IMF Country Reports 22/306

Democratic Republic of São Tomé: Fifth Review Under the Extended Credit Facility Arrangement, Request for Waiver of Nonobservance of Performance Criterion and Financing Assurances Review-Press Release; Staff Report; and Statement by the Executive Director for the Democratic Republic of São Tomé

INTERNATIONAL MONETARY FUND

INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/306

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

September 2022

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 31, 2022 following discussions that ended on June 16, 2022, with the officials of the Democratic Republic of São Tomé and Príncipe on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on August 8, 2022.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for the Democratic Republic of São Tomé and Príncipe.

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

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PRESS RELEASE

PR22/298

IMF Executive Board Completes Fifth Review Under the Extended Credit Facility for São Tomé and Príncipe

FOR IMMEDIATE RELEASE

August 31, 2022

- The IMF Executive Board decision allows for an immediate disbursement of about US$2.48 million to São Tomé and Príncipe to help meet the country's financing needs, support social spending and the post-pandemic recovery.
- São Tomé and Príncipe has faced many challenges including the impact of the COVID-19 pandemic, the war in Ukraine, and the floods at end-2021. Despite these challenges, program performance under the Extended Credit Facility (ECF) has been broadly satisfactory, although some structural reforms have been delayed.
- The authorities' swift actions and timely international financial support have been helping address the socio-economic challenges of the country.

Washington, DC: The Executive Board of the International Monetary Fund (IMF) completed today the fifth review of the ECF arrangement with São Tomé and Príncipe. The Board's decision enables the immediate disbursement of SDR 1.90 million (about US$2.48 million[1]). This brings São Tomé and Príncipe's total disbursements under the arrangement to SDR 12.90 million (about US$16.79 million).

In completing the fifth review, the Executive Board also approved the authorities' request for a waiver for nonobservance of continuous performance criterion on non-accumulation of external arrears, based on corrective measures taken by the authorities.

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

At the conclusion of the Executive Board's discussion, Mr. Bo Li, Deputy Managing Director and Acting Chair, made the following statement[2]:

"São Tomé and Príncipe's performance under the program supported by the IMF's Extended Credit Facility Arrangement has been broadly satisfactory. Macroeconomic stability has been maintained despite multiple challenges. However, the short-term macroeconomic outlook is clouded by significant uncertainty and downside risks due to spillovers from increasing international food and fuel prices which could dampen economic activity, worsen power

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[1] US dollar amounts have been calculated using today's exchange rate: (1 USD = SDR 0.768436).

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

outages and inflation, and adversely impact revenues and implicit subsidies. Stepping up implementation of key infrastructure projects and structural reforms and continued strong and flexible engagement from the Fund will be critical to boost medium-term growth.

“Implementing growth friendly fiscal consolidation and strengthening expenditure controls are key to achieving the authorities’ fiscal objectives. Efforts to boost domestic revenue, including the implementation of the VAT in 2022, and rationalize expenditures would support growth-enhancing social and infrastructure development programs and put public debt on a downward trajectory.

“Maintaining tighter monetary policy would address rising inflation, strengthen reserve buffers, and support the exchange rate peg. In the short term, this needs to be complemented by continued mobilization of external grant inflows and implementation of other project financing commitments. In the medium term, continued fiscal consolidation would help ease demand pressures, increase fiscal space, and build a higher reserve buffer.

“Efforts to further strengthen the implementation of monetary policy and financial legislative framework should remain a priority and focus on approvals of the new Central Bank Law and the Financial Institutions Law, and implementation of the remaining safeguards recommendations. Additional efforts are also needed to strengthen supervisory capacity.

“A more comprehensive approach to implementing structural reforms is critical. Those should aim at expanding tourism services, including a comprehensive approach focused on developing human capital through education programs, building climate-resilient infrastructure, expanding transportation links, and improving the business environment. Efforts should also focus on improving energy sector efficiency, enhancing governance of public enterprises, and supporting targeted social transfer programs.”

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

August 8, 2022

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. The COVID-19 pandemic exacerbated long-standing socio-economic vulnerabilities, which were further compounded by persistent energy shortages, flood-related damages at end-2021, and a sharp increase in global fuel and food prices caused by the war in Ukraine. These have put pressure on domestic inflation, aggravated electricity shortages, and disrupted business activities, with negative implications for growth in 2022. Protracted negotiations with labor unions resulted in additional wage supplements for the lowest paid category of civil servants in June 2022. Parliamentary elections are scheduled to be held in September 2022.

Program Issues. Despite the difficult context, the ECF-supported program performance has remained broadly on track. Demonstrating the authorities' strong commitment to the program objectives, all quantitative performance criteria (QPCs) at end-December 2021 were met; and preliminarily end-March 2022 program performance remained broadly on track, except exceeding the ceiling on non-accumulation of new external debt service payment arrears, a continuous performance criterion (PC). However, structural benchmarks (SBs) were not met, with two SBs designated as prior actions for the fifth review. Going forward, program objectives remain unchanged and strong grant financing would be critical for mitigating the impact of exogenous shocks on energy and food security.

Focus of discussions. In 2022, key program objectives are: i) restraining spending to available resources to safeguard the fiscal targets and avoid new domestic arrears; ii) safeguarding medium-term fiscal consolidation objectives and stepping up preparations for implementing the VAT in H2 2022; iii) continuing to contain fiscal risks from implicit subsidies in the energy SOEs and implementing necessary additional

adjustments of retail fuel prices; iv) maintaining the floor on social spending and implementing targeted social assistance programs to mitigate the impact of higher food prices on the most vulnerable; v) strengthening the Banco Central São Tomé and Príncipe's (BCSTP's) safeguards and implementing monetary policy measures to support the peg given the high inflation; and vi) continuing efforts to improve public financial management (PFM), revenue administration, governance, and transparency.

Recommendations. Staff recommends completion of the fifth review given the authorities' strong actions to meet the end-December 2021 program targets and commitments going forward, notwithstanding difficult circumstances. Staff also recommends a waiver of nonobservance of the continuous performance criterion on non-accumulation of external debt service arrears considering corrective measures implemented.

Approved By
Costas Christou (AFR) and Stefania Fabrizio (SPR)

Discussions for the São Tomé and Príncipe fifth review of the economic program supported by an Arrangement under the IMF Extended Credit Facility took place in a hybrid mission during May 17-June 16, 2022. The staff team comprised E. Kvintradze (head), K. Nassar, W. Rahman-Garrett, K. Wang (all AFR), F. Bardella (FAD), and B. Shukurov (Resident Representative). Mr. Carvalho da Silveira (OED) participated in the discussions. S. Bhutia and J. Delcambre provided research and editorial support.

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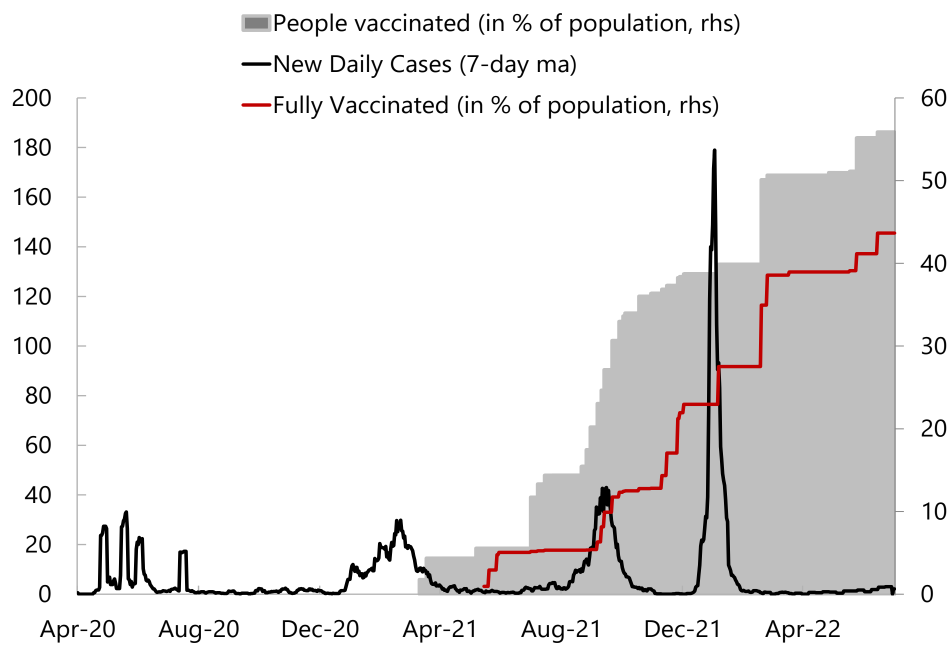
CONTEXT

1. **São Tomé and Príncipe (STP) 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, the floods at end-2021, and a sharp increase in global food and fuel prices following the Russian invasion of Ukraine in February 2022. COVID-19-related restrictions have eased but occupancy restrictions on entertainment and gatherings remain in place. Vaccinations for COVID-19 are progressing: about 57 percent of the population had received at least one shot as of June 2022, while 44 percent had received two doses.

Text Figure 1. São Tomé and Príncipe: COVID-19 Cases and Vaccination



Source: Johns Hopkins University, Our World in Data.

2. **In the absence of direct trade links to Russia and Ukraine, the main channel of impact from the war for STP is from higher international food and fuel prices.** Sharp increases in freight and maritime transportation costs impact prices of imported commodities and local seafood staples and make Principe Island particularly vulnerable due to its limited accessibility. The population's reliance on tropical staples (plantains, breadfruit, etc.) somewhat mitigates risks for food insecurity which remain generally high. Increases in global fuel prices also aggravate electricity supply disruptions. However, tourism flows from main European destinations, including Portugal, France, and Germany, remain steady, but are still lower than pre-pandemic times.

3. **Fiscal space is narrower than envisaged, reflecting higher international fuel prices and new wage supplements.** To avoid implicit fuel subsidies, in April 2022, the authorities implemented comprehensive retail fuel price adjustments. Simultaneously, they reduced gasoline tax surcharges to partly shield the public from the inflationary impact of the higher retail fuel prices. However, since

then, given further sharp increases in international fuel prices, additional retail fuel price adjustments are required to contain implicit subsidies. Meanwhile, social, development, and COVID-19 related spending pressures remain, and energy sector SOEs continue to pose fiscal risks. Importantly, following protracted negotiations with labor unions the authorities agreed to grant wage supplements for the lowest paid category of civil servants, effective June 2022. In addition, Parliamentary elections scheduled for September 25, 2022, narrow the political window to implement decisive reforms necessary for the disbursement of external budget support. Given double-digit inflation, the public sentiment is building for delaying fuel price adjustments and VAT introduction until inflation declines.

4. **The main challenge ahead is to maintain macro-economic stability in the face of the global price shocks and the forthcoming election cycle.** Therefore, policy discussions focused on: i) the fiscal impact of new wage supplements, restraining spending to available resources to safeguard the fiscal targets, and avoiding new domestic arrears; ii) safeguarding medium-term fiscal consolidation objectives and stepping up the preparation for implementing the VAT in 2022; iii) containing fiscal risks from implicit subsidies in the energy SOEs and implementing necessary additional adjustments of retail fuel prices; iv) maintaining the floor on social spending, and implementing targeted social assistance programs to mitigate the impact of higher food prices on the most vulnerable; v) strengthening the BCSTP's safeguards and implementing monetary policy measures to support the peg given the high inflation; vi) advancing debt negotiations with Angola, Equatorial Guinea, and Brazil to safeguard debt sustainability; and vi) continuing efforts to improve public financial management (PFM), revenue administration, governance, and transparency.

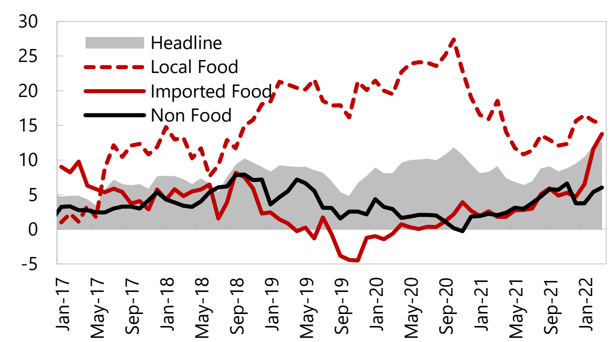
ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

5. **Higher food and fuel prices are weighing on domestic inflation and delay the economic recovery.** Growth slowed to an estimated 1.9 percent in 2021 from 3 percent in 2020 and average inflation declined from 9.8 percent in 2020 to about 8 percent in 2021. However, with the impact of the war in Ukraine, headline inflation reached 14.9 percent (y/y) in May 2022, driven by higher food and fuel prices, and transportation costs. Sharp increases in maritime costs have slowed fishing activities and floods have weakened agriculture performance in H1 2022. The current account deficit slightly worsened to 11.3 percent of GDP in 2021, reflecting increases in fuel imports, and a slow recovery in tourism, while gross international reserves, excluding the NOA account and commercial bank deposits, reached US$ 61.8 million, supported by external disbursements and the IMF's general SDR allocation. Credit growth to the private sector remained anemic, despite ample liquidity.

6. **Fiscal policy faced challenges but remained prudent in 2021.** To mitigate the impact of declining tax revenues on the fiscal balance, the authorities continued to reduce non-essential spending on goods and services and administrative costs in H2 2021, following the ministerial order issued in July 2021. At the same time, pro-poor spending, domestic arrears clearances, and execution of COVID-19 related spending exceeded expectations. As a result, the domestic primary

balance (DPB) is estimated at -3.2 percent of GDP for end-2021 (against a program target of -3.5 percent). The public debt stock is estimated at 91.7 percent of GDP[1] in 2021, largely reflecting the fiscal performance.

Text Figure 2. São Tomé and Príncipe: Inflation



7. Despite the difficult context, program performance has remained broadly on track. All quantitative performance criteria (QPCs) at end-December 2021 were met. The end-December indicative target (IT) on tax revenue was missed due to power outages and lower economic growth, but the domestic primary balance (DPB) and net bank financing of the central government QPCs were met as revenue underperformance was more than offset by lower spending. The continuous structural benchmark (SB) on fuel price adjustment mechanism was not met for end-December amid delays in price adjustment, which was implemented in April 2022. Preliminarily, program performance for end-March 2022 remained broadly on track, except for a missed ceiling on non-accumulation of new external debt service payment arrears by US$ 0.2 million, which was also breached in the fourth ECF review. The authorities stated that the delayed debt service payments were due to liquidity problems, and that they have taken corrective measures to improve debt service management. However, the SBs for end-December were not met, and two SBs—on the submission of the financial institutions law to the government and the implementation of the VAT awareness and communications public information campaign—were made prior actions for the fifth review. The continuous SBs on governance transparency were not met for end-December 2021, but substantial progress has been made on publication of procurement documents in the first quarter of 2022.[2] There were delays in implementing the LED program due to overdue shipments from China caused by the spike in COVID-19 cases and related confinement measures.

8. Progress on structural reforms continues. Governance measures regarding COVID-19 spending in 2021 and 2022, including publishing on the MoF's website public procurement contracts and monthly COVID-19 spending reports for 2021 and 2022 pandemic spending, are being gradually implemented. The Auditor General published the 2020 COVID-19-related spending audit report (prior action) (MEFP ¶19, ¶23). The authorities also published 40 percent of procurement contracts with no objection from COSSIL. The authorities started implementation of VAT awareness and communications public information campaign (prior action) (MEFP ¶18) and are on track with

[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 the two countries.

[2] Procurement documents are collected manually in absence of the automated system.

preparations to start VAT collection in October 2022, supported by the World Bank. Moreover, a revised financial institutions law is expected to be submitted to the government (prior action) (MEFP ¶9, ¶28), before it is submitted to parliament. As corrective measures, the authorities settled delayed debt service payments and issued a ministerial order to prioritize debt service payments (prior action) to avoid repeated delays in external debt service (MEFP ¶15).

9. **The authorities have used the equivalent of $12.5 million (about two-thirds) of their SDR allocation.** The MoF and BCSTP signed two on-lending agreements. The first agreement was signed in September 2021 for US$10 million (Dobras 207.2 million) for budget financing to meet pandemic-related spending needs, repairs of the power grid, renovations of hospitals, schools, and roads. The BCSTP signed a second on-lending agreement with the MoF, also for budget financing for flood-related expenses, in February 2022 for $5 million of the remaining SDR allocation. The government repaid the BCSTP $2.5 million in April 2022. The authorities agreed to keep the remaining $7.5 million of their $20 million SDR allocation to bolster reserve adequacy, in line with staff's advice.

OUTLOOK AND RISKS

10. **Largely reflecting exogenous shocks, growth is expected to decline, and inflation to increase in 2022**. Sharp increases in the prices of imported commodities, higher freight, and maritime costs are expected to weaken transportation and commercial services and slow fishing and agriculture activities. As a result, growth is expected to decline to 1.4 percent and headline inflation to reach about 17 percent (y/y) by end-December 2022 (Text Table 1). The negative impact of higher global food and fuel prices on the current account is expected to be partially offset by a gradual increase in tourism receipts with a recovery in international travel, leading to a widening in the deficit to about 14 percent of GDP. Gross international reserves, excluding the NOA account and commercial banks' deposits, would reach US$ 61.7 million (3.0 months of projected imports).

11. **The medium-term economic outlook remains positive.** The economic recovery is expected to be delayed until 2023 with real GDP growth projected to reach 4 percent in 2026, supported by better infrastructure and a stronger potential for tourism. In the medium-term, inflation is expected to decline with global prices stabilizing. Strengthening revenues with the 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. While the scaling up of grant-financed capital investments in 2022 reflects the post-pandemic and the flood-related reconstruction commitments by development partners, these are expected to decline to average historical levels starting in 2023, pending new commitments.

12. **The macroeconomic outlook is subject to significant uncertainty and downside risks.** New COVID-19 variants pose risks to livelihoods and challenges to growth. Inward spillovers from increasing international food and fuel prices may hinder the recovery, worsen power outages and inflation, and adversely impact revenues and implicit subsidies. Extended global supply chain

disruptions could lead to shortages of goods and price surges. Delays in revenue reforms could narrow fiscal space for social and development spending, while lower-than-expected grant support or delayed donors' disbursements would deteriorate financing options. Protracted negotiations with labor unions resulting in proliferation of salary supplements for different wage categories may increase recurrent spending pressures. Delayed EMAE reforms[3] and prolonged power outages could also put additional strain on revenue performance and delay the recovery. The upcoming parliamentary elections could delay legislative reforms and put additional pressure on spending. Any natural disaster and/or a prolonged recovery from the recent floods, could also delay fiscal consolidation. On the upside, accelerated reforms and key infrastructure projects could boost medium-term growth.

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

	2020	2021		2022		2023		2024	2025	2026
		4th Rev	Proj.	4th Rev	Proj.	4th Rev	Proj.	Proj.	Proj.	Proj.
	Annual percent change									
Real GDP	3.0	1.8	1.9	2.3	1.4	2.8	2.6	3.4	3.7	4.0
CPI inflation (end of period)	9.4	9.5	9.5	12.1	16.7	5.0	6.8	5.0	5.0	5.0
CPI inflation (period average)	9.8	8.1	8.1	12.1	15.0	8.7	11.2	5.6	5.0	5.0
	Percent of GDP									
Central government domestic primary balance[1]	-3.2	-3.3	-3.2	-2.8	-2.8	-1.5	-1.5	0.0	0.9	1.0
Current account balance	-11.0	-9.6	-11.3	-9.8	-13.9	-7.5	-11.0	-9.6	-9.3	-8.9
Public sector gross debt[2]	87.6	95.6	91.7	94.0	93.7	91.3	92.4	88.2	82.4	75.0

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).

13. **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 borrow externally only on concessional terms and at a measured pace. Under the baseline scenario, the public debt-to-GDP ratio is projected to decrease to 71 percent in 2027. The general SDR allocation and the final extension for the DSSI provided some additional temporary relief. The recovery of exports will help to lower liquidity risks of external debt with smaller debt threshold breaches. Staff expects the present value (PV) of public and publicly guaranteed (PPG) debt to return to 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

[3] Delays in reforms in the state-owned utility company (EMAE) were due to capacity constraints and travel restrictions (Annex I).

outstanding external arrears.[4] Regarding external arrears owed to private creditors, the authorities continue to make good faith efforts to reach agreements.

POLICY DISCUSSIONS

A. Strengthening Fiscal Space for Social and Development Spending

14. The authorities remain committed to a gradual fiscal consolidation, consistent with the recommendation of the fourth review. Implementation of revenue measures is on track (Text Table 2), aimed at achieving a DPB of -2.8 percent of GDP in 2022, about 0.5 percent lower than in 2021, while accommodating permanent salary supplements for the lowest paid wage category of public servants (Text Table 3). Following protracted negotiations with labor unions and in the face of fast rising costs of living, the authorities agreed to grant wage supplements to the lowest paid category of civil servants - estimated at about 0.8 percent of GDP in 2022. Delayed implementation of domestically financed capital spending projects allows about 0.5 percent of GDP savings and the authorities are curtailing non-essential administrative spending by about 0.3 percent of GDP in 2022, compared to the fourth review. The authorities are freezing new hiring of civil servants which were approved in February 2022 and are strictly monitoring overtime spending of line ministries. Contingency measures are also in place to further cut administrative costs should revenues underperform (MEFP ¶15).

Text Table 2. São Tomé and Príncipe: Revenue Measures, Fourth ECF Review 1/
(in millions of Dobras)

	Fourth review estimates	Q1 2022 Act.	2022 Proj.
Total Revenue	**37.6**	**8.1**	**37.6**
Collection of tax arrears	30.6	8.1	34.5
IRS	9.5	1.6	9.5
IRC	2.4	2.5	5.0
Consumption tax	16.2	2.5	16.2
Stamp tax	2.4	1.5	3.4
Other (including IT etc.)	0.1	0.0	0.4
Airport tax (Euro 20 per passenger)	7.0	0.0	3.1

Source: STP authorities

1/ Implementation of the airport tax was delayed to H2 2022

[4] The government has signed an agreement with the Brazilian government, but final ratification is pending. Negotiations with Angola and Equatorial Guinea are progressing with ongoing active negotiations and reached some progress with technical steps.

15. Continued reliance on the fuel price adjustment mechanism with price smoothing would help to prevent implicit fuel subsidies and contain fiscal risks (continuous SB) (MEFP ¶15). The authorities remain committed to increasing retail fuel prices aligned with international markets. Starting in April 2022, they increased retail prices for gasoline and diesel by 17 and 20 percent, respectively, to prevent implicit fuel subsidies to ENCO (Text Table 4), exceeding the fuel price increases envisaged during the fourth review.[5] Simultaneously, the authorities also reduced gasoline and diesel tax surcharges within the price formula as a partial shield from the inflationary impact. This combination of increasing retail prices and reducing tax surcharges was sufficient to fully offset the ENCO losses calculated at the international fuel price of US$ 86 per barrel.

Text Table 3. São Tomé and Príncipe: Domestic Primary Balance, 2021–22

(In percent of GDP)

		2021			2022		
		ECF Fourth Rev.	Estimates	Diff.	ECF Fourth Rev.	Auth. Budget	Proj.
I	Total Revenue (=1+2)	14.7	15.0	0.3	15.5	15.7	15.5
I.A	***of Which: Government Domestic Revenue (=I –2.1+3)***	**14.0**	**14.3**	***0.3***	**15.3**	**15.5**	**15.3**
1	Tax revenue	12.3	12.4	0.1	12.9	13.1	12.9
1.1	*Of which:* oil price differential	0.6	0.6	0.0	0.1	0.2	0.0
2	Nontax revenue	2.4	2.6	0.2	2.5	2.6	2.6
2.1	*of which: oil revenue*	0.1	*0.1*	0.0	0.0	0.0	0.0
3	Amortization of debt to ENCO	-0.6	-0.6	0.0	-0.2	-0.2	-0.2
II	Total Domestic Expenditure (=4+5+6+7)	17.5	17.6	0.1	18.6	19.3	18.7
II.A	***Of which: Domestic Primary Expenditure (=II –4.2)***	***17.3***	***17.4***	**0.1**	***18.1***	***18.7***	***18.1***
4	Current expenditure	16.9	17.0	0.1	17.4	17.7	18.1
4.1	Personnel costs	9.3	9.3	0.0	9.9	10.0	10.5
4.2	Interest due	0.2	0.2	0.0	0.5	0.7	0.6
4.3	Goods and services	2.4	2.4	0.0	2.2	2.1	2.1
4.4	Transfers	3.2	3.1	-0.1	3.3	3.2	3.5
4.5	Other current expenditure	1.8	1.9	0.1	1.5	1.7	1.4
5	Domestic capital expenditure	0.1	0.1	0.0	0.8	0.3	0.3
5.1	Financed by the Treasury	0.1	0.1	0.0	0.8	0.3	0.3
5.2	Financed by privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0
6	HIPC Initiative-related social expenditure	0.1	0.1	0.0	0.3	0.3	0.3
7	COVID-19 spending financed by the Treasury 1/	0.4	0.4	0.0	0.0	1.0	0.0
III	**Domestic Primary Balance (= I.A–II.A)**	**-3.3**	**-3.2**	**0.1**	**-2.8**	**-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.

16. As higher international fuel prices prevail in the markets, continuous domestic fuel price adjustments will need to be considered. By closely monitoring international fuel price developments the authorities can envisage various scenarios for domestic price adjustments to mitigate fiscal risks and prevent higher ENCO losses. Should these scenarios materialize, additional

[5] It envisaged about 10 percent fuel price increase, consistent with US$ 80 per barrel international price. The implemented price increases are consistent with US$86 per barrel actual purchase price.

rounds of price adjustments will need to be implemented in H2 2022 (Text Table 5) to compensate the composite fiscal impact or fully offset the negative price differential (ENCO losses).

Text Table 4. São Tomé and Príncipe: New Fuel Prices from April 1, 2022

	New Policy
Decree n. 9/2022 (March 29th, 2022)	**Gasoline:** • Surcharge from 106% to 86.0% • Price from 30.00 to 35.00 Dobras per liter • 16.6 percent price increase **Diesel:** • Surcharge from 66% to 41.0% • Price from 25.00 to 30.00 Dobras per liter • 20 percent price increase **Kerosene:** • Surcharge no change • Price from 15.00 to 17.00 Dobras per liter • 13.3 percent price increase **Diesel to EMAE:** • No change

Text Table 5. São Tomé and Príncipe: Alternative Scenarios for International Fuel Prices and the Fiscal Impact

Scenarios International Fuel Prices	US$ 128 per barrel actual	US$ 118 per barrel	US$ 108 per barrel
Fiscal Impact compared to the fourth ECF review assumptions:			
Fiscal Revenue Gain:	Dbs 129 million	Dbs 97 million	Dbs 65 million
Fuel Price Differential Loss:	- Dbs 328 million	- Dbs 249 million	- Dbs 170 million
Total Fiscal Impact:	- Dbs 199 million	- Dbs 152 million	- Dbs 105 million
Additional price increase needed to offset fiscal impact:			
	About 27 percent	About 20 percent	About 14 percent

17. To safeguard the credibility of medium-term consolidation, the authorities remain committed to:

- *Implement the VAT to anchor the medium-term fiscal consolidation path.* The authorities have taken critical steps to implement the VAT by October 1, 2022 (SB): approved VAT refund regulations, harmonized with other tax legislations; secured the project contract for VAT information technology (IT) with the World Bank; established the governance structure; validated the VAT IT system for taxpayers' registration, and agreed the applicability of the VAT law at customs. These steps were followed by the start of the VAT awareness and communications public information campaign (prior action), which is critical for building the public awareness of the effective implementation of the VAT (MEFP ¶18).

