



# DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

June 24, 2015

## REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND CANCELLATION OF THE CURRENT ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS<sup>1</sup>

### Approved By

**David Owen and Chris Lane**  
**(IMF) and Mark Roland Thomas**  
**and John Panzer (IDA)**

### Prepared by:

International Monetary Fund and International  
Development Association staffs in collaboration with  
the authorities of São Tomé and Príncipe.

*São Tomé and Príncipe is at a high risk of debt distress according to this joint Bank-IMF low-income country debt sustainability analysis (DSA). Despite the significant upward revision of exports in 2013–14, the assessment of high risk of debt distress is unchanged from the DSA completed in June 2014. The PV of external debt-to-exports ratio, however, is now projected to fall significantly and to breach the country specific indicative thresholds for a shorter period of time while the debt service-to-exports ratio no longer breaches the threshold. Like in the previous DSA, the PV of debt-to-GDP and the PV of debt to-revenues ratios are above their thresholds early in the projection period partly because of a large nominal depreciation (a cumulative 21 percent since 2013) of the national currency relative to dollar. Public debt indicators worsened compared to the previous DSA, but it does not fundamentally alter the assessment of São Tomé and Príncipe's debt sustainability. Reaching a projected debt profile that is consistent with manageable – if high risk – debt dynamics would require continued fiscal consolidation efforts, enhance credibility of the exchange rate peg, continued heavy reliance on grants and concessional lending, and further efforts to diversify the economy and expand the export base over the medium term.*

<sup>1</sup> The DSA update was prepared by IMF and World Bank staff in collaboration with the authorities of São Tomé and Príncipe. The analysis updates the previous Joint DSA dated June 30, 2014. The DSA follows the IMF and World Bank Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries (November 5, 2013). The DSA uses the unified discount rate of 5 percent set out in Decision No 15462 (October 11, 2013). For the purpose of defining debt burden thresholds under the DSF, São Tomé and Príncipe is classified as a weak policy performer. São Tomé and Príncipe's rating on the World Bank's Country Policy and Institutional Assessment (CPIA) is 3.05.

## BACKGROUND

1. The previous full DSA for São Tomé and Príncipe was undertaken as part of the 2013 Article IV consultation and the second review under the Extended Credit Facility.<sup>2</sup> An updated DSA was subsequently completed in June 30 2014 following the contracting of a \$40 million non-concessional line of credit from Angola. Both DSAs concluded that São Tomé and Príncipe was at a high risk of debt distress, however, the current DSA shows a slightly lower future borrowing.

2. São Tomé and Príncipe reached the completion point under the enhanced HIPC initiative in March 2007, received topping-up assistance in December 2007, and later on benefited from HIPC/MDRI debt relief. MDRI, in particular, brought substantial debt service savings, since 54 percent of total debt before the HIPC completion point was with IDA, AfDB, and IMF. Debt relief from Paris Club members also helped improve the country's debt profile.

3. Total public debt, including domestic arrears to suppliers is estimated at 74.5 percent of GDP (\$254 million) in 2014, with medium- and long-term public and publicly guaranteed external debt accounting for 68 percent of GDP

(\$233 million)(Table 1).<sup>3</sup> The external debt burden increased from \$216 million at end-2013 to \$233 million in 2014 (due to disbursements of Angolan loan) yet remains significantly below the pre-debt relief high of \$359.5 million at end-2006. Total public sector debt is composed solely of debt contracted or guaranteed by the central government, and there is currently no state-owned enterprise external debt. Debt composition has shifted after the HIPC completion point. The share of multilateral debt declined from nearly 60 percent before the completion point to 19 percent. Angola is now the country's main bilateral creditor, and IDA is its main multilateral creditor. On the domestic front, payments arrears amounting to 6 percent of GDP (\$21 million) were accumulated largely vis-à-vis suppliers.<sup>4</sup>

**Text Table 1. São Tomé and Príncipe: Public Debt Stock**

| (As of end-December 2014) |              |             |
|---------------------------|--------------|-------------|
|                           | Million USD  | Share       |
| Multilateral Creditors    | 43.4         | 17%         |
| IDA                       | 14.0         | 6%          |
| FIDA                      | 7.8          | 3%          |
| BADEA                     | 7.1          | 3%          |
| IMF                       | 4.6          | 2%          |
| OPEC                      | 4.0          | 2%          |
| AfDB                      | 5.4          | 2%          |
| EIB                       | 0.3          | 0%          |
| Bilateral Creditors       | 189.6        | 75%         |
| Portugal                  | 47.5         | 19%         |
| Angola <sup>1</sup>       | 52.4         | 21%         |
| Nigeria <sup>1,2</sup>    | 30.0         | 12%         |
| Italy <sup>1,3</sup>      | 24.3         | 10%         |
| China <sup>1</sup>        | 18.8         | 7%          |
| Yugoslavia <sup>1</sup>   | 8.8          | 3%          |
| Brazil <sup>1,3</sup>     | 4.3          | 2%          |
| Belgium                   | 1.4          | 1%          |
| Equatorial Guinea         | 2.1          | 1%          |
| Domestic Arrears          | 21.0         | 8%          |
| <b>Total</b>              | <b>253.9</b> | <b>100%</b> |

Sources: Country authorities and IMF staff estimates

<sup>1</sup> Includes debt in dispute.

<sup>2</sup> Advances on oil revenues

<sup>3</sup> Commercial debt guaranteed by the government.

<sup>2</sup> IMF (2013), Country Report for São Tomé and Príncipe 14/2.

<sup>3</sup> \$77 million of this debt consists of technical arrears (including accrued interest) to Italy (\$24 million), Angola (\$25 million), People's Republic of China (\$19 million), and former-Yugoslavia (\$9 million). The arrears to former-Yugoslavia resulted from a debt guaranteed by Angola which Serbia inherited and has sold to a private entity. The private entity has sued Angola over the debt which is now being treated as part of arrears to Angola. Arrears to Angola are under discussions, there's expectation that they could receive treatment comparable to Paris Club. China has not responded to authorities' letter requesting comparable treatment to Paris Club. Arrears to Italy are a result of a commercial debt that Sao Tome and Principe does not recognize.

<sup>4</sup> Data on cross-arrears between the Treasury, the state-owned Water and Electricity Company (EMAE), and National Fuel Company (ENCO) are not included in this analysis as a plan to clear such arrears is being developed.

## MACROECONOMIC ASSUMPTIONS

**4. The main assumptions in the baseline scenario for 2015–35 have changed very little from last year’s DSA update.** The main difference with the last DSA are the result of a significant decline in the value of projected imports in 2015 due to low prices of oil and non fuel commodities, a large base increase in 2013–14 exports of goods and services due to strong production and the high price of cocoa and also on account of improved data coverage of exports of services. These have resulted in a slightly more improved long run current account deficit. **The key assumptions are:**

- While **growth assumptions have remained similar to the last DSA**, the sources of financing have shifted towards non-debt creating flows with higher FDI inflows now projected relative to the previous DSA. Growth pick up to 5 percent in 2015 and 5½ percent in 2016. Over the long-term, growth is projected to be sustained at around 5.6 percent per year, similar to the historical norm and unchanged from the growth assumption under the baseline scenario of the last DSA. The main drivers of growth are expected to be construction, tourism, agriculture, and fisheries. Stronger macroeconomic policies, further measures to enhance the business climate, and successful implementation of a tourism development strategy would be needed to sustain growth at 5½ percent a year over the long term.

- Average annual **inflation declines** from 7 percent in 2014 to 5.8 percent in 2015 and further to around 4.6 percent in 2016.

Inflation is then assumed to remain around 3 percent over the long term. This reflects continued fiscal prudence and the effects of the peg of the dobra to the euro, which has been in effect since January 2010. The GDP deflator in US dollar terms in 2015 is projected to contract by 6.1 percent. It will however pickup to around 3 percent in 2016 before settling at around 1.7 percent over the long term.

**Text Table 2. Key Macroeconomic Assumptions (averages)**

|  | EBS/13/148<br>2013-2033 | June 2014 DSA<br>2014-2034 | 2015 DSA<br>2014-2034 2015-2035 |        |
|--|-------------------------|----------------------------|---------------------------------|--------|
| Real GDP Growth (%)                                  | 5.55                    | 5.62                       | 5.51                            | 5.56   |
| Inflation (average)                                  | 3.56                    | 3.30                       | 3.42                            | 3.23   |
| Domestic Primary Deficit (% of GDP)                  | -1.14                   | -1.09                      | -1.41                           | -1.30  |
| Grants (% of GDP)                                    | 2.06                    | 1.94                       | 2.48                            | 2.51   |
| New Borrowing (% of GDP)                             | 2.41                    | 1.95                       | 1.76                            | 1.53   |
| FDI (% of GDP)                                       | 7.17                    | 7.40                       | 9.53                            | 9.72   |
| US\$ Export growth (%)                               | 9.34                    | 9.39                       | 10.67                           | 7.16   |
| US\$ Import Growth (%)                               | 5.99                    | 6.34                       | 6.91                            | 6.00   |
| Current Account Balance, excluding grants (% of GDP) | -23.41                  | -22.58                     | -25.79                          | -24.99 |
| Current Account Balance, including grants (% of GDP) | -11.51                  | -10.77                     | -13.40                          | -12.66 |

Sources: Authorities data and IMF staff estimates.

- A steady decline in the domestic primary deficit** from 3.5 percent of GDP in 2014 to 1.5 percent of GDP by 2018 consistent with available non-debt creating financing while at the same time creating space for scaled-up capital spending. Any financing needs are assumed to be met via a drawdown of National Oil Account (NOA) deposits and budget support grants. The fiscal adjustment in the medium-term would come mainly through measures to enhance revenue mobilization and control personnel expenditure. Over the long-term, expenditure bears the brunt of adjustment in proportion to drop in grants. No domestic borrowing is envisaged.

- **Total grants are projected to increase** from their current level of about 10 percent of GDP in 2014 to an average of 16.4 percent of GDP a year in 2015–18. After peaking at over 17 percent of GDP in 2019, grants will decline in importance and average around 10 percent of GDP a year over the longer term.
- Unlike the previous DSA, this assessment assumes a **lower loan concessionality** thresholds of 35 percent (previous threshold was 50 percent). To fund the government’s capital investment program, additional loans of about 12.1 percent of GDP are projected for 2015. New borrowing will average about 4.2 percent of GDP a year from 2016–18 and about 0.4 percent of GDP thereafter. No financing from future privatization operations, no commercial loans, no domestic borrowing, and no short-term loans are assumed throughout the DSA projection period.
- A recovery in capital inflows, as the economy in Europe improves. The authorities expect continued investment in infrastructure projects to support tourism and agriculture development. **FDI is projected to stabilize around 9.6 percent of GDP** over the long-term.
- The **non-interest current account deficit** (including official grants) is expected to narrow as the government further consolidates its position. The current account deficit, currently over 27 percent of GDP, is projected to gradually decline to a longer-term average of 16 percent of GDP. Export growth will be driven by increases in cocoa production, the start of palm oil production, and increased tourism as São Tomé and Príncipe rehabilitates its infrastructure and benefits from the higher frequency of flights from Europe since 2014.
- **Downside risks** include significant spending overruns in the run-up to the 2016 presidential elections. The outlook could also be adversely impacted by supply shocks (leading to higher inflation and lower growth). A protracted period of slower growth in Europe could significantly depress exports, tourism, and FDI flows.

## EXTERNAL DEBT SUSTAINABILITY

### A. Baseline

5. Under the baseline scenario three out of five (against four out of five in the previous DSA) external debt indicators remain significantly above their relevant indicative thresholds over the next few years (Figure 1, blue lines).<sup>5</sup> However, significant differently from previous DSA assessments, the PV of public and publicly guaranteed (PPG) external debt-to-exports ratio fell from almost three times the indicative threshold of 100 percent in the previous DSA to less than 50 percent above it. The drop is due in

<sup>5</sup> São Tomé and Príncipe’s quality of policies and institutions as measured by the average World Bank’s Country Policy and Institutional Assessment (CPIA) for the period 2011–13 is 3.05 (weak performer). The corresponding indicative thresholds are: 30 percent for the NPV of debt-to-GDP ratio; 100 percent for the NPV of debt-to-export ratio; 200 percent for NPV of debt-to-revenue ratio; 15 percent for the debt service-to-exports ratio; and 18 percent for the debt service-to-revenue ratio.

large measure to a large base increase in exports in 2013–14 on account of enhanced data coverage. The PV of external debt-to-revenues and the PV of PPG external debt-to GDP ratios spike in 2015 partly due to a 21 percent nominal depreciation, since 2013, of the national currency relative to the US dollars. They remain above their threshold through 2020 and 2021. Unlike in the previous DSA, all debt service indicators (debt service -to-exports and debt service-to-revenues ratios) remain below the thresholds for the entire forecast horizon. All of the indicators show improvement over time as a result of growth, fiscal consolidation, slower debt accumulation, and expansion of the export base.

**6. External balance must improve through a combination of improved competitiveness and lower domestic absorption to maintaining debt on a sustainable path.** Slippages—for example setting the non-interest current account deficit and FDI to continue at their historical levels—would drastically worsen debt trajectory relative to the baseline (Figure 1, red dotted line).

