



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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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 million¹). 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 statement²:

"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

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.”



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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