- *Implement additional revenue measures.* Furthermore, to safeguard the medium-term fiscal consolidation path, the authorities have committed to implement additional revenue measures (Text Table 6). These measures, if fully implemented by end-December 2022, could generate about 0.7 percent of GDP in 2023 (MEFP ¶15).

- *Maintain pro-poor spending and expand targeted social spending programs to mitigate the impact of inflation on the most vulnerable.* In response to higher global food prices, targeted social benefits to the most vulnerable households should continue, including food aid and school feeding programs, and program floors on social spending should be maintained (MEFP ¶16; and Annex 3).

Text Table 6. São Tomé and Príncipe: Additional Tax Measures

	Current tax rate	New rate	2023 proj. (in millions of dobras)
Total Revenue			**86.7**
(in percent of GDP)			*0.7*
Creation of an additional personal income tax bracket (30%)	0%	30%	12.8
Institution of Minimum Monthly Stamp Duty Amount of 100 dobras for small taxpayers (20,000)	0%		20.0
Tighter audits			14.0
Improvement of the e-invoice.			5.0
Consumption tax			34.9
Beer	20.0%	81.0%	10.4
Wines	20.0%	65.0%	11.7
Others			12.8

Source: STP authorities

- *Contain the wage bill.* While the recent wage increases are permanent and reflected in the medium-term framework, wage negotiations with Unions for 2023 and 2024 are ongoing. As previously programmed, the nominal public wage bill will increase by less than nominal GDP growth and will be contained at about 10 percent of GDP. However, the authorities remain concerned about mounting inflationary pressures and labor unions call for public sector wage increases. The authorities aim to strengthen the implementation of wage policies. To this end, the authorities have requested Fund's technical assistance to support wage bill management, monitoring, and workforce planning (MEFP ¶17).

- *Manage the impact from rising world fuel prices on revenues and implicit subsidies.* If higher fuel prices apply to future fuel purchase contracts, the authorities are committed to implement additional retail fuel price adjustments to minimize implicit subsidies (continuous SB).

- *Continue efforts towards mobilizing grant financing.* To offset further social scarring and make renewed progress towards attaining the Sustainable Development Goals (SDGs), the authorities are making strong efforts towards implementing grant supported program and project financing commitments (MEFP ¶16).

- *Implement PFM reforms.* The authorities continue to make progress to strengthen macro-fiscal forecasting and the medium-term fiscal framework (MTFF) projections for a three-year period were incorporated for the first time in the 2022 budget. The authorities have also expressed interest in conducting a PIMA assessment, including the new climate change module, with a view of improving the planning and efficiency of public investment programs (MEFP ¶22).

- *Strengthen fiscal transparency and address governance weaknesses to reduce vulnerabilities to corruption.* Governance measures regarding COVID-19 spending are being gradually implemented in 2021 and 2022. The Auditor General completed and published the 2020 COVID-19-related spending audit report (prior action) and recommended to: i) strictly comply with internal control procedures when authorizing the use of emergency funds and channeling these through Resilience Fund and ii) clarify the decision-making powers within different levels of approval for the execution of public expenditures. The authorities are also considering a revised draft of the new Procurement Law, which incorporates beneficial ownership (BO) information collection and publication requirements, supported by IMF and World Bank TA. Publication of the BO information is not legally possible before the new Procurement Law is passed. The draft is currently under review by the government to be submitted to parliament. The authorities are publishing on the MoF's website public procurement contracts and monthly COVID-19 spending reports for 2021 and 2022 (MEFP ¶23). In staff's view, audits of COVID-19 related spending should continue.

B. Managing Fiscal Risks from Loss-Making SOEs

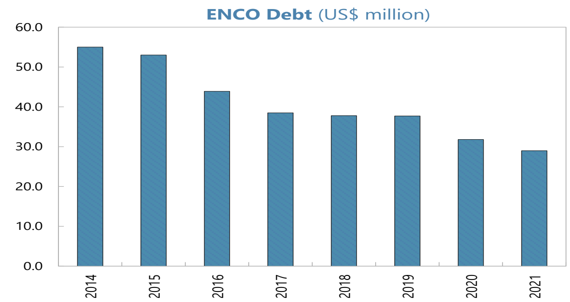
18. An inefficient power sector poses risks for fiscal sustainability and growth. The energy sector is characterized by two SOEs facing longstanding operational inefficiencies which result in recurrent disruptions of the electricity supply and financial losses. Historical losses have been imposed to the oil importer SOE because of below-market fuel pricing, which have been reduced since 2015 through the automatic fuel pricing adjustment mechanism with a price smoothing (Box 1). However, delays in implementing price adjustment and rising international oil prices may generate additional losses to ENCO in 2022.

19. STP requires a multi-pronged reform strategy to address energy insecurity. The comprehensive reform agenda supported by the World Bank aims to overcome operational and economic inefficiencies, shift the electricity generation mix away from thermo plants towards renewable and eco-friendly sources, and provide lower-cost and reliable electricity. More specifically, the authorities commit to: i) implement short-term measures to contain EMAE's losses such as installing new meters, improving payment discipline, rolling out an LED bulbs program (SB), and fostering a transition to renewable energy sources (Annex 1); ii) continue relying on the automatic fuel price adjustment mechanism with a price smoothing 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 (MEFP ¶39).

Box 1. São Tomé and Príncipe: ENCO's Losses Revenues from Fuel Price Differential

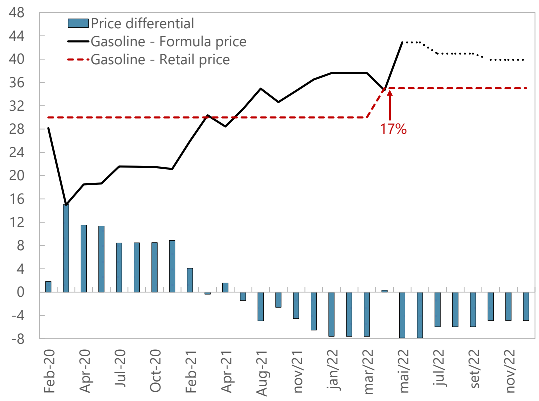
(In Millions of Dobras)

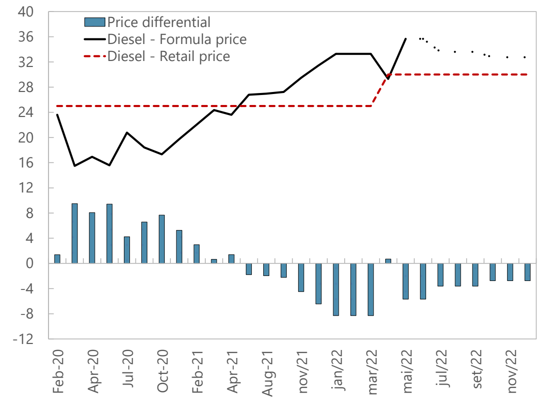
	2020 Act.	Jun 2021 Act.	Sep 2021 Act.	Dec 2021 Act.	Apr 2022 Est.
Import Taxes	571	274	420	531	187
General Import Taxes	265	113	207	230	105
Fuel Surcharge	**198**	**107**	**157**	**264**	**117**
Gasoline	113	58	86	145	48
Diesel	85	49	71	119	69
Kerosene	0	0	0	0	0
Fuel Price Differential	**108**	**54**	**56**	**36**	**-35**
Arrears Payment to ENCO	**85**	**54**	**77**	**67**	**0**



Fuel Price Differential for Gasoline and non-EMAE Diesel

(STD per liter)





Source: GAMAP. Staff elaboration, Ministry of Finance

C. Modernizing Monetary and Financial Systems

20. Monetary policy continues to be anchored by the peg to the Euro. The peg has served the country well by reducing average inflation in 2010-2021 to about half of the rate during the previous decade. Given characteristics of a small, remote island and import-dependent economy, inflation—driven by the depreciation of the euro against the US dollar and sharp food and energy price increases—remained higher than in the euro area, contributing to the REER appreciation. As the level of gross international reserves (GIR) is projected to decline to 3 months of imports in 2022, the standard for adequate level of reserves, but below the optimal level assessed during the fourth review, increasing international reserve buffers is critical given the persistence and magnitude of external shocks for the small and remote island.

21. The BSCTP adopted several measures to address rising inflation and support the peg. On June 13, 2022, in response to the supply side shocks which appear to have started generating second-round inflation effects, the Monetary Policy Committee approved the implementation of tightening measures, such as resuming the issuance of CDs at variable rates, raising the reserve requirements on local currency deposits from 18 to 28 percent, the reference rate from 9 to 10 percent and the interest rate of the BCSTP liquidity facility from 9.5 to 10.5 percent. If inflation does

not subside in the coming months, staff recommend further tightening. To ensure effective monetary policy implementation and to protect BCSTP's financial autonomy, the government and the BCSTP agreed to form a joint working group to develop the BCSTP recapitalization strategy. To this end, the BCSTP will request technical assistance from the Fund (MEFP ¶26). Moreover, the exchange rate peg committee met with their Portuguese counterparts in mid-July to discuss the sustainability of the peg and the authorities have requested activation of the short-term credit line up to US$ 15 million. The peg agreement with Portuguese government allows activation of a short-term (one year maturity) credit line with a ceiling of EUR 25 million and could be made available in disbursements of up to EUR 2 million annually or more frequently, in case net foreign assets of the BCSTP fall below three months of imports, which is currently the case according to the authorities' calculations.

22. The reserve buffer needs to be strengthened to further safeguard the pegged exchange rate. The authorities face a difficult tradeoff between maintaining reserve buffers to support the peg and addressing pressing spending needs. To this end, they increased efforts to work with donors to avoid delays in disbursements and mobilize external grant financing in the near-term for growth-enhancing infrastructure, energy, and social security. In the medium term, continued fiscal consolidation would help to ease demand pressures, increase fiscal space, and build a higher reserve buffer. On the supply side, structural reforms need to accelerate to strengthen competitiveness, including by boosting tourism and making the energy sector more efficient.

23. Progress has been made to implement recommendations from the 2019 BCSTP's safeguards assessment, although continuous sustained efforts are needed. The draft new BCSTP Law (Organic Law), which improves autonomy, governance provisions, and independent oversight of management, was submitted to Parliament at end-February 2022 and is expected to be approved by Parliament by end-September 2022. The 2020 external audit of the BSCTP's financial statements was completed, following delays during the pandemic. However, additional efforts are needed to maintain membership in GIABA, finalize a memorandum of understanding between the Ministry of Finance and the BCSTP on legacy government debts and to strengthen internal audit and currency operations (MEFP ¶28).

24. The impact of the COVID-19 pandemic on the financial sector is yet to be fully determined. In Q1 2022, systemwide NPLs were estimated at 30.5 percent, and the level of provisioning in the banking sector was about 90 percent. Credit growth to the private sector have been recovering somewhat but remains low, despite ample liquidity reflecting risk averseness to lend in the current environment. Work on the BCSTP's new draft Financial Institutions Law is on track to be submitted to the Government (prior action) (MEFP ¶28). This law is critical to modernize the banking legal framework.

25. The authorities are completing the liquidation of three banks, but continue to face challenges, including due to the pandemic. The BCSTP canceled authorization for Energy Bank to operate in January 2022 and referred this to the courts for bankruptcy and liquidation in June 2022. For Banco Equador, the liquidation process and efforts to sell the remaining fixed assets are ongoing. For Banco Privado, an agreement with the shareholders and the BCSTP Board was reached

in June 2022, following negotiations. The authorities expect to conclude the processes for Banco Equador and Banco Privado by end 2022 (MEFP ¶31).

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

26. The fast pre-pandemic expansion in tourism has demonstrated the potential for private sector driven growth. Removing the country from the European Union's Air Safety blacklist is a key step to enhance the tourism sector. The authorities expect finalizing the plan to remove the country from the European Union (EU) air safety blacklist by end-September 2022 (SB). To this end, they are preparing a project agreement with the international air safety regulator (ICAO) to support regulatory reforms with milestones defined for next 18 months. Moreover, the authorities have recently secured grant funding from the Chinese development partners to upgrade the airport infrastructure (MEFP ¶43).

PROGRAM ISSUES, SAFEGUARDS, AND RISKS

27. Revisions to program conditionality are proposed, while risks remain. First, additional conditionality is added on preparatory steps for the VAT implementation, financial institutions law, completing the COVID-19 spending audit, and prioritizing debt service (prior actions). These prior actions are critical for the success of the Fund-supported program, as the VAT awareness and communications public information campaign will help pave the way for effective implementation of the VAT, a revised financial institutions law will enhance the legal framework for bank regulation and supervision, the publication of the 2020 COVID-19-related spending audit report will ensure accountability of spending, and settling delayed debt service payments and the issuance of a ministerial order to prioritize debt will prevent recurrence of missed debt service payments. Second, the structural benchmark on the automated fuel pricing is proposed to be revised to reflect a smoothing component of the fuel pricing formula (Table 11). Third, the continuous structural benchmark on publication of the BO information is not legally possible before the new Procurement Law is passed and it is proposed to be dropped, pending approval for the new law, followed with collection of BO information under the new legislation. Risks to the program remain, including potential delays to implement structural reforms due to the upcoming parliamentary elections, delays in donors' support, and further delays to introduce the VAT and fuel price adjustments.

28. The capacity to repay the Fund remains adequate but is subject to significant risks. Credit outstanding would peak in 2022 at 7.6 percent of GDP. Debt service to the Fund peaks at 4.1 percent of exports in 2028 and 8.2 percent of international reserves in 2027. Risks are mitigated by the authorities' commitment to continue fiscal consolidation, implement EMAE's planned reforms, seek grants when possible, and borrow externally only on concessional terms and at a measured pace.

29. The program is fully financed for the remainder of the program, although subject to risks. There are firm commitments for financing over the next 12 months (Text Table 8). Donor's support remains critical and has provided important resources for the country to cope with the

pandemic. In the aftermath of the end-December 2021 floods, donors provided immediate food and other emergency assistance and helped to fund emergency reconstruction needs.

30. Fund support is considered essential for the successful implementation of the adjustment program. STP 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 restrictions. Staff supports the completion of the financing assurances review. STP maintains one multiple currency practice (MCP) arising from the channeling of bona fide current transactions to the parallel market where the exchange rate is at a spread of more than 2 percent from the exchange rate in the formal market. Based on available information that the parallel FX market in STP is illegal, the existing MCP is therefore eliminated based on the transitional arrangements of the approved revised MCP policy.[6]

31. Further efforts are needed to improve economic data, although they are broadly adequate for surveillance. Capacity development (CD) remains instrumental for reform implementation. STP has received intensive IMF CD support. CD priority areas include enhancing domestic revenue mobilization, improving public financial management and debt recording, and strengthening financial sector regulations and the legal framework (Annex 2).

Text Table 7. São Tomé and Príncipe: External Financing

(In Millions of U.S. Dollars)

	2020	2021		2022
		4th Rev.	Est.	Proj.
Total	**69.9**	**46.2**	**55.4**	**95.7**
Grants [1]	**47.4**	**39.2**	**48.2**	**83.9**
World Bank	20.6	31.4	40.4	56.5
African Development Bank (proje	13.6	1.0	0.3	8.2
European Union (EU)	5.9	0.5	0.5	4.4
Others	7.3	6.3	7.0	14.8
China				10.0
Japan				4.8
Loans	**22.5**	**7.0**	**7.2**	**11.8**
African Development Bank	3.6	0.7	1.0	3.5
IMF	16.7	5.1	5.1	5.1
EIB				2.0
Others	2.2	1.2	1.2	1.2

Sources: São Tomé and Príncipe authorities; AfDB, World Bank, and Fund staff estimates.

[1] Grants amount excludes HIPC interim assistance.

[6] This change reflects the Board's adoption of a revised MCP policy on July 1, 2022. While the policy will only become effective nine months from the date of approval of the revised policy, under transitional arrangements some elements became effective immediately upon the approval date, including that MCPs no longer arise from exchange rate spreads arising in illegal parallel markets. Existing MCPs based on certain types of official action which will no longer be covered under the revised MCP policy will be considered eliminated as of the approval date of the revised policy.

STAFF APPRAISAL

32. **Macroeconomic stability has been maintained despite multiple challenges.** Largely reflecting exogenous shocks, growth is expected to decline, inflation to increase, and the current account to worsen in 2022. Sharp increases in the prices of imported commodities, higher freight, and maritime costs are expected to weaken transportation and commercial services and slow fishing and agriculture activities. Nevertheless, the medium-term outlook remains positive. Growth is projected to recover in 2023 and to reach 4 percent in the medium term, supported by better infrastructure and a stronger potential for tourism.

33. **However, the macroeconomic outlook is subject to significant uncertainty and downside risks**. New COVID-19 variants, inward spillovers from increasing international food and fuel prices, and extended global supply chain disruptions may hinder the recovery, worsen power outages and inflation, and adversely impact revenues and implicit subsidies. On the upside, accelerated reforms and key infrastructure projects could boost medium-term growth.

34. **Growth-friendly fiscal consolidation is key for addressing immediate social and economic needs while preserving debt sustainability.** STP remains in debt distress due to the existence of post-HIPC sovereign arrears, while PPG external and total public debt remain sustainable. Strengthening revenues and gradually consolidating the DPB would bring the primary deficit close to balance in 2024 and put the public debt ratio 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 wage policies and 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 and strengthening expenditure controls.

35. **Modernizing the monetary and financial legislative framework remains a priority.** Actions should continue to be focused on approvals of the new BCSTP Law (Organic Law, which is with parliament) and the Financial Institutions law. Progress in implementing the remaining safeguards recommendations also needs to continue. Moreover, additional efforts are needed on complying with IFRS standards, addressing legacy government debts, reforming internal audit and currency operations, strengthening supervisory capacity, and liquidation of banks.

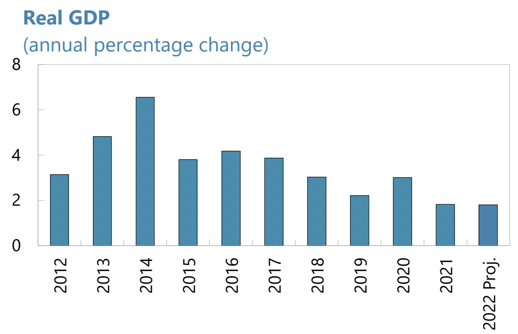
36. **The reserve buffer needs to be strengthened to further safeguard the pegged exchange rate**. To this end, the BSCTP's recent measures to address rising inflation and support the peg are welcome. In the near-term, strong efforts are needed to avoid delays in disbursements and mobilize external grant financing for growth-enhancing infrastructure, energy, and social security. In the medium term, continued fiscal consolidation would help to ease demand pressures, increase fiscal space, and build a higher reserve buffer.

37. 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 underscore 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 with price smoothing 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.

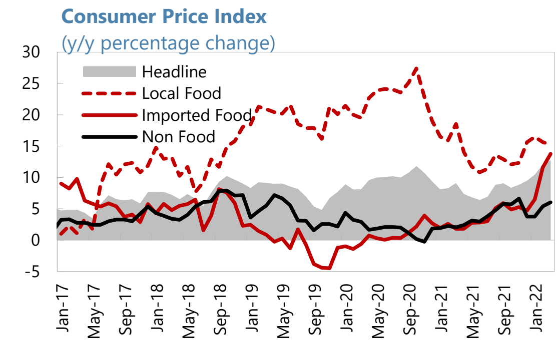
38. Staff recommends the completion of the fifth review under the ECF arrangement and completion of the financing assurances reviews. The authorities' economic policies for 2022 are consistent with the program's objectives. The authorities met the end-December 2021 quantitative targets for the review. Staff recommends a waiver nonobservance of the continuous PC on non-accumulation of external debt service arrears considering corrective actions. Staff also supports the sixth disbursement in the amount of SDR 1.902858 million.

Figure 1. São Tomé and Príncipe: Macroeconomic Developments, 2010–22

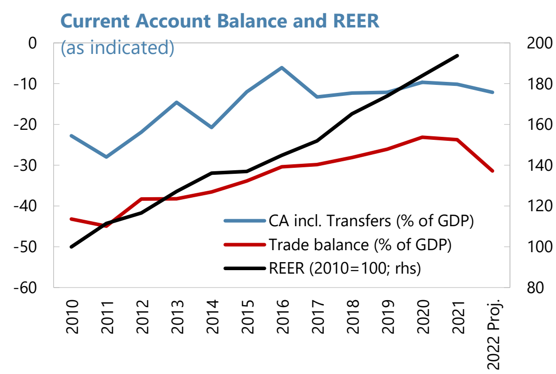
Real GDP growth is estimated at 1.8 percent in 2021, weighed down by power outages



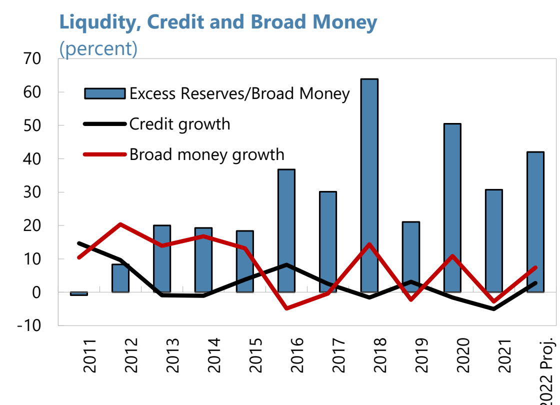
Headline inflation rose to 9.5 percent (y-o-y) by end-December, driven by high food prices



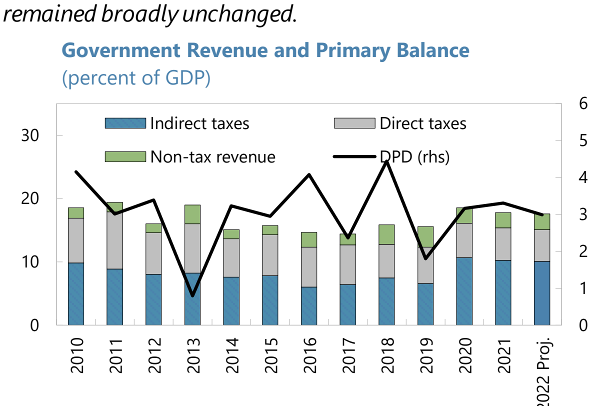
With a recovery in international travel and exports, the current account remained stable in 2021 ...



Credit growth somewhat recovered, but remains low



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



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

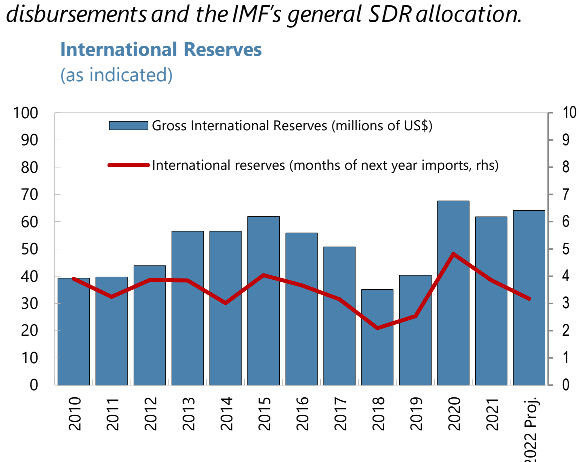
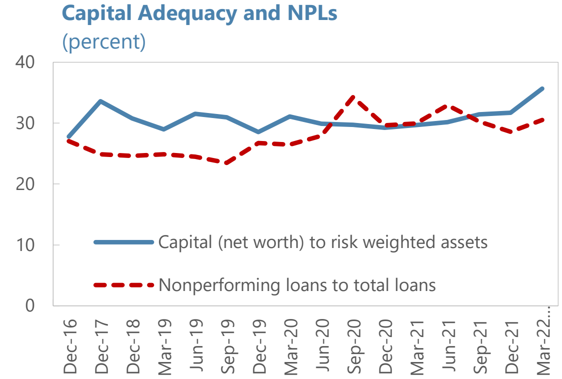
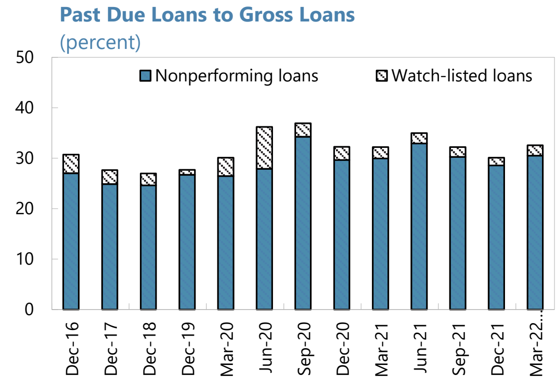


Figure 2. São Tomé and Príncipe: Economic Uncertainty Affecting the Banking Sector

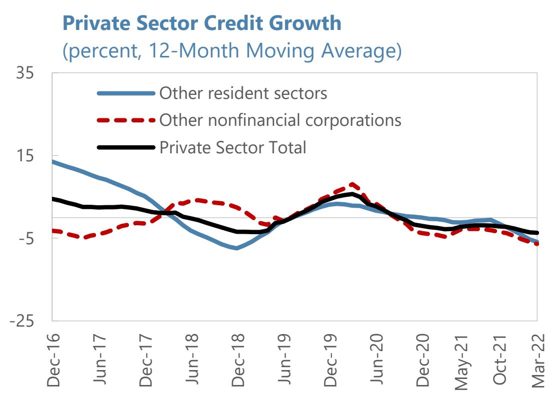
Repayment of arrears contributed to improved NPLs for banks in 2021…



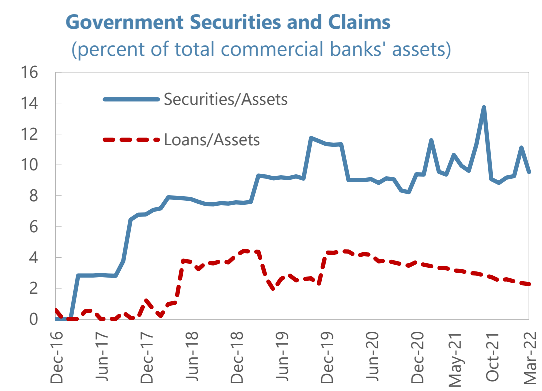
…and led to a decline in watch-listed loans.