## B. Sensitivity Analysis

**7. Stress tests show the highest vulnerability of debt sustainability extends the period of breach of thresholds for a few additional years beyond those observed in the baseline** (Figure 1, solid black lines).<sup>6</sup> Solvency-based indicators are most vulnerable to non-debt flows shocks while liquidity-based indicators are most vulnerable to exports shocks and one-time depreciation shocks. This highlights the need to keep future borrowing in check, maintain the credibility of the exchange rate peg and maintain international reserves at prudent levels. A one-time depreciation would significantly alter the PV of debt, leading to each of the indicators breaching the threshold for additional periods beyond those observed in the baseline scenario. The stress test results for the debt-to-exports ratio extends the period of breach of the threshold for 4 more years. The debt service indicators never breach their respective thresholds under the stress tests.

## PUBLIC DEBT SUSTAINABILITY

**8. Public debt indicators worsened compared to the previous DSA, but it does not fundamentally alter the assessment of São Tomé and Príncipe debt sustainability** (Figure 2, solid light blue line). The PV of debt-to-GDP indicator breached the threshold in the first two years of projection, followed by quick and steady improvements as depicted in the baseline scenario. However, the debt dynamics appear unsustainable under two alternate scenarios. The debt indicators continue to rise throughout the projection period when real GDP growth and the primary balance are at historical averages (Figure 2, dotted gray line) or when the primary balance is unchanged from 2015 (Figure 2, red dashed line). These shocks highlight the importance of continued fiscal prudence to ensure debt sustainability and structural reforms to improve the business environment and thus support private sector led growth. Public debt is most sensitive to the bound test on the primary balance at the historical average minus one standard deviation in 2016–17. The public debt service-to-revenue ratio is most sensitive to a one-time 30 percent depreciation of the dobra.

<sup>6</sup> The country was most vulnerable to a one-time 30 percent depreciation shock in the previous DSA.

## DEBT DISTRESS QUALIFICATION AND CONCLUSIONS

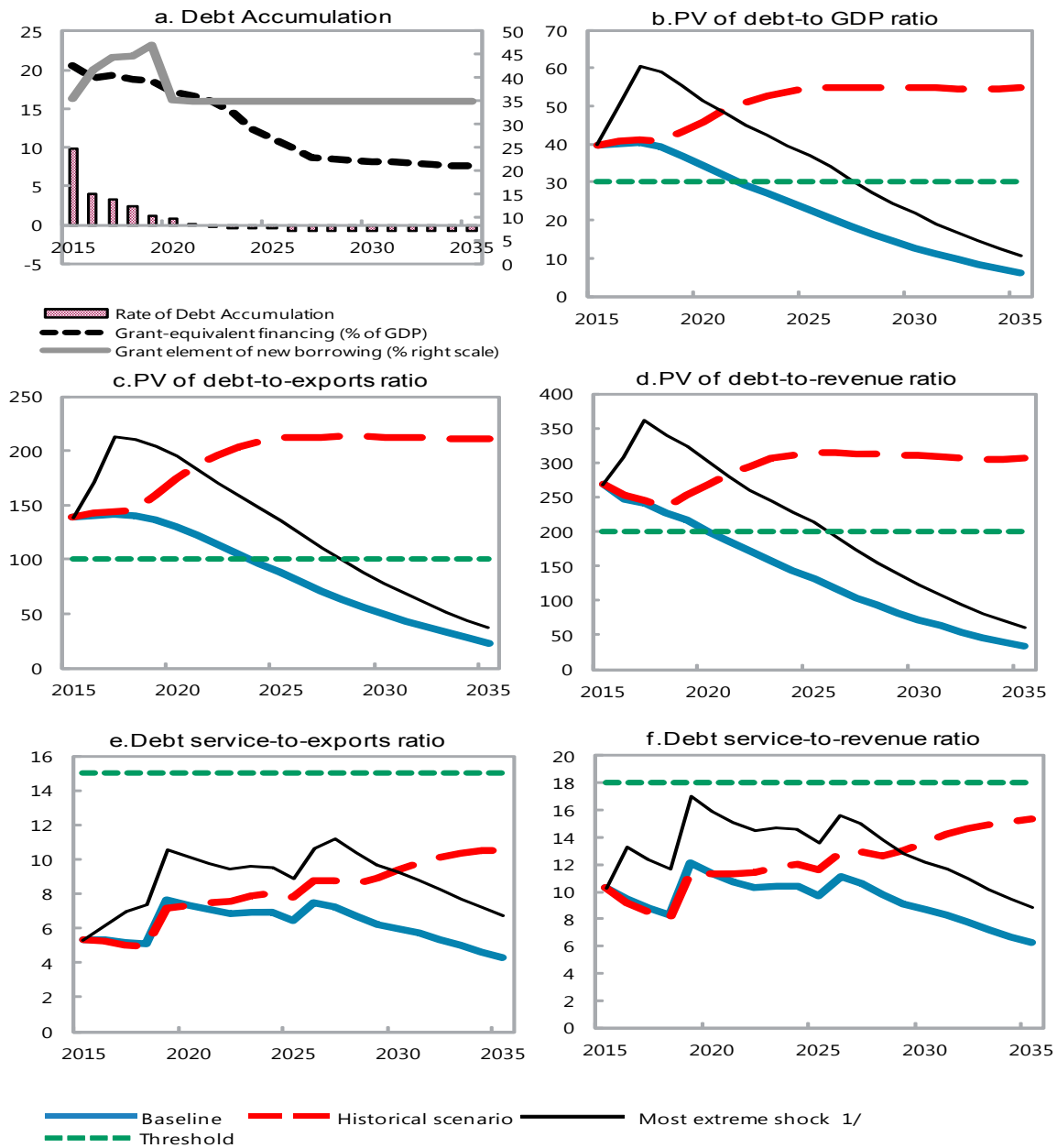
**9. São Tomé and Príncipe remains at a high risk of debt distress.** However, the country is able to service its current obligations and while some external debt indicators are projected to remain above their respective thresholds they show a clear downward trend in the long term. The current assessment displays an improved debt dynamics compared to the prior DSA partly because of lower future borrowing. The PV of debt-to-exports ratio improved markedly due to upward revisions to exports. In this context, the DSA underlines the need for measures to mitigate risks:

- Remain committed to maintaining the exchange rate peg and an adequate level of international reserve to boost confidence in the wake of reduced oil prospects;
- Maintain fiscal prudence by enhancing revenue mobilization and expenditure control;
- Accelerate reforms to improve policy and institutional performance to enhance the growth potential of the country;
- Ensure favorable financing terms in the form of grants or highly concessional borrowing; and
- Develop and implement a comprehensive strategy to reduce the cost of doing business and attract private investment that can broaden the export base.

**10. The biggest risks to external debt sustainability come from exchange rate, exports and primary balance shocks.** Debt sustainability could deteriorate if protracted periods of slower growth in Europe significantly depress exports, tourism, and FDI flows. The risks appear manageable over the medium-term if the authorities are able to move forward with the planned fiscal adjustment in the coming years and safeguard international reserves. These vulnerabilities also underscore the importance of sound macroeconomic policies to fulfill the country's growth potential on a sustained basis. The development of sound public debt management, anchored in a medium-term debt management strategy and medium-term fiscal framework, will be essential to guide future development financing. Additionally, with respect to the public investment plan, priority should be given to projects which would help generate high growth and employment as well as exports to help ensure debt service capacity in the future.

**11. The DSA was presented to the authorities and was generally well received.** The authorities were especially glad to see that the DSA results support the reduction in the concessionality threshold from 50 percent to 35 percent (see Figure 4). They also expressed concerns about lack of space to borrow for investment purposes in light of restrictions on nonconcessional borrowing implied by the high risk of debt distress classification

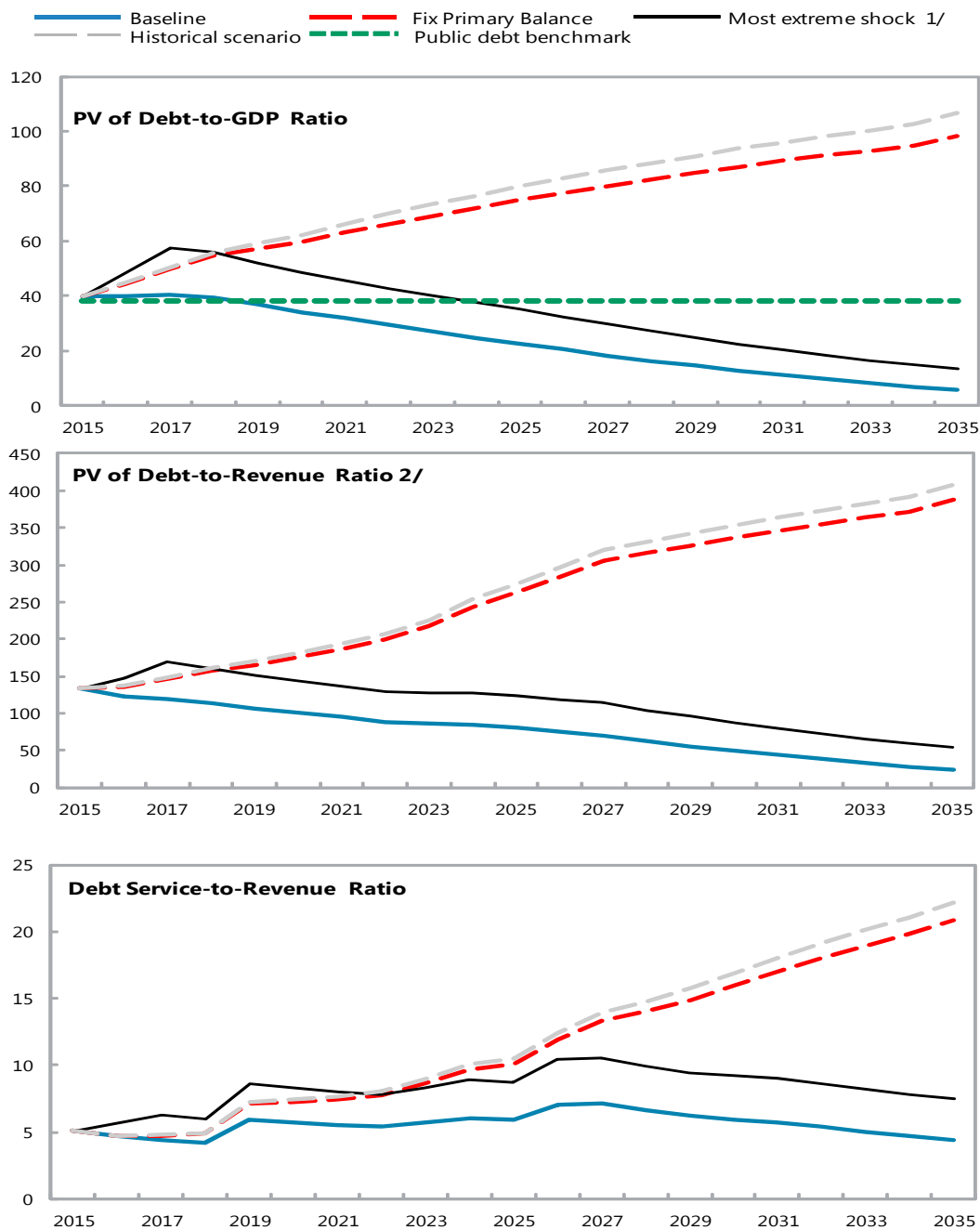
**Figure 1. São Tomé and Príncipe: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2015–2035 1/**



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a Non-debt flows shock; in c. to a Exports shock; in d. to a Non-debt flows shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

