expenditures	300		420	Met	450		709	Met	600	157	315
Floor on tax revenue	700		622	Not met	1050		986	Not met	1400	310	679
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)[4, 6, 7, 9]	4		0	Met	7		0	Met	9	0	0
Memorandum items:											
Ceiling on dobra base money (stock)	1,454		1,949		1,520		1,828		1,586	1,960	1,925
Transfer from NOA to the budget (US$ millions)	3.2		3.1		3.0		3.1		3.2	2.6	2.6
Net external debt service payments[10]	65		31		98		37		130	41	82
Official external program support[10]	105		58		105		114		261	156	262
IMF program disbursement	56		58		56		114		112	59	59
Budget support grants	49		0		49		0		149	97	203
Domestic arrears clearance (-, exclude debt payment to ENCO)	0		-39		-10		-38		-73	…	…
Treasury-funded capital expenditure	15		7		20		10		30	15	34
Ceiling on personnel expenses	599		488		770		734		1,070	264	528

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

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

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

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

[4] The term "central government" is defined as in ¶5 of the TMU, which excludes the operations of state-owned enterprises.

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

[6] 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. 16919-(20/103) of the Executive Board (October 28, 2020).

[7] 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 17.

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

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

[10] 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	Status	Macro Rationale	TA involved
Prior actions				
Tax Directorate to validate the first module of the VAT IT system for taxpayers' registration (MEFP ¶16)			To enhance revenue	With the World Bank support
Customs and Tax Directorates to agree technical understandings on applicability of the VAT law at customs collection points issued in Ministerial Order (MEFP ¶16)			To enhance revenue	
Submit the BCSTP organic law to Parliament (MEFP ¶28)			To strengthen financial supervision and improve governance and oversight	LEG
Strengthening Public Finances				
Implement VAT awareness and communications public information campaign (MEFP ¶18)	End-June 2022		To enhance revenue	With World Bank support
Introduce the VAT at a 15 percent rate according to the October 2019 law (MEFP ¶16)	End-October 2021	Not met. Rescheduled to end-Sept 2022. Two prior actions added.	To enhance revenue	With World Bank support
Continue relying on the automatic fuel price adjustment mechanism and maintaining retail fuel prices aligned to international markets (continuous SB) to prevent implicit fuel subsidies and contain fiscal risks (MEFP ¶16)	Continuous	End-June: Met. End-September: Not met.	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 ¶23).	Continuous	Not met. Implemented with delays.	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 ¶23).	Continuous	Not met. Implemented with delays.	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	Not met. Met end-Feb. 2022.	To support financial sector stability	MCM
Submit the BCSTP organic law to Parliament (MEFP ¶28)	End-September 2021	Not met. To be implemented as a prior action.	To strengthen financial supervision and improve governance and oversight	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	Not met. Rescheduled to end-June 2022.	To strengthen financial supervision and improve governance and oversight	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	Met	Stabilize excess liquidity and support the peg	MCM
Facilitating Business Activities and Energy Efficiency				
Develop a plan to remove the country from the European Union's Air Safety blacklist (MEFP ¶39)	End-December 2021	Not met. Rescheduled to end-September 2022.	To facilitate the recovery of the tourism sector	With World Bank support
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 (MEFP ¶40)	End-December 2021	Not met. Rescheduled to end-June 2022.	To contain fiscal risk	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 1**, 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** (¶27) 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 (including currency) or services, and which requires the obligor to make one or more payments in

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

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 Planning, Finance 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	4.1	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. 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 nominal 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
Gross international reserves	**1502**
Cash	**35**
Demand deposits	**851**
Term deposits (excl. National Oil Account)	**243**
Securities other than shares	**346**
Accrued interest on securities	**4**
Reserve position in the Fund	0
SDR holdings	**23**
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
Net international reserves (NIR) (=I - II)	**813**
Net other foreign assets	**280**
Other foreign assets	485
Medium and long-term liabilities (including SDR allocation)	205
Net foreign assets (III+IV)	**1093**
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.

São Tomé and Príncipe: 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 Príncipe No. 21 - May 7, 2008, pages 12-13.
[1] Expenditures on fuels and lubricants (*combustíveis 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 30 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 1):

- ***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 30 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.

- ***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):
    - (i) by the cumulative deviation downward (upward) of actual from projected net external debt service payments of the central government;

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

- (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.

The combined application of all adjusters at any test date is capped at the equivalent of US$10 million at the program exchange rate.

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.