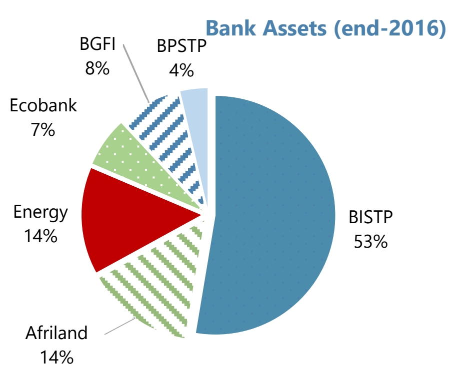
Private sector growth declined during the pandemic…



…while banks' exposure to the government continued to increase.



The banking system became more concentrated…



…as the number of banks decreased, while the share of the largest bank's total assets increased.

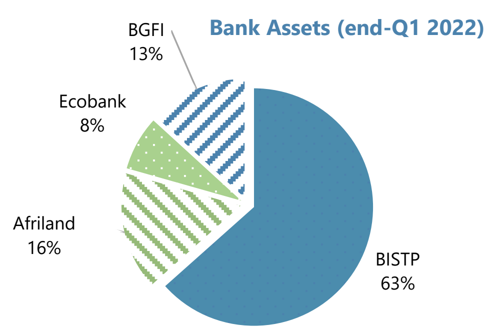


Table 1. São Tomé and Príncipe: Selected Economic Indicators, 2018–27

(Annual Change in Percent, Unless Otherwise Indicated)

	2018	2019	2020	2021		2022		2023	2024	2025	2026	2027
				Fourth Rev.	Est.	Fourth Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
National Income and Prices												
GDP at constant prices	3.0	2.2	3.0	1.8	1.9	2.3	1.4	2.6	3.4	3.7	4.0	4.0
GDP deflator	2.6	7.0	5.5	3.1	2.7	3.2	5.9	3.5	3.2	3.4	4.3	4.8
Consumer prices (End of period)	9.0	7.7	9.4	9.5	9.5	12.1	16.7	6.8	5.0	5.0	5.0	5.0
Consumer prices (Period Average)	7.9	7.7	9.8	8.1	8.1	12.1	15.0	11.2	5.6	5.0	5.0	5.0
External Trade												
Exports of goods and nonfactor services	13.9	-1.9	-46.2	39.3	57.1	6.0	20.1	33.3	4.9	9.8	6.6	6.0
Imports of goods and nonfactor services	4.3	-5.3	-11.7	-5.5	18.2	19.7	32.8	-6.6	3.4	6.7	5.6	2.5
Exchange rate (new dobras per US$; end of period) [1]	21.5	22.0	20.1	...	21.7	...	...	...	...	...	...	...
Real effective exchange rate (period average, depreciation = -	8.8	5.3	5.7	...	5.3	...	...	...	...	...	...	...
Money and Credit												
Base money	0.8	-7.4	31.0	12.7	12.7	4.9	6.7	3.5	...	...	...	...
Broad money (M3)	14.3	-2.2	10.9	-2.7	-2.7	5.6	7.4	6.2	...	...	...	...
Credit to the economy	-1.6	3.2	-1.6	-5.0	-5.0	2.2	2.7	2.1	...	....	....	....
Velocity (GDP to broad money; end of period)	2.9	3.0	2.8	3.3	3.3	3.3	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	18.8	24.6	28.4	32.6	25.1	26.1	26.4	26.3	26.4
Of which: tax revenue	12.8	12.3	13.1	12.3	12.4	12.9	12.9	13.9	15.0	15.5	15.5	15.6
Nontax revenue	3.1	3.3	2.4	2.4	2.6	2.5	2.6	2.6	2.8	2.9	3.1	3.2
Grants	8.3	6.4	10.5	4.1	9.7	12.9	17.1	8.6	8.4	8.0	7.7	7.5
Total expenditure and net lending	26.0	22.1	23.1	21.0	26.2	28.8	32.8	26.9	26.2	25.8	25.8	24.9
Personnel costs	9.3	9.0	9.3	9.3	9.3	9.9	10.5	10.1	9.8	9.6	9.6	9.6
Interest due	0.4	0.7	0.3	0.2	0.2	0.5	0.6	0.6	0.5	0.4	0.4	0.3
Nonwage noninterest current expenditure	7.0	7.5	7.2	7.4	7.5	7.0	7.0	7.1	7.1	7.2	7.2	7.2
Treasury funded capital expenditures	1.4	0.1	0.2	0.1	0.1	0.8	0.3	0.3	0.3	0.3	0.4	0.5
Donor funded capital expenditures	7.8	4.7	3.0	2.9	7.5	10.2	14.1	8.6	8.2	8.1	8.0	7.1
HIPC Initiative-related capital expenditure	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.2	0.2	0.2	0.2
COVID-19 spending	...	...	2.9	1.0	1.5	1.0	1.0	...	...	...	...	...
Domestic primary balance [2]	-4.2	-1.8	-3.2	-3.3	-3.2	-2.8	-2.8	-1.5	0.0	0.9	1.0	1.1
Domestic primary balance including statistical discrepancy [3]	...	...	...	...	-3.3	...	...	...	...	...	...	...
Net domestic borrowing	-1.9	0.0	-2.3	2.3	2.9	0.8	1.0	-0.1	-1.1	-1.6	-1.4	-2.0
Overall balance (commitment basis)	-1.9	-0.1	2.9	-2.2	-1.5	-1.4	-1.2	-1.8	-0.1	0.6	0.5	1.5
Public Debt [4]	96.2	99.9	87.6	95.6	91.6	94.0	93.4	92.2	89.0	84.2	77.6	70.7
Of which: EMAE's debt to ENCO	23.3	28.9	24.6	28.3	27.5	31.3	31.2	32.0	31.6	30.2	28.6	26.1
External Sector												
Current account balance (percent of GDP)												
Including official transfers	-12.3	-12.1	-11.0	-9.7	-11.3	-9.8	-13.9	-11.0	-9.6	-9.3	-8.9	-7.2
Excluding official transfers	-21.0	-18.5	-21.5	-13.7	-21.0	-22.8	-31.0	-19.6	-18.0	-17.3	-16.6	-14.8
PV of external debt (percent of GDP)	26.6	27.2	25.3	24.5	24.9	25.3	27.0	26.5	25.7	24.6	23.0	21.8
External debt service (percent of exports) [5]	2.6	4.5	5.0	6.7	3.0	10.4	7.8	6.6	8.2	8.4	8.7	5.8
Export of goods and non-factor services (US$ millions)	98.0	96.2	51.7	68.7	81.3	72.9	97.6	130.1	136.5	149.8	159.7	169.2
Gross international reserves [6]												
Millions of U.S. dollars	35.1	40.4	67.6	61.8	61.8	67.6	61.7	63.8	68.1	72.0	75.8	80.3
Months of imports of goods and services	2.2	2.9	4.1	3.4	2.8	3.8	3.0	3.0	3.0	3.0	3.1	3.1
Months of imports of goods and nonfactor services [7]	3.0	4.4	7.3	5.6	5.6	5.9	5.5	5.7	5.9	6.0	6.2	6.5
National Oil Account (US$ millions)	19.5	18.8	16.4	13.6	13.6	11.2	10.4	8.5	6.9	5.5	4.3	3.2
Memorandum Item												
Gross Domestic Product												
Millions of new dobra	8,619	9,424	10,247	10,759	10,719	11,365	11,510	12,223	13,043	13,982	15,157	16,510
Millions of U.S. dollars	415.6	430.7	477.3	519.7	517.8	530.9	506.4	534.1	572.3	617.2	673.7	733.8
Per capita (in U.S. dollars)	1,989	2,022	2,190	2,331	2,322	2,339	2,231	2,302	2,415	2,550	2,621	2,799

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] In 2021, includes the statistical discrepancy, but excludes oil related revenues, ENCO debt repayment, grants, scheduled interest payments, and foreign-financed capital outlays.

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

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

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

[7] 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
				Fourth Rev.	Est.	Auth. Budget	Fourth Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total Revenue and Grants [1]	2081	2073	2667	2020	2639	3415	3230	3754	3065	3410	3696	3990	4354
Total revenue	1365	1468	1596	1583	1604	1772	1759	1783	2019	2315	2577	2824	3108
Tax revenue	1099	1160	1346	1325	1325	1477	1471	1482	1696	1951	2167	2356	2574
Consumption taxes	157	151	220	240	240	240	296	275	384	566	677	736	803
Import taxes	486	472	571	532	531	626	601	612	648	691	741	803	875
Of which: oil price differential *(GAMAP)*	…	…	108	68	68	…	7	0	0	0	0	0	0
Other taxes	456	538	555	554	555	610	573	596	664	693	748	817	896
Nontax revenue [2]	266	308	250	258	278	295	289	301	322	363	411	468	534
Of which: oil revenue	212	70	31	7	8	2	2	2	8	10	11	12	12
Grants	715	605	1071	437	1035	1643	1471	1971	1047	1095	1119	1166	1246
Project grants	557	333	327	153	751	1252	948	1466	611	652	699	758	826
Nonproject grants	125	186	703	257	257	327	458	441	358	365	336	333	356
HIPC Initiative-related grants	33	86	41	27	27	64	64	64	78	78	83	76	65
Total Expenditure	2243	2079	2367	2258	2805	3505	3385	3888	3287	3418	3613	3909	4114
Of which: domestic primary expenditure	1536	1568	1889	1864	1867	2109	2053	2083	2173	2276	2424	2637	2895
Current expenditure	1436	1616	1731	1820	1823	1995	1980	2082	2173	2273	2403	2602	2823
Personnel costs	798	848	956	998	997	1127	1125	1207	1238	1280	1342	1455	1585
Interest due	34	66	35	23	23	74	59	74	68	67	54	56	49
Goods and services	260	235	237	261	260	237	248	237	257	274	294	318	347
Transfers	273	268	325	345	335	360	372	402	416	443	475	515	561
Other current expenditure	71	199	178	194	207	196	176	162	196	209	238	258	281
Capital expenditure	795	454	330	320	812	1360	1255	1655	1083	1114	1176	1276	1252
Financed by the Treasury	122	9	20	13	13	38	95	38	37	39	42	61	83
Financed by external sources	673	445	310	307	799	1322	1160	1618	1046	1075	1134	1216	1170
HIPC Initiative-related capital expenditure	12	9	13	11	11	37	37	37	31	31	33	30	39
COVID-19 spending	…	…	293	107	159	113	113	113	…	…	…	…	…
Financed by the Treasury	…	…	160	44	44	113	0	0	…	…	…	…	…
Financed by external sources	…	…	132	63	115	0	113	113	…	…	…	…	…
Domestic Primary Balance [2]	-362	-170	-324	-356	-339	-364	-321	-328	-185	6	120	152	179
Overall Fiscal Balance (Commitment Basis)	-162	-6	300	-238	-166	-90	-156	-134	-222	-8	83	82	240
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	-13	-98	0	-50	-42	-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	-250	-263	-90	-206	-176	-245	-32	60	58	217
Financing	-100	43	-142	246	281	90	206	176	245	32	-60	-58	-217
Net external	67	26	45	3	-26	-32	90	22	286	212	192	186	155
Disbursements	116	96	116	154	48	70	212	152	435	423	435	458	344
Program financing (loans)	16	46	0	0	0	0	0	0	0	0	0	0	0
Scheduled amortization	-65	-116	-71	-151	-74	-102	-122	-129	-149	-211	-243	-271	-189
Net domestic	-167	17	-186	242	308	122	116	154	-40	-180	-252	-244	-372
Net bank credit to the government	-167	17	-186	310	375	147	141	179	-17	-157	-230	-222	-350
Banking credit (net, excluding National Oil Account) [3]	0	0	-239	242	307	92	86	120	-10	-147	-219	-210	-338
Of which: Amortization of domestic debt	0	0	-50	-65	-65	0	-82	-74	0	0	0	0	0
National Oil Account	-167	17	53	68	68	55	55	59	-8	-10	-11	-12	-12
Nonbank financing	0	0	0	-68	-68	-25	-25	-25	-23	-23	-23	-22	-22
Of which: Amortization payments to ENCO	…	…	…	-68	-68	-25	-25	-25	-23	-23	-23	-22	-22
Statistical discrepancy	0	0	0	4	-18	0	0	0	0	0	0	0	0
Residual financing gap	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum Items													
Gross Domestic Product	8,619	9,424	10,247	10,759	10,759	11,281	11,365	11,510	12,223	13,043	13,982	15,157	16,510
Public Debt (in percent of GDP)	96	100	88	96	96	…	94	93	92	89	84	78	71
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
				Fourth Rev.	Est.	Auth. Budget	Fourth Rev	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total Revenue and Grants [1]	**24.1**	**22.0**	**26.0**	**18.8**	**24.6**	**30.3**	**28.4**	**32.6**	**25.1**	**26.1**	**26.4**	**26.3**	**26.4**
Total revenue	15.8	15.6	15.6	14.7	15.0	15.7	15.5	15.5	16.5	17.7	18.4	18.6	18.8
Tax revenue	12.8	12.3	13.1	12.3	12.4	13.1	12.9	12.9	13.9	15.0	15.5	15.5	15.6
Consumption taxes	1.8	1.6	2.1	2.2	2.2	2.1	2.6	2.4	3.1	4.3	4.8	4.9	4.9
Import taxes	5.6	5.0	5.6	4.9	5.0	5.6	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Of which: oil price differential *(GAMAP)*	...	...	1.1	0.6	0.6	...	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other taxes	5.3	5.7	5.4	5.2	5.2	5.4	5.0	5.2	5.4	5.3	5.4	5.4	5.4
Nontax revenue [2]	3.1	3.3	2.4	2.4	2.6	2.6	2.5	2.6	2.6	2.8	2.9	3.1	3.2
Of which: oil revenue	2.5	0.7	0.3	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Grants	8.3	6.4	10.5	4.1	9.7	14.6	12.9	17.1	8.6	8.4	8.0	7.7	7.5
Project grants	6.5	3.5	3.2	1.4	7.0	11.1	8.3	12.7	5.0	5.0	5.0	5.0	5.0
Nonproject grants	1.5	2.0	6.9	2.4	2.4	2.9	4.0	3.8	2.9	2.8	2.4	2.2	2.2
HIPC Initiative-related grants	0.4	0.9	0.4	0.2	0.3	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.4
Total Expenditure	**26.0**	**22.1**	**23.1**	**21.0**	**26.2**	**31.1**	**29.8**	**33.8**	**26.9**	**26.2**	**25.8**	**25.8**	**24.9**
Of which: Domestic primary expenditure	17.8	16.6	18.4	17.3	17.4	18.7	18.1	18.1	17.8	17.4	17.3	17.4	17.5
Current expenditure	16.7	17.1	16.9	16.9	17.0	17.7	17.4	18.1	17.8	17.4	17.2	17.2	17.1
Personnel costs	9.3	9.0	9.3	9.3	9.3	10.0	9.9	10.5	10.1	9.8	9.6	9.6	9.6
Interest due	0.4	0.7	0.3	0.2	0.2	0.7	0.5	0.6	0.6	0.5	0.4	0.4	0.3
Goods and services	3.0	2.5	2.3	2.4	2.4	2.1	2.2	2.1	2.1	2.1	2.1	2.1	2.1
Transfers	3.2	2.8	3.2	3.2	3.1	3.2	3.3	3.5	3.4	3.4	3.4	3.4	3.4
Other current expenditure	0.8	2.1	1.7	1.8	1.9	1.7	1.5	1.4	1.6	1.6	1.7	1.7	1.7
Capital expenditure	9.2	4.8	3.2	3.0	7.6	12.1	11.0	14.4	8.9	8.5	8.4	8.4	7.6
Financed by the Treasury	1.4	0.1	0.2	0.1	0.1	0.3	0.8	0.3	0.3	0.3	0.3	0.4	0.5
Financed by external sources	7.8	4.7	3.0	2.9	7.5	11.7	10.2	14.1	8.6	8.2	8.1	8.0	7.1
HIPC Initiative-related capital expenditure	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
COVID-19 spending	...	...	2.9	1.0	1.5	1.0	1.0	1.0	...	...	...	...	...
Financed by the Treasury	...	...	1.6	0.4	0.4	1.0	0.0	0.0	...	...	...	...	...
Financed by external sources	...	...	1.3	0.6	1.1	0.0	1.0	1.0	...	...	...	...	...
Domestic Primary Balance [2]	-4.2	-1.8	-3.2	-3.3	-3.2	-3.2	-2.8	-2.8	-1.5	0.0	0.9	1.0	1.1
Overall fiscal balance (commitment basis)	-1.9	-0.1	2.9	-2.2	-1.5	-0.8	-1.4	-1.2	-1.8	-0.1	0.6	0.5	1.5
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	-0.1	-0.9	0.0	-0.4	-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**	**-2.3**	**-2.5**	**-0.8**	**-1.8**	**-1.5**	**-2.0**	**-0.2**	**0.4**	**0.4**	**1.3**
Financing	**-1.2**	**0.5**	**-1.4**	**2.3**	**2.6**	**0.8**	**1.8**	**1.5**	**2.0**	**0.2**	**-0.4**	**-0.4**	**-1.3**
Net external	0.8	0.3	0.4	0.0	-0.2	-0.3	0.8	0.2	2.3	1.6	1.4	1.2	0.9
Disbursements	1.3	1.0	1.1	1.4	0.4	0.6	1.9	1.3	3.6	3.2	3.1	3.0	2.1
Program financing (loans)	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	-1.4	-0.7	-0.9	-1.1	-1.1	-1.2	-1.6	-1.7	-1.8	-1.1
Net domestic	-1.9	0.2	-1.8	2.3	2.9	1.1	1.0	1.3	-0.3	-1.4	-1.8	-1.6	-2.3
Net bank credit to the government	-1.9	0.2	-1.8	2.9	3.5	1.3	1.2	1.6	-0.1	-1.2	-1.6	-1.5	-2.1
Banking credit (net, excluding National Oil Account) [3]	0.0	0.0	-2.3	2.3	2.9	0.8	0.8	1.0	-0.1	-1.1	-1.6	-1.4	-2.0
National Oil Account	-1.9	0.2	0.5	0.6	0.6	0.5	0.5	0.5	-0.1	-0.1	-0.1	-0.1	-0.1
Nonbank financing	0.0	0.0	0.0	-0.6	-0.6	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1
Of which: Amortization payments to ENCO	...	...	...	-0.6	-0.6	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1
Statistical Discrepancy	0.0	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual 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	10,719	11,281	11,365	11,510	12,223	13,043	13,982	15,157	16,510
Public Debt	96	100	88	96	96	...	93	93	92	89	84	78	71
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.	Fourth Rev.	Est.	Fourth Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Trade Balance	**-116.8**	**-112.3**	**-110.4**	**-118.0**	**-128.3**	**-143.2**	**-183.5**	**-158.1**	**-164.5**	**-173.3**	**-184.9**	**-188.9**
Exports, f.o.b.	16.0	14.1	13.9	17.6	20.8	20.1	21.1	26.1	25.7	31.4	32.6	34.3
Cocoa	8.2	6.9	6.7	7.8	10.3	8.2	7.5	13.4	13.9	14.5	15.4	16.1
Re-export	6.8	3.4	2.2	2.2	1.9	3.6	4.1	3.7	3.5	7.3	7.2	7.6
Imports, f.o.b.	-132.9	-126.4	-124.4	-135.6	-149.1	-163.3	-204.7	-184.1	-190.2	-204.6	-217.5	-223.2
Food	-31.1	-31.3	-32.4	-34.7	-41.1	-34.7	-41.0	-40.9	-41.1	-43.5	-46.0	-48.8
Petroleum products	-33.6	-34.2	-24.6	-35.9	-34.1	-37.1	-44.0	-43.0	-42.2	-40.6	-40.0	-42.4
Non-oil investment goods	-31.3	-23.5	-27.3	-28.0	-32.0	-52.5	-79.7	-57.3	-64.1	-71.5	-78.3	-69.1
Oil sector related investment goods	-19.6	-25.5	-31.3	-31.8	-54.0	-26.8	-51.1	-52.7	-55.4	-60.0	-62.4	-76.6
Other	-17.2	-11.9	-8.7	-5.2	12.1	-12.3	11.2	9.8	12.6	11.0	9.2	13.7
Services and Income (Net)	**13.5**	**16.2**	**-1.6**	**13.5**	**13.1**	**7.7**	**19.5**	**43.9**	**49.2**	**53.4**	**59.2**	**64.9**
Exports of nonfactor services	82.0	82.1	37.8	51.2	60.5	52.8	76.5	104.0	110.8	118.5	127.1	134.9
Of which : travel and tourism	68.0	66.6	18.8	30.7	35.8	33.4	51.5	77.3	82.5	88.4	95.9	102.4
Imports of nonfactor services	-68.6	-64.5	-44.1	-43.4	-50.2	-50.8	-59.8	-62.9	-65.2	-67.9	-70.4	-71.9
Factor services (net)	0.1	-1.5	4.8	5.7	2.7	5.8	2.9	2.8	3.6	2.8	2.4	2.0
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**	**9.5**	**13.9**	**6.7**	**14.7**	**7.2**	**9.6**	**12.2**	**13.1**	**14.2**	**15.5**
Official Transfers (Net)	**36.0**	**27.6**	**49.9**	**40.5**	**50.0**	**68.7**	**86.7**	**45.7**	**48.0**	**49.4**	**51.8**	**55.4**
Of which : Project grants (excluding HIPC grants)	26.9	15.2	15.2	26.8	36.3	44.3	64.5	26.7	28.6	30.9	33.7	36.7
Nonproject grants	6.0	8.5	32.8	12.4	12.4	21.4	19.4	15.6	16.0	14.8	14.8	15.8
HIPC Initiative-related grants	1.6	3.9	1.9	1.3	1.3	3.0	2.83	3.40	3.4	3.7	3.4	2.9
Current Account Balance												
Including official transfers	-51.1	-52.2	-52.6	-50.1	-58.5	-52.1	-70.1	-58.8	-55.0	-57.4	-59.7	-53.1
Excluding official transfers	-87.1	-79.9	-102.5	-90.6	-108.6	-120.8	-156.9	-104.5	-103.1	-106.8	-111.5	-108.5
Capital and Financial Account Balance	**58.3**	**43.2**	**45.4**	**32.2**	**48.3**	**45.1**	**60.1**	**60.7**	**59.5**	**64.6**	**70.9**	**57.7**
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	45.4	32.2	48.3	45.1	60.1	60.7	59.5	64.6	70.9	57.7
Foreign Direct Investment	21.1	30.0	32.7	37.4	57.1	37.9	65.1	67.4	70.3	74.4	79.3	81.7
Portfolio Investment (net)	21.7	7.6	0.5	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil signature bonuses	10.2	3.2	1.4	0.4	0.4	0.1	0.1	0.3	0.4	0.5	0.5	0.5
Other investment (net)	5.3	2.4	10.8	-5.5	-11.2	7.0	-5.1	-7.0	-11.3	-10.2	-9.0	-24.6
Assets	-9.5	-8.5	-7.3	-8.9	-12.2	-9.2	-13.0	-15.5	-15.8	-18.1	-18.4	-22.8
Public sector (net)	1.9	-1.5	0.9	-1.1	0.4	3.0	3.6	12.5	9.3	8.5	8.3	6.9
Project loans	5.6	4.4	5.4	2.3	2.3	8.7	9.3	19.0	18.6	19.2	20.3	15.3
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	-3.4	-1.9	-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	-1.1	-1.1	-2.7	-2.5	-3.0	-3.1	-3.3	-3.1	-2.6
Private sector (net)	12.9	12.4	17.3	4.5	0.6	13.2	4.3	-4.0	-4.8	-0.6	1.2	-8.7
Commercial banks	-5.0	-1.5	10.1	-4.4	-4.4	-0.1	0.3	0.0	0.0	0.0	0.0	0.0
Short-term private capital	17.9	13.9	7.2	8.9	5.0	13.3	4.0	-4.0	-4.8	-0.6	1.2	-8.7
Errors and Omissions	-15.3	9.1	-5.6	0.0	-8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	**-8.1**	**0.1**	**-12.7**	**-17.9**	**-18.3**	**-7.1**	**-10.1**	**1.9**	**4.5**	**7.3**	**11.2**	**4.6**
Financing	8.1	-0.1	12.7	17.8	18.3	7.1	10.1	-1.9	-4.5	-7.3	-11.2	-4.5
Change in official reserves, excl. IMF and NOA (increase	15.8	-3.1	-9.4	9.8	9.8	0.0	3.0	-2.9	-5.1	-6.3	-8.7	-5.2
Use of Fund resources (net)	0.5	2.3	19.6	4.7	5.1	4.5	4.5	-0.7	-0.8	-2.0	-3.4	0.0
Disbursements	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									
Repayments (incl. MDRI repayment)	-0.4	-0.4	0.0	-0.4	0.0	-0.6	-0.6	-0.7	-0.8	-2.0	-3.4	0.0
National Oil Account (increase = -)	-8.2	0.7	2.2	2.8	2.8	2.6	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	-11.0	-9.6	-11.3	-9.8	-13.9	-11.0	-9.6	-9.3	-8.9	-7.2
Excluding official transfers	-21.0	-18.5	-21.5	-17.4	-21.0	-22.8	-31.0	-19.6	-18.0	-17.3	-16.6	-14.8
Debt service ratio (percent of exports) [1]	2.6	4.5	5.0	6.7	3.0	10.4	7.8	6.6	8.2	8.4	8.7	5.8
Gross international reserves [2]												
Millions of U.S. dollars	35.1	40.4	67.6	61.8	61.8	67.6	61.7	63.8	68.1	72.0	75.8	80.3
Months of imports of goods and services	2.2	2.9	4.1	3.5	2.8	3.8	3.0	3.0	3.0	3.0	3.1	3.1
Months of imports of goods and nonfactor services[3]	3.0	4.4	7.3	5.6	5.6	5.9	5.5	5.7	5.9	6.0	6.2	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.	Fourth Rev.	Est.	Fourth Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Trade Balance	**-28.1**	**-26.1**	**-23.1**	**-22.7**	**-24.8**	**-27.0**	**-36.2**	**-29.6**	**-28.7**	**-28.1**	**-27.4**	**-25.7**
Exports, f.o.b.	3.9	3.3	2.9	3.4	4.0	3.8	4.2	4.9	4.5	5.1	4.8	4.7
Cocoa	2.0	1.6	1.4	1.5	2.0	1.5	1.5	2.5	2.4	2.3	2.3	2.2
Re-export	1.6	0.8	0.5	0.4	0.4	0.7	0.8	0.7	0.6	1.2	1.1	1.0
Imports, f.o.b.	-32.0	-29.3	-26.1	-26.1	-28.8	-30.8	-40.4	-34.5	-33.2	-33.2	-32.3	-30.4
Food	-7.5	-7.3	-6.8	-6.7	-7.9	-6.5	-8.1	-7.7	-7.2	-7.0	-6.8	-6.6
Petroleum products	-8.1	-7.9	-5.2	-6.9	-6.6	-7.0	-8.7	-8.1	-7.4	-6.6	-5.9	-5.8
Non-oil investment goods	-7.5	-5.5	-5.7	-5.4	-6.2	-9.9	-15.7	-10.7	-11.2	-11.6	-11.6	-9.4
Oil sector related investment goods	-4.7	-5.9	-6.6	-6.1	-10.4	-5.0	-10.1	-9.9	-9.7	-9.7	-9.3	-10.4
Other	-4.1	-2.8	-1.8	-1.0	2.3	-2.3	2.2	1.8	2.2	1.8	1.4	1.9
Services and Income (Net)	**3.2**	**3.8**	**-0.3**	**2.6**	**2.5**	**1.5**	**3.9**	**8.2**	**8.6**	**8.6**	**8.8**	**8.8**
Exports of nonfactor services	19.7	19.1	7.9	9.8	11.7	9.9	15.1	19.5	19.4	19.2	18.9	18.4
Of which : travel and tourism	16.4	15.5	3.9	5.9	6.9	6.3	10.2	14.5	14.4	14.3	14.2	14.0
Imports of nonfactor services	-16.5	-15.0	-9.2	-8.3	-9.7	-9.6	-11.8	-11.8	-11.4	-11.0	-10.4	-9.8
Factor services (net)	0.0	-0.3	1.0	1.1	0.5	1.1	0.6	0.5	0.6	0.5	0.4	0.3
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**	**2.0**	**2.7**	**1.3**	**2.8**	**1.4**	**1.8**	**2.1**	**2.1**	**2.1**	**2.1**
Official Transfers (Net)	**8.7**	**6.4**	**10.5**	**7.8**	**9.7**	**12.9**	**17.1**	**8.6**	**8.4**	**8.0**	**7.7**	**7.5**
Of which : Project grants (excluding HIPC grants)	6.5	3.5	3.2	5.2	7.0	8.3	12.7	5.0	5.0	5.0	5.0	5.0
Nonproject grants	1.5	2.0	6.9	2.4	2.4	4.0	3.8	2.9	2.8	2.4	2.2	2.2
HIPC Initiative-related grants	0.4	0.9	0.4	0.2	0.3	0.6	0.6	0.6	0.6	0.6	0.5	0.4
Current Account Balance												
Including official transfers	-12.3	-12.1	-11.0	-9.6	-11.3	-9.8	-13.9	-11.0	-9.6	-9.3	-8.9	-7.2
Excluding official transfers	-21.0	-18.5	-21.5	-17.4	-21.0	-22.8	-31.0	-19.6	-18.0	-17.3	-16.6	-14.8
Capital and Financial Account Balance	**14.0**	**10.0**	**9.5**	**6.2**	**9.3**	**8.5**	**11.9**	**11.4**	**10.4**	**10.5**	**10.5**	**7.9**
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	9.5	6.2	9.3	8.5	11.9	11.4	10.4	10.5	10.5	7.9
Foreign Direct Investment	5.1	7.0	6.8	7.2	11.0	7.1	12.9	12.6	12.3	12.1	11.8	11.1
Portfolio Investment (net)	5.2	1.8	0.1	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil signature bonuses	2.5	0.7	0.3	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Other investment (net)	1.3	0.6	2.3	-1.1	-2.2	1.3	-1.0	-1.3	-2.0	-1.7	-1.3	-3.3
Assets	-2.3	-2.0	-1.5	-1.7	-2.4	-1.7	-2.6	-2.9	-2.8	-2.9	-2.7	-3.1
Public sector (net)	0.5	-0.3	0.2	-0.2	0.1	0.6	0.7	2.3	1.6	1.4	1.2	0.9
Project loans	1.3	1.0	1.1	0.4	0.4	1.6	1.8	3.6	3.2	3.1	3.0	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	-0.7	-0.4	-1.1	-1.1	-1.2	-1.6	-1.7	-1.8	-1.1
Of which : HIPC Initiative-related grants	-0.3	-0.8	-0.4	0.0	0.0	0.0	0.0	-0.6	-0.5	-0.5	-0.5	-0.4
Private sector (net)	3.1	2.9	3.6	0.9	0.1	2.5	0.9	-0.8	-0.8	-0.1	0.2	-1.2
Commercial banks	-1.2	-0.3	2.1	-0.8	-0.8	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Short-term private capital	4.3	3.2	1.5	1.7	1.0	2.5	0.8	-0.7	-0.8	-0.1	0.2	-1.2
Errors and Omissions	**-3.7**	**2.1**	**-1.2**	**0.0**	**-1.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**-2.0**	**0.0**	**-2.7**	**-3.4**	**-3.5**	**-1.3**	**-2.0**	**0.4**	**0.8**	**1.2**	**1.7**	**0.6**
Financing	1.9	0.0	2.7	3.4	3.5	1.3	2.0	-0.4	-0.8	-1.2	-1.7	-0.6
Change in official reserves, excl. IMF and NOA (increase= -)	3.8	-0.7	-2.0	1.9	1.9	0.0	0.6	-0.5	-0.9	-1.0	-1.3	-0.7
Use of Fund resources (net)	0.1	0.5	4.1	0.9	1.0	0.8	0.9	-0.1	-0.1	-0.3	-0.5	0.0
Disbursements	0.2	0.6	3.7	1.0	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0
National Oil Account (increase = -)	-2.0	0.2	0.5	0.5	0.5	0.5	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	5.0	6.7	3.0	10.4	7.8	6.6	8.2	8.4	8.7	5.8
Gross international reserves [2]												
Millions of U.S. dollars	35.1	40.4	67.6	61.8	61.8	67.6	61.7	63.8	68.1	72.0	75.8	80.3
Months of imports of goods and services	2.2	2.9	4.1	3.5	2.8	3.8	3.0	3.0	3.0	3.0	3.1	3.1
Months of imports of goods and nonfactor services [3]	3.0	4.4	7.3	5.6	5.6	5.9	5.5	5.7	5.9	6.0	6.2	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
				Fourth Rev.	Est.	Fourth Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Net Foreign Assets	**1,416**	**1,502**	**1,555**	**1,156**	**1,156**	**1,210**	**1,185**	**1,187**	**1,277**	**1,357**	**1,435**	**1,549**
Claims on nonresidents	1,798	1,939	2,316	2,490	2,490	2,544	2,519	2,521	2,610	2,691	2,769	2,896
Official foreign reserves	1,352	1,447	1,831	1,920	1,920	1,961	1,942	1,944	2,013	2,075	2,135	2,233
Other foreign assets	446	492	485	570	570	582	577	577	598	616	634	663
Liabilities to nonresidents	-382	-437	-762	-1,334	-1,334	-1,334	-1,334	-1,334	-1,334	-1,334	-1,334	-1,347
Short-term liabilities to nonresidents[1]	-169	-222	-557	-688	-688	-799	-799	-775	-752	-693	-579	-579
Other foreign liabilities	-213	-215	-205	-646	-646	-535	-535	-559	-582	-641	-755	-768
Net Domestic Assets	**80**	**-117**	**359**	**999**	**999**	**1,052**	**1,114**	**1,192**	**1,246**	**1,330**	**1,459**	**1,583**
Net domestic credit	133	-90	-140	367	367	364	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	25	25	22	22	100	132	167	161	142
Claims on central government	310	305	280	784	784	780	780	859	890	925	920	900
Liabilities to central government	-511	-723	-758	-758	-758	-758	-758	-758	-758	-758	-758	-758
Claims on other sectors	139	138	141	144	144	144	144	144	144	144	144	144
Other items (net)	-53	-27	498	632	632	688	750	749	772	821	955	1,100
Base Money (M0)	**1,496**	**1,385**	**1,913**	**2,156**	**2,156**	**2,262**	**2,300**	**2,379**	**2,522**	**2,687**	**2,894**	**3,132**
Currency issued	393	411	432	486	486	510	519	537	569	606	653	707
Bank reserves	1,103	974	1,482	1,669	1,669	1,752	1,781	1,842	1,953	2,080	2,241	2,426
Of which: domestic currency	947	843	1,349	1,398	1,398	1,465	1,497	1,550	1,644	1,755	1,901	2,065
Of which: foreign currency	157	131	133	271	271	287	284	292	309	325	340	360
Memorandum Items:												
Gross International Reserves (US$ millions) [2]	35.1	40.4	67.6	61.8	61.8	67.6	61.7	63.8	68.1	72.0	75.8	80.3
Months of imports of goods and services	2.2	2.9	4.1	3.5	2.8	3.8	3.0	3.0	3.0	3.0	3.1	3.1
Months of imports of goods and nonfactor services[3]	3.0	4.4	7.3	5.6	5.6	5.9	5.5	5.7	5.9	6.0	6.2	6.5
Gross international reserves (US$ millions) inc. commercial banks reserves	42.4	46.4	74.2	74.3	74.3	81.1	74.1	76.6	81.7	86.4	90.9	96.4
Months of imports of goods and services	2.7	3.3	4.5	4.2	3.4	4.6	3.6	3.6	3.6	3.6	3.7	3.7
Months of imports of goods and nonfactor services[3]	3.7	5.0	8.0	6.8	6.8	7.1	6.6	6.9	7.1	7.2	7.5	7.8
Net international reserves (US$ millions) [4]	27.2	30.4	39.8	30.0	30.0	30.0	27.0	29.9	35.0	41.3	49.9	54.5
Months of imports of goods and services	1.7	2.2	2.4	1.7	1.4	1.7	1.3	1.4	1.5	1.7	2.0	2.1
Months of imports of goods and nonfactor services[3]	2.4	3.3	4.3	2.7	2.7	2.6	2.4	2.7	3.0	3.4	4.1	4.4
Net foreign assets in months of imports of goods and services of the current year[5]	3.9	4.3	5.5	…	3.2	…	3.1	2.5	2.6	2.6	2.7	2.8
National Oil Account (US$ millions)	19.5	18.8	16.4	13.6	13.6	11.2	10.4	8.5	6.9	5.5	4.3	3.2
Commercial banks reserves in foreign currency (US$ millions)	7.3	7.0	5.7	12.5	12.5	13.5	12.3	12.8	13.6	14.4	15.2	16.1
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	12.7	12.7	4.9	6.7	3.5	6.0	6.5	7.7	8.2