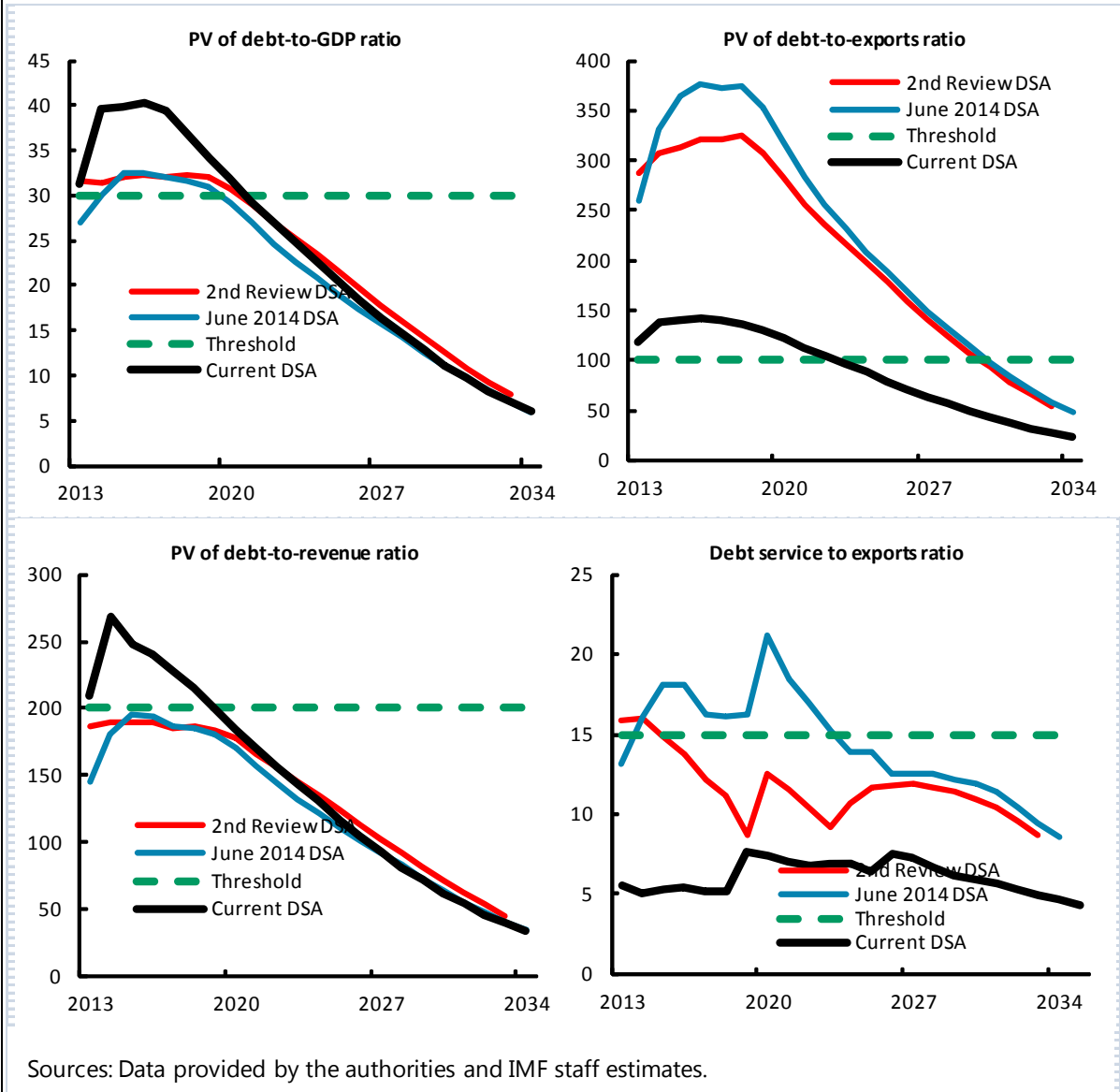
**Figure 2. São Tomé and Príncipe: Indicators of Public Debt Under Alternative Scenarios, 2015–2035 1/**



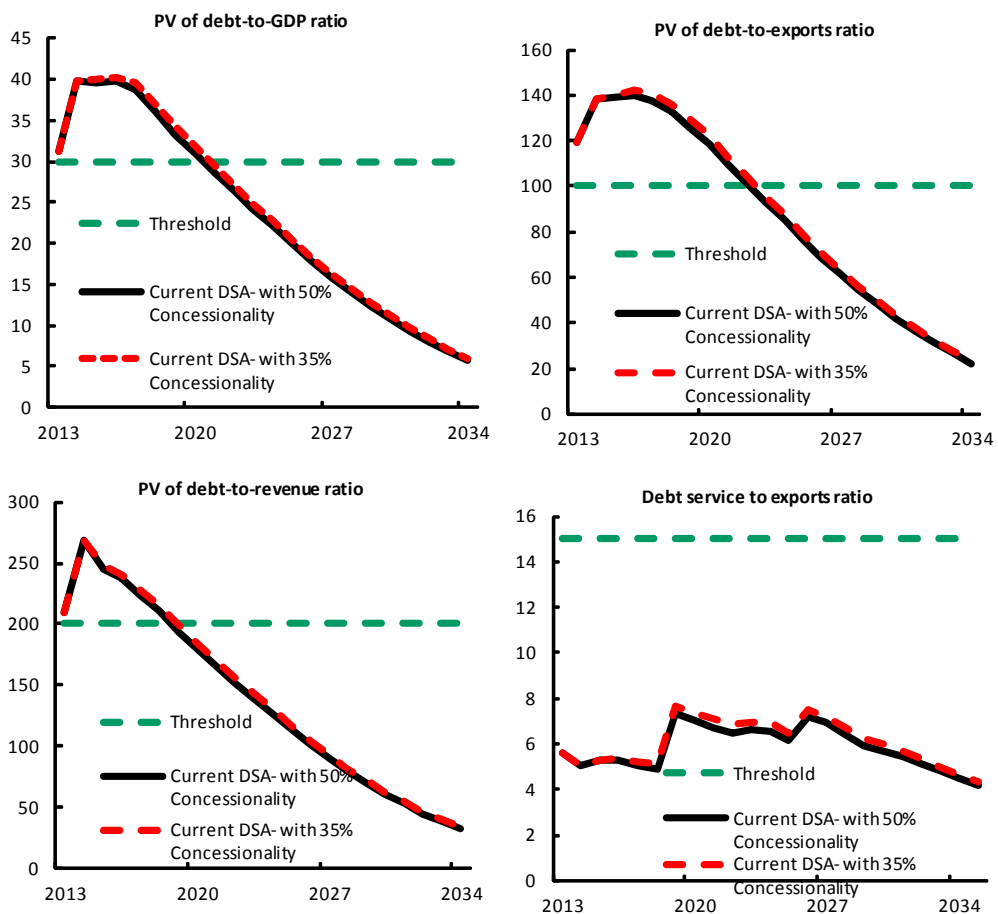
Sources: Country authorities; and staff estimates and projections.  
 1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.  
 2/ Revenues are defined inclusive of grants.



**Figure 3. São Tomé and Príncipe: Comparison of Indicators of Public and Publicly Guaranteed External Debt Ratios**



**Figure 4. São Tomé and Príncipe: Comparison of Indicators of Public and Publically Guaranteed External Debt Ratios, 50 percent vs. 35 percent Concessionality**



Sources: Data provided by the authorities and IMF staff estimates.

**Table 1. São Tomé and Príncipe: External Debt Sustainability Framework, Baseline Scenario, 2012–2035 1/**  
(Percent of GDP, unless otherwise indicated)

|   | Actual       |              |             | Historical <sup>6/</sup><br>Average | Standard <sup>6/</sup><br>Deviation | Projections |             |             |             |              |              |                      |              |              |                      |
|---|--------------|--------------|-------------|-------------------------------------|-------------------------------------|-------------|-------------|-------------|-------------|--------------|--------------|----------------------|--------------|--------------|----------------------|
|   | 2012         | 2013         | 2014        |                                     |                                     | 2015        | 2016        | 2017        | 2018        | 2019         | 2020         | 2015-2020<br>Average | 2025         | 2035         | 2021-2035<br>Average |
| <b>External debt (nominal) 1/</b>                                       | <b>67.8</b>  | <b>61.8</b>  | <b>68.5</b> |                                     |                                     | <b>79.6</b> | <b>77.7</b> | <b>76.8</b> | <b>73.5</b> | <b>68.0</b>  | <b>62.0</b>  |                      | <b>39.0</b>  | <b>12.0</b>  |                      |
| <i>of which: public and publicly guaranteed (PPG)</i>                   | 67.8         | 61.8         | 68.5        |                                     |                                     | 79.6        | 77.7        | 76.8        | 73.5        | 68.0         | 62.0         |                      | 39.0         | 12.0         |                      |
| Change in external debt   | -1.8         | -6.0         | 6.7         |                                     |                                     | 11.1        | -1.8        | -1.0        | -3.2        | -5.6         | -6.0         |                      | -4.0         | -1.5         |                      |
| Identified net debt-creating flows                                      | 11.3         | 10.4         | 14.8        |                                     |                                     | 3.8         | 4.9         | 4.6         | 4.2         | -1.7         | -2.6         |                      | -0.6         | 1.1          |                      |
| <b>Non-interest current account deficit</b>                             | <b>20.9</b>  | <b>23.1</b>  | <b>27.2</b> | <b>25.0</b>                         | <b>4.5</b>                          | <b>11.7</b> | <b>14.3</b> | <b>15.5</b> | <b>16.2</b> | <b>11.8</b>  | <b>10.7</b>  |                      | <b>11.5</b>  | <b>12.1</b>  | 11.7                 |
| Deficit in balance of goods and services                                | 39.8         | 47.3         | 45.2        |                                     |                                     | 39.2        | 43.2        | 44.6        | 45.2        | 40.7         | 38.3         |                      | 32.6         | 29.6         |                      |
| Exports   | 12.7         | 16.1         | 26.2        |                                     |                                     | 28.7        | 28.5        | 28.4        | 28.1        | 27.1         | 26.4         |                      | 25.9         | 26.0         |                      |
| Imports   | 52.5         | 63.4         | 71.4        |                                     |                                     | 67.9        | 71.7        | 73.0        | 73.3        | 67.8         | 64.7         |                      | 58.5         | 55.7         |                      |
| Net current transfers (negative = inflow)                               | -20.3        | -23.0        | -15.8       | -18.7                               | 3.2                                 | -24.3       | -25.6       | -26.0       | -26.0       | -26.1        | -25.1        |                      | -19.2        | -16.5        | -18.6                |
| <i>of which: official</i>   | -18.4        | -14.9        | -8.9        |                                     |                                     | -16.0       | -17.5       | -17.9       | -18.0       | -18.2        | -17.3        |                      | -11.1        | -7.6         |                      |
| Other current account flows (negative = net inflow)                     | 1.4          | -1.2         | -2.2        |                                     |                                     | -3.3        | -3.2        | -3.1        | -3.0        | -2.8         | -2.6         |                      | -1.9         | -1.0         |                      |
| <b>Net FDI (negative = inflow)</b>                                      | <b>-8.3</b>  | <b>-3.4</b>  | <b>-6.5</b> | <b>-14.5</b>                        | <b>12.6</b>                         | <b>-5.1</b> | <b>-6.5</b> | <b>-7.8</b> | <b>-8.9</b> | <b>-10.3</b> | <b>-10.3</b> |                      | <b>-10.3</b> | <b>-10.4</b> | -10.3                |
| <b>Endogenous debt dynamics 2/</b>                                      | <b>-1.2</b>  | <b>-9.2</b>  | <b>-6.0</b> |                                     |                                     | <b>-2.7</b> | <b>-2.9</b> | <b>-3.1</b> | <b>-3.1</b> | <b>-3.2</b>  | <b>-3.0</b>  |                      | <b>-1.8</b>  | <b>-0.6</b>  |                      |
| Contribution from nominal interest rate                                 | 0.4          | 0.4          | 0.5         |                                     |                                     | 0.8         | 0.9         | 0.9         | 0.8         | 0.8          | 0.7          |                      | 0.4          | 0.1          |                      |
| Contribution from real GDP growth                                       | -3.1         | -2.3         | -2.5        |                                     |                                     | -3.6        | -3.8        | -4.0        | -3.9        | -4.0         | -3.7         |                      | -2.2         | -0.7         |                      |
| Contribution from price and exchange rate changes                       | 1.4          | -7.3         | -3.9        |                                     |                                     | ...         | ...         | ...         | ...         | ...          | ...          |                      | ...          | ...          |                      |
| <b>Residual (3-4) 3/</b>  | <b>-13.1</b> | <b>-16.4</b> | <b>-8.1</b> |                                     |                                     | <b>7.3</b>  | <b>-6.8</b> | <b>-5.6</b> | <b>-7.4</b> | <b>-3.9</b>  | <b>-3.4</b>  |                      | <b>-3.4</b>  | <b>-2.6</b>  |                      |
| <i>of which: exceptional financing</i>                                  | 0.0          | 0.0          | 0.0         |                                     |                                     | 0.0         | 0.0         | 0.0         | 0.0         | 0.0          | 0.0          |                      | 0.0          | 0.0          |                      |
| PV of external debt 4/  | ...          | ...          | 31.2        |                                     |                                     | 39.7        | 39.9        | 40.3        | 39.5        | 36.9         | 34.2         |                      | 22.8         | 6.1          |                      |
| In percent of exports   | ...          | ...          | 119.4       |                                     |                                     | 138.4       | 140.1       | 141.9       | 140.6       | 136.2        | 129.7        |                      | 88.0         | 23.3         |                      |
| <b>PV of PPG external debt</b>  | <b>...</b>   | <b>...</b>   | <b>31.2</b> |                                     |                                     | <b>39.7</b> | <b>39.9</b> | <b>40.3</b> | <b>39.5</b> | <b>36.9</b>  | <b>34.2</b>  |                      | <b>22.8</b>  | <b>6.1</b>   |                      |
| In percent of exports   | ...          | ...          | 119.4       |                                     |                                     | 138.4       | 140.1       | 141.9       | 140.6       | 136.2        | 129.7        |                      | 88.0         | 23.3         |                      |
| In percent of government revenues                                       | ...          | ...          | 209.3       |                                     |                                     | 267.8       | 247.4       | 240.8       | 227.2       | 216.1        | 199.4        |                      | 131.1        | 33.9         |                      |
| <b>Debt service-to-exports ratio (in percent)</b>                       | <b>7.3</b>   | <b>5.6</b>   | <b>5.0</b>  |                                     |                                     | <b>5.3</b>  | <b>5.4</b>  | <b>5.2</b>  | <b>5.1</b>  | <b>7.6</b>   | <b>7.3</b>   |                      | <b>6.5</b>   | <b>4.3</b>   |                      |
| <b>PPG debt service-to-exports ratio (in percent)</b>                   | <b>7.3</b>   | <b>5.6</b>   | <b>5.0</b>  |                                     |                                     | <b>5.3</b>  | <b>5.4</b>  | <b>5.2</b>  | <b>5.1</b>  | <b>7.6</b>   | <b>7.3</b>   |                      | <b>6.5</b>   | <b>4.3</b>   |                      |
| <b>PPG debt service-to-revenue ratio (in percent)</b>                   | <b>6.2</b>   | <b>4.9</b>   | <b>8.8</b>  |                                     |                                     | <b>10.3</b> | <b>9.5</b>  | <b>8.8</b>  | <b>8.3</b>  | <b>12.1</b>  | <b>11.3</b>  |                      | <b>9.6</b>   | <b>6.3</b>   |                      |
| Total gross financing need (Billions of U.S. dollars)                   | 0.0          | 0.1          | 0.1         |                                     |                                     | 0.0         | 0.0         | 0.0         | 0.0         | 0.0          | 0.0          |                      | 0.0          | 0.0          |                      |
| Non-interest current account deficit that stabilizes debt ratio         | 22.7         | 29.1         | 20.6        |                                     |                                     | 0.6         | 16.2        | 16.5        | 19.4        | 17.3         | 16.6         |                      | 15.5         | 13.5         |                      |
| <b>Key macroeconomic assumptions</b>                                    |              |              |             |                                     |                                     |             |             |             |             |              |              |                      |              |              |                      |
| Real GDP growth (in percent)  | 4.5          | 4.0          | 4.5         | 5.1                                 | 2.4                                 | 5.0         | 5.2         | 5.5         | 5.5         | 6.0          | 6.0          | 5.5                  | 5.5          | 5.5          | 5.6                  |
| GDP deflator in US dollar terms (change in percent)                     | -2.0         | 12.0         | 6.8         | 6.9                                 | 8.2                                 | -8.2        | 4.0         | 1.6         | 2.5         | 3.6          | 4.1          | 1.3                  | 1.7          | 0.7          | 1.7                  |
| Effective interest rate (percent) 5/                                    | 0.6          | 0.6          | 0.9         | 0.5                                 | 0.2                                 | 1.1         | 1.2         | 1.2         | 1.2         | 1.2          | 1.2          | 1.2                  | 1.1          | 1.0          | 1.1                  |
| Growth of exports of G&S (US dollar terms, in percent)                  | 12.5         | 48.0         | 80.8        | 21.8                                | 27.0                                | 5.8         | 8.5         | 6.9         | 6.9         | 5.9          | 7.4          | 6.9                  | 7.2          | 7.2          | 7.3                  |
| Growth of imports of G&S (US dollar terms, in percent)                  | -7.3         | 40.8         | 25.7        | 17.0                                | 20.5                                | -8.3        | 15.5        | 9.1         | 8.5         | 1.6          | 5.4          | 5.3                  | 5.8          | 6.6          | 6.3                  |
| Grant element of new public sector borrowing (in percent)               | ...          | ...          | ...         | ...                                 | ...                                 | 35.4        | 41.9        | 44.4        | 44.8        | 47.2         | 35.3         | 41.5                 | 34.9         | 34.9         | 34.9                 |
| Government revenues (excluding grants, in percent of GDP)               | 15.0         | 18.3         | 14.9        | ...                                 | ...                                 | 14.8        | 16.1        | 16.7        | 17.4        | 17.1         | 17.1         | ...                  | 17.4         | 17.9         | 17.6                 |
| Aid flows (in Billions of US dollars) 7/                                | 0.1          | 0.1          | 0.1         | ...                                 | ...                                 | 0.1         | 0.1         | 0.1         | 0.1         | 0.1          | 0.1          | ...                  | 0.1          | 0.1          | ...                  |
| <i>of which: Grants</i>   | 0.0          | 0.0          | 0.0         | ...                                 | ...                                 | 0.0         | 0.1         | 0.1         | 0.1         | 0.1          | 0.1          | ...                  | 0.1          | 0.1          | ...                  |
| <i>of which: Concessional loans</i>                                     | 0.0          | 0.0          | 0.0         | ...                                 | ...                                 | 0.0         | 0.0         | 0.0         | 0.0         | 0.0          | 0.0          | ...                  | 0.0          | 0.0          | ...                  |
| Grant-equivalent financing (in percent of GDP) 8/                       | ...          | ...          | ...         | ...                                 | ...                                 | 20.6        | 19.0        | 19.3        | 18.7        | 18.7         | 17.3         | ...                  | 11.2         | 7.6          | 10.3                 |
| Grant-equivalent financing (in percent of external financing) 8/        | ...          | ...          | ...         | ...                                 | ...                                 | 67.2        | 85.0        | 87.6        | 91.5        | 93.6         | 94.3         | ...                  | 98.8         | 98.3         | 98.5                 |
| <b>Memorandum items:</b>  |              |              |             |                                     |                                     |             |             |             |             |              |              |                      |              |              |                      |
| Nominal GDP (Billions of US dollars)                                    | 0.3          | 0.3          | 0.338       |                                     |                                     | 0.3         | 0.4         | 0.4         | 0.4         | 0.5          | 0.5          |                      | 0.7          | 1.4          |                      |
| Nominal dollar GDP growth   | 2.4          | 16.5         | 11.6        |                                     |                                     | -3.6        | 9.4         | 7.2         | 8.1         | 9.8          | 10.3         | 6.9                  | 7.3          | 6.2          | 7.4                  |
| PV of PPG external debt (in Billions of US dollars)                     | ...          | ...          | 0.1         |                                     |                                     | 0.1         | 0.1         | 0.2         | 0.2         | 0.2          | 0.2          |                      | 0.2          | 0.1          |                      |
| (Pvt-Pvt-1)/GDPt-1 (in percent)   | ...          | ...          | ...         |                                     |                                     | 9.8         | 4.0         | 3.3         | 2.4         | 1.1          | 0.9          | 3.6                  | -0.4         | -0.7         | -0.6                 |
| Gross workers' remittances (Billions of US dollars)                     | 0.0          | 0.0          | 0.0         |                                     |                                     | 0.0         | 0.0         | 0.0         | 0.0         | 0.0          | 0.0          |                      | 0.1          | 0.1          |                      |
| PV of PPG external debt (in percent of GDP + remittances)               | ...          | ...          | 29.2        |                                     |                                     | 36.7        | 36.9        | 37.3        | 36.5        | 34.2         | 31.7         |                      | 21.1         | 5.6          |                      |
| PV of PPG external debt (in percent of exports + remittances)           | ...          | ...          | 94.5        |                                     |                                     | 107.5       | 108.8       | 110.5       | 109.4       | 105.4        | 100.1        |                      | 67.1         | 17.3         |                      |
| Debt service of PPG external debt (in percent of exports + remittances) | ...          | ...          | 4.0         |                                     |                                     | 4.1         | 4.2         | 4.1         | 4.0         | 5.9          | 5.7          |                      | 4.9          | 3.2          |                      |