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.

[5] Net foreign assests in months of goods and services for 2022 reflects imports from 2021.

Table 5. São Tomé and Príncipe: Monetary Survey, 2018–23
(Millions of New Dobra)

	2018	2019	2020	2021		2022		2023
				Fourth Rev.	Est.	Fourth Rev.	Proj.	Proj.
Net Foreign Assets	**1,636**	**1,760**	**1,587**	**1,286**	**1,286**	**1,339**	**1,314**	**1,316**
Net foreign assets of the BCSTP	1,416	1,502	1,555	1,156	1,156	1,210	1,185	1,187
Net foreign assets of other depository corporations	220	258	32	129	129	129	129	129
Net Domestic Assets	**1,429**	**1,238**	**1,736**	**1,946**	**1,946**	**2,075**	**2,156**	**2,369**
Net domestic credit	2,228	2,158	2,030	2,215	2,215	2,213	2,224	2,189
Net claims on central government	94	-43	-137	156	156	109	109	30
Claims on central government	977	1,213	1,059	1,223	1,223	1,176	1,176	1,097
Liabilities to central government	-883	-1,256	-1,196	-1,067	-1,067	-1,067	-1,067	-1,067
Claims on other sectors	2,134	2,202	2,167	2,059	2,059	2,105	2,115	2,159
Other items (net)	-799	-921	-294	-269	-269	-138	-68	179
Broad Money (M3)	**3,066**	**2,998**	**3,323**	**3,232**	**3,232**	**3,414**	**3,470**	**3,685**
Local currency liabilities included in broad money (M2)	2,325	2,293	2,623	2,513	2,513	2,654	2,698	2,865
Money (M1)	1,849	1,907	2,244	2,203	2,203	2,399	2,439	2,535
Currency outside depository corporations	314	315	347	417	417	550	559	536
Transferable deposits in dobra	1,535	1,592	1,897	1,786	1,786	1,849	1,880	1,999
Other deposits in dobra	476	386	379	310	310	255	259	330
Foreign currency deposits	741	704	700	752	719	774	772	820
Memorandum Items:								
Velocity (ratio of GDP to M3; end of period)	2.9	3.0	2.8	3.3	3.3	3.3	3.3	3.3
Money multiplier (M2/M0)	2.0	2.2	1.8	1.5	1.5	1.5	1.5	1.5
Base money (12-month growth rate)	0.8	-7.4	31.0	12.7	12.7	4.9	6.7	3.5
Claims on other resident sectors (12-month growth rate)	-1.6	3.2	-1.6	-5.0	-5.0	2.2	2.7	2.1
Broad money (12-month growth rate)	14.3	-2.2	10.9	-2.7	-2.7	5.6	7.4	6.2
Eurorization ratio	26.2	25.6	26.2	26.6	25.4	…	…	…

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

Table 6. São Tomé and Príncipe: Financial Soundness Indicators, 2017–22

(Percent)

	2017 Dec.	2018 Dec.	2019 Dec.	2020 Mar.	2020 Jun.	2020 Sep.	2020 Dec.	2021 Mar.	2021 Jun.	2021 Sep.	2021 Dec.	2022 Mar. (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	35.6
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	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	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	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	18.9
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	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	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	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	8.4
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	32.6
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	30.5
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	2.1
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	84.0
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	0.6
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	3.4
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	77.8
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	53.5
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	70.3
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	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	23.7
Loan/deposits	59.7	59.1	59.5	65.0	63.1	64.0	65.2	69.1	69.0	64.3	72.8	74.7
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	101.4

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

Table 7. São Tomé and Príncipe: External Financing Requirements and Sources, 2019–24
(Millions of U.S. dollars)

	2016	2017	2018	2019	2020	2021		2022		2023	2024
						Third Rev.	Est.	Third Rev.	Proj.	Proj.	Proj.
Gross Financing Requirements	**-66.8**	**-92.0**	**-71.8**	**-83.3**	**-111.9**	**-106.3**	**-100.7**	**-94.6**	**-160.1**	**-114.7**	**-118.2**
Current account, excluding official transfers	-69.6	-91.5	-87.1	-79.9	-102.5	-113.1	-108.6	-86.6	-156.9	-104.5	-103.1
Exports, f.o.b.	13.6	15.6	16.0	14.1	13.9	19.4	20.8	22.0	21.1	26.1	25.7
Imports, f.o.b.	-119.1	-127.7	-132.9	-126.4	-124.4	-142.6	-149.1	-147.5	-204.7	-184.1	-190.2
Services and income (net)	19.9	3.9	13.5	16.2	-1.6	-5.5	13.1	20.6	19.5	43.9	49.2
Private transfers	15.9	16.7	16.3	16.3	9.5	15.6	6.7	18.3	7.2	9.6	12.2
Financial account	-3.9	-7.2	-0.4	-0.4	0.0	-5.5	-1.9	-6.3	-6.3	-7.3	-10.0
Scheduled amortization	-4.0	-4.4	0.0	0.0	0.0	-5.1	-1.9	-5.7	-5.7	-6.5	-9.3
IMF repayments	-0.9	-0.2	-0.4	-0.4	0.0	-0.4	0.0	-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	3.0	-2.9	-5.1
Available Funding	**66.5**	**89.4**	**75.4**	**89.2**	**118.4**	**106.3**	**100.7**	**94.6**	**160.2**	**114.7**	**118.1**
National Oil Fund (net)	2.1	2.5	2.1	3.9	3.6	3.2	3.2	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	52.3	53.6	96.0	64.7	66.6
Multilateral HIPC interim assistance	2.9	3.1	1.6	3.9	1.9	3.3	1.3	3.3	2.8	3.4	3.4
Grants, excluding HIPC interim assistance	45.6	38.6	34.4	23.7	48.0	49.5	48.7	40.1	83.9	42.3	44.6
Concessional loans	6.4	7.4	5.6	4.4	5.4	9.4	2.3	10.2	9.3	19.0	18.6
Project loans	6.4	7.4	5.6	4.4	5.4	9.4	2.3	10.2	9.3	19.0	18.6
Program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector (net)	7.7	35.0	30.8	50.6	37.5	35.1	39.5	33.3	56.4	47.9	49.7
IMF ECF	1.8	2.8	0.9	2.7	7.3	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	0.3	0.8	0.8	2.0	3.6	4.2	4.1	4.0	2.7	1.0	0.2	0.0	0.0	0.0	0.0
Charges and interest	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)															
Principal	0.3	0.8	0.8	2.0	3.6	4.2	4.9	4.8	3.5	1.7	1.0	0.0	0.0	0.0	0.0
Charges and interest	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total Obligations Based on Existing and Prospective Credit															
Millions of SDRs	0.4	1.0	1.0	2.3	3.8	4.4	5.1	5.0	3.7	1.9	1.2	0.2	0.2	0.2	0.2
Millions of U.S. dollars	0.6	1.4	1.4	3.3	5.6	6.4	7.5	7.3	5.4	2.8	1.7	0.3	0.3	0.3	0.3
Percent of exports of goods and service	0.6	1.4	1.1	2.4	3.5	3.8	4.2	3.9	2.7	1.3	0.8	0.1	0.1	0.1	0.1
Percent of debt service [1]	7.5	16.1	12.5	26.0	40.6	65.8	78.2	77.1	54.9	28.9	17.8	3.4	3.4	3.4	3.6
Percent of quota	2.7	6.6	6.6	15.3	25.9	29.8	34.5	33.7	25.0	13.0	7.9	1.5	1.5	1.5	1.5
Percent of gross international reserves [2]	0.9	2.2	2.1	4.6	7.4	8.0	8.2	7.9	5.8	3.0	1.8	0.3	0.3	0.3	0.3
Percent of GDP	0.1	0.3	0.2	0.5	0.8	0.9	0.9	0.9	0.6	0.3	0.2	0.0	0.0	0.0	0.0
Outstanding Fund Credit															
Millions of SDRs	27.2	26.4	25.7	23.6	20.0	15.8	10.9	6.2	2.7	1.0	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	23.1	15.9	9.0	3.9	1.4	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and service	39.4	38.7	28.4	25.1	18.3	13.6	8.9	4.8	2.0	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	235.9	166.9	95.0	39.5	14.2	0.0	0.0	0.0	0.0	0.0
Percent of quota	183.6	178.6	173.4	159.6	135.1	106.8	73.7	41.6	18.0	6.4	0.0	0.0	0.0	0.0	0.0
Percent of gross international reserves [2]	62.1	59.1	54.3	47.6	38.6	28.7	17.4	9.7	4.2	1.5	0.0	0.0	0.0	0.0	0.0
Percent of GDP	7.6	7.1	6.5	5.6	4.3	3.1	2.0	1.0	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Net Use of Fund Credit (millions of SDR	3.5	-0.8	-0.8	-2.0	-3.6	-4.2	-4.9	-4.8	-3.5	-1.7	-1.0	0.0	0.0	0.0	0.0
Disbursements	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.3	0.8	0.8	2.0	3.6	4.2	4.9	4.8	3.5	1.7	1.0	0.0	0.0	0.0	0.0
Memorandum Items:															
Exports of goods and services (millions	97.2	97.6	130.1	136.5	159.7	169.2	178.5	188.4	198.8	209.6	221.1	233.2	246.0	259.6	274.0
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]	61.7	63.8	68.1	72.0	75.8	80.3	91.4	92.6	93.2	93.0	94.1	95.0	94.8	95.8	97.1
GDP (millions of U.S. dollars)	517.8	534.1	572.3	617.2	673.7	733.8	792.3	855.7	924.2	997.3	1057.0	1120.4	1187.9	1259.6	1336.0

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				
	Sept.				Dec.				March				June
	Indicative Target				Performance Criteria				Indicative Target				Performance Criteria
	Third Review	With Adjusters	Prel.	Status	Third Review	With Adjusters	Prel.	Status	Fourth Review	With Adjusters	Prel.	Status	Fourth Review
Performance Criteria:													
Floor on domestic primary balance (as defined in the TMU) [1]	-300	-326	-278	Met	-379	-405	-339	Met	-125	-155	-93	Met	-162
Ceiling on changes in net bank financing of the central government (at program exchange rate) [2, 3, 4]	300	379	340	Met	354	456	307	Met	125	200	94	Met	162
Floor on net international reserves of the central bank (US$ millions) [1, 3]	24	24	33	Met	23	23	31	Met	27	23	25	Met	28
Ceiling on the accumulation of central government's new external payment arrears (US$ millions) [4, 5, 6, 7]	0		0.3	Not met	0		0	Met	0		0.2	Not met	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	Met	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	-30		-37.6	Met	-60		-98	Met	0		-23	Met	-20
Floor on pro-poor expenditures	450		709	Met	600		912	Met	157		192	Met	315
Floor on tax revenue	1050		986	Not met	1400		1325	Not met	310	310	381	Met	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]	7		0	Met	9		0	Met	0		0	Met	0
Memorandum Items:													
Ceiling on dobra base money (stock)	1,520		1,828		1,586		1885		1,960		1933		1,925
Transfer from NOA to the budget (US$ millions)	3.0		3.1		3.2		3.1		2.6		0.1		2.6
Net external debt service payments [10]	98		37		130		65		41		20		82
Official external program support [10]	105		114		261		371		156		0		262
IMF program disbursement	56		114		112		114		59		0		59
Budget support grants	49		0		149		257		97		0		203
Domestic arrears clearance (-, exclude debt payment to ENCO)	-10		-38		-73		-13		...		-57		...
Treasury-funded capital expenditure	20		10		30		13		15		104		34
Ceiling on personnel expenses	770		734		1,070		998		264		236		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

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

Policy Objectives and Measures	Timing	Status	Description	Macro Rationale	TA Involved
Prior Actions					
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.	August 2022			To strengthen financial supervision and improve governance and oversight	LEG
Start to implement VAT awareness and communications public information campaign	August 2022			To enhance revenue	With World Bank support
Settle delayed debt service payments and issue ministerial order to prioritize debt service payments.	August 2022			To avoid repeated delays in the external debt service.	No TA involved
Finalize and publish the 2020 COVID-19 related spending audit report	August 2022			Improve accountability	No TA involved
Strengthening Public Finances					
Implement VAT awareness and communications public information campaign (MEFP ¶18)	End-June 2022	Not met. Prior action		To enhance revenue	With World Bank support
Introduce the VAT at a 15 percent rate according to the October 2019 law (MEFP ¶15)	End-September 2022		The World Bank approved VAT IT contract in mid-November 2021. The IT system development is on track.	To enhance revenue	With World Bank support
Continue relying on the automatic fuel price adjustment mechanism with a price smoothing and maintain retail fuel prices aligned with international markets over the medium term (continuous SB) to prevent losses to ENCO and contain fiscal risks (MEFP ¶16)	Continuous	End-December: Not met.	Comprehensive fuel price adjustments were implemented in April 2022.	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.	Procurement documents are collected manually in absence of the automated system. Substantial progress was made in publication of procurement documents in the Q1 2022 - about 40 percent of all contracts with no objection from COSSIL in 2021. With the World Bank support, a webpage for the procurement agency COSSIL is currently under development on prototype stages and we expect it to be launched August 2022. The new platform will expedite the publication of procurement documents and facilitate management and transparency over public contracts.	To increase transparency and accountability	No TA involved
Enhancing Monetary Policy and Financial Stability					
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-June 2022	Not met. Prior action		To strengthen financial supervision and improve governance and oversight	LEG
Facilitating Business Activities and Energy Efficiency					
Develop a plan to remove the country from the European Union's Air Safety blacklist (MEFP ¶43)	End-September 2022		The authorities are preparing project agreement with international air safety regulator (ICAO) to support regulatory reforms with milestones defined for next 18 months.	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-June 2022	Not met. Rescheduled to end-September 2022.	Operational difficulties in the Chinese factory due to spike in COVID cases have delayed fabrication to July/August. LED bulbs expected to arrive in STP in the third quarter of 2022 for distribution.	To contain fiscal risk	With World Bank support

Annex I. EMAE/Energy Sector Expected Key Actions, 2022–2023

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 **(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. Operational difficulties in the Chinese factory due to spike in COVID cases have delayed fabrication to July/August. LED bulbs expected to arrive in STP in the third quarter of 2022 for distribution.	Q3 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. Contracts were recently signed, and the government is awaiting first disbursement from EIB to initiate execution.	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

Annex II. Capacity Development

1. **Recent capacity development (CD) activities have been well integrated with Fund-supported program priorities.** STP is the active user of technical assistance (TA) and also benefits from trainings resources. 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 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).** The COVID-19 pandemic posed challenges for CD delivery due to human capacity constraints and limitations on travel. These challenges have been partly overcome by remote mission delivery; however, the pace of implementation of CD advice slowed. In-person CD resumed in April 2022 through an FAD mission on expenditure control while a follow-up STX visit on VAT implementation and CD on transitioning to IFRS was delivered remotely in April 2022. 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.
- **Statistics.** Improving the quality, timeliness, and compilation of statistics, including on GDP, national accounts, and government finance.

Table 1. São Tomé and Príncipe: TA Delivered 2019–2022

Date	
Apr-22	MCM remote mission on adoption of International Financial Report Standards
Apr-22	LEG TA to revise the Financial Institutions Law
Apr-22	FAD TA on PFM budget execution
Mar-22	FAD TA on budget preparation (fiscal forecast)
Jan-22	STA TA on government finance
Jan-22	FAD remote mission on tax policy and VAT administration reform
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

Table 1. São Tomé and Príncipe: TA Delivered 2019–2022 (Concluded)

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
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. São Tomé and Príncipe: 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

Annex III. Social Protection Programs and Social Spending for Inclusive Growth

São Tomé and Príncipe's social safety net is limited, while demographic changes, unemployment, poverty, and rising inequality present challenges for policymakers to create more opportunities for inclusive growth. The COVID-19 pandemic exacerbated these challenges and exposed significant vulnerabilities in health infrastructure and social safety nets. This annex discusses the social context in the country, examines social spending and related outcomes, surveys existing social protection programs and concludes with policy considerations.

A. Social Context

1. **São Tomé and Príncipe's (STP's) relatively low rank in the 2020 Human Development Index at 135 out of 189 countries in the world underscores the importance of continuing to expand social protection and spending.**[1] The poverty headcount ratio[2] of STP is comparable to low-income developing countries (LIDC) and Sub-Saharan Africa (SSA) in 2018, although improvements on this front have been limited since 2010 (Figure 1a-1b).

2. **Inequality is more pronounced in STP than in other LIDC and SSA peers.** With a Gini coefficient[3] over 0.5, the inequality indicator is higher in STP than its LICD and SSA peers (Figure 1c), and the inequality index for the country worsens, even after accounting for the associated income per capita (Figure 1d). The increasing inequality situation can also be seen by a divergence in consumption behavior with different income levels, with the richest population (top 20 percentile) increasing their consumption share over 2010s, while the consumption shares of the rest of population declined (Figures 1e-1f).

3. **A high unemployment rate remains a persistent social challenge**. With unemployment rates above 12 percent of total labor force since the 1990s, STP compares unfavorably to LIDCs and SSA countries (Figure 1g). This trend has been stagnant since 1990s, suggesting longstanding challenges to address the issue.

B. Social Spending and Social Outcomes

4. **Priority spending in STP has focused on education and health historically.** In 2020, education spending accounted for 54 percent of pro-poor spending, while health spending accounted for 36 of total pro-poor spending (Figure 2a). The nominal levels of pro-poor spending

[1] Human Development Report 2020, United Nations Development Programme.

[2] Headcount: percentage of the population living in households with consumption or income per person below the poverty line. São Tomé and Príncipe uses 2017 data.

[3] Compiled Gini coefficient is a statistical measure of economic inequality in a population. The coefficient can take any value between 0, where everyone has the same income or there is a perfectly equal distribution of income within a population, and 1, where one person in a population receives all the income.

increased in 2020 compared to 2019 and 2018 (Figure 2b) cushioning the impact of the pandemic and reflecting increased government support with external donors.

5. The relatively high spending on health led to positive outcomes. Current health expenditure level measured in per capita has been increasing and stayed above the SSA and LIC average, although health spending as a percent of GDP has been slowly declining since 2000s (Figure 2c). As a result, health indictors improved steadily and STP performed better than its peers, with longer life expectancy (Figure 2d) and lower infant mortality rates.

6. Education spending has shown encouraging results. 2018 education spending as a percentage of government expenditure was higher than the SSA and low-income countries average (Figure 2e). Education spending as a percent of GDP declined from the peak in 2009, although it remained above the SSA average. As a result, the country's school enrollment for primary and secondary education are both higher than its peers since 2000 (Figure 2f).

7. Execution of social spending budget needs to be improved. Based on 2019 data, around 52 percent of budgeted education spending was executed, and 45 percent of budgeted health spending was executed. In 2020, social assistance spending was lower than planned due to the shock from the pandemic, which resulted in actual spending of 0.7 percent of GDP falling short of the planned 3.3 percent of GDP spending. In 2020, budget execution improved to 82 percent for education spending and 76 percent for health spending reflecting higher social needs to address the pandemic (Figure 2g-2h). The planned social assistance spending in 2021 is 2.4 percent of GDP, although there are significant risks of under-execution.

C. Existing Social Protection Programs

8. The COVID-19 pandemic exacerbated existing challenges and exposed significant vulnerabilities in health infrastructure and social safety nets. In 2018, less than 0.65 percent of GDP was budgeted to social safety nets, below the African regional average of 1.2 percent. [4] Social protection programs have expanded recently, including through the implementation of temporary COVID-19 measures, which led to higher spending in 2020 of 1.3 percent of GDP.[5]

9. The country's social protection programs, largely supported by donors, include:

- **Social Protection and Skills Development Project (SPSD).** The SPSD is the main social protection program in the country to support the development of an effective national safety net system for poor households and promote an inclusive labor market by developing participants' relevant skills. The SPSD began in April 2019 with two components: i) social protection and ii)

[4] Prosperity for all Saotomeans: Priorities to end poverty, promote growth and build resilience in São Tomé and Príncipe, Systematic Country Diagnostic, The World Bank Group, September 2021.
[5] Ibid.

education and training.[6] The SPSD was funded by the World Bank for US$10 million in 2019, of which $5 million was for social protection, including US$3.5 million for Vulnerable Families Program (VFP) cash transfers from June 2019 to assist 2,500 poor and vulnerable households, prioritizing households headed by women. The remaining US$5 million is being used to establish the Hotel and Tourism School. A professional training program will run until December 2024 to provide beneficiaries business development skills, including for the tourism sector and entrepreneurial skills. To help address the impact during the pandemic, the COVID-19 cash transfer program was formally established under the SPSD in July 2021, funded with an additional US$8 million, to absorb the existing VFP beneficiaries and increase the cash transfer amounts to these and additional families. The SPSD currently supports the COVID-19 cash transfer program, providing cash transfers of 1,800 Dobras (about US$80) to 16,000 households every two months. The COVID-19 response program has been extended until December 2022.[7] Once the COVID-19 cash transfer program concludes, the eligible beneficiaries will transition to the regular social protection programs, while other will exit the social protection system. 4,500 of the 16,000 beneficiaries will transition to the VFP from January 2023 onwards and will receive payments of about US$64 every two months, with an additional US$32 provided in September for school-related expenses.

- **Social Pension Program.** The Social Pension Program funded by the authorities for vulnerable persons above 60 years old that do not have enough years of contribution to receive the regular pension. This program covers 3,000 households, providing pensions of about 150 Dobras a month.

- **Single Social Registry.** Work is ongoing with the Ministry of Labor, Solidarity, Family and Professional Qualification, the Ministry of Health, and the Ministry of Education, with the support of the U.N. Joint Programme and the World Bank to establish a Single Social Registry at the national level. The existing social protection management information system contains socio-economic information on over 16,000 households and is used by the SPSD.[8] Once completed, this Registry aims to provide reliable data on a wide range of vulnerability criteria to allow the selection of beneficiaries for social protection programs. The authorities are working on plans to link the Single Social Registry with different monitoring information systems, including in health and education to improve the access of vulnerable families to cash transfer schemes and to social services.

- **Medical care under the UNSDG Joint Project**. The Ministry of Health provides treatment and follow-up for non-communicable diseases to over 21,000 members of vulnerable families

[6] International Development Association Project Paper on a Proposed Additional Grant in the Amount of SDR 5.6 million to STP for the SPSD Project, February 8, 2021.

[7] The extension of the COVID-19 response program through end-2022 is under a new project, the Social Protection COVID-19 Response and Recovery Project. This project, funded for US$18 million is expected to run until June 2027, and will also be used to support the scaled up VFP.

[8] 2021 UN Annual Results Report, São Tomé and Príncipe.

registered in the social register in the three districts of Agua Grande, Mezochi and Lemba.[7] Once the pilot program ends in December 2022, WHO will evaluate it to determine if it can be extended to benefit all vulnerable members in the social registry and cover all districts in the country.

- **National School Feeding and Health Programme (PNASE)**. The PNASE is the main food safety net program, with the aim to increase the government's capacity to promote national sustainable home-grown program to feed children in schools and to facilitate smallholder farmers' access to markets. The Ministry of Education, supported by the World Food Programme (WFP), oversees the National School Feeding and Health Program (PNASE) which has provided 50,000 school-aged children—about 25 percent of the population—with daily on-site school meals since February 2022 in four districts in São Tomé and Príncipe.[8] WFP also aided schools and government warehouses to determine the needs of school cafeterias to provide hot meals to children in sanitary conditions and have access to sustainable and affordable energy sources.

- **Transportation support for underprivileged students**. The Social Support Unit of the Ministry of Education provides transportation for about 2,500 underprivileged students, including for students with disabilities, that live in remote locations. Participating students' families pay about 140 Dobras to the Ministry of Education every two months to share transportation costs to school, which total about 60 Dobras per student each day. The Ministry of Education fully covers the transportation costs for about 100 students whose families cannot afford the subsidized payment of 140 Dobras.

D. Policy Implications

10. The COVID-19 pandemic has underscored the importance of social spending in this small island state. The pandemic demonstrated the need for robust health care systems and frameworks to channel targeted financial support to vulnerable populations. Increasing the size and efficiency of social spending is essential to achieve more inclusive growth in São Tomé and Príncipe. Socioeconomic outcomes are determined by a number of factors, including public social spending which can have a significant impact on outcomes.

11. Policy priorities of social spending could focus on:

- ***Improving the execution of budget planning.*** Budget execution is important to ensure adequacy of social spending. Identifying the main causes of under-execution of pro-poor

[7] The UNSDG Joint Project, "Reaching the Furthest Behind First: A Catalytic Approach to Supporting the Social Protection in São Tomé and Príncipe" began in 2020-2021, was managed and supported by the ILO and WHO. WHO supported the program through 2022, and is seeking additional resources to fund the program if it is extended beyond the pilot phase in end 2022.
[8] 2021 UN Annual Results Report, São Tomé and Príncipe. PNASE is currently funded by the WFP and the Chellaram Foundation, with efforts ongoing to secure funding for PNASE for the next school year.

expenses in the past few years would be a useful step, following by. efforts to increase capacity to address under-execution.

- ***Boosting efficiency of social spending.*** With limited public resources and competing priorities of different social sectors, social spending should be used efficiently and targeted appropriately. Based on the social context of São Tomé and Príncipe, developing strategies and better utilizing social spending to tackle the unemployment and inequality is crucial. Efforts to strengthen institutions, combat corruption, and improve governance could support increased efficiency of social spending.

- ***Prioritization of social spending will need to continue post-COVID.*** The need for adequate social spending will remains even when the impact of pandemic eventually fades. Therefore, efforts to create fiscal space and utilize external financing sources for social spending should continue.

Figure 1. São Tomé and Príncipe: Panel on Poverty Indicators

Sources: IMF FAD Social Protection & Labor - Assessment Tool (SPL-AT); World Development Indicators; IMF staff calculations

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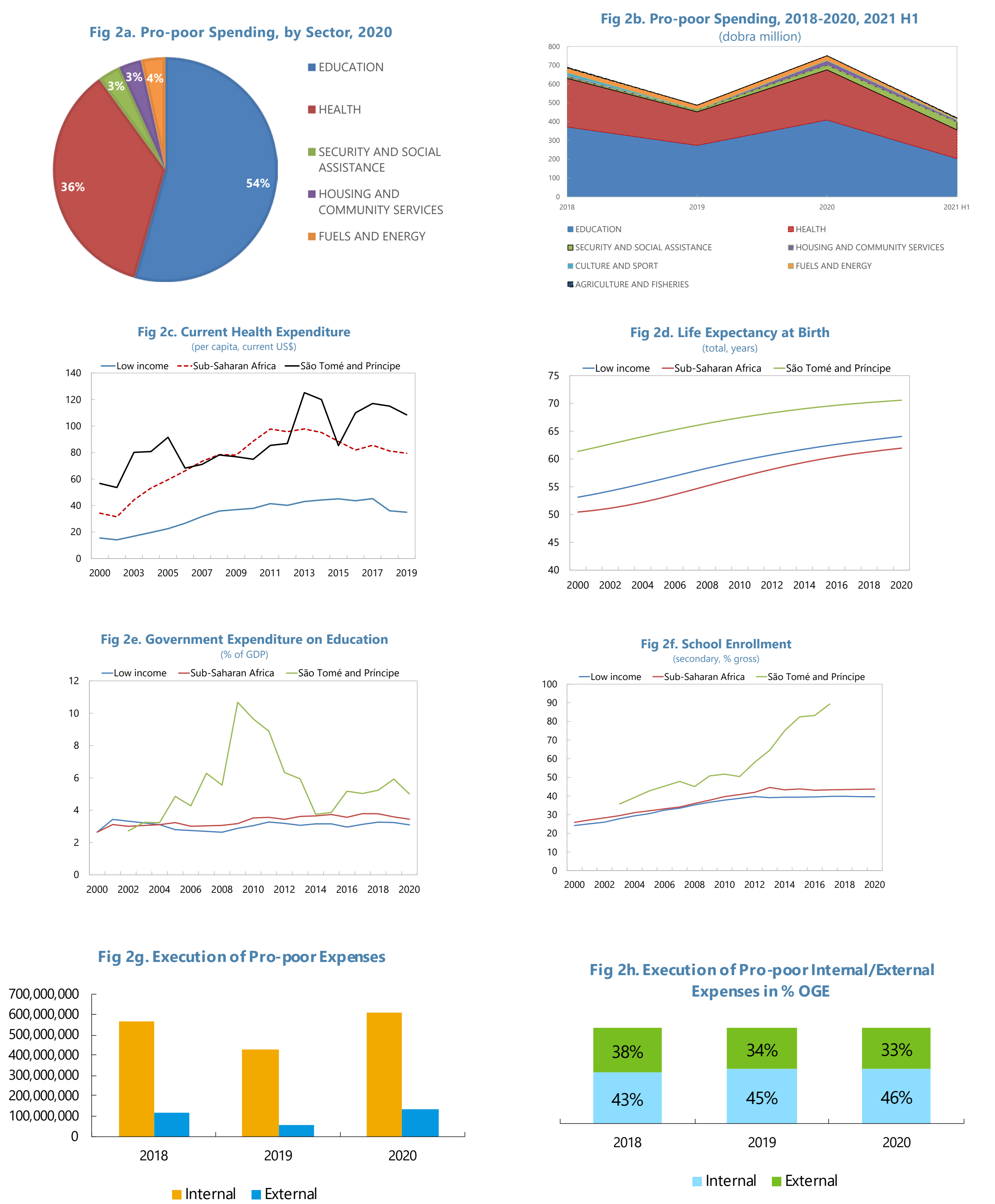
Figure 2. São Tomé and Príncipe: Panel on Social Spending Indicators



Sources: Data from the authorities; World Development Indicators; IMF staff calculations.

Appendix I. Letter of Intent

São Tomé, August 04, 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 (STP) requests the IMF Executive Board to complete the fifth review of the program supported by the Extended Credit Facility (ECF) arrangement and approve the sixth disbursement based on performance under end-December 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.

Program implementation has remained steadfast since the conclusion of the fourth review in March 2022. We observed all of the quantitative performance criteria (QPC) for end-December 2021. In the preliminary assessment of March 2022 indicative targets, the program remains broadly on track. There was a temporary breach of the continuous PC of zero ceiling on external arrears by US$ 0.2 million in March due to liquidity problems. We would like to request that the IMF Executive Board approve a waiver of nonobservance of the continuous PC on non-accumulation of external debt service arrears considering corrective actions.

Additionally, as a sign of our commitment to the program, we will complete four prior actions for the fifth review. While implementation of VAT got delayed from the initial timeline to negotiate the information technology contract, we remain committed to implementing the VAT in October 2022. To this end, as our first prior action, started implementation of the VAT awareness and communications public information campaign. Moreover, as our second prior action, to strengthen financial supervision, improve governance and oversight, we will also submit the revised financial institutions law to the government. For the third prior action, we settled debt service payments and issued a ministerial order to prioritize debt service payments. For the fourth prior action, as a demonstration of our commitment to transparency, the Auditor General published the 2020 COVID-19-related spending audit report.

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.

In the absence of direct trade links to Russia and Ukraine, the main channel of impact from the war for STP is from higher international food and fuel prices, which are weighing on domestic inflation and delay the economic recovery to 2023. Vaccinations for COVID-19 are proceeding as planned. However, growth slowed to an estimated 1.9 percent in 2021 from 3 percent in 2020, weighed down by the spread of new COVID-19 variants and compounded by power outages and floods at end-December 2021.

In a difficult context, there were delays in implementing structural benchmarks through end-December 2021, and we are committed to achieve the prior actions, including on submitting the revised financial institutions law to the government. We have started implementation of the VAT awareness and communications public information campaign. 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. Progress is being made in strengthening the central bank and in advancing the implementation of outstanding safeguards assessment recommendations. In addition, we will continue to rely on the automatic fuel price adjustment mechanism with price smoothing 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, and March 2022 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, August 27, 2021, and March 30, 2022.** 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 end-December 2021 floods and the war in Ukraine.

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 met all quantitative performance criteria (QPCs) for end-December 2021. Due to liquidity problems, there was a temporary breach of the continuous PC of zero ceiling on external arrears by US$ 0.2 million in March 2022. Due to capacity constraints and the COVID pandemic, progress in implementing structural benchmarks has been slow.

3. **Despite 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. Our plan to vaccinate more than 70 percent of the population by mid-2022, supported by the COVAX initiative and the World Bank, is on track. As of June 2022, we have vaccinated 57 percent of the population with at least one dose, of which 44 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 and the impact of the war in Ukraine.

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. The COVID-19 pandemic exacerbated long-standing socio-economic vulnerabilities, which are further compounded by persistent energy shortages, the floods at end-2021, and a sharp increase in global food and fuel prices following the Russian invasion of Ukraine in 2022.

- Growth is estimated at 1.9 percent in 2021, down from 3 percent in 2020, due to disruptions caused by power cuts. Growth is expected at around 1.4 percent in 2022, a downward revision compared with the previous forecast of 2.3 percent, reflecting the impact of higher international commodity prices, higher freight and transportation costs, and disruptions in agriculture and fishing sectors.

- Inflation reached an eight-year high in May 2022, mainly reflecting the sharp increase in the prices of imported commodities. Inflation rose to 14.9 percent (y/y) in May 2022, up from 9.5 percent in December 2021. A combination of factors explains this development, including the depreciation of the dobra exchange rate vis-à-vis the US dollar and the increase in international commodity prices (food and oil) and transportation costs. Inflation could reach 16.7 percent (y/y) by end-December 2022.

- Fiscal performance remained prudent. We accommodated COVID-related and social spending needs and implemented other expenditure containment measures to offset shortfalls in tax revenues. As a result, the domestic primary balance (DPB) has remained stable at 3.2 percent of GDP in 2021.

- The current account deficit worsened to 11.3 percent of GDP in 2021, reflecting increases in fuel imports, and a slow recovery in tourism. Gross international reserves, excluding the NOA account and commercial bank deposits, reached US$ 61.8 million.

- With the recent review of the public debt stock, 2021 public debt is expected to increase to 91.7 percent of GDP[1], largely reflecting the fiscal performance.

6. Considering the impact of the recent floods, we are prioritizing 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. We are actively pursuing project grant financing to meet the priority emergency reconstruction needs focused on collapsed bridges, a clean water supply, and affected businesses (estimated at about US$ 7-8 million). 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. In anticipation of the forthcoming donors' support, we borrowed part of the SDR allocation US$ 5 million from BCSTP for rehabilitation of streets,

[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.

acquisition of medicines and medical equipment, and reconstruction of schools and the court of auditors in Q1 2022.

7. **While the pandemic and uncertain macroeconomic conditions negatively impacted the banking sector in 2020, financial sector conditions show some signs of improvement in end-2021 and Q1 2022.** Banks remain adequately capitalized and, systemwide NPLs, although still high at about 30 percent in Q1 2022, are expected to improve as two new regulations on capital adequacy and asset classification started to be implemented in end-April 2022. Credit growth to the private sector remained low, despite ample liquidity.

PROGRAM PERFORMANCE

8. **We have made steady progress under the ECF program in 2021.** We met all QPC targets and three out of four indicative targets (IT) for end-December 2021. While tax revenue underperformed the IT at end-December 2021 due to slow revenue collections amid electricity blackouts, we contained non-priority spending and met the DPB QPC target. Preliminarily, program performance for end-March 2022 remained broadly on track, except missing the ceiling on non-accumulation of new external debt service payment arrears by US$ 0.2 million, which was breached for the second time in March 2022 and fully paid in June 2022. The first time the target was breached in September 2021 and paid in October 2021.

9. **We are making progress on structural reforms.** Governance measures regarding COVID-19 spending are being gradually implemented. The Auditor General published the 2020 COVID-19-related spending audit report (**prior action**). We also published 40 percent of procurement contracts with no objection from COSSIL and will continue publication on a regular basis. We are implementing the VAT awareness and communications public information campaign (**prior action**) and we are on track preparations to start VAT collection in October 2022. We will submit a revised financial institutions law to the government (**prior action**). We faced delays in implementing the LED program due to delayed shipments from China caused by the spike in COVID case and related confinement measures.

OUTLOOK, RISKS AND STRATEGY

10. **The outlook remains challenging.** Real GDP is expected to grow at about 1.4 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 2025, and public debt to remain on a declining path. Pressures from rising food and fuel prices are expected to delay improvements in the current account in the near term. 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) 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 (US$4.3 million), 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 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 war in Ukraine, 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, higher international commodity prices, 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 tightening the monetary policy stance to support the peg in the face of the high inflation; (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 contain inflationary pressures, vaccinate, and protect the most vulnerable.** We intend to continue targeted social programs to protect the most vulnerable, support

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

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 and are committed to delivering on the 2022 annual DPB target of -2.8 percent of GDP. Following protracted negotiations with labor unions and in the face of fast raising costs of living, costs, we granted wage supplements to civil servants in the lowest income bracket, estimated about 0.8 percent of GDP. To accommodate this additional spending within approved 2022 budget limits, we are taking following actions:

- We are implementing the freeze on hiring of new public servants which was approved in February 2022, to contain personnel costs within the spending limits.

- We are also strictly monitoring overtime spending of line ministries.

- We are curtailing non-essential administrative spending (by about 0.2 percent of GDP) and domestically financed capital spending (by about 0.5 percent of GDP), compared to the fourth review.

- To further safeguard the medium-term fiscal consolidation path, we have identified new revenue measures that would generate about 0.7 percent of GDP in 2023, including a new income tax bracket, presumptive tax on small businesses, taxation of alcoholic beverages, and stronger administrative efforts for audits and e-invoicing. Depending on the timing of their implementation, these measures could generate about 0.3 percent of GDP in additional revenue in 2022.

- We started implementation of the VAT awareness and communications public information campaign (Prior Action).

- We will introduce the VAT at a 15 percent rate by September 2022 (structural benchmark).

- We issued a ministerial order to prioritize external debt service payments (Prior Action).

- We will continue relying on the automatic fuel price adjustment mechanism with a price smoothing and maintain retail fuel prices aligned with international markets over the medium term (continuous structural benchmark) to prevent losses to ENCO and contain fiscal risks.

16. We also intend to maintain pro-poor indicative spending targets and to further cushion the impact on the most vulnerable households we will increase cash transfer programs, supported by the WB. In March 2022, the World Bank Board approved additional financing of US$ 8 million for the Social Protection and Skills Development Project (SPSD) in Sao Tome and Principe (STP), bringing the total financing commitment to US$ 18 million. This grant financing covers 16,000 households who represent 50 percent of the poor population in the country and will also cover the

8,000 households who are falling into poverty due to the impact of COVID-19. Beneficiaries of the program will receive a monthly cash transfer value of STD 900.00 (approximately US$44.0). We are also collaborating with World Food Programme (WFP) in school feeding program, targeting 25 percent of the total population. The government's National School Feeding and Health Programme (PNASE) covers 50,000 schoolchildren and aims to provide hot meals to children in proper sanitary conditions. WFP supports school feeding activities of 40 percent of these schoolchildren across different districts.

17. Over the medium term, we will continue implementing policies agreed under the program to approach a balanced DPB position by 2025. 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, by limiting new hiring to maintain the total number of civil servants broadly unchanged over time through attrition rules, strictly controlling overtime spending, 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.

- We will also work towards: (i) tracking periodically the number of government employees and total compensation paid to these employees; and (ii) monitoring the composition of pay (base wages, bonuses, overtime, social security contributions), the areas of employment (by functional classification), the type of employment (full time or part time), and the type of worker (service, professional or managerial). Once we compile this information, we will enhance wage bill management through improved budget preparation and wage bill forecasting; monitor wage and employment over the medium term consistent with fiscal objectives; engage in better workforce planning; and design and evaluate wage and employment measures aimed at improving service delivery. We will request technical assistance from the Fund in this area.

- 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. The adjustment in the stamp tax decree to fully align with the VAT has been approved by the Council of Ministries and is ready for enactment by the President. Furthermore, Customs and Tax Directorates agreed technical understandings on

applicability of the VAT law at customs collection points, which issued in March in the ministerial order n. 17/2022. We started implementation of the VAT awareness and communications public information campaign to inform the public **(prior action)**, starting VAT collection in October 2022.

19. IT system preparations are under way for introducing the VAT in October 2022 (Structural Benchmark). The contract signed with the IT developer to roll out the VAT IT platform at the Tax Directorate, supported by the World Bank 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. The first module of the VAT IT system for taxpayers' registration was validated by the Tax Directorate in March and the second and third modules are under development according to the timeline established in the original project workplan.

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:

- 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 and this practice will continue for the 2023 budget cycle.

- 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. We took actions to ensure the timely service of external debt including by issuing a ministerial order to prioritize external debt service payments. To this end, we published the calendar of treasury bills auctions in February 2022.

- 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.

- 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.

23. Strengthening fiscal transparency and reducing vulnerabilities to corruption continuous to be our key priority:

- 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. The COVID-spending report covering the period August-December 2021 was published in February 2022 and the report covering first semester of 2022 was published on July 25, 2022.

- We are committed to continue enforcing these high transparency standards. Thus, we will continuously 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 beneficial ownership information for companies awarded public procurement contracts 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 published the 2020 COVID-19-related spending audit report on June 28th, 2022 **(Prior Action)**. The auditing has been concluded in December 2021 and final institutional consultations were completed in April. The report was finalized in May upon approval by the Auditor General Board.

- 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 contract signed by the line ministries. With the World Bank's support, a webpage for COSSIL is currently under development on prototype stages and we expect it to be launched August 2022. The new platform 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$10 million (Dobras 207.2 million) to meet pandemic related spending needs, repairs of the power grid, renovations of hospitals, schools, and roads. In face of the flood-related state of emergency and in anticipation of expected disbursements, we borrowed US$ 5 million out of the remaining SDR allocation in Q1 2022 for rehabilitation of streets, acquisition of medicines and medical equipment, and reconstruction of schools and the court of auditors. We repaid BCSTP US$2.5 million in April. We intend to keep the remainder of the SDR allocation US$ 7.5 million to support reserves 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 address the recent increase in inflation and support the peg, the BCSTP will ensure active management of liquidity in the banking sector and a tight monetary policy stance. The monetary policy committee met on June 13, 2022, and took the following monetary policy tightening measures to curtail inflation: (i) resuming the issuance of CDs at a variable rate to absorb excess

liquidity in the system; (ii) increasing the reference interest rate from 9 percent to 10 percent; (iii) raising the interest rate of the BCSTP liquidity facility from 9.5 percent to 10.5 percent; (iv) increasing the reserve requirements in domestic currency from 18 percent to 28 percent. The government and the BCSTP agreed to form a joint working group to develop the BCSTP recapitalization strategy, and the BCSTP will ask for TA in this area. Increasing international reserve buffers is critical given the persistence and magnitude of external shocks. As a reserve support and to meet essential import-related needs, we have requested activation of the short-term credit line up to US$ 15 million with the Portuguese government.

27. To improve monetary policy management, we will continue strengthening the coordination of monetary and fiscal policies. We have completed the reconciliation for 2020, 2021, and Q1 2022 fiscal and the BCSTP financing data and we will continue this practice of regular reconciliations.