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and publicly-guaranteed and private sector external debt.

2/ Derived as  $[r - g - \rho(1+g)] / (1+g+\rho+g)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate, and  $\rho$  = growth rate of GDP deflator in U.S. dollar terms.

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

8/ 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).

**Table 2. São Tomé and Príncipe: Sensitivity Analysis of Key Indicators of Public and Publicly Guaranteed External Debt, 2015–2035 1/**  
(Percent)

|  | Projections |      |      |      |      |      |            | 2035 |
|--|-------------|------|------|------|------|------|------------|------|
|  | 2015        | 2016 | 2017 | 2018 | 2019 | 2020 | 2025       |      |
| <b>PV of debt-to GDP ratio</b>   |             |      |      |      |      |      |            |      |
| <b>Baseline</b>  | 40          | 40   | 40   | 39   | 37   | 34   | <b>23</b>  | 6    |
| <b>A. Alternative Scenarios</b>  |             |      |      |      |      |      |            |      |
| A1. Key variables at their historical averages in 2015-2035 1/                                     | 40          | 41   | 41   | 41   | 43   | 46   | <b>55</b>  | 55   |
| A2. New public sector loans on less favorable terms in 2015-2035 2/                                | 40          | 42   | 43   | 43   | 41   | 39   | <b>27</b>  | 10   |
| <b>B. Bound Tests</b>  |             |      |      |      |      |      |            |      |
| B1. Real GDP growth at historical average minus one standard deviation in 2016-2017                | 40          | 41   | 43   | 42   | 39   | 36   | <b>24</b>  | 6    |
| B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/         | 40          | 42   | 47   | 46   | 43   | 40   | <b>27</b>  | 8    |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017         | 40          | 42   | 44   | 43   | 40   | 37   | <b>25</b>  | 6    |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/ | 40          | 50   | 60   | 59   | 55   | 52   | <b>37</b>  | 11   |
| B5. Combination of B1-B4 using one-half standard deviation shocks                                  | 40          | 46   | 52   | 51   | 48   | 45   | <b>31</b>  | 9    |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/                   | 40          | 56   | 57   | 56   | 52   | 48   | <b>32</b>  | 8    |
| <b>PV of debt-to-exports ratio</b>   |             |      |      |      |      |      |            |      |
| <b>Baseline</b>  | 138         | 140  | 142  | 141  | 136  | 130  | <b>88</b>  | 23   |
| <b>A. Alternative Scenarios</b>  |             |      |      |      |      |      |            |      |
| A1. Key variables at their historical averages in 2015-2035 1/                                     | 138         | 143  | 145  | 145  | 159  | 174  | <b>212</b> | 211  |
| A2. New public sector loans on less favorable terms in 2015-2035 2/                                | 138         | 146  | 152  | 153  | 151  | 146  | <b>103</b> | 38   |
| <b>B. Bound Tests</b>  |             |      |      |      |      |      |            |      |
| B1. Real GDP growth at historical average minus one standard deviation in 2016-2017                | 138         | 141  | 143  | 141  | 137  | 131  | <b>88</b>  | 23   |
| B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/         | 138         | 170  | 213  | 210  | 204  | 195  | <b>136</b> | 37   |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017         | 138         | 141  | 143  | 141  | 137  | 131  | <b>88</b>  | 23   |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/ | 138         | 175  | 213  | 210  | 204  | 196  | <b>143</b> | 41   |
| B5. Combination of B1-B4 using one-half standard deviation shocks                                  | 138         | 158  | 177  | 175  | 170  | 163  | <b>115</b> | 32   |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/                   | 138         | 141  | 143  | 141  | 137  | 131  | <b>88</b>  | 23   |
| <b>PV of debt-to-revenue ratio</b>   |             |      |      |      |      |      |            |      |
| <b>Baseline</b>  | 268         | 247  | 241  | 227  | 216  | 199  | <b>131</b> | 34   |
| <b>A. Alternative Scenarios</b>  |             |      |      |      |      |      |            |      |
| A1. Key variables at their historical averages in 2015-2035 1/                                     | 268         | 252  | 245  | 235  | 253  | 268  | <b>315</b> | 307  |
| A2. New public sector loans on less favorable terms in 2015-2035 2/                                | 268         | 257  | 258  | 248  | 240  | 225  | <b>153</b> | 55   |
| <b>B. Bound Tests</b>  |             |      |      |      |      |      |            |      |
| B1. Real GDP growth at historical average minus one standard deviation in 2016-2017                | 268         | 255  | 255  | 240  | 229  | 212  | <b>137</b> | 35   |
| B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/         | 268         | 263  | 280  | 264  | 252  | 233  | <b>157</b> | 42   |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017         | 268         | 262  | 262  | 247  | 236  | 218  | <b>141</b> | 36   |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/ | 268         | 308  | 361  | 339  | 324  | 301  | <b>213</b> | 60   |
| B5. Combination of B1-B4 using one-half standard deviation shocks                                  | 268         | 286  | 313  | 294  | 281  | 260  | <b>179</b> | 49   |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/                   | 268         | 350  | 340  | 321  | 306  | 283  | <b>183</b> | 47   |

**Table 2. São Tomé and Príncipe: Sensitivity Analysis of Key Indicators of Public and Publicly Guaranteed External Debt, 2015–2035 (concluded)**  
(Percent)

|  | Projections |      |      |      |      |      |           |      |
|--|-------------|------|------|------|------|------|-----------|------|
|  | 2015        | 2016 | 2017 | 2018 | 2019 | 2020 | 2025      | 2035 |
| <b>Debt service-to-exports ratio</b>   |             |      |      |      |      |      |           |      |
| <b>Baseline</b>  | 5           | 5    | 5    | 5    | 8    | 7    | <b>6</b>  | 4    |
| <b>A. Alternative Scenarios</b>  |             |      |      |      |      |      |           |      |
| A1. Key variables at their historical averages in 2015-2035 1/                                     | 5           | 5    | 5    | 5    | 7    | 7    | <b>8</b>  | 11   |
| A2. New public sector loans on less favorable terms in 2015-2035 2/                                | 5           | 5    | 5    | 5    | 8    | 7    | <b>7</b>  | 3    |
| <b>B. Bound Tests</b>  |             |      |      |      |      |      |           |      |
| B1. Real GDP growth at historical average minus one standard deviation in 2016-2017                | 5           | 5    | 5    | 5    | 8    | 7    | <b>6</b>  | 4    |
| B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/         | 5           | 6    | 7    | 7    | 11   | 10   | <b>9</b>  | 7    |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017         | 5           | 5    | 5    | 5    | 8    | 7    | <b>6</b>  | 4    |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/ | 5           | 5    | 6    | 7    | 9    | 9    | <b>8</b>  | 7    |
| B5. Combination of B1-B4 using one-half standard deviation shocks                                  | 5           | 5    | 6    | 6    | 8    | 8    | <b>7</b>  | 6    |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/                   | 5           | 5    | 5    | 5    | 8    | 7    | <b>6</b>  | 4    |
| <b>Debt service-to-revenue ratio</b>   |             |      |      |      |      |      |           |      |
| <b>Baseline</b>  | 10          | 9    | 9    | 8    | 12   | 11   | <b>10</b> | 6    |
| <b>A. Alternative Scenarios</b>  |             |      |      |      |      |      |           |      |
| A1. Key variables at their historical averages in 2015-2035 1/                                     | 10          | 9    | 8    | 8    | 11   | 11   | <b>12</b> | 15   |
| A2. New public sector loans on less favorable terms in 2015-2035 2/                                | 10          | 9    | 8    | 8    | 12   | 11   | <b>10</b> | 5    |
| <b>B. Bound Tests</b>  |             |      |      |      |      |      |           |      |
| B1. Real GDP growth at historical average minus one standard deviation in 2016-2017                | 10          | 10   | 9    | 9    | 13   | 12   | <b>10</b> | 7    |
| B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/         | 10          | 9    | 9    | 9    | 13   | 12   | <b>10</b> | 8    |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017         | 10          | 10   | 10   | 9    | 13   | 12   | <b>10</b> | 7    |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/ | 10          | 9    | 10   | 11   | 15   | 14   | <b>12</b> | 10   |
| B5. Combination of B1-B4 using one-half standard deviation shocks                                  | 10          | 10   | 10   | 10   | 14   | 13   | <b>11</b> | 9    |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/                   | 10          | 13   | 12   | 12   | 17   | 16   | <b>14</b> | 9    |
| <i>Memorandum item:</i>  |             |      |      |      |      |      |           |      |
| Grant element assumed on residual financing (i.e., financing required above baseline) 6/           | 35          | 35   | 35   | 35   | 35   | 35   | <b>35</b> | 35   |