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

1) *Approval of BCSTP Organic Law*. We submitted the law to Parliament in February 2022, and we expect the approval by end-September 2022.

2) *Implementation of International Financial Reporting Standards (IFRS)*. We started to make progress on this front and received TA from the IMF in April 2022. We are aiming to complete data compilations using the IFRS standards by end-April 2023.

3) *Audit of Financial Statements:* The 2020 external audit of BCSTP's financial statements was delayed due to the pandemic. External auditors completed the audit in end-May 2022. We plan to share the audited accounts and accompanying management letter with the Fund soon.

4) *Addressing legacy debts*. We will finalize a memorandum of understanding between MoF and BCSTP on legacy government debts in the coming months. 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 following IMF TA inputs and send it to the Government **(prior action)**.

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. The BCSTP paid half of the overdue membership fees in December 2021 and the government will pay the remaining amount in the coming months.

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 was 30.5 percent in Q1 2022. In addition, the level of provisioning in the banking sector was about 90 percent until Q1 2022. Two new regulations approved and issued in October 2021 went into effect in end-April 2022 and 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. Credit growth to the private sector remains low, despite ample liquidity.

30. Efforts to strengthen supervisory capacity, which had slowed due to pandemic constraints, are resuming. With the support of AFRITAC technical assistance, we completed the drafting of the Manual on Banking Supervision. BCSTP staff resumed field testing for the Risk Management Manual in May 2022. We plan to discuss recommendations from field testing with the BCSTP Board before finalizing both manuals on Banking Supervision and Risk Management.

31. 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 on January 11, 2022, canceled the authorization to operate Energy Bank effective as of January 17, 2022, following unsuccessful attempts to implement reorganization and resolution measures. Energy Bank was referred to the courts for bankruptcy and liquidation in August 2022. We expect to complete this process in 2022.

- **Banco Equador's** liquidation process is ongoing. The liquidator confirmed that the process of submitting the debtors' cases to the court continues, although limited human resources, a complex legal framework, and recent delays in appointing a new judge to oversee the case 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 was extended until March 31, 2022. A total of two buildings were sold, and efforts continue to sell the remaining fixed assets. We intend to accelerate the liquidation process and complete it in 2022.

- For **Banco Privado**, a process has been underway to negotiate the assets between the shareholders and the Board of the BSCTP. An agreement with the shareholders was reached in June 2022 and we expect to conclude this process in 2022.

32. 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.

Exchange Restrictions

33. **The IMF Executive Board granted temporary approval of exchange restrictions and a multiple currency practice.** The IMF Executive Board granted temporary approval of these measures in March 2022 for 12 months, or until the next Article IV consultation, whichever is sooner.

D. External Debt

34. **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.

35. **The government is implementing measures to strengthen debt management.** We will develop medium-term public debt management strategy and prepare the annual borrowing plan. With the support from the World Bank, we are developing a debt database that will improve our capacity to perform debt service projections and risk analyses and report detailed debt stock.

E. Managing Fiscal Risks from Loss-Making SOEs

36. **We have been relying on the automatic fuel price adjustment mechanism with price smoothing to prevent implicit subsidies to ENCO and generate budget revenues.** Since early 2020 and until 2021, São Tomé and Príncipe 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). However, the price differential turned negative in 2022, following delayed adjustments in retail fuel prices.

Text Table 1. São Tomé and Príncipe: Actual Revenues from Fuel Price Differential
(In Millions of Dobras)

	2020	Jun 2021	Sep 2021	Dec 2021	Apr 2022
	Act.	Act.	Act.	Act.	Est.
Import Taxes	571	274	420	531	187
General Import Taxes	265	113	207	230	105
Fuel Surcharge	**198**	**107**	**157**	**264**	**117**
Gasoline	113	58	86	145	48
Diesel	85	49	71	119	69
Kerosene	0	0	0	0	0
Fuel Price Differential	**108**	**54**	**56**	**36**	**-35**
Arrears Payment to ENCO	**85**	**54**	**77**	**67**	**0**

Source: GAMAP. Staff elaboration

37. We implemented comprehensive retail fuel price adjustment in April 2022. We increased retail prices for gasoline and diesel by 17 and 20 percent, respectively, and reduced fuel tax surcharges within the price formula to prevent implicit fuel subsidies to ENCO. This combination of increasing retail prices and reducing tax surcharges was sufficient to fully offset the ENCO losses calculated at the international fuel prices of US$ 86 per barrel.[3] However, subsequent fuel shipments in late-April reached price of US$ 108 per barrel.

38. As higher international fuel prices prevail in the markets, additional domestic fuel price adjustment will be considered in accordance with the automated price adjustment mechanism with a price smoothing. We are closely monitoring international fuel price developments and considering various scenarios for domestic price adjustments to mitigate fiscal risks and higher ENCO losses.

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 2.).	**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 1. Below)**
Objective 4: Reform tariff structure and strengthen regulatory framework.	**Target:** Gradually achieve a cost-reflective tariff structure by 2024.

[3] This policy was scheduled to be implemented at a lower level starting on January 1, 2022, but had to be suspended after the floods. The April 1st policy change therefore implemented a higher increase in retail prices and stronger reduction in surcharge tax rates to account for the continued upward trend in the international markets.

Table 1. São Tomé and Príncipe: Energy Sector Indicators and Targets

(In percent)

	Baseline		Target	
	2020	Dec-21	Dec-22	June-23
Reducing loss (commercial + technical)	33	33.6	29	23
Raising bill collection rate	91	n.a.	93	95
Reducing diesel loss	6.3	6.3	5	

Source: EMAE and MPFEA.

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-August 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 Q3 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.

Table 2. 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

Table 2. São Tomé and Príncipe: EMEA/Energy Sector: Expected Key Actions and Timeline, 2021 (Concluded)

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. Operational difficulties in the Chinese factory due to spike in COVID cases have delayed fabrication to July/August. LED bulbs expected to arrive in STP in the third quarter of 2022 for distribution.	end-August 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. Contracts were recently signed, and the government is awaiting first disbursement from EIB to initiate execution.	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

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 drafting the Fourth National Communication Report on Climate Change to comply with the UNFCC obligations.

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, and we now expect to have the plan completed by end-September 2022 (Structural Benchmark). To this end, we are preparing project agreement with international air safety regulator (ICAO) to support regulatory reforms with milestones defined for next 18 months. We are also updating laws and regulations to bring them in-line with EU guidelines and providing training to staffs. However, securing funding commitments for airport infrastructure upgrades are still pending.

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.

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 3) and structural benchmarks (Table 4). 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 sixth review should be completed on or after October 15, 2022.

Table 3. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2021-22

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

	2021								2022				
	Sept.				Dec.				March				June
	Indicative Target				Performance Criteria				Indicative Target				Performance Criteria
	Third Review	With Adjusters	Prel.	Status	Third Review	With Adjusters	Prel.	Status	Fourth Review	With Adjusters	Prel.	Status	Fourth Review
Performance Criteria:													
Floor on domestic primary balance (as defined in the TMU) [1]	-300	-326	-278	Met	-379	-405	-339	Met	-125	-155	-93	Met	-162
Ceiling on changes in net bank financing of the central government (at program exchange rate) [2, 3, 4]	300	379	340	Met	354	456	307	Met	125	200	94	Met	162
Floor on net international reserves of the central bank (US$ millions) [1, 3]	24	24	33	Met	23	23	31	Met	27	23	25	Met	28
Ceiling on the accumulation of central government's new external payment arrears (US$ millions) [4, 5, 6, 7]	0		0.3	Not met	0		0	Met	0		0.2	Not met	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	Met	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	-30		-37.6	Met	-60		-98	Met	0		-23	Met	-20
Floor on pro-poor expenditures	450		709	Met	600		912	Met	157		192	Met	315
Floor on tax revenue	1050		986	Not met	1400		1325	Not met	310	310	381	Met	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]	7		0	Met	9		0	Met	0		0	Met	0
Memorandum Items:													
Ceiling on dobra base money (stock)	1,520		1,828		1,586		1885		1,960		1933		1,925
Transfer from NOA to the budget (US$ millions)	3.0		3.1		3.2		3.1		2.6		0.1		2.6
Net external debt service payments [10]	98		37		130		65		41		20		82
Official external program support [10]	105		114		261		371		156		0		262
IMF program disbursement	56		114		112		114		59		0		59
Budget support grants	49		0		149		257		97		0		203
Domestic arrears clearance (-, exclude debt payment to ENCO)	-10		-38		-73		-13		…		-57		…
Treasury-funded capital expenditure	20		10		30		13		15		104		34
Ceiling on personnel expenses	770		734		1,070		998		264		236		528

Sources: São Tomé and Principe 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

Table 4. São Tomé and Príncipe: Structural Benchmarks

Policy Objectives and Measures	Timing	Status	Description	Macro Rationale	TA Involved
Prior Actions					
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.	August 2022			To strengthen financial supervision and improve governance and oversight	LEG
Start to implement VAT awareness and communications public information campaign	August 2022			To enhance revenue	With World Bank support
Settle delayed debt service payments and issue ministerial order to prioritize debt service payments.	August 2022			To avoid repeated delays in the external debt service.	No TA involved
Finalize and publish the 2020 COVID-19 related spending audit report	August 2022			Improve accountability	No TA involved
Strengthening Public Finances					
Implement VAT awareness and communications public information campaign (MEFP ¶18)	End-June 2022	Not met. Prior action		To enhance revenue	With World Bank support
Introduce the VAT at a 15 percent rate according to the October 2019 law (MEFP ¶15)	End-September 2022		The World Bank approved VAT IT contract in mid-November 2021. The IT system development is on track.	To enhance revenue	With World Bank support
Continue relying on the automatic fuel price adjustment mechanism with a price smoothing and maintain retail fuel prices aligned with international markets over the medium term (continuous SB) to prevent losses to ENCO and contain fiscal risks (MEFP ¶16)	Continuous	End-December: Not met.	Comprehensive fuel price adjustments were implemented in April 2022.	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.	Procurement documents are collected manually in absence of the automated system. Substantial progress was made in publication of procurement documents in the Q1 2022 - about 40 percent of all contracts with no objection from COSSIL in 2021. With the World Bank support, a webpage for the procurement agency COSSIL is currently under development on prototype stages and we expect it to be launched August 2022. The new platform will expedite the publication of procurement documents and facilitate management and transparency over public contracts.	To increase transparency and accountability	No TA involved
Enhancing Monetary Policy and Financial Stability					
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-June 2022	Not met. Prior action		To strengthen financial supervision and improve governance and oversight	LEG
Facilitating Business Activities and Energy Efficiency					
Develop a plan to remove the country from the European Union's Air Safety blacklist (MEFP ¶43)	End-September 2022		The authorities are preparing project agreement with international air safety regulator (ICAO) to support regulatory reforms with milestones defined for next 18 months.	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-June 2022	Not met. Rescheduled to end-September 2022.	Operational difficulties in the Chinese factory due to spike in COVID cases have delayed fabrication to July/August. LED bulbs expected to arrive in STP in the third quarter of 2022 for distribution.	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 the form of assets

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

(including currency) or services 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.

Text Table 1. 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	5.0	million US dollars
European Union	3.0	5.2	0.0	4.3	4.1	4.1	million euros
African Development Bank	0.0	13.5	1.8	0.0	3.7	3.7	million UA
IMF ECF program	0.0	3.4	1.9	3.8	1.9	3.8	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 2021 based on ***hypothetical outturns*** would be -339 million new dobras, broken down as follows:

Text Table 2. São Tomé and Príncipe: Domestic Primary Balance
(2021, millions of new dobras)

		2021		
		ECF Fourth Rev.	Revised Est.	Diff.
I	Total Revenue (=1+2)	1,634	1,604	-30
I.A	***of Which: Government Domestic Revenue (=I –2.1+3)***	1,548	1,529	-19
1	Tax revenue	1,347	1,325	-21
1.1	*Of which:* oil price differential	60	68	7
2	Nontax revenue	287	278	-9
2.1	*of which: oil revenue*	*9*	8	-1
3	Amortization of debt to ENCO	-77	-68	10
II	Total Domestic Expenditure (=4+5+6+7)	2,137	1,890	-246
II.A	***Of which: Domestic Primary Expenditure (=II –4.2)***	***2,094***	***1,867***	-227
4	Current expenditure	1,896	1,823	-73
4.1	Personnel costs	1,090	997	-93
4.2	Interest due	43	23	-20
4.3	Goods and services	209	260	51
4.4	Transfers	329	335	6
4.5	Other current expenditure	225	207	-18
5	Domestic capital expenditure	38	13	-25
5.1	Financed by the Treasury	38	13	-25
5.2	Financed by privatization proceeds	0	0	0
6	HIPC Initiative-related social expenditure	37	11	-26
7	COVID-19 spending financed by the Treasury 1/	165	44	-121
III	**Domestic Primary Balance (= I.A–II.A)**	**-546**	**-339**	208

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.

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-2021, outstanding net bank financing of the central government (excluding NOA) was 790 million new dobras and change in net bank financing was 307 million new dobras as illustrated below.

Text Table 3. São Tomé and Príncipe: Net Bank Financing
(Millions of new dobras)

		2020	2021
I	***Net Credit to Government by the BCSTP (=I.1-I.2)***	***(132)***	***335***
I.1	BCSTP credit, including use of IMF resources:	280	500
I.2	Government deposits with the BCSTP (excluding NOA)	412	165
	Treasury dobra-denominated accounts	76	42
	Treasury foreign currency-denominated accounts (excl'g NOA)	273	51
	Counterpart deposits	63	72
II	***Net Credit to Government by ODCs***	***615***	***455***
II.1	ODC's credit to the government	780	723
II.2	Government deposits with ODCs	165	268
III	***Net Bank Financing of the Government (Excluding NOA) (=I+II)***	***482***	***790***
IV	***Changes During 2020 in Net Bank Financing of the Central Government (NCG)***	***(251)***	***307***

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-2021 NIR was 667 million new dobras (or $31 million, using the exchange rate of 21.68 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.

Text Table 4. São Tomé and Príncipe: International Reserves

(Millions of new dobras)

			Dec-21
I	***Gross International Reserves***		**1626**
		Cash	25
		Demand deposits	747
		Term deposits (excl. National Oil Account)	217
		Securities other than shares	671
		Accrued interest on securities	-58
		Reserve position in the Fund	0
		SDR holdings	**24**
II	***Foreign Exchange Liability***		**959**
		Short-term bilateral liabilities	22
		Liabilities to the IMF	667
		Banks' reserves denominated in foreign currency	271
		Banks' guaranteed deposits denominated in foreign currency	0
III	**Net International Reserves (NIR) (=I - II)**		**667**
IV	***Net Other Foreign Assets***		**-76**
		Other foreign assets	570
		Medium and long-term liabilities (including SDR allocation)	646
	Net Foreign Assets (III+IV)		**591**
	Memorandum Item:	National Oil Account (NOA)	**294**

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.

Text Table 5. 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 Principe 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$1.3 million in 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 2022; the adjustment down will be capped at 30 million new dobras for the first semester of 2022.[2] For program purpose, the projected privatization proceeds are 0 in 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 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 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 30 million new dobras in the first semester of 2022; 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 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;
    - (ii) by deviations upward (downward) for budget transfers from the NOA;

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

- (iii) by deviations upward (downward) of budget support grants and loans.

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.

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

August 8, 2022

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY, FINANCING ASSURANCES REVIEW AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION

Approved By
Vivek Arora and Stefania Fabrizio (IMF), and Asad Alam and Marcello Estevão (IDA)

Prepared by the staffs of the International Monetary Fund and International Development Association.

São Tomé and Príncipe: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*In debt distress*
Overall risk of debt distress	*In debt distress*
Granularity in the risk rating	*Sustainable*
Application of judgement	*No*

The country remains in debt distress due to prolonged unsettled external arrears of more than 2 percent of GDP. Staff assesses that the country has the capacity to repay the external arrears over time, despite of the mechanical risk rating of high risk for debt distress for external and public debt. While the present value (PV) of the external public and publicly guaranteed (PPG) debt-to-exports ratio breaches its threshold from 2021 to 2022 due to the COVID-19 shock, all other external PPG debt burden indicators remain below their thresholds throughout the projection horizon in the baseline scenario. The PV of total PPG debt (after accounting for the concessional terms of EMAE (a state-owned utility company) and central government debt and arrears to the country's fuel supplier, ENCO) is projected to breach the benchmark associated with a weak debt-carrying capacity[1] (35 percent of GDP) through 2024. As the downward trajectory of the public debt remains intact, predicated on the authorities' commitment to implement EMAE's planned reforms, to borrow externally only on concessional terms at a measured pace, to a gradual fiscal consolidation, and to the planned energy reforms, public debt sustainability is preserved but subject to large risks. The likelihood of contingent liabilities materializing is elevated.

[1] The thresholds are determined by the Composite Indicator (CI). São Tomé and Príncipe's CI score based on the April 2022 World Economic Outlook (WEO) and the 2020 World Bank Country Policy Institutional Assessment (CPIA) data is 2.68, corresponding to a *weak* debt-carrying capacity.

PUBLIC DEBT AND BACKGROUND

1. **Macroeconomic assumptions underlying this DSA update are consistent with the macroframework in the staff report and broadly in line with the previous DSA**. Real GDP growth is estimated at 1.9 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. In 2022, sharp increases in imported commodities, higher freight, and maritime costs are expected to weaken transportation and commercial services and slow fishing and agriculture activities. As a result, the growth is expected to decline to 1.4 percent in 2022 and headline inflation to reach about 17 percent (y-o-y) in 2022. Gross financing needs are projected to increase in 2022, mainly reflecting reconstruction needs in the aftermath of the end-December 2021 floods, which have been largely supported by grants from donors. GDP growth rates are expected to average 3.7 percent over the long term, reflecting development in tourism and infrastructure. In the medium-term, inflation is expected to decline with global prices stabilizing, and the projected average is 3.0 percent over the long term. Projections for grants over the long run are 7.4 percent of GDP on average, and domestic primary deficits are expected to average 0.4 percent of GDP. Higher projections for FDI inflows over the long run, reflecting higher projected oil related FDI based on higher oil prices. As a result of higher international food and fuel prices, imports are projected to be higher compared to the April 2022 DSA. There are some upward revisions to exports to reflect higher food prices and continued recovery in tourism with the good performance of tourism in 2022Q1. With the revisions to trade values, current account deficits are projected to be higher than the previous DSA with an average of 8 percent of GDP over the long term. With the fifth tranche of the IMF's Catastrophe and Containment Relief Trust (CCRT) 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. STP has participated in the DSSI and has formally requested participation in the final extension[2].

[2] Under DSSI, the deferred debt service was estimated at USD 4.6 million between May and December 2020 as reported by creditors in November 2020. Actual reported deferrals as per WBD/IDS as of end-2020 published in October 2021, are USD 0.6 million. The debt service to be deferred is estimated at USD 0.0 million between January to June 2021 as reported by creditors at end-June 2021. For the final extension, potential DSSI savings are estimated at USD 2.8 million, which are defined as the total debt service to all official bilateral creditors based on DOD as of end-2020 (WB IDS).

Text Table 1. São Tomé and Príncipe: Macroeconomic Assumptions

	Historical		Forecasts	
	Apr 2022 DSA	Last 4 years	Apr 2022 DSA[1]	This DSA
	2017-20	2017-20	2021-41	2021-41
Real GDP growth (percent)	3.0	3.0	3.7	3.7
Inflation (percent average)	4.3	4.3	2.8	3.0
Domestic primary balance (percent of GDP)	-4.6	-4.7	-0.6	-0.4
Grants (percent of GDP)	8.9	8.9	7.2	7.4
FDI (percent of GDP)	6.6	6.6	5.4	10.6
USD export growth (percent)	-11.9	-11.3	8.5	9.9
USD import growth (percent)	-1.7	-1.8	5.7	6.5
Current account balance, including grants (percent of GDP)	-12.0	-12.2	-5.9	-8.0
Current account balance, excluding grants (percent of GDP)	-21.1	-21.3	-9.6	-15.9

1 IMF Country Report No. 2022/95

2. **Public debt coverage remains the same as in the April 2022 DSA**. For the purpose of the DSA for São Tomé and Príncipe, PPG debt includes central government and EMAE (Empresa de Água e Electricidade, a state-owned utility company) debt.[3,4] EMAE has been accumulating arrears over the years to its fuel supplier, ENCO (Empresa Nacional de Combustíveis e Óleos), totaling 26.3 percent of GDP at end-2021 The public-sector debt coverage is comprehensive albeit not yet complete (Text Table 2). Three state owned enterprises (SOEs) besides EMAE— ENAPORT, ENASA,

Text Table 2. São Tomé and Príncipe: Public Debt Coverage Under the Baseline Scenario[1]

	Subsectors of the public sector	Subsectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	X
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	X
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

Sources: IMF and World Bank staff.
[1] Include the large loss-making utility company EMAE.

[3] The DSA includes the concessional terms of the recent restructuring of EMAE's debt to the country's fuel supplier, ENCO. ENCO is a private company owned by Sonangol (77.6 percent of capital), an Angolan state-owned company, with the government of Sao Tome and Principe owning about 16 percent of the company's share capital. In 2019, EMAE and ENCO signed an agreement on the regularization of EMAE's arrears to ENCO in the amount of $104.4 million.

[4] Consistent with the previous DSA, pre-HIPC initiative arrears to Angola ($36 million) and to Italy ($24.3 million) are excluded, since the country is making best efforts to reach an agreement consistent with the representative Paris Club agreement. It also excludes the disputable Nigeria debt (30 million), as there is no signed contract with repayment conditions between the two countries.

and *Correios*—are not included in the analysis due to lack of reliable data.[5] The DSA uses the residency-based classification on external debt. Contingent liabilities are captured in the contingent liability stress test (Text Table 3). Contingent liabilities from the other SOEs and financial markets are set at their default values. In addition, the contingent liability stress test includes disputed debt of

Text Table 3. São Tomé and Príncipe: Coverage of the Contingent Liabilities' Stress Test

1	**The country's coverage of public debt**	The central government, central bank, and government-guaranteed debt. There is no debt by social security or borrowing by extra budgetary entities.			
		Default		**Used for the analysis**	**Reasons for deviations from the default settings**
2	**Other elements of the general government not captured in 1.**	0	percent of GDP	52 for external and public DSA; 18 for a customized shock for public DSA	Includes the loan from Nigeria (5.8 percent of GDP), which is under dispute and Permanent Court of Arbitration fine (2.4 percent of GDP) for public and external DSAs to be prudent. Includes assumptions of ENCO's debt to Sonangol (43.6 percent of GDP)[2/] for external DSA and public DSA. We also show a customized ENCO shock scenario of 9.7 percent of GDP for Public DSA[3/].
3	**SoE's debt (guaranteed and not guaranteed by the government)** [1/]	2	percent of GDP	2	
4	**PPP**	35	percent of PPP stock	0	The PPP project is pre-HIPC and is excluded from the DSA analysis.
5	**Financial market (the default value of 5 percent of GDP is the minimum value)**	5	percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)			59 percent of GDP for external DSA and public DSA; alternative shock of 25 percent of GDP for public DSA.	

[1/] The default shock of 2 percent of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1).

[2/] Here we include the full size of ENCO's debt and arrears to its parent company Sonangol to capture the extreme shock of total debt of ENCO to Sonangol. While STP's government currently only owns 16 percent shares of ENCO, and Sonangol (an Angola SOE) owns around 78 percent shares of ENCO.

[3/] The customized ENCO shock scenario is based on staff estimates of the potential burden on general government finances arising from the assumption of ENCO's debt to Sonangol, after netting out any related debts that are already included in the baseline, which is shown as the pink dotted lines in Figure 2.

Sources: IMF and World Bank staff.

[5] ENAPORT and ENASA continue to improve data collection efforts, and the scope of the debt coverage is expected to be expanded in the DSAs in the future.

$30 million owed to Nigeria. The authorities maintain that its repayment was conditional on oil revenues, which have no near-term prospect for materialization. Estimated fines of $12.4 million (2.4 percent of GDP) imposed by the Permanent Court of Arbitration after its ruling on the country's seizure of a Maltese ship in 2013 are also included in the shock. Pre-HIPC arrears are excluded. Finally, the contingent liability shock also includes assumptions on ENCO's external debt and arrears to Sonangol, estimated at $226 million (43.6 percent of GDP) in 2021. Total PPG debt reached around 92 percent of GDP in 2021, including external debt of 45 percent of GDP (Text Table 4).

Text Table 4. São Tomé and Príncipe: Decomposition of Public Debt and Debt Service by Creditor, 2020-22[1]

	2021			Debt Service					
	(In US$ mil)	(Percent total debt)	(Percent GDP)	2020 (In US$ mil)	2021 (In US$ mil)	2022 (In US$ mil)	2020 (Percent GDP)	2021 (Percent GDP)	2022 (Percent GDP)
Total	475.1	100.0	91.7	5.1	3.2	12.2	1.1	0.6	2.4
External	231.1	48.6	44.6	2.6	0.0	7.6	0.5	0.0	1.5
Multilateral creditors[2]	82.6	17.4	15.9	1.7	0.0	2.8	0.4	0.0	0.5
IMF	31.9	6.7	6.2						
World Bank	11.3	2.4	2.2						
ADB/AfDB/IADB	19.0	4.0	3.7						
Other Multilaterals	20.5	4.3	4.0						
o/w: Arab Bank for Economic Development in Africa	13.4	2.8	2.6						
o/w : International Fund for Agricultural Development	4.8	1.0	0.9						
Bilateral Creditors	114.2	24.0	22.1	0.8	0.1	4.8	0.2	0.0	0.9
Paris Club	5.1	1.1	1.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Belgium	0.8	0.2	0.2						
Non-Paris Club	109.1	23.0	21.1	0.8	0.1	4.8	0.2	0.0	0.9
o/w: Angola	52.7	11.1	10.2						
o/w: Portugal	56.4	11.9	10.9						
o/w: Nigeria[3]	0.0	0.0	0.0						
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	34.3	7.2	6.6	0.0	0.0	0.0	0.0	0.0	0.0
o/w: China	10.0	2.1	1.9						
o/w: Italy [4]	24.3	5.1	4.7						
Domestic	244.0	51.4	47.1	2.5	3.2	4.7	0.5	0.7	1.0
Held by residents, total	NA	NA	NA						
Held by non-residents, total	NA	NA	NA						
T-Bills	27.6	5.8	5.3						
Bonds	0.0	0.0	0.0						
Loans	216.3	45.5	41.8						
Memo Items:									
Collateralized debt[5]	0.0	0.0	0.0						
o/w: Related	0.0	0.0	0.0						
o/w: Unrelated	0.0	0.0	0.0						
Contingent liabilities[6]	119.3	25.1	25.0						
o/w: Public guarantees	0.0	0.0	0.0						
o/w: Other explicit contingent liabilities[7]	0.0	0.0	0.0						
Nominal GDP	518			477	518	506			

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

3/ Individual creditors accounting for more than 5 percent of total debt. The debt with Nigerian is disputed so it is not included in the DSA.

4/ Commercial loans with Italy are classified as technical external arrears and excluded in the DSA.

5/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

6/ As defined in the customized contingent liabilities stress test, contingent liabilities are estimated at 25 percent of GDP for public DSA. Contingent liabilities are estimated at 59 percent of GDP for the extreme shock scenarios for external and public DSA.

7/ Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

3. **São Tomé and Príncipe continues to be assessed as having weak debt-carrying capacity.** Based on the April 2022 WEO macroeconomic indicators and World Bank's 2020 Country Policy and Institutional Assessment (CPIA), the country's Composite Indicator (CI) score is 2.675, below the lower cut-off value of 2.69, indicating a weak debt-carrying capacity rating[6] (Text Table 5).

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[6] The authorities are strengthening debt management. As part of the World Bank's SDFP (Sustainable Development Finance Policy) framework, one of the performance and policy actions (PPA) was to not enter into any contractual obligations for new external non-concessional debt. This has been implemented successfully. Moreover, to strengthen domestic revenue, the authorities has approved the excise tax code and issues the VAT refund regulations.

Text Table 5. São Tomé and Príncipe: Classification of Debt Carrying Capacity

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Weak	Weak	Weak	Weak
	2.675	2.673	2.663

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

4. **The DSA incorporates the costs and risks of natural disasters in the tailored natural disaster stress test.** São Tomé and Príncipe is vulnerable to natural disasters that are influenced by climatic factors. Floods frequently affect this island nation with heavy rainfall events and storms, which could cause soil erosion, landslides, increase the risk of waterborne diseases, and decrease crop production. The tailored stress test assumes a one-off natural disaster shock of 10 percent of GDP to external PPG debt-GDP ratio in the second year of the projection period, with associated real GDP growth shock of 1.5 percent of GDP and associated exports growth shock of 3.5 percent of GDP. The results of our analysis indicate that, by the end of 2026, a natural disaster shock may increase PV of public debt-to-GDP ratio from 56 percent of GDP under the baseline scenario to 62 percent of GDP under the stress-test scenario, and PV of external debt-to-GDP ratio will increase from 21 percent of GDP under the baseline scenario to 26 percent of GDP under the stress-test scenario.

RISK RATING AND DEBT SUSTAINABILITY

5. **São Tomé and Príncipe continues to engage actively with bilateral creditors to regularize post-HIPC arrears, the debt distress rating reflects the ongoing regularization of external arrears.** In total, post-HIPC arrears stood at 2.1 percent of 2021 GDP (US$10.7 million), which are to Angola (US$4.8 million), Brazil (US$4.3 million), and Equatorial Guinea (US$1.7 million). An agreement with the Brazilian government was reached, pending ratification by the Brazilian Senate. The government has also actively sought debt rescheduling agreements with Angola and Equatorial Guinea through correspondence and high-level meetings and reached some progress with technical steps. These post-HIPC arrears are reflected in the debt stock. Staff assesses that São Tomé and Príncipe has the capacity to repay these arrears over time as long as the country implements reforms to the lossmaking state-owned enterprise, EMAE, and continues to borrow externally at concessional terms.

6. **Despite the debt distress rating, the DSA indicates that total external PPG debt is sustainable under the program baseline.** Under the baseline scenario[7], the external PPG debt stock and debt service ratios remain below the DSA threshold values throughout the projection horizon, except for some temporary breaches (Figure 1). The PV of PPG external debt-to-GDP ratio remains below the threshold of 30 percent throughout the period, and the PV of PPG external debt-to-exports ratio remains below the threshold of 140 percent of GDP from 2023 onward. The improvement of the solvency indicators and liquidity indicators over the medium term reflect fiscal consolidation, cautious external borrowing, economic growth, and an improved current account balance. The positive medium-term macroeconomic outlook helps to support debt sustainability, as growth is projected to recover and reach 4 percent in the medium term, supported by better infrastructure and a stronger potential for tourism. Fiscal consolidation is also an essential element to maintain debt sustainability. The authorities remain committed to a gradual fiscal consolidation, including implementation of revenue measures and expenditure measures aimed at achieving DPB goals, such as improving management of capital spending projects, curtailing non-essential administrative spending, and VAT reforms. In addition, energy reforms[8] with continued reliance on the fuel price adjustment mechanism with price smoothing would help to prevent implicit fuel subsidies and contain fiscal and debt risks. The liquidity indicators remain below their threshold values of 10 and 14 percent for the debt service-to-exports and debt service-to-revenue ratios respectively. Like the solvency indicators, the liquidity ratios also improve over time reflecting higher exports and revenues. Compared to the previous DSA, the upwards revisions to exports have lowered PV of debt-to-exports and debt service-to-exports ratios, which help to lower liquidity risks and have led to smaller debt threshold breaches. These results suggest that the external PPG debt is sustainable. However, risks of external debt are considerable as the indicator of external debt-service-to-exports ratio of the baseline scenario is dangerously close to its threshold, and baseline scenarios diverge considerably from historical scenarios, as historical scenarios suggesting an upward trend of debt path without fiscal consolidation and energy reforms.

[7] Consistent with the Guidance Note, IDA financing in the LIC DSA is assumed to be under the credit terms for an IDA-small economy for all years in the projection period for which grant finance has not already been committed. External financing assumptions are 5 percent for the discount rate, 0.25 percent interest rate for IMF financing, 0.75 percent interest rate with 40-year maturity and 10-year grace period for IDA small economy financing, and 2 percent for loans from other creditors. Domestic financing assumptions include the usage of T-bills and ODC's credit to government based on the macroframework.

[8] Resolving energy sector inefficiencies requires a multi-pronged reform approach. Key measures include: 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.

7. While the baseline scenario of external debt is sustainable, stress tests suggest the vulnerability of external debt in the presence of extreme shocks. The solvency indicators breach their threshold values under the most extreme shock scenario. Stress tests suggest the vulnerability of external debt. One of the most extreme shock scenarios is the combined contingent liability shock (for debt-to-GDP and debt service-to-revenue ratio), suggesting the importance of developing plans to reduce contingent liabilities and arrears. The likelihood of contingent liabilities materializing is elevated. With significant increases in commodity prices, especially fuel prices, it highlights the importance of energy reforms to mitigate negative impacts of high commodity prices on contingent liabilities. The most extreme shock for debt-to-exports ratio and for debt service-to-exports ratio is an exports shock, which suggests the importance of promoting strong export growth.

8. Total PPG debt is deemed sustainable under the baseline scenario, after discounting EMAE's and the central government's debt and arrears to ENCO and accounting for essential fiscal and energy reforms. Under the baseline, the PV of PPG debt is projected to have a downward trajectory, while the levels breach the DSA benchmark of 35 percent through 2030. After accounting for the concessional terms of EMAE's and central government's debt to ENCO governed by a 2019 repayment agreement[9] (with fixed annual payments, no interest and a grant element over 80 percent), the PV of PPG debt is projected to breach the DSA threshold of 35 percent through 2024 before gradually declining to around 14 percent of GDP by 2031 (Figure 2). As its downward trajectory remains intact, predicated on the authorities' commitment to continue its fiscal consolidation, implement EMAE's planned reforms, and borrow externally only on concessional terms at a measured pace, public debt sustainability is preserved but now subject to large risks. As suggested by the realism tool (Figure 3 and 4), the worsening in the primary balance over the next 3-years is in the bottom quartile of the distribution[10], reflecting the unwinding of temporary external support which supported the fiscal surplus in 2020. The projected scaling-ups of public investment will be supported by the authorities' intentions to improve public investment management and enact reforms which will allow for additional domestic financing. Higher private investments, driven by higher oil related investments, are expected to yield a growth dividend in line with historical factors. In this regard, it would be important to develop an active plan to gradually strengthen São Tomé and Príncipe's debt-carrying capacity against a very uncertain global economic backdrop and preserve debt sustainability. Should downside risks materialize and lead to a further deterioration of the debt situation (compared to staff's baseline), additional fiscal efforts and an improved financing mix (geared toward more grants and highly concessional borrowing) would be needed to safeguard debt sustainability.

[9] Presented as the black dash line in Figure 2.

[10] The realism tool outputs compared the projections to cross-country experiences and to São Tomé and Príncipe's own historical experience. The results of the projected 3-year adjustment in primary balance are calculated based on data of 2023 compared to 2020. The results will be quite different when using 2025 compared to 2022, which will show an improvement of 4.2 percent of GDP in primary balances.

9. **Public debt ratios are sensitive to a combined contingent liabilities shock.** Under such shocks, the total PPG debt ratios (PV of debt-to-GDP, PV of debt-to-revenue) and debt service-to-revenue ratio would rise in the near term before declining gradually in the medium-to-long term. The high public debt service-to-revenue ratio under the stress test of the combined contingent liabilities indicate substantial liquidity risks under such shocks. The dotted pink lines in Figure 2 show the customized combined contingent liability shock scenario with calculated amount of ENCO's debt to Sonangol, which result in smaller shock than the most extreme shock, but the debt levels will also rise to above the benchmarks. In addition, given that EMAE's arrears to ENCO are denominated in foreign currency, the country's debt is subject to currency risk, even though such arrears are treated as domestic debt under the residency-based definition. The results of stress tests on public debt also highlight the importance of proper management of contingent liabilities and implementation of energy reforms to mitigate risks of contingent liabilities.

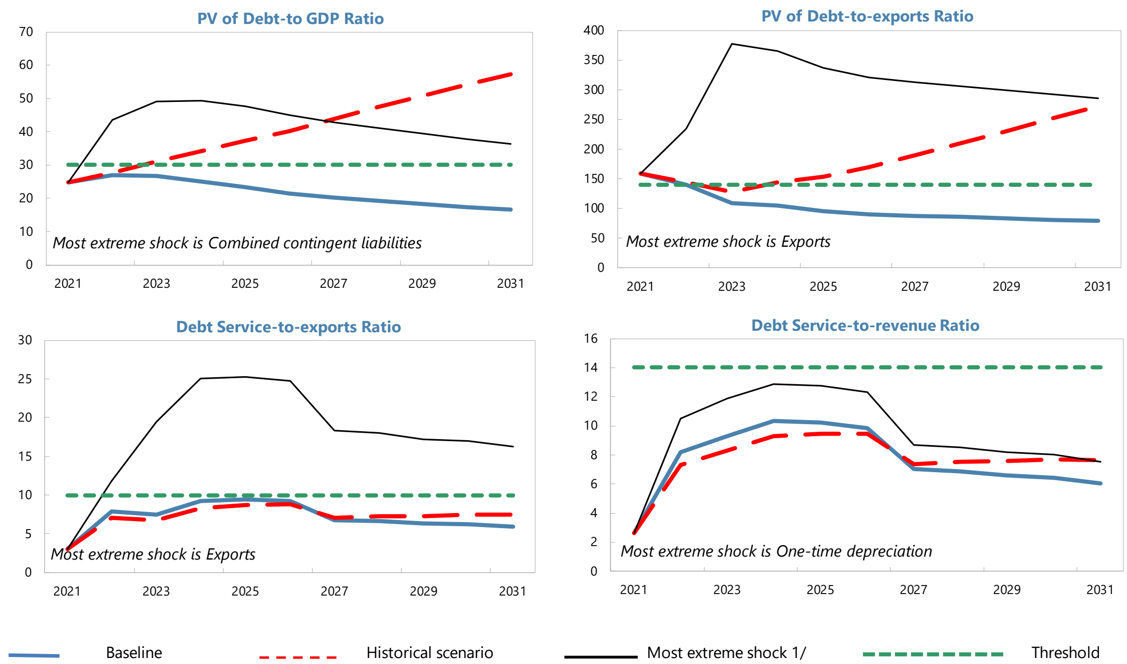
CONCLUSIONS

10. **Overall, the DSA analysis highlights the importance of continuing fiscal reforms and maintaining strong policies to ensure debt sustainability.** Stress tests indicate that the country's debt is especially vulnerable to shocks to exports and combined contingent liabilities. Also, the likelihood of contingent liabilities materializing is elevated though timing and impact remain uncertain. However, key external debt ratios are expected to recover to below their thresholds in the medium term. To mitigate fiscal risks, the country needs to continue with policies including deepening and prioritizing EMAE reforms, continuing fiscal consolidation and revenue mobilization, eschewing non-concessional loans, improving the business environment to attract non-debt flows, strengthening macroeconomic policies, and promoting growth. In addition, contracting new concessional loans and external debt disbursements need to be carefully planned to balance debt sustainability concerns while addressing the country's large investment needs. In this context, the country should strive to finance large projects with non-debt generating means, including by grants. The authorities agree with the staff's assessment and are committed to making good efforts to regularize arrears and maintaining debt sustainability.

AUTHORITIES' VIEWS

11. **The authorities broadly agreed with the assessment.** They are committed to continuing the effort to regularize the long-standing external arrears. They also recognized the significant risk to debt sustainability from the large and persistent loss by EMAE, which have translated to large arrears to ENCO, and are committed to implementing EMAE reforms to achieve debt sustainability. They also pledge to borrow only at concessional terms and at a measured pace to reduce debt vulnerability over time.

Figure 1. São Tomé and Príncipe: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2021– 2031



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	Yes	No
Commodity Prices [2/]	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

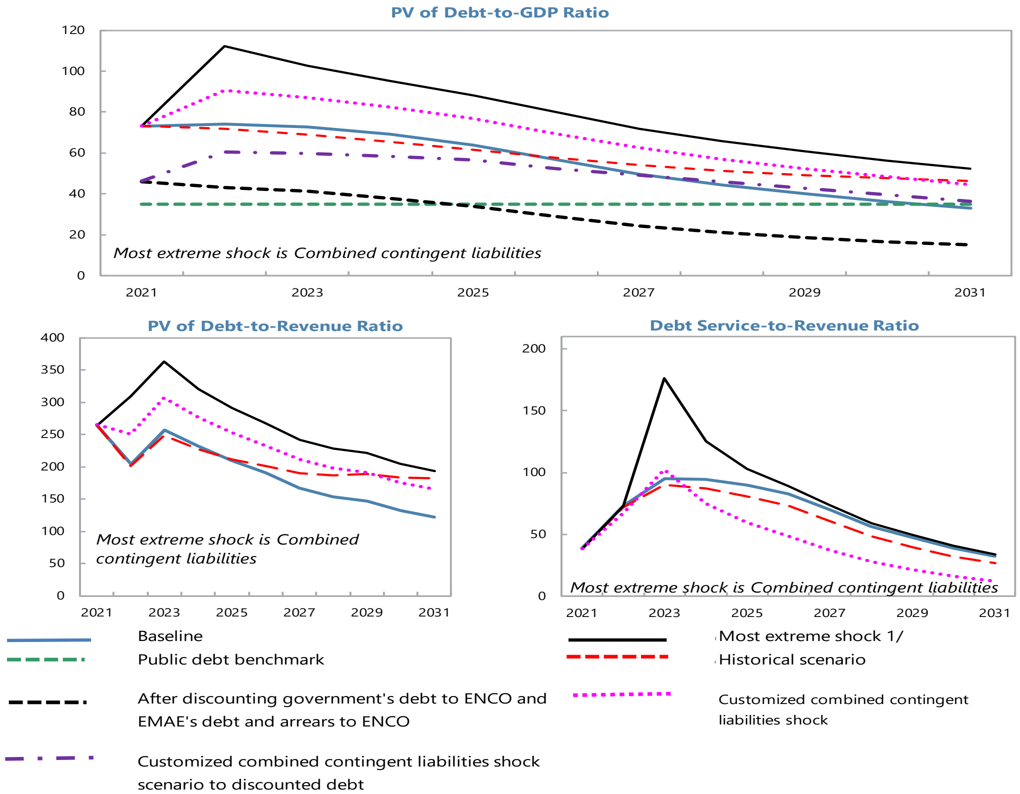
Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	0.8%	0.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	35	35
Avg. grace period	9	9

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. São Tomé and Príncipe: Indicators of Public Debt Under Alternative Scenarios, 2021–2031

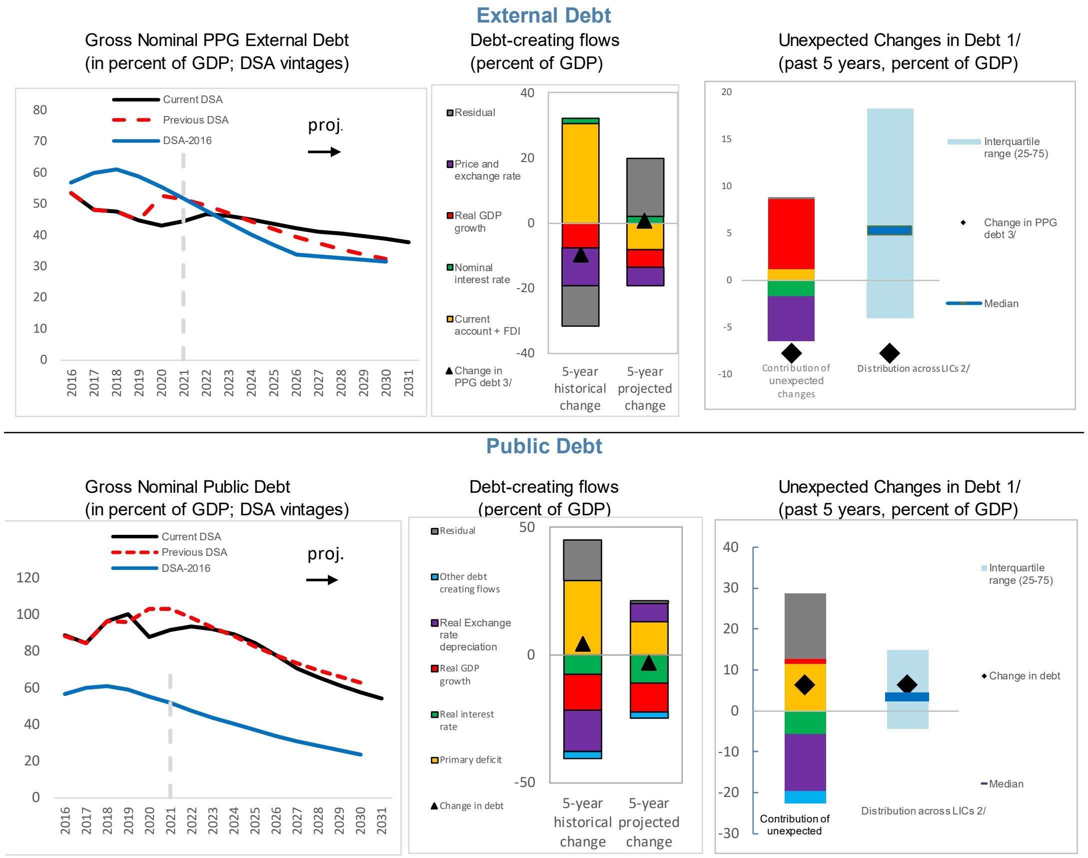


Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	15%	60%
Domestic medium and long-term	0%	0%
Domestic short-term	85%	40%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.8%	0.8%
Avg. maturity (incl. grace period)	35	35
Avg. grace period	9	9
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-1.0%	-1.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. São Tomé and Príncipe: Drivers of Debt Dynamics – Baseline Scenario



1/ Difference between anticipated and actual contributions on debt ratios.

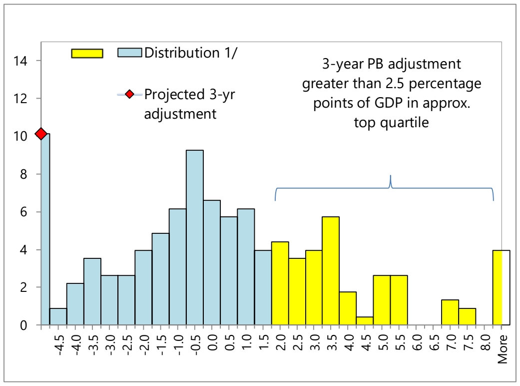
2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Sources: Country authorities; and staff estimates and projections.

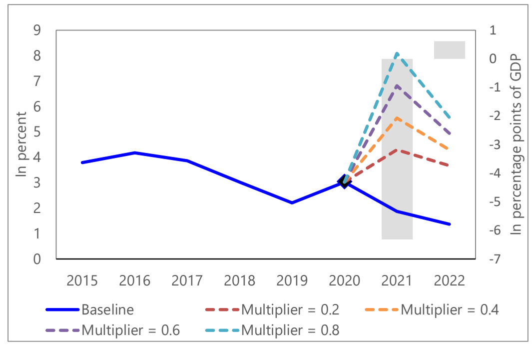
Figure 4. São Tomé and Príncipe: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



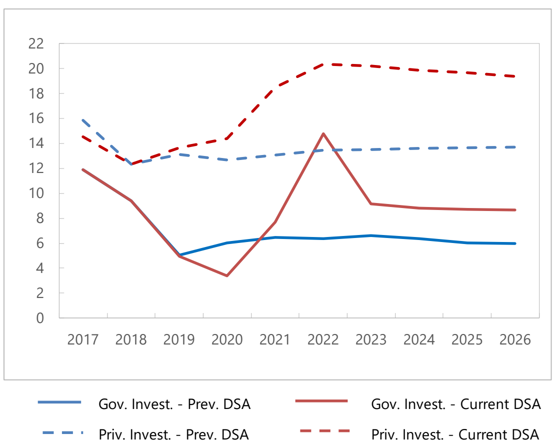
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

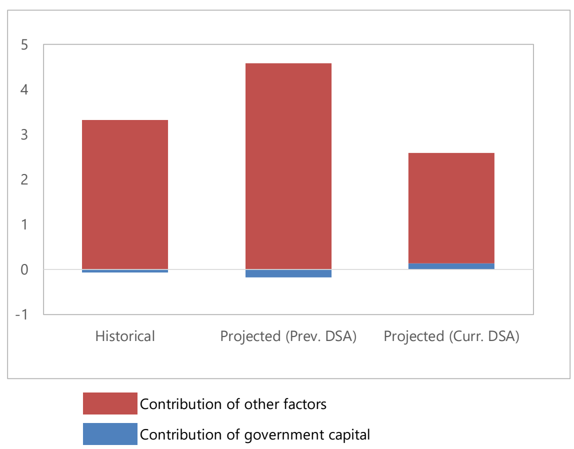


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP Growth
(percent, 5-year average)



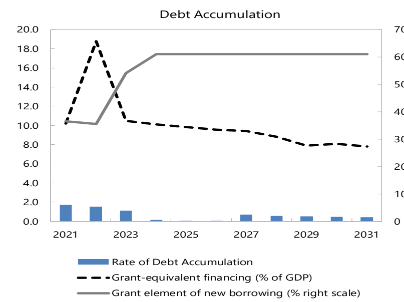
Sources: Country authorities; and staff estimates and projections.