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

**Table 3. São Tomé and Príncipe: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012–2035**  
(Percent of GDP, unless otherwise indicated)

|  | Actual |       |       | Average <sup>5/</sup> | Standard Deviation <sup>5/</sup> | Estimate |       |       |       |       |       | Projections        |      |      |                    |
|--|--------|-------|-------|-----------------------|----------------------------------|----------|-------|-------|-------|-------|-------|--------------------|------|------|--------------------|
|  | 2012   | 2013  | 2014  |                       |                                  | 2015     | 2016  | 2017  | 2018  | 2019  | 2020  | 2015-20<br>Average | 2025 | 2035 | 2021-35<br>Average |
| <b>Public sector debt 1/</b>   | 67.8   | 61.8  | 68.5  |                       |                                  | 79.6     | 77.7  | 76.8  | 73.5  | 68.0  | 62.0  | 39.0               | 12.0 |      |                    |
| <i>of which: foreign-currency denominated</i>                          | 67.8   | 61.8  | 68.5  |                       |                                  | 79.6     | 77.7  | 76.8  | 73.5  | 68.0  | 62.0  | 39.0               | 12.0 |      |                    |
| Change in public sector debt   | -1.8   | -6.0  | 6.7   |                       |                                  | 11.1     | -1.8  | -1.0  | -3.2  | -5.6  | -6.0  | -4.0               | -1.5 |      |                    |
| Identified debt-creating flows   | 4.0    | -9.9  | 7.1   |                       |                                  | 7.0      | -3.5  | -2.2  | -4.5  | -5.6  | -5.5  | -2.8               | -0.5 |      |                    |
| Primary deficit  | 11.9   | 0.0   | 5.7   | 10.4                  | 5.6                              | 9.9      | 2.6   | 2.2   | 0.4   | 0.3   | 0.2   | 2.6                | -0.3 | 0.0  | -0.3               |
| Revenue and grants   | 32.7   | 31.2  | 25.3  |                       |                                  | 29.9     | 32.7  | 33.9  | 34.7  | 34.6  | 33.9  | 28.5               | 25.4 |      |                    |
| <i>of which: grants</i>  | 17.7   | 12.9  | 10.3  |                       |                                  | 15.1     | 16.6  | 17.1  | 17.3  | 17.6  | 16.7  | 11.1               | 7.6  |      |                    |
| Primary (noninterest) expenditure                                      | 44.6   | 31.2  | 31.0  |                       |                                  | 39.8     | 35.3  | 36.0  | 35.1  | 34.9  | 34.0  | 28.2               | 25.4 |      |                    |
| Automatic debt dynamics  | -7.8   | -9.9  | 1.4   |                       |                                  | -2.9     | -6.1  | -4.4  | -4.9  | -5.9  | -5.6  | -2.5               | -0.5 |      |                    |
| Contribution from interest rate/growth differential                    | -3.8   | -3.2  | -3.1  |                       |                                  | -3.6     | -4.3  | -4.9  | -4.7  | -4.8  | -4.4  | -2.7               | -0.8 |      |                    |
| <i>of which: contribution from average real interest rate</i>          | -0.8   | -0.6  | -0.4  |                       |                                  | -0.3     | -0.4  | -0.8  | -0.7  | -0.7  | -0.6  | -0.4               | -0.1 |      |                    |
| <i>of which: contribution from real GDP growth</i>                     | -3.0   | -2.6  | -2.7  |                       |                                  | -3.3     | -3.9  | -4.1  | -4.0  | -4.2  | -3.8  | -2.2               | -0.7 |      |                    |
| Contribution from real exchange rate depreciation                      | -4.0   | -6.7  | 4.5   |                       |                                  | 0.7      | -1.8  | 0.5   | -0.2  | -1.1  | -1.2  | ...                | ...  |      |                    |
| Other identified debt-creating flows                                   | 0.0    | 0.0   | 0.0   |                       |                                  | 0.0      | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0                | 0.0  |      |                    |
| Privatization receipts (negative)                                      | 0.0    | 0.0   | 0.0   |                       |                                  | 0.0      | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0                | 0.0  |      |                    |
| Recognition of implicit or contingent liabilities                      | 0.0    | 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)   | 0.0    | 0.0   | 0.0   |                       |                                  | 0.0      | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0                | 0.0  |      |                    |
| Other (specify, e.g. bank recapitalization)                            | 0.0    | 0.0   | 0.0   |                       |                                  | 0.0      | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0                | 0.0  |      |                    |
| Residual, including asset changes                                      | -5.8   | 3.9   | -0.5  |                       |                                  | 4.1      | 1.7   | 1.2   | 1.3   | 0.1   | -0.5  | -1.1               | -0.9 |      |                    |
| <b>Other Sustainability Indicators</b>                                 |        |       |       |                       |                                  |          |       |       |       |       |       |                    |      |      |                    |
| <b>PV of public sector debt</b>  | ...    | ...   | 31.2  |                       |                                  | 39.7     | 39.9  | 40.3  | 39.5  | 36.9  | 34.2  | 22.8               | 6.1  |      |                    |
| <i>of which: foreign-currency denominated</i>                          | ...    | ...   | 31.2  |                       |                                  | 39.7     | 39.9  | 40.3  | 39.5  | 36.9  | 34.2  | 22.8               | 6.1  |      |                    |
| <i>of which: external</i>  | ...    | ...   | 31.2  |                       |                                  | 39.7     | 39.9  | 40.3  | 39.5  | 36.9  | 34.2  | 22.8               | 6.1  |      |                    |
| PV of contingent liabilities (not included in public sector debt)      | ...    | ...   | ...   |                       |                                  | ...      | ...   | ...   | ...   | ...   | ...   | ...                | ...  |      |                    |
| Gross financing need 2/  | 12.8   | 0.9   | 7.0   |                       |                                  | 11.4     | 4.1   | 3.6   | 1.9   | 2.3   | 2.1   | 1.3                | 1.1  |      |                    |
| PV of public sector debt-to-revenue and grants ratio (in percent)      | ...    | ...   | 123.6 |                       |                                  | 132.7    | 121.8 | 119.0 | 113.8 | 106.5 | 101.0 | 79.9               | 23.8 |      |                    |
| PV of public sector debt-to-revenue ratio (in percent)                 | ...    | ...   | 209.3 |                       |                                  | 267.8    | 247.4 | 240.8 | 227.2 | 216.1 | 199.4 | 131.1              | 33.9 |      |                    |
| <i>of which: external 3/</i>   | ...    | ...   | 209.3 |                       |                                  | 267.8    | 247.4 | 240.8 | 227.2 | 216.1 | 199.4 | 131.1              | 33.9 |      |                    |
| Debt service-to-revenue and grants ratio (in percent) 4/               | 2.8    | 2.9   | 5.2   |                       |                                  | 5.1      | 4.7   | 4.4   | 4.1   | 6.0   | 5.7   | 5.9                | 4.4  |      |                    |
| Debt service-to-revenue ratio (in percent) 4/                          | 6.2    | 4.9   | 8.8   |                       |                                  | 10.3     | 9.5   | 8.8   | 8.3   | 12.1  | 11.3  | 9.6                | 6.3  |      |                    |
| Primary deficit that stabilizes the debt-to-GDP ratio                  | 13.7   | 6.0   | -1.0  |                       |                                  | -1.2     | 4.4   | 3.1   | 3.6   | 5.8   | 6.1   | 3.6                | 1.5  |      |                    |
| <b>Key macroeconomic and fiscal assumptions</b>                        |        |       |       |                       |                                  |          |       |       |       |       |       |                    |      |      |                    |
| Real GDP growth (in percent)   | 4.5    | 4.0   | 4.5   | 5.1                   | 2.4                              | 5.0      | 5.2   | 5.5   | 5.5   | 6.0   | 6.0   | 5.5                | 5.5  | 5.6  |                    |
| Average nominal interest rate on forex debt (in percent)               | 0.6    | 0.6   | 0.9   | 0.5                   | 0.2                              | 1.1      | 1.2   | 1.2   | 1.2   | 1.2   | 1.2   | 1.2                | 1.1  | 1.0  |                    |
| Real exchange rate depreciation (in percent, + indicates depreciation) | -6.1   | -10.4 | 7.7   | -3.5                  | 7.0                              | ...      | ...   | ...   | ...   | ...   | ...   | ...                | ...  | ...  |                    |
| Inflation rate (GDP deflator, in percent)                              | 6.0    | 8.4   | 6.9   | 13.7                  | 7.6                              | 9.5      | 3.3   | 0.4   | 1.3   | 2.5   | 2.5   | 3.2                | 2.7  | 2.7  |                    |
| Growth of real primary spending (deflated by GDP deflator, in percent) | -2.4   | -27.2 | 3.7   | -2.5                  | 8.8                              | 35.1     | -6.7  | 7.6   | 2.8   | 5.4   | 3.4   | 7.9                | 1.5  | 5.3  |                    |
| Grant element of new external borrowing (in percent)                   | ...    | ...   | ...   | ...                   | ...                              | 35.4     | 41.9  | 44.4  | 44.8  | 47.2  | 35.3  | 41.5               | 34.9 | 34.9 |                    |

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ 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.

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

**Table 4. São Tomé and Príncipe: Sensitivity Analysis of Key Indicators of Public Debt, 2015–2035**

|   | Projections |      |      |      |      |      |      |      |
|---|-------------|------|------|------|------|------|------|------|
|   | 2015        | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 | 2035 |
| <b>PV of Debt-to-GDP Ratio</b>  |             |      |      |      |      |      |      |      |
| <b>Baseline</b>   | 40          | 40   | 40   | 39   | 37   | 34   | 23   | 6    |
| <b>A. Alternative scenarios</b>   |             |      |      |      |      |      |      |      |
| A1. Real GDP growth and primary balance are at historical averages                      | 40          | 45   | 51   | 56   | 59   | 62   | 80   | 106  |
| A2. Primary balance is unchanged from 2015  | 40          | 45   | 50   | 55   | 57   | 60   | 75   | 98   |
| A3. Permanently lower GDP growth 1/   | 40          | 40   | 41   | 40   | 38   | 36   | 27   | 17   |
| <b>B. Bound tests</b>   |             |      |      |      |      |      |      |      |
| B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017 | 40          | 41   | 43   | 43   | 41   | 38   | 29   | 15   |
| B2. Primary balance is at historical average minus one standard deviations in 2016-2017 | 40          | 48   | 57   | 56   | 52   | 49   | 35   | 14   |
| B3. Combination of B1-B2 using one half standard deviation shocks                       | 40          | 47   | 55   | 54   | 51   | 48   | 35   | 17   |
| B4. One-time 30 percent real depreciation in 2016                                       | 40          | 55   | 54   | 52   | 48   | 45   | 32   | 12   |
| B5. 10 percent of GDP increase in other debt-creating flows in 2016                     | 40          | 46   | 46   | 45   | 42   | 39   | 27   | 9    |
| <b>PV of Debt-to-Revenue Ratio 2/</b>   |             |      |      |      |      |      |      |      |
| <b>Baseline</b>   | 133         | 122  | 119  | 114  | 106  | 101  | 80   | 24   |
| <b>A. Alternative scenarios</b>   |             |      |      |      |      |      |      |      |
| A1. Real GDP growth and primary balance are at historical averages                      | 133         | 137  | 149  | 160  | 169  | 181  | 275  | 407  |
| A2. Primary balance is unchanged from 2015  | 133         | 136  | 147  | 157  | 165  | 176  | 264  | 387  |
| A3. Permanently lower GDP growth 1/   | 133         | 122  | 120  | 116  | 109  | 105  | 92   | 65   |
| <b>B. Bound tests</b>   |             |      |      |      |      |      |      |      |
| B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017 | 133         | 124  | 124  | 121  | 114  | 110  | 98   | 57   |
| B2. Primary balance is at historical average minus one standard deviations in 2016-2017 | 133         | 148  | 169  | 161  | 151  | 144  | 123  | 54   |
| B3. Combination of B1-B2 using one half standard deviation shocks                       | 133         | 143  | 160  | 153  | 145  | 139  | 123  | 65   |
| B4. One-time 30 percent real depreciation in 2016                                       | 133         | 168  | 160  | 151  | 140  | 132  | 112  | 48   |
| B5. 10 percent of GDP increase in other debt-creating flows in 2016                     | 133         | 141  | 137  | 131  | 123  | 117  | 96   | 35   |
| <b>Debt Service-to-Revenue Ratio 2/</b>   |             |      |      |      |      |      |      |      |
| <b>Baseline</b>   | 5           | 5    | 4    | 4    | 6    | 6    | 6    | 4    |
| <b>A. Alternative scenarios</b>   |             |      |      |      |      |      |      |      |
| A1. Real GDP growth and primary balance are at historical averages                      | 5           | 5    | 5    | 5    | 7    | 7    | 11   | 22   |
| A2. Primary balance is unchanged from 2015  | 5           | 5    | 5    | 5    | 7    | 7    | 10   | 21   |
| A3. Permanently lower GDP growth 1/   | 5           | 5    | 4    | 4    | 6    | 6    | 6    | 6    |
| <b>B. Bound tests</b>   |             |      |      |      |      |      |      |      |
| B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017 | 5           | 5    | 4    | 4    | 6    | 6    | 6    | 6    |
| B2. Primary balance is at historical average minus one standard deviations in 2016-2017 | 5           | 5    | 5    | 5    | 7    | 7    | 7    | 7    |
| B3. Combination of B1-B2 using one half standard deviation shocks                       | 5           | 5    | 5    | 5    | 7    | 7    | 7    | 7    |
| B4. One-time 30 percent real depreciation in 2016                                       | 5           | 6    | 6    | 6    | 9    | 8    | 9    | 7    |
| B5. 10 percent of GDP increase in other debt-creating flows in 2016                     | 5           | 5    | 5    | 5    | 6    | 6    | 6    | 5    |