Table 1. São Tomé and Príncipe: External Debt Sustainability Framework, Baseline Scenario, 2019-2041

(In percent of GDP, unless otherwise indicated)

	Actual		Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	44.7	43.1	44.5	46.8	46.0	45.0	43.7	42.1	37.8	33.4	43.7	42.4
of which: public and publicly guaranteed (PPG)	44.7	43.1	44.5	46.8	46.0	45.0	43.7	42.1	37.8	33.4	43.7	42.4
Change in external debt	-2.9	-1.7	1.4	2.3	-0.7	-1.1	-1.2	-1.6	-0.9	-0.4		
Identified net debt-creating flows	3.5	-0.2	-0.5	0.4	-2.8	-4.1	-4.3	-4.5	-5.3	-1.3	4.9	-3.9
Non-interest current account deficit	11.6	10.8	11.2	13.5	10.4	9.0	8.8	8.5	6.5	-0.2	14.9	8.6
Deficit in balance of goods and services	22.0	-10.8	22.8	33.0	21.9	20.8	19.9	19.0	16.2	0.0	29.2	20.0
Exports	22.3	10.8	15.7	19.3	24.4	23.9	24.3	23.7	21.0	0.0		
Imports	44.3	...	38.5	52.2	46.2	44.6	44.2	42.7	37.2	0.0		
Net current transfers (negative = inflow)	-10.2	-12.4	-10.9	-18.5	-10.4	-10.5	-10.1	-9.8	-9.2	0.0	-17.5	-10.6
of which: official	-6.4	-10.5	-9.7	-17.1	-8.6	-8.4	-8.0	-7.7	-7.1	0.0		
Other current account flows (negative = net inflow)	-0.2	34.1	-0.6	-1.0	-1.1	-1.2	-1.0	-0.8	-0.5	-0.2	3.1	-0.8
Net FDI (negative = inflow)		-6.8	-11.0	-12.9	-12.6	-12.3	-12.1	-11.8	-10.7	0.0	-6.8	-11.6
Endogenous debt dynamics 2/	-1.1	-4.2	-0.6	-0.2	-0.5	-0.9	-1.0	-1.2	-1.1	-1.1		
Contribution from nominal interest rate	0.6	0.2	0.1	0.4	0.6	0.6	0.5	0.4	0.3	0.2		
Contribution from real GDP growth	-1.0	-1.2	-0.7	-0.6	-1.1	-1.5	-1.5	-1.6	-1.4	-1.3		
Contribution from price and exchange rate changes	-0.6	-3.2	...	...	...	...	...	...	...	...		
Residual 3/	-6.4	-1.4	1.9	1.9	2.0	3.1	3.1	2.9	4.4	0.9	-4.6	3.5
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators												
PV of PPG external debt-to-GDP ratio	...	25.3	24.9	27.0	26.7	25.0	23.3	21.4	16.5	12.4		
PV of PPG external debt-to-exports ratio	...	233.0	158.5	140.2	109.6	105.0	95.8	90.2	78.7	...		
PPG debt service-to-exports ratio	4.5	5.0	3.0	7.9	7.5	9.3	9.4	9.2	6.0	...		
PPG debt service-to-revenue ratio	5.6	2.9	2.6	8.2	9.3	10.3	10.2	9.9	6.1	...		
Gross external financing need (Million of U.S. dollars)	24.2	21.5	3.4	10.8	-2.1	-6.1	-6.3	-7.6	-29.2	8.2		
Key macroeconomic assumptions												
Real GDP growth (in percent)	2.2	3.0	1.9	1.4	2.6	3.4	3.7	4.0	3.9	4.1	3.9	3.3
GDP deflator in US dollar terms (change in percent)	1.4	7.6	6.5	-3.5	2.8	3.6	4.0	5.0	3.8	2.0	5.4	3.5
Effective interest rate (percent) 4/	1.2	0.5	0.3	0.9	1.4	1.4	1.3	1.0	0.8	0.6	0.8	0.9
Growth of exports of G&S (US dollar terms, in percent)	-1.9	-46.2	57.1	20.1	33.3	4.9	9.8	6.6	5.4	-100.0	12.4	14.5
Growth of imports of G&S (US dollar terms, in percent)	-5.3	-11.7	18.2	32.8	-6.6	3.4	6.7	5.6	6.5	-100.0	4.6	7.8
Grant element of new public sector borrowing (in percent)	...	...	36.6	35.6	54.1	61.0	61.0	61.0	61.0	53.5	...	55.8
Government revenues (excluding grants, in percent of GDP)	18.0	18.3	18.0	18.5	19.8	21.4	22.3	22.2	20.7	18.6	17.2	20.8
Aid flows (in Million of US dollars) 5/	33.8	89.8	55.1	95.1	59.7	64.2	67.7	72.3	86.2	125.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	10.2	18.8	10.5	10.1	9.8	9.5	7.8	6.7	...	10.1
Grant-equivalent financing (in percent of external financing) 6/	...	...	91.8	91.1	86.6	90.2	89.4	88.9	90.2	89.5	...	89.5
Nominal GDP (Million of US dollars)	431	477	518	506	534	572	617	674	997	1,798		
Nominal dollar GDP growth	3.6	10.8	8.5	-2.2	5.5	7.2	7.9	9.2	7.9	6.2	9.5	7.0
Memorandum items:												
PV of external debt 7/	...	25.3	24.9	27.0	26.7	25.0	23.3	21.4	16.5	12.4		
In percent of exports	...	233.0	158.5	140.2	109.6	105.0	95.8	90.2	78.7	...		
Total external debt service-to-exports ratio	4.5	5.0	3.0	7.9	7.5	9.3	9.4	9.2	6.0	...		
PV of PPG external debt (in Million of US dollars)		120.5	128.8	136.9	142.5	143.3	143.6	144.0	165.1	223.8		
(PVt-PVt-1)/GDPt-1 (in percent)			1.7	1.6	1.1	0.1	0.0	0.1	0.4	0.8		
Non-interest current account deficit that stabilizes debt ratio	14.5	12.5	9.8	11.2	11.1	10.1	10.0	10.1	7.5	0.2		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**



Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

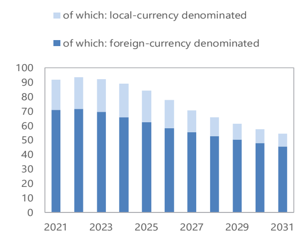
Table 2. São Tomé and Príncipe: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019-2041

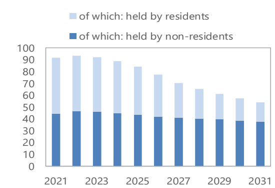
(In percent of GDP, unless otherwise indicated))

	Actual		Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	**99.9**	**87.6**	**91.6**	**93.4**	**92.2**	**89.0**	**84.2**	**77.6**	**54.3**	**34.6**	**76.4**	**76.2**
of which: external debt	**44.7**	**43.1**	**44.5**	**46.8**	**46.0**	**45.0**	**43.7**	**42.1**	**37.8**	**33.4**	**43.7**	**42.4**
Change in public sector debt	3.8	-12.3	4.0	1.7	-1.1	-3.2	-4.8	-6.6	-3.3	-2.9		
Identified debt-creating flows	**0.3**	**-16.5**	**4.9**	**1.1**	**-0.9**	**-3.9**	**-5.6**	**-7.4**	**-4.0**	**-3.3**	**0.0**	**-3.5**
Primary deficit	**6.9**	**-2.6**	**3.7**	**3.1**	**4.3**	**1.6**	**0.2**	**-0.8**	**0.0**	**-1.2**	**6.5**	**0.8**
Revenue and grants	24.4	28.7	27.7	36.2	28.3	29.8	30.3	29.9	27.1	24.4	**29.3**	**29.3**
of which: grants	6.4	10.5	9.7	17.8	8.6	8.4	8.0	7.7	6.5	5.8		
Primary (noninterest) expenditure	31.4	26.1	31.4	39.3	32.7	31.4	30.5	29.1	27.1	23.2	**35.8**	**30.2**
Automatic debt dynamics	**-5.8**	**-13.6**	**1.4**	**-1.5**	**-4.7**	**-5.0**	**-5.3**	**-6.1**	**-3.8**	**-2.0**		
Contribution from interest rate/growth differential	-4.1	-4.8	-4.5	-6.0	-3.9	-3.8	-4.0	-4.3	-3.0	-2.0		
of which: contribution from average real interest rate	-2.0	-1.8	-2.9	-4.8	-1.6	-0.8	-0.8	-1.1	-0.8	-0.6		
of which: contribution from real GDP growth	-2.1	-2.9	-1.6	-1.2	-2.3	-3.0	-3.2	-3.2	-2.2	-1.5		
Contribution from real exchange rate depreciation	-1.7	-8.8	...	...	...	...	...	...	...	...		
Denominator = 1+g	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0		
Other identified debt-creating flows	**-0.8**	**-0.4**	**-0.2**	**-0.5**	**-0.6**	**-0.5**	**-0.5**	**-0.5**	**-0.3**	**-0.1**	**-0.7**	**-0.4**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	-0.8	-0.4	-0.2	-0.5	-0.6	-0.5	-0.5	-0.5	-0.3	-0.1		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**3.4**	**4.2**	**5.0**	**5.2**	**-1.0**	**-0.4**	**-0.6**	**-0.9**	**-0.1**	**0.4**	**4.9**	**0.5**
Sustainability indicators												
PV of public debt-to-GDP ratio 2/	**...**	**68.2**	**73.2**	**74.0**	**72.8**	**69.1**	**63.7**	**56.8**	**33.0**	**13.6**		
PV of public debt-to-revenue and grants ratio	**...**	**237.4**	**264.4**	**204.1**	**257.2**	**231.8**	**210.0**	**190.1**	**121.8**	**55.7**		
Debt service-to-revenue and grants ratio 3/	**...**	**...**	**38.8**	**73.3**	**95.2**	**94.4**	**90.1**	**82.9**	**32.2**	**-6.7**		
Gross financing need 4/	7.4	-2.1	14.2	29.2	30.7	29.1	27.0	23.5	8.5	-2.9		
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	2.2	3.0	1.9	1.4	2.6	3.4	3.7	4.0	3.9	4.1	**3.9**	**3.3**
Average nominal interest rate on external debt (in percent)	1.3	0.5	0.3	0.9	1.4	1.4	1.3	1.0	0.8	0.6	**0.9**	**0.9**
Average real interest rate on domestic debt (in percent)	-6.5	-5.2	-2.1	-5.0	-2.1	-1.8	-1.9	-2.7	-2.7	-3.8	**-6.1**	**-2.6**
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.5	-12.4	...	...	...	...	...	...	...	...	**-3.7**	**...**
Inflation rate (GDP deflator, in percent)	7.0	5.5	2.7	5.9	3.5	3.2	3.4	4.3	3.8	2.0	**6.8**	**3.9**
Growth of real primary spending (deflated by GDP deflator, in percent)	-3.4	-14.2	22.3	27.1	-14.8	-0.7	1.0	-1.1	3.1	-2.0	**-1.3**	**4.2**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	3.2	9.7	-0.3	1.4	5.5	4.8	5.1	5.7	3.3	1.7	**3.0**	**3.9**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Memorandum Item												
Primary deficit with HIPC grants and without EMAE loss	2.4	-9.2	3.1	0.5	-0.2	-1.8	-2.1	-2.3	-0.3	-1.3	**3.5**	**-0.7**
EMAE loss	3.7	6.3	0.3	2.1	3.9	2.8	1.8	1.1	0.0	0.0	**1.7**	**1.1**

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security and extra budgetary funds, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. São Tomé and Príncipe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021–2031

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	25	27	27	25	23	21	20	19	18	17	17
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	25	28	**31**	**34**	**37**	**40**	**44**	**47**	**51**	**54**	**57**
B. Bound Tests											
B1. Real GDP growth	25	28	28	26	24	22	21	20	19	18	17
B2. Primary balance	25	29	**32**	**31**	29	27	26	25	23	22	21
B3. Exports	25	**31**	**38**	**36**	**34**	**32**	30	29	27	26	25
B4. Other flows 3/	25	**34**	**37**	**35**	**33**	**30**	29	28	26	25	24
B5. One-time 30 percent nominal depreciation	25	**35**	30	28	26	24	22	21	20	19	18
B6. Combination of B1-B5	25	**35**	**36**	**34**	**32**	29	28	27	25	24	23
C. Tailored Tests											
C1. Combined contingent liabilities	25	**43**	**48**	**47**	**45**	**42**	**40**	**38**	**37**	**35**	**34**
C2. Natural disaster	25	**30**	**31**	29	28	26	25	24	23	22	21
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	**158**	**140**	110	105	96	90	88	86	83	81	79
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**158**	**143**	128	**144**	**153**	**169**	**190**	**211**	**231**	**252**	**272**
B. Bound Tests											
B1. Real GDP growth	**158**	**140**	110	105	96	90	88	86	83	81	79
B2. Primary balance	**158**	**152**	130	129	120	114	111	109	106	104	101
B3. Exports	**158**	**235**	**378**	**366**	**337**	**321**	**313**	**306**	**300**	**293**	**286**
B4. Other flows 3/	**158**	**177**	**151**	**146**	135	128	125	123	120	117	114
B5. One-time 30 percent nominal depreciation	**158**	**140**	96	91	83	78	75	73	71	69	67
B6. Combination of B1-B5	**158**	**222**	**141**	**236**	**217**	**206**	**202**	**197**	**193**	**188**	**183**
C. Tailored Tests											
C1. Combined contingent liabilities	**158**	**225**	**196**	**197**	**184**	**177**	**174**	**170**	**167**	**164**	**160**
C2. Natural disaster	**158**	**160**	129	125	116	110	108	106	104	102	100
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	3	8	8	9	9	9	7	7	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	3	7	7	8	9	9	7	7	7	7	8
B. Bound Tests											
B1. Real GDP growth	3	8	8	9	9	9	7	7	6	6	6
B2. Primary balance	3	8	8	10	10	10	7	7	7	7	6
B3. Exports	3	**12**	**20**	**25**	**25**	**25**	**18**	**18**	**17**	**17**	**16**
B4. Other flows 3/	3	8	8	10	**10**	10	7	7	7	7	6
B5. One-time 30 percent nominal depreciation	3	8	8	9	9	9	7	6	6	6	6
B6. Combination of B1-B5	3	10	**14**	**17**	**17**	**17**	**12**	**12**	**12**	**12**	**11**
C. Tailored Tests											
C1. Combined contingent liabilities	3	8	9	**11**	**11**	**11**	8	8	8	7	7
C2. Natural disaster	3	8	8	10	10	10	7	7	7	7	6
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	3	8	9	10	10	10	7	7	7	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	3	7	8	9	9	9	7	8	8	8	8
B. Bound Tests											
B1. Real GDP growth	3	8	10	11	11	10	7	7	7	7	6
B2. Primary balance	3	8	9	11	11	10	7	7	7	7	6
B3. Exports	3	8	10	12	11	11	8	8	7	7	7
B4. Other flows 3/	3	8	10	11	11	11	8	7	7	7	7
B5. One-time 30 percent nominal depreciation	3	10	12	13	13	12	9	9	8	8	8
B6. Combination of B1-B5	3	8	10	11	11	11	8	8	7	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	3	8	11	12	12	11	8	8	8	8	7
C2. Natural disaster	3	8	10	11	11	10	7	7	7	7	6
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. São Tomé and Príncipe: Sensitivity Analysis for Key Indicators of Public Debt, 2021–2031

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of Debt-to-GDP Ratio											
Baseline	**73**	**74**	**73**	**69**	**64**	**57**	**50**	**44**	**40**	**36**	**33**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**73**	**72**	**69**	**65**	**62**	**58**	**54**	**51**	**49**	**48**	**46**
B. Bound Tests											
B1. Real GDP growth	**73**	**74**	**75**	**72**	**67**	**60**	**53**	**48**	**44**	**40**	**37**
B2. Primary balance	**73**	**78**	**81**	**76**	**70**	**63**	**55**	**50**	**45**		**38**
B3. Exports	**73**	**77**	**83**	**79**	**73**	**66**	**58**	**52**	**48**	**44**	**40**
B4. Other flows 3/	**73**	**81**	**83**	**79**	**73**	**66**	**58**	**53**	**48**	**44**	**41**
B5. One-time 30 percent nominal depreciation	**73**	**74**	**72**	**67**	**60**	**52**	**44**	**38**	33	28	24
B6. Combination of B1-B5	**73**	**76**	**74**	**67**	**61**	**54**	**47**	**42**	**38**	34	31
C. Tailored Tests											
C1. Combined contingent liabilities	**73**	**112**	**103**	**95**	**88**	**80**	**72**	**66**	**61**	**56**	**52**
C2. Natural disaster	**73**	**80**	**78**	**74**	**69**	**62**	**55**	**49**	**45**	**41**	**38**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	264	204	257	232	210	190	167	154	146	132	122
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	264	201	249	227	211	201	190	187	189	183	182
B. Bound Tests											
B1. Real GDP growth	264	202	262	238	218	199	178	165	159	146	137
B2. Primary balance	264	216	286	254	230	210	186	173	166	151	140
B3. Exports	264	213	292	264	240	219	196	182	175	159	149
B4. Other flows 3/	264	224	293	265	241	220	197	183	175	160	149
B5. One-time 30 percent nominal depreciation	264	213	259	229	202	178	152	135	122	105	92
B6. Combination of B1-B5	264	213	264	227	202	181	159	146	139	125	115
C. Tailored Tests											
C1. Combined contingent liabilities	264	309	363	320	291	268	242	228	221	205	193
C2. Natural disaster	264	220	275	248	226	206	183	170	164	149	139
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	39	73	95	94	90	83	70	56	47	39	32
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	39	72	90	87	81	73	61	49	40	32	27
B. Bound Tests											
B1. Real GDP growth	39	74	98	98	94	87	74	60	51	42	35
B2. Primary balance	39	73	107	109	96	85	71	57	48	39	33
B3. Exports	39	73	95	95	91	83	70	57	48	39	33
B4. Other flows 3/	39	73	96	95	91	83	70	57	48	39	33
B5. One-time 30 percent nominal depreciation	39	71	92	90	87	80	67	55	46	38	31
B6. Combination of B1-B5	39	72	93	99	90	81	68	55	46	38	32
C. Tailored Tests											
C1. Combined contingent liabilities	39	73	176	125	103	89	74	59	50	41	34
C2. Natural disaster	39	74	110	101	94	86	72	58	49	40	34
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Statement by Mr. Andrianarivelo, Mr. Sylla, and Mr. Carvalho da Silveira on Democratic Republic of São Tomé and Príncipe
August 31, 2022

Introduction

1. On behalf of our Sao Tomean authorities, we thank the Executive Board, Management, and Staff for their continuous support to the country's economic reform agenda. The authorities broadly agree with staff's assessment and policy advice. They are grateful for the dedication and relentless efforts during the extensive virtual discussions held in the context of the Fifth Review under the Extended Credit Facility (ECF). The presence of the IMF Resident Representative on the ground has allowed for more constructive dialogues, assistance, and deeper program implementation. However, in-presence review missions should always be given priority to avoid lengthy discussions.

2. In the face of consecutive and multiple exogenous shocks, exacerbated by the effects of the war in Ukraine, the authorities have continued to make efforts to implement measures and policies under their ECF-supported program aimed at achieving macroeconomic stability and promoting sustainable and inclusive growth. Being a small and remote island country and heavily impacted by rising temperature and sea levels, the government is very concerned about the implications of the upcoming country's reclassification to "non-fragile state" by the IMF. In addition, the country continues to face severe institutional, economic and social fragility. They note that several indicators show that the country has not yet reached levels that justify the reclassification. In the past, similar events, such as the upgrade of the country's classification to lower middle income by the World Bank, led to lower engagement and assistance from development partners. Therefore, they stress that persistent engagement and support from the international community remains critical, particularly during such uncertain and challenging times for a small and fragile state like Sao Tome and Principe (STP). They also look forward to the forthcoming Staff Guidance Note on the Implementation of the FCS Strategy with details regarding the uses and operational implications of the new FCS list, including internal arrangements for situations when countries transition on and off the list to minimize the impact of Fund engagement and resource allocations.

Recent Developments

3. The authorities reiterate that a confluence of shocks continues to pose significant economic and social challenges to STP and threaten the outlook. These include notably electricity shortages, more frequent natural disasters, spillovers from the war in Ukraine as

well as the lingering effects of the pandemic. Higher global fuel prices have aggravated the situation of both ENCO and EMAE. ENCO reduced the fuel supply to the electricity company, EMAE, which in turn began to rationalize the supply of electricity to the population.

4. The island is paying a heavy toll from the effects of climate change. The torrential rains and floods in December 2021, which caused substantial damages ranging from loss of human lives to property damages with an estimated recovery cost of about 7 percent of GDP, the country was hit by two subsequent climate events. In March 2022, the rains again caused damages in the district of Lembá, resulting in the destruction of infrastructure, including bridges, leading to the declaration of a State of Calamity in that district. In May 2022, in the Autonomous Region of Príncipe, the heavy rains felt were the most intense in recent years and caused enormous material damage in terms of road infrastructures, agricultural land, losses for families, State services, and private companies. The only fuel tank on the island was also damaged.

5. As a result of these developments, economic growth decreased to 1.9 percent in 2021 from 3.0 percent in 2020 and is expected to slow further in 2022 to 1.4 percent. Although tax revenue declined, efforts were made to accommodate Covid-19 related assistance to vulnerable households and businesses while containing and even reducing non-essential spending to reach the program's fiscal targets. Therefore, the fiscal deficit stood at 3.2 percent at year-end 2021, compared to the program target of 3.5 percent. Inflation has increased to 14.9 percent in May 2022 from 9.5 percent in December 2021, as the increase in fuel and food prices and the effects of climate change on the weather have continued to exert pressure on inflation. The current account deficit has widened slightly from 11.0 in 2020 to 11.3 percent in 2021, also driven by increased international fuel prices. Gross international reserves stood at about 2.8 months of projected imports. Credit growth to the private sector slowed down at the end-December 2021 compared to the previous year but showed signs of recovery in the first half of 2022.

6. In the context of slower and lower-than-expected external disbursement, SDR allocations were critical in providing helpful relief. STP has used US $10 million of its SDR allocation received in August 2021 to: (i) meet pandemic-related spending needs; and (ii) address health, education, transport, and energy infrastructure gaps; and another US $53 million in February 2022 to cover expenses related to the flood experienced in December 2021, out of which US $2.5 million has been repaid by the Ministry of Finance to the BCSTP.

Performance under the ECF

7. Despite the headwinds, the implementation of the ECF-supported program in STP continues to advance. As emphasized during the previous program review, although tax revenue underperformed due to the challenges imposed by the pandemic and electricity

blackouts, the authorities have continued their efforts to contain non-priority spending to ensure that the program remained on track. Consequently, all five quantitative performance criteria (PCs) for end-December 2021 were met. Three out of four Indicative Targets (ITs) were also met except the one on the floor of tax revenue. For end-March 2022, the preliminary assessment indicates that all PCs and ITs are broadly on track, apart from the PC on ceiling on the accumulation of new external payment arrears due to temporary liquidity issues. In this regard, corrective measures have been taken to prioritize debt service payments and prevent the reoccurrence of these breaches.

8. With respect to structural benchmarks (SBs), important steps were also taken to implement reforms despite the delays caused by the effect of the pandemic, as well as capacity constraints. All four prior actions set for this review were completed, notably the submission of the Financial Institutions Law; launch of the VAT awareness and information campaigns; settlement of debt service payment and issuance of Ministerial order to improve debt service management; and publishing of the 2020 Covid-19 spending audit report. Moreover, good progress was made on the publication of procurement contracts, and a platform will be launched soon to expedite the publication, management and transparency of public contracts going forward. The continuous benchmark on the fuel price adjustment mechanism was not met at the end-December 2021 due to high and increasing social tensions but was later implemented in April 2022.

Outlook and Risks

9. For 2022, the authorities expect real GDP growth to slow down to 1.4 percent and an acceleration of the average annual inflation to reach 15 percent, reflecting the impact of the war in Ukraine on fuel and food prices, electricity shortages, and climate events. Over the medium-term, they still expect growth to firm up at around 4.0 percent and inflation to decline as global prices stabilize. They agree that new Covid-19 variants, delayed revenue and energy reforms, legislative elections as well as delayed or insufficient grant disbursement from development partners could also add to the downside risks. The authorities fully understand the importance of avoiding setbacks in fiscal adjustment and advancing the reform agenda under the program. However, they reiterate their concerns about the impact of the high fuel and food prices on rising social tensions. On the upside, the materialization of the deep seaport and other large infrastructure projects could boost growth prospects.

Policy Priorities for 2022 and Beyond

Fiscal Policy

10. The authorities remain fully committed to continuing the fiscal consolidation path to achieve the 2022 program targets. Due to growing social tensions amid rising inflation,

floods, electricity shortages, and demand for higher wages, labor unions and the authorities have decided to grant a wage supplement to civil servants in the lowest income bracket after lengthy negotiations. In this connection, several efforts are being made to ensure that this additional spending can be accommodated within the approved 2022 budget. Non-essential administrative costs and domestically financed capital spending are being cut further, while the February 2022 hiring freeze of civil servants to contain personnel costs remains in place. Pro-poor spending will be maintained in line with the indicative targets, and cash transfer programs will be boosted to help protect the most vulnerable from the impact of inflation with support from the World Bank. On the revenue front, the awareness and information campaign has started for the introduction of the VAT at a 15 percent rate in September 2022. Actions are being taken to implement a new tax on small businesses, a new tax surcharge on alcohol beverages, and a new income tax bracket.

11. Over the medium-term, emphasis remains on implementing policies and actions to reach a balanced domestic primary balance by 2025. These include (i) gradually reducing the wage bill in terms of GDP ratio; (ii) maintaining transfers and other current expenditures constant in nominal terms; and (iii) strengthening public financial management (PFM) and tax administration in line with IMF recommendations.

Debt Policy and Management

12. The authorities note the unchanged debt sustainability analysis (DSA), which indicates that STP remains in debt distress rating due to prolonged unsettled external arrears. Fiscal consolidation efforts will continue as envisaged under the program and energy sector reforms will be stepped up to ensure the debt is on a downward path to preserve its sustainability. They will also continue to pursue prudent debt management and keep engaging with creditors in an open and transparent manner to regularize arrears and restructure all outstanding debt. Work is also ongoing to strengthen public financial management systems and prevent the accumulation of new arrears. A new Ministerial order was issued to prioritize external debt payment in August 2022.

Monetary and Exchange Rate Policies

13. Against the challenging backdrop of higher inflation and weaker growth for 2022, the BCSTP Monetary Policy Committee met in June 2022 and took several steps to tighten monetary policy. Notably increase the reference interest rate, the interest rate of the BCSTP liquidity facility and the reserve requirement for domestic currency. The issuance of CDs at variable rates was also resumed to absorb excess liquidity. The short-term credit line with the Portuguese government was activated to help support reserve buffers, meet essential import- related needs as well as safeguard further the exchange rate peg to the Euro. A recapitalization plan for BCSTP is also currently being developed. In this regard, an IMF TA was requested.

14. Progress was made toward the implementation of the outstanding recommendations of the 2019 Safeguard Assessment. The external audit of the financial statements was completed, and the draft Financial Institutions Law was submitted to the government while the Organic Law is pending Parliamentary approval by September. Moreover, efforts are ongoing to finalize the memorandum of agreement on legacy government debt and ensure the country's membership is preserved in the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) to protect the integrity of the financial system and avoid potential losses of corresponding banking relationships.

15. BCSTP notes the jurisdictional assessment conducted by LEG/MCM in light of the Fund's revised Multiple Currency Practices Policy (MCP) and welcomes the indication that the existing MCP is therefore eliminated as of July 1, 2022.

Financial Sector Policies

16. BCSTP views maintaining financial sector stability as crucial to supporting the economy. The monetary authorities note that the sector has been broadly sound and resilient. Although the systemwide non-performing loans (NPLs) ratio has been fairly stable, it increased slightly in Q12022. In this connection, the two new regulations on Asset Classification and Provisions, and Capital Adequacy which came into effect in April 2022 will be helpful in improving further this indicator. Regarding the troubled banks, despite the authorities' efforts, Energy Bank shall be referred to the Courts for bankruptcy and liquidation in the forthcoming months pending the closure of additional negotiations with potential investors. With respect to Banco Equador, some fixed assets remain on sale and the liquidation process is also expected to be concluded this year. On the other hand, after several diligences with shareholders of Banco Privado, BCSTP successfully concluded the extrajudicial process, and the assets were handed over to them.

Structural Reforms

17. The authorities share staff's view on the criticality of advancing structural reforms to support growth and external competitiveness. To this end, they plan to implement the VAT in 2022 to generate resources to help support growth and address the large human capital and infrastructure financing gap essential to meeting the SDGs by 2030. The authorities are cognizant that recent international fuel price hikes and electricity shortages make reforms to the public utility company EMAE and the energy sector even more urgent. The authorities remain fully committed to continuing to implement the Least Cost Productions Plan and the Management Improvement Plan with the view to help increase the efficiency and reliability of electricity supply, facilitate the transition towards renewable sources as well as ensure public debt sustainability. In the same vein, efforts will be made to apply the automatic fuel price adjustment mechanism to prevent implicit fuel subsidies and curtail fiscal risks. It is important to reiterate that, under the current circumstances of growing social tensions, attention should also be given to the

socio-political environment when considering future price adjustments. Targeted social transfers will continue to play an important role in cushioning the impact on vulnerable groups. The World Bank's support has been greatly appreciated in this regard.

18. The authorities acknowledge that exiting the European Union's Air Safety blacklist is essential to promote tourism, create jobs and boost growth potential. Work is currently ongoing to finalize the plan to remove STP from the list in September, including updating relevant laws and regulations. With support from Chinese development partners, funding has also been secured to upgrade the airport infrastructure. Moreover, the government has recently signed a build-operate-transfer agreement with an international consortium for a deep seaport in Fernao Dias, as well as the management of two ports in both islands. According to the contract, the project is estimated at around US450 million and the authorities expect this project to have a major impact on job creation and economic growth.

Conclusion

19. The authorities of Sao Tome and Principe reiterate their commitment to the ECF-supported program aimed at achieving fiscal and external sustainability and promoting inclusive growth amid the Covid-19 pandemic. In light of the recrudescence of the climatic phenomena and the remoteness of the island, combined with new vulnerabilities triggered by the war in Ukraine, continued and timely support from the development partners to STP remains critical. They look forward to the Executive Board's completion of the Fifth Review under the ECF. They also count on the Board's approval of the waiver of nonobservance of the continuous performance criterion on non-accumulation of external debt service arrears considering corrective measures implemented.