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.



# DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

June 24, 2015

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE  
EXTENDED CREDIT FACILITY AND CANCELLATION OF THE  
CURRENT ARRANGEMENT UNDER THE EXTENDED CREDIT  
FACILITY—INFORMATIONAL ANNEX

Prepared By

The African Department  
(in Consultation with Other Departments)

## CONTENTS

|   |    |
|---|----|
| RELATIONS WITH THE FUND                           | 2  |
| RELATIONS WITH THE WORLD BANK GROUP               | 6  |
| RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP | 8  |
| STATISTICAL ISSUES                                | 10 |



## RELATIONS WITH THE FUND

(As of April 30, 2015)

### Membership Status

Joined: September 30, 1977; Article XIV

| <b>General Resources Account:</b>         | <b>SDR Million</b> | <b>%Quota</b> |
|---|--------------------|---------------|
| Quota                                     | 7.40               | 100.00        |
| Fund holdings of currency (exchange rate) | 7.40               | 100.05        |
| Reserve tranche position                  | 0.00               | 0.00          |

| <b>SDR Department:</b>    | <b>SDR Million</b> | <b>%Allocation</b> |
|---------------------------|--------------------|--------------------|
| Net cumulative allocation | 7.10               | 100.00             |
| Holdings                  | 0.21               | 3.02               |

| <b>Outstanding Purchases and Loans:</b> | <b>SDR Million</b> | <b>%Quota</b> |
|---|--------------------|---------------|
| ECF Arrangements                        | 2.96               | 40.00         |

### Latest Financial Arrangements:

| <b>Type</b>      | <b>Date of Arrangement</b> | <b>Expiration Date</b> | <b>Amount Approved<br/>(SDR Million)</b> | <b>Amount Drawn<br/>(SDR Million)</b> |
|------------------|----------------------------|------------------------|--|---------------------------------------|
| ECF <sup>1</sup> | 07/20/2012                 | 07/19/2015             | 2.59                                     | 1.11                                  |
| ECF <sup>1</sup> | 03/02/2009                 | 03/01/2012             | 2.59                                     | 0.74                                  |
| ECF <sup>1</sup> | 08/01/2005                 | 07/31/2008             | 2.96                                     | 2.96                                  |

<sup>1</sup>Formerly PRGF.

### Projected Payments to Fund <sup>1</sup>

(SDR Million; based on existing use of resources and present holdings of SDRs):

|                  | <u>Forthcoming</u> |             |             |             |             |
|------------------|--------------------|-------------|-------------|-------------|-------------|
|                  | <u>2015</u>        | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
| Principal        | 0.37               | 0.61        | 0.44        | 0.39        | 0.33        |
| Charges/Interest | 0.00               | 0.00        | 0.00        | 0.00        | 0.01        |
| <b>Total</b>     | 0.37               | 0.62        | 0.45        | 0.39        | 0.34        |

<sup>1</sup>When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

**Implementation of HIPC Initiative:**

|   |                    |
|---|--------------------|
|   | Enhanced Framework |
| Commitment of HIPC assistance                           |                    |
| Decision point date                                     | December 2000      |
| Assistance committed                                    |                    |
| by all creditors (US\$ Million) <sup>1</sup>            | 124.30             |
| <i>Of which:</i> IMF assistance (US\$ million)          | 1.24               |
| (SDR equivalent in millions)                            | 0.82               |
| Completion point date                                   | March 2007         |
| Disbursement of IMF assistance (SDR Million)            |                    |
| Assistance disbursed to the member                      | 0.82               |
| Interim assistance                                      | ...                |
| Completion point balance                                | 0.82               |
| Additional disbursement of interest income <sup>2</sup> | 0.04               |
| <b>Total disbursements</b>                              | <b>0.87</b>        |

<sup>1</sup> Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

<sup>2</sup> Under the enhanced framework, an additional disbursement is made corresponding to interest income earned on the amount of HIPC assistance committed but not disbursed.

**Implementation of Multilateral Debt Relief Initiative (MDRI):**

|   |      |
|---|------|
| MDRI-eligible debt (SDR Million) <sup>1</sup> | 1.43 |
| Financed by: MDRI Trust                       | 1.05 |
| Remaining HIPC resources                      | 0.38 |

Debt Relief by Facility (SDR Million)

| <u>Delivery</u> | <u>Eligible Debt</u> |            |             |              |
|-----------------|----------------------|------------|-------------|--------------|
|                 | <u>Date</u>          | <u>GRA</u> | <u>PRGT</u> | <u>Total</u> |
|                 | March 2007           | N/A        | 1.05        | 1.05         |
|                 | December 2007        | N/A        | 0.38        | 0.38         |

<sup>1/</sup> The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

**Safeguards Assessments:**

An updated safeguards assessment of the Central Bank of São Tomé and Príncipe (BCSTP) was completed in May 2013. The assessment noted the severe capacity constraints faced by the BCSTP, including lack of independent oversight. External audits conducted by reputable audit firms continue to serve as a critical safeguard mechanism, and the assessment recommended strengthened coordination of the audits by senior BCSTP management to ensure prompt remedial actions on audit findings. Other recommendations included strengthening of the internal audit function and implementation of formal investment policies. The BCSTP has followed up with action to address weaknesses in internal auditing, portfolio management guidelines, and auditing of the 2014 accounts by an external auditor.

**Exchange Arrangements:**

The de jure and de facto exchange rate arrangement is a conventional peg against the euro. Since January 2010 São Tomé and Príncipe has pegged the Dobra to the euro at a rate of Dobra 24,500 per euro. The organic law of the BCSTP authorizes it to make decisions regarding exchange rate policy. The commission on foreign exchange sales cannot be higher than 2% for the euro and 4% for other currencies. Purchases of Euros must be done at the rate published by the BCSTP and no commissions are allowed. The official euro–U.S. dollar cross rate is based on the European Central Bank (ECB) reference rate of the previous day. The BCSTP finances current international transactions at the official exchange rate only after verification of the documentation establishing the bona fide nature of the bank's request. Access to foreign exchange is limited to institutions having a net position in the transaction currency of less than 12% of qualified capital, a net position in total foreign currency less than 25% of qualified capital, and which are in compliance with the central bank's regulations on bank liquidity and capital adequacy. Financial institutions are allowed access to the central bank's facilities regardless of the above conditions if the foreign exchange is to be used for importation of goods and services in periods of crisis or for the importation of fuel. Commercial banks that meet these requirements can buy foreign exchange directly from the central bank, which can charge up to 1.5 percent commission on sales of euro and up to a 0.5 percent commission on purchases of euro. The buying rate is mainly indicative because the BCSTP rarely makes purchases. The current exchange rate system has effectively eliminated the multiple currency practice related to the existence of numerous exchange rate markets with differing exchange rates for spot transactions that existed in previous years.

São Tomé and Príncipe continue to avail itself of the transitional arrangements under Article XIV, but do not maintain restrictions under Article XIV. However, it maintains one measure subject to Fund approval under Article VIII: an exchange restriction arising from Article 3(i) and Article 10.1(b) of the Investment Code (Law No. 7/2008) regarding limitations on the transferability of net income from investment. The restriction results from the requirement that taxes and other obligations to the government have to be paid/fulfill as a condition for transfer, to the extent the requirement includes the payment of taxes and the fulfillment of obligations unrelated to the net income to be transferred.

**Article IV Consultation:**

The Executive Board concluded the last Article IV consultation with São Tomé and Príncipe on December 13, 2013.

**Financial Sector Assessment Program (FSAP), Reports on Observance of Standards and Codes (ROSCs), and Offshore Financial Center (OFC) Assessments:**

None.

**Resident Representative:**

The Fund has not had a Resident Representative office in São Tomé and Príncipe since October 2006.

**Technical Assistance:**

| <b>Date of Delivery</b> | <b>Department/Purpose</b>                        |
|-------------------------|--|
| April 2015              | FAD mission on medium term framework             |
| March 2015              | FAD mission on tax administration                |
| March 2015              | MCM mission on banking supervision               |
| November 2014           | MCM mission on banking supervision               |
| September 2014          | STA mission on national accounts statistics      |
| September 2014          | MCM mission on liquidity management              |
| April 2014              | STA mission Balance o Payment and IIP            |
| April 2014              | MCM mission on liquidity management              |
| March 2014              | MCM mission on banking supervision               |
| February 2014           | FAD mission on public accounting                 |
| December 2013           | FAD short-term expert visit on public accounting |
| November 2013           | MCM mission on banking supervision               |
| August 2013             | FAD mission on revenue administration            |
| August 2013             | MCM mission on banking supervision               |
| June 2013               | FAD mission on public accounting                 |
| March 2013              | MCM mission on banking supervision               |
| January 2013            | MCM mission on liquidity management              |
| January 2013            | FAD mission on public accounting                 |
| November 2012           | FAD mission on medium-term fiscal framework      |
| November 2012           | FIN mission on safeguards assessment             |
| November 2012           | LEG follow-up mission on AML/CFT                 |
| October 2012            | MCM mission on banking supervision               |
| October 2012            | FAD diagnostic mission on customs                |

| <b>Date of Delivery</b> | <b>Department/Purpose</b>                        |
|-------------------------|--|
| October 2012            | FAD mission on public accounting                 |
| September 2012          | MCM mission on liquidity management              |
| July 2012               | LEG diagnostic mission on AML/CFT                |
| April 2012              | FAD mission on revenue administration            |
| March 2012              | FAD mission on public financial management       |
| March 2012              | STA mission on balance of payments               |
| February 2012           | LEG diagnostic mission on AML/CFT                |
| February 2012           | FAD mission on implementation of SAFEe           |
| January 2012            | FAD diagnostic mission on tax administration     |
| November 2011           | MCM TA needs assessment mission                  |
| November 2011           | MCM mission on liquidity management              |
| November 2011           | FAD mission on public accounting                 |
| October 2011            | FAD mission on public financial management       |
| August 2011             | FAD mission on public accounting                 |
| June 2011               | MCM mission on liquidity management              |
| June 2011               | FAD mission on public accounting                 |
| February 2011           | MCM mission on bank resolution framework         |
| January 2011            | FAD mission on public accounting                 |
| September 2010          | MCM mission on liquidity management              |
| August/September 2010   | STA mission on monetary and financial statistics |
| December 2009           | MCM mission on banking supervision               |
| August 2009             | MCM mission on banking supervision               |
| June 2009               | FIN mission on safeguards assessment             |
| May 2009                | FAD mission on public financial management       |

## **RELATIONS WITH THE WORLD BANK GROUP**

### **Joint Managerial Action Plan (JMAP) for São Tomé and Príncipe**

(As of May, 2015)

1. The IMF and World Bank São Tomé and Príncipe teams held regular meetings to discuss their respective work programs and macro critical structural reforms for São Tomé and Príncipe. The two institutions' teams met in the context of the preparations for the new ECF program to discuss policies and financing during the prospective program period 2015–18.
2. The World Bank's work program is guided by a Country Assistance Strategy for the fiscal years 2014 to 2018 approved in 2014 that focuses on supporting growth and job creation through two broad themes: macroeconomic stability and national competitiveness, and reducing

vulnerability and strengthening human capacity. Gender, partnership, and capacity- building are elements that cut across all the proposed engagements. A Debt Management and Performance Assessment (DeMPA) report was completed in October 2011, and an accompanying reform plan to improve debt management was completed in March 2012.

3. The IMF's work program includes the Executive Board's consideration of the second review under the ECF-supported program, together with the 2013 Article IV consultation, a staff visit in February 2015, mission in April 2015 to negotiate a new ECF-supported program, and assistances with capacity development in the areas of public financial management, revenue administration, statistics, monetary liquidity management, and banking supervision.

4. The Bank and the Fund are providing complementary support to help São Tomé and Príncipe strengthen public financial management and make progress toward debt sustainability. Regarding the latter, the teams prepared a Joint IMF-World Bank Debt Sustainability Analysis (DSA) update in 2014, and a new update has recently been prepared to accompany the new ECF-supported program request.

| <b>Work Program for Period 2015–16</b>                 |   |   |  |
|--|---|---|--|
| <i>Title</i>   | <i>Products</i>   | <i>Provisional timing of missions</i>   | <i>Expected delivery date</i>                                |
| <b>A. Mutual information on relevant work programs</b> |   |   |  |
| World Bank work program in the next 12 months          | <ul style="list-style-type: none"> <li>• STP Power Sector Recovery Project</li> <li>• Economic Governance and Competitiveness II DPO</li> <li>• EITI</li> <li>• Financial sector</li> <li>• Business environment</li> <li>• South-South Collaboration support</li> </ul>  | N.A.<br>July 2015<br><br>N.A.<br>N.A.<br>N.A.<br>N.A.   | FY2016<br><br>FY2016<br>FY2015<br><br>N.A.<br>N.A.<br>FY2016 |
| IMF work program in the next 12 months                 | <ul style="list-style-type: none"> <li>• ECF first review and Article IV</li> <li>• ECF second review</li> <li>• Technical Assistance from STA:                             <ul style="list-style-type: none"> <li>○ National Accounts</li> <li>○ Balance of Payments and IIP</li> </ul> </li> <li>• Technical Assistance from FAD:                             <ul style="list-style-type: none"> <li>○ Tax administration</li> <li>○ PFM</li> <li>○ PFM (SAFE-e and government accounts)</li> <li>○ Budget preparation and fiscal reporting</li> </ul> </li> <li>• MCM:                             <ul style="list-style-type: none"> <li>○ Contingency planning and crisis management</li> <li>○ Banking Supervision</li> </ul> </li> </ul> | March 2016<br>September 2016<br><br>November 2015<br>June 2015<br><br>July 2015<br>July 2015<br><br>October 2015<br><br>November 2015<br><br>July 2015<br>July 2015 | May 2016<br>November 2016                                    |

| <b>B. Requests for work program inputs</b> |   |   |               |
|--|---|---|---------------|
| Fund request to Bank                       | <ul style="list-style-type: none"> <li>Information on Bank budget support operations and disbursement schedule</li> </ul>   | To support the 2015 - 16 fiscal program | November 2015 |
| Bank request to Fund                       | <ul style="list-style-type: none"> <li>Collaboration on providing full set of macroeconomic framework and tables</li> </ul> |   | Ongoing       |

## RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP

(As of May, 2015)

1. São Tomé and Príncipe (STP) became a member of the African Development Bank Group (AfDB) in 1976. To date, the AfDB has financed 30 operations in the country. This comprises of 24 projects, including institutional support, and six studies, for a total net commitment of UA 113.099 million under the African Development Fund (ADF) (98.9%), and one special support operation of UA 1 million under the Nigeria Trust Fund (NTF). The vast majority of these operations (94%) were financed through loans with the remaining 6% through grants.

2. As of 31 March, 2015, the AfDB's ongoing portfolio comprised of five active projects for a total commitment of UA 13.2 million. These are: the Infrastructure Rehabilitation for Food Security (PRIASA); the General Population and Housing Census; the Public Finance Management Project (PAGEF)<sup>1</sup>; and technical assistance and capacity building to the Court of Justice and Supreme Tribunal<sup>2</sup>; the Study on Water Supply and Sanitation Programme Rural (Table 1). In June 2014, the Bank conducted its portfolio performance review for the country. The review concluded that the portfolio performance is rated satisfactory at 2.16 on a scale of 0 to 3, lower than 2.18 reported in 2013. The decline was mainly linked to delays in project compliance with conditions and local contractors' weak performance to complete the programmed activities. During the review period, the portfolio's average disbursement rate stood at 31 percent, compared to 28.8 percent in 2013. The average age of the active portfolio is 2.2 years which is lower than the 2.4 years recorded in 2013. Such improvement is mainly linked to new projects approved in the first quarter of 2013. In terms of sector distribution, multi-sector contributes a substantial proportion, representing 56.8 percent of the total value of the portfolio, followed by agriculture-sector (37.8 percent) and water and sanitation (5.4 percent). There is not ongoing private sector or multinational projects.

<sup>1</sup> PAGEF was approved on January 14, 2013, in the context of the new Country Strategy Paper (CSP) 2012–2016. It aims at improving the economic and financial governance, strategic planning, and to create an environment for private sector development.

<sup>2</sup> Approved on March 4, 2013, joint assistance will be provided by the Regional South Department (ORSB) and the African Legal Support Facility founded by the AfDB to offer legal advice and capacity building to African countries.

3. The AfDB current involvement in STP is guided by the new Country Strategy Paper (CSP) 2012–2016, approved in July 2012. The CSP’s main objective is to prepare the authorities for the forthcoming oil production era and the associated challenges and risks to the country’s socio-economic development. A mid-term review of the strategy was concluded in 2014. During the review process the AfDB and the Government agreed to add a second pillar in order to respond to the country’s development needs. Therefore, the AfDB’s strategy focuses on **Pillar I-** Strengthening Governance; and **Pillar II-** Promotion of Agriculture Infrastructure. Both pillars are consistent with the authorities’ priorities as well as with the AfDB’s priorities outlined in the 2013–2022 strategy for the continent. More specifically, the strategy aims at improving the capacity of key public administration institutions, including human resource development, country systems, and strategic legal and regulatory frameworks by the time the oil era begins. In addition, it will also help to address the issues of food security, job creation, transformation of local products and global value chains.

4. As part of its strategy and knowledge products, the AfDB also envisages to undertake the following economic and sector works; (i) the study on agriculture transformation; (ii) the study on national planning scheme; and (iii) the study on accreditation of the agriculture research and investigation centre (CIAT). In addition, the AfDB also started the preparation of the private sector strategy for STP. STP reached the Highly Indebted Poor Countries (HIPC) decision and completion points in 2000 and 2007, respectively. To this effect, the country became eligible for the MDRI with an estimated \$99.56 million in debt service according to the terms of the MDRI. The AfDB total assistance under HIPC and MDRI amounted to \$187.92 million in debt relief. At the end of December 2008, the AfDB provided \$13.33 million in debt relief under HIPC and \$99 million under MDRI.

**Table 1. AfDB Ongoing Projects (Millions of UA)**

| Title of Projects                              | Window           | Commitment  | Disbursement Rate (percent) |
|--|------------------|-------------|-----------------------------|
| PRIASA   | ADF Grant        | 5.0         | 69.5                        |
| Study on water supply and sanitation Programme | RWSSI Trust Fund | 0.7         | 2.6                         |
| PAGEF  | ADF+FSF Grants   | 7           | 11.5                        |
| Capacity Building                              | ALSF/ORSB        | 0.2         | NA                          |
| General Population and Housing Census          | FSF III          | 0.5         | 86.8                        |
| <b>Total</b>                                   |                  | <b>13.4</b> | <b>42.6 (average)</b>       |



## STATISTICAL ISSUES

(As of April, 2013)

| <b>I. Assessment of Data Adequacy for Surveillance</b>   |
|--|
| <p><b>General:</b> Although economic data are broadly adequate for surveillance, serious financial, human, and technological resource constraints have slowed down efforts to strengthen the statistical system.</p>   |
| <p><b>National Accounts:</b> Statistics on GDP/GNP are compiled on a yearly basis and provided at the time of the Article IV consultation and program review missions. STA provided technical assistance in national accounts to the National Statistics Institute (INE) in 2005, 2006, 2008, 2009, 2013 and 2014. Weak source data affect the quality national accounts estimates. A technical assistance mission is planned for November 2015 to further help (i) change the base year of GDP series to 2008; (ii) assist the authorities to improve the flash GDP estimates based on high frequency indicators; and (iii) migrate the GDP series to an improved statistical platform that better captures survey and market information and includes estimates of the informal sector.</p> <p>A new GDP series for the period 2007–10 with base year 2001 became available in mid–2011. The new estimates cover: (i) GDP by production approach at current and constant prices; and (ii) cross-classification tables by industry sectors. The revised series reflect more accurately recent economic developments. This system became the basis for preparing flash estimates of GDP based on data from the most recent population census, corporation census, and living conditions survey. It attributed higher weights to the sectors that experienced faster growth, such as trade, transportation and communication, and services. While the revision of the GDP series represented a significant improvement, a number of shortcomings remain. Further improvements would require input from the recently completed household expenditure survey (rather than living conditions survey), using producer prices, and better estimates for agricultural production.</p> |
| <p><b>Consumer Price Statistics:</b> Since 1997 the CPI weights have been based on a three-month household survey conducted in 1995. A household expenditure survey was conducted in 2010 and AFRISTAT assisted the National Institute of Statistics (INE) to change the product mix and update the weights. Current price surveys only cover the capital, although there are plans to use the results of the 2010 household survey to expand coverage nationwide, provided INE has the resources for field staff.</p>   |

**Government Finance Statistics:** Detailed revenue and expenditure data are compiled and reported to AFR. The main areas that need to be strengthened are (i) monitoring of expenditures on projects financed by donors; and (ii) financing operations. All project loans financed by donors are programmed in the budget, but some are executed independently. The government has requested development partners to help in recording all external financing in the budget. The recording of financing operations and stocks is expected to improve since the debt data management capacity is expected to be strengthened.

The 2010 government accounts were finalized and presented to the Court of Audit in June 2013 (the first time in over two decades that government accounts have been prepared and submitted). The authorities are working on the 2011 and 2012 government accounts, but preparing the latter using the accounting feature of SAFE-e has taken longer than expected, highlighting the need for additional technical assistance and training in this area.

An October 2004 government finance statistics (GFS) mission helped the Ministry of Finance to compile and disseminate GFS for the general government in accordance with the *Government Finance Statistics Manual 2001 (GFSM 2001)*. The mission prepared bridge tables between national budget classification and *GFSM 2001* classifications to be used to compile GFS for reporting to STA and AFR, as well as in Ministry of Finance policy work. The mission also reviewed the classification of oil revenues under the Oil Revenue Management Law and made recommendations on classification of such transactions. A September 2007 follow-up mission found some progress with regard to the recommendations made by the 2004 mission. In particular, in January 2007 a new budget law was approved that significantly improved national budget classifications. More recently, the authorities are revising all financial statements of government operations for 2010 through 2014 and GFS series are expected to be aligned by July. Notwithstanding these efforts, faster statistical progress is hampered by an inadequate accounting system. Successive FAD missions aimed at improving public accounting have begun to address this issue.

**Monetary and Financial Statistics:** STA missions provided technical assistance on monetary statistics in December 2004, April/May 2006, June 2007 and September 2010. As a result, the accuracy and timeliness of the monetary data reported in the standardized report forms (SRF) for the central bank and the other depository corporations data have significantly improved. The BCSTP is reporting monthly data to STA for the central bank and other depository corporations (ODCs) on regular basis.

The BCSTP monthly trial balance sheet is broadly adequate to compile monetary statistics in line with the *Monetary and Financial Statistics Manual (MFSM)*.

A new plan of accounts for ODCs was introduced in January 2010. The September 2010 mission reviewed the new plan of accounts for the financial system, and found it adequate for a proper classification, sectorization, and valuation of financial instruments, and in line with the methodology of the *MFSM*. However, the mission detected serious shortcomings in the information reported by some banks and an inconsistent approach in the way banks report to the BCSTP. Following the mission's recommendations, the BCSTP worked towards eliminating those problems. The central bank has begun to collect data from insurance companies which opened in the past few years.

The asset sizes of insurance companies remain small enough not to warrant inclusion in monetary statistics at this time.

The central bank produces a quarterly FSI table. MCM TA missions on banking supervision have helped expand the coverage of the table and improved the data quality. The additional information compiled could permit the beginning of stress testing exercises in the near future.

**External Sector Statistics:** The CBSTP compiles quarterly balance of payments statistics consistent with the guidelines of the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* which was implemented in 2014. International investment position (IIP) data are not yet compiled by the CBSTP.

The coverage of the external transactions of the nonfinancial private sector is scarce. The CBSTP has recently started conducting quarterly surveys to collect balance of payments and IIP data from the private sector and improve the coverage of the external sector statistics (ESS).

An April 2015 mission found inconsistencies in the classification of BOP operations and that certain components continued to be largely estimated. The mission recommended improving coordination and data sharing among data-producing agencies, increasing staff dedicated to the compilation and collection of ESS, discussing with the National Petroleum Agency and the Joint Development Authority the establishment of mechanisms for receiving regular data on production sharing agreement contracts, developing new surveys to improve the coverage of ESS statistics; and developing a preliminary IIP statement on a *BPM6* basis. The mission assisted the authorities in implementing *BPM6* standards and outlined a set of recommendations and detailed work plan to improve compilation capacity. Resource constraints at the BCSTP have prevented the development of IIP data.

A follow up mission is scheduled in June 2015 to review the data recently collected from the oil and gas sector; to assist in developing an IIP statement consistent with the financial account of the balance of payments; to identify potential reasons for the net errors and omissions figures, and to review the results of the new surveys conducted by the CBSTP to collect balance of payments and IIP data from the private sector, both in terms of quality and coverage.

The authorities have built on previous efforts to strengthen debt data management, and a unit was created in late 2003 within the Ministry of Finance. The Commonwealth Secretariat debt recording and management system is being operationalized.

## II. Data Standards and Quality

The country has participated in the Fund's General Data Dissemination System (GDDS) since April 20, 2004. The metadata and plans for improvement have not been updated since the original metadata were posted on the DSBB. Over the period 2003–09, the country has benefited from technical assistance from STA and other providers, largely under the GDDS project for Lusophone Africa.

**Democratic Republic of São Tomé and Príncipe: Table of Common Indicators Required for Surveillance**  
(As of June 10, 2015)

|   | Date of latest observation | Date received | Frequency of Data <sup>6</sup> | Frequency of Reporting | Frequency of publication |
|---|----------------------------|---------------|--------------------------------|------------------------|--------------------------|
| Exchange rates  | May 2015                   | Jun. 2015     | D                              | D                      | D                        |
| International reserve assets and reserve liabilities of the monetary authorities <sup>1</sup>             | May 2015                   | Jun. 2015     | D                              | D                      | D                        |
| Reserve/base money  | May 2015                   | Jun. 2015     | D                              | D                      | D                        |
| Broad money   | Apr. 2015                  | Jun. 2015     | M                              | M                      | M                        |
| Central bank balance sheet  | Apr. 2015                  | Jun. 2015     | M                              | M                      | M                        |
| Consolidated balance sheet of the banking system  | Apr. 2015                  | Jun. 2015     | M                              | M                      | M                        |
| Interest rates <sup>2</sup>   | Apr. 2015                  | Jun. 2015     | M                              | M                      | M                        |
| Consumer Price Index  | Apr. 2015                  | Jun. 2015     | M                              | M                      | M                        |
| Revenue, expenditure, balance and composition of financing <sup>3</sup> – general government <sup>4</sup> | Mar. 2015                  | Apr. 2015     | Q                              | Q                      | Q                        |
| Revenue, expenditure, balance and composition of financing <sup>3</sup> – central government              | Mar. 2015                  | Apr. 2015     | Q                              | Q                      | Q                        |
| Stocks of central government and central government-guaranteed debt <sup>5</sup>                          | Mar. 2015                  | Apr. 2015     | Q                              | I                      | Q                        |
| External current account balance  | Mar. 2015                  | Apr. 2015     | A                              | I                      | A                        |
| Exports and imports of goods  | Mar. 2015                  | Apr. 2015     | M                              | M                      | A                        |
| GDP/GNP   | 2012                       | Jan. 2015     | A                              | I                      | A                        |
| Gross external debt   | Mar. 2015                  | Apr. 2015     | Q                              | I                      | A                        |

<sup>1</sup> Includes reserve asset pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup> Central bank's reference rate.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); not available (NA).

**Statement by Mr. Yambaye, Executive Director and Mr. Diakite, Advisor to the  
Executive Director on Democratic Republic of São Tomé e Príncipe  
July 13, 2015**

1. The Executive Board, in July 2012, approved a three-year arrangement under the Extended Credit Facility (ECF) in support of São Tomé and Príncipe's economic reform program. Important macroeconomic gains were made in the first year and a half of the program. However, by 2014, the program went off track due to a number of factors, including lower than projected prospects for oil production, a challenging external environment, delays in introducing measures due to the general elections in October of 2014, and the contraction of an external loan with a level of concessionality below the threshold of 50 percent stipulated under the program.
2. Following the general elections which was won by a strong majority of the main opposition party, the new government that was formed has expressed its commitment to pursue the reforms started earlier to address the economic and financial challenges facing São Tomé and Príncipe and put the economy on a strong growth path while also addressing the issue of poverty.
3. The authorities consider that corrective measures cannot realistically be implemented before the expiration of the current Arrangement in July 2015. Therefore, they have decided to cancel the existing ECF arrangement and request a new three-year ECF arrangement to support their medium-term economic reform program. The new ECF supported program is expected to address the priorities of the new government, notably in the social sectors, while consolidating the gains achieved thus far. It will also play a critical role in catalyzing support from the donors' community.

**Recent Economic Developments and Performance under the ECF Arrangement**

4. The economy of São Tomé and Príncipe is highly vulnerable to developments in the global economy. While macroeconomic performance has been positive since 2012, it has not been sufficiently strong and diversified to improve economic prospects and reduce poverty significantly. Real GDP growth averaged 4.5 percent during the period 2012-14, but has been less than envisaged in the ECF program because of the challenging external environment and less favorable prospects for oil production. However, in 2015, economic activity appears to be picking up fueled by higher than anticipated increase in foreign direct investment, the launching of new donor-financed projects, and improved performance in the tourism sector. Helped by the exchange rate peg to the euro since 2010, inflation has fallen significantly from 16 percent to 6.5 percent in March 2015, the lowest 12-month rate in two decades.
5. In the fiscal area, the authorities continued their efforts to improve the domestic primary deficit which reached 0.8 percent of GDP in 2013. However, in 2014, it increased again to 3.4 percent of GDP as a result of revenue underperformance and expenditures overruns. Despite the authorities' efforts, Government arrears have

accumulated on a net basis since 2012. The authorities are concerned about the arrears and have taken steps to make progress in the resolution of cross arrears among the Treasury, the oil importing enterprise and the state electricity company. In this regard, they have put together a ministerial team in April 2015 to audit and confirm claims by creditors, and they have developed a comprehensive plan to clear the outstanding stock of arrears over the next five years. This plan was a prior action for the new ECF supported program.

6. In the monetary sector, the growth of monetary aggregates continues to be in line with the requirements of maintaining the exchange rate peg arrangements. Bank credit to the private sector, after a boom in 2010–12, started to contract in 2013 as a result of the over-indebtedness of the business sector and households, rising non-performing loans (NPLs) and the lack of bankable projects.

7. In line with the weaker economic activity, the external current account deficit declined to 30.3 percent of GDP in 2012–14, but the trade deficit remained at about 37.4 percent despite the encouraging growth in cocoa exports. The Central Bank's international reserves remained at a comfortable level of 3.8 months of imports cover at end-March 2015.

8. The financial sector has been adversely impacted in recent years by loose credit stance and weak enforcement of prudential standards during the oil prospects boom years of 2010–12. NPLs increased to 18 percent in 2014 and the Central Bank had to intervene in two banks.

9. The performance of the ECF-supported program approved in 2012 has been mixed. While all of the 2013 quantitative targets performance criteria were met, and the first two reviews concluded as scheduled, there were slippages and delays in program implementation in 2014, notably as regards fiscal targets and structural reforms. Also, the contracting in March 2014 of a loan to finance public investment projects which did not meet the level of concessionality required under the program delayed subsequent reviews and resulted in a loss of momentum.

### **Medium term Policy and Reform Agenda**

10. The authorities are committed to pursue their efforts to achieve macroeconomic stability, sustainable economic growth and poverty reduction as formulated in the National Poverty Reduction Strategy Paper (PRSP-II) covering the period 2012–16, and the Program of the Constitutional Government of São Tomé and Príncipe approved in 2014. The PRSP-II, whose coverage ends in 2016, will be updated so that both documents continue to serve as reference for the 2015–18 economic and financial policies.

## **Fiscal policy and debt sustainability**

11. The authorities will continue to rely on a cautious non-oil baseline scenario. The 2015 budget was developed with this concern and aims at restoring the thrust of the previous program's fiscal stance by redressing the budgetary slippages incurred in 2014. In this regard, the authorities have focused on addressing poor tax collection, rising personnel costs and the net increase in arrears.
12. A primary deficit of 2.7 percent of GDP will be targeted in 2015 and will be further reduced to 1.5 percent by 2018. To achieve these outcomes, the authorities are mindful of the need to improve tax administration and enhance revenue mobilization. In this regard, tax revenues are targeted at 15 percent of GDP in 2015 and the Government will seek to raise them by a cumulative 1.5 percent to 16.5 percent by 2018. The authorities have adopted a comprehensive plan to resolve the problem of cross-arrears, and its implementation should also yield additional customs revenue from the oil importing company ENCO. Other measures envisaged to further expand the tax base are the survey of tax payers which should yield 16,000 new taxpayers and the introduction of the VAT during the program period for which the technical assistance of the Fund will be requested.
13. On the expenditures side, the authorities intend to scale back personnel costs to their historical average of 8.5 percent of GDP over the program period. To this effect, they envisage to take measures in 2015 which will reduce personnel costs by 0.3 percent of GDP relative to 2014. Spending on goods and services which has been compressed in recent years will be capped at 3.2 percent of GDP. The authorities are committed to make progress in the social sectors and will therefore increase and safeguard social spending by aligning the budget with the objectives of the PRSP-II. To this end, they will continue to improve and modernize public financial management notably by making operational the information management system SAFEE.
14. With regards to financing, the authorities intend to gather budget support to step up public investment and social programs at a donor's conference to be co-organized with the UNDP in September 2015. However, they will boost the development of the domestic Treasury bill market which could provide contingency resources if delays or shortfalls occur in donor financing.
15. Concerning external borrowing, the government will continue to pursue policies consistent with debt sustainability while implementing its public investment program. The authorities' plans make room for some additional concessional borrowing of an average of 6.6 percent of GDP annually during the program with a grant element of 35 percent. This borrowing option is consistent with the debt sustainability analysis and does not significantly change the debt sustainability dynamics. The authorities will also strengthen debt management capacity which will be essential for achieving the debt reduction objective under the program. In this regard, the medium-term debt management strategy is being updated and reporting and debt service forecasts improved. Prospective

new loans will be carefully assessed in terms of their impact on debt sustainability prior to their contracting.

### **Monetary policy and financial sector reforms.**

16. The authorities will continue to anchor their monetary policy to the fixed peg between the Dobra and the Euro. This policy stance has succeeded in significantly reducing inflation, maintaining a stable exchange rate and an adequate level of international reserves. In order to reverse the fall in credit to the private sector experienced previously, the Central Bank intends to reduce the minimum required reserves on local currency deposits. The Central Bank has introduced an interbank money market and open market operations with the aim to effectively manage the growing excess liquidity in the banking system. It will also establish a deposit standing facility to this effect.

17. Our authorities are mindful that a sound and more inclusive financial sector is paramount for strengthening the resilience of the economy to shocks and achieving sustainable growth. In this regard, they will introduce measures to safeguard financial stability based on an analysis of the causes of past due amounts and NPLs on banks' balance sheets. A comprehensive strategy will be developed with Fund TA to address these issues.

18. With respect to the regulatory and supervisory framework, the authorities will continue to focus on reinforcing compliance with prudential requirements. In this context, the Central Bank intervened in January 2015 in a bank that failed to meet the minimum requirements and directed three other banks to raise their capital above the minimum required to operate a bank. It has also achieved the process of on-site inspection of all banks as of May 2015. Moreover, the authorities have drafted a new Bank Resolution Law with the assistance of the Fund, which will be submitted to the National Assembly by end-September 2015. A comprehensive plan to help banks deal with high NPLs on their balance sheet will also be implemented by 2016.

19. The Central Bank will continue to strengthen its oversight of all commercial banks. A detailed assessment of banks' compliance with Basel Core Principles is expected to be carried out by end-December 2016 and Fund TA will be requested for that purpose. Furthermore, the mandate of the Central Bank will be enhanced through a revision of the Central Banking and Financial Institutions Law which will be submitted to the National Assembly by end-December 2015.

### **The business environment and private sector development.**

20. Our authorities recognize the need to continue improving the business climate in order to increase the export base and diversify the economy. They will seek to implement reforms aimed at greater trade facilitation, simplified payment of taxes and reduction of administrative requirements. In this regard, the authorities made an important progress in 2014 by establishing a one-stop-shop for foreign trade which will help exporters' efforts



to access foreign markets. To further increase the economy's external competitiveness, they will develop and submit to the National Assembly by end 2016, a national export diversification strategy and action plan targeting the sectors in which the country has the greatest potential. The implementation of such a plan will entail significant investments in infrastructure notably for the port, airport, roads, and energy to spur growth and the structural transformation of the economy. The authorities will continue to work with the IMF and other partners on creating a window for non concessional borrowing while preserving debt sustainability.

21. Furthermore, they will aim at providing stronger property and investor rights by addressing challenges in the judiciary system, notably the enforcement of collateral. To facilitate easier access to credit, the credit reference bureau will be revamped with the Central Bank investing additional human and infrastructure resources to extend its coverage and enhance its usage. Measures will also be taken to enforce the reporting of relevant, accurate, complete and timely information to the credit bureau by financial institutions.

### **Conclusion**

22. Our São Toméan authorities are requesting a new ECF arrangement which will consolidate their efforts to pursue sound macroeconomic policies, strengthen and diversify the economy. They are committed to implement prudent fiscal and monetary policies and continue to strengthen debt management. In support of their efforts, they are requesting Fund assistance under an ECF arrangement. We would appreciate Directors' favorable consideration of our authorities' request.