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DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

April 2022

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

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

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

  Selected Issues

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

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Washington, D.C.

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

FOR IMMEDIATE RELEASE

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

Washington, DC – On March 30, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the 2022 Article IV consultation[1] and completed the fourth review of the Extended Credit Facility (ECF) arrangement with São Tomé and Príncipe. The Board's decision enables the immediate disbursement of SDR 1.90 million (about US$2.70 million[2]). This brings São Tomé and Príncipe's total disbursements under the arrangement to SDR 10.99 million (about US$15.15 million).

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

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

Background

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

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

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

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

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

Executive Board Assessment[3]

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

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

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

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

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

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

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

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

March 14, 2022

STAFF REPORT FOR 2022 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVERS FOR NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

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

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

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

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

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

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

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

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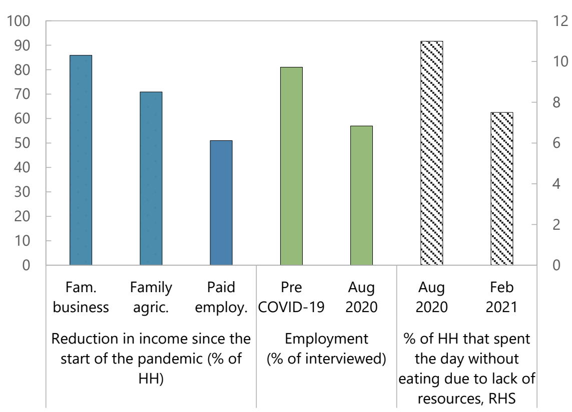
CONTEXT

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

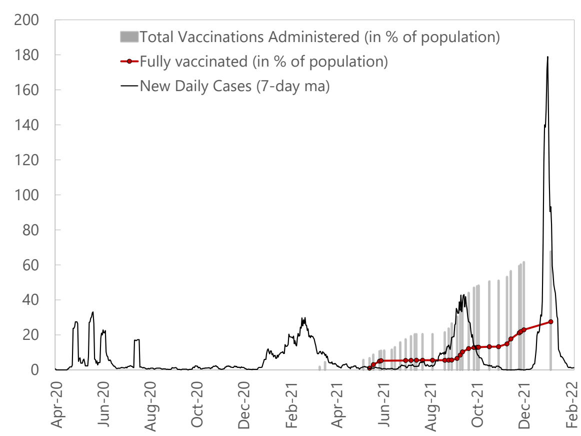
2. **São Tomé and Príncipe has maintained macroeconomic stability, despite many challenges.** The COVID-19 pandemic exacerbated long-standing socio-economic vulnerabilities, which were further compounded by persistent energy shortages and the floods in end-2021. Timely international support and the authorities'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

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



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

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



Source: John Hopkins University, Our World In Data.

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

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

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

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

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

ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

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

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

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

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

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

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

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

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

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

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

OUTLOOK AND RISKS

13. The economic outlook remains positive. Growth is projected to rise to 2.3 percent in 2022 and 2.8 percent in 2023. Growth projections are lower than during the third review considering the impact of the floods on agriculture and trade but are expected to reach 4 percent in the medium term, supported by better infrastructure and a stronger potential for tourism. Expected domestic fuel price adjustments to reflect higher international fuel prices will impact inflation in 2022. Strengthening revenues with an introduction of the VAT in 2022, phasing out pandemic-related spending, and gradually consolidating the DPB would put public debt on a downward trajectory, supported by a positive growth-interest rate differential in the medium term. Fiscal adjustment coupled with a gradual increase in tourism receipts is expected to strengthen the current account balance, while floods are expected to have negative impacts on the current account balance (to about -9.8 percent of GDP in 2022). International reserves are expected to stabilize at about 3.8 months of imports by 2022, which are considered adequate (see Annex 4).

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

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

challenges to growth and stability. Inward spillovers from increasing international fuel prices may hinder the recovery, worsen power outages and inflation, adversely impact revenues and implicit subsidies. Extended global supply chains disruptions could lead to shortages of intermediate and final consumer goods, growth slowdowns, and price surges. Delays in revenue reforms could narrow the fiscal space for social and development spending, while lower-than-expected grant support or delayed disbursements from donors would deteriorate financing options. Delayed EMAE reforms and prolonged power outages could also put additional strain on revenue performance and delay the recovery of growth. The upcoming parliamentary elections in October 2022 could delay legislative reforms and put additional pressure on spending. Any natural disaster could also delay fiscal consolidation. On the upside, accelerated reforms and key infrastructure development projects could promote medium-term growth.

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

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

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

[1] Excludes oil related revenues, grants, interest earned, scheduled interest payments, and foreign-financed capital outlay.

[2] Total public and publicly guaranteed debt as defined in DSA, which includes EMAE's debt to ENCO (and excludes the government's arrears to EMAE due to consolidation).

Authorities' Views

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

POLICY DISCUSSIONS

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

A. Strengthening Fiscal Space for Social and Development Spending

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

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

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

Sources: STP authorities; and Fund staff estimates.

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

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

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

Source: São Tomé and Príncipe authorities.

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

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

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

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

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

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

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

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

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

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

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

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

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

Authorities' Views

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

Public Debt

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

Authorities' Views

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

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

B. Managing Fiscal Risks from Loss-Making SOEs

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

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

ENCO: Fuel Importing SOE

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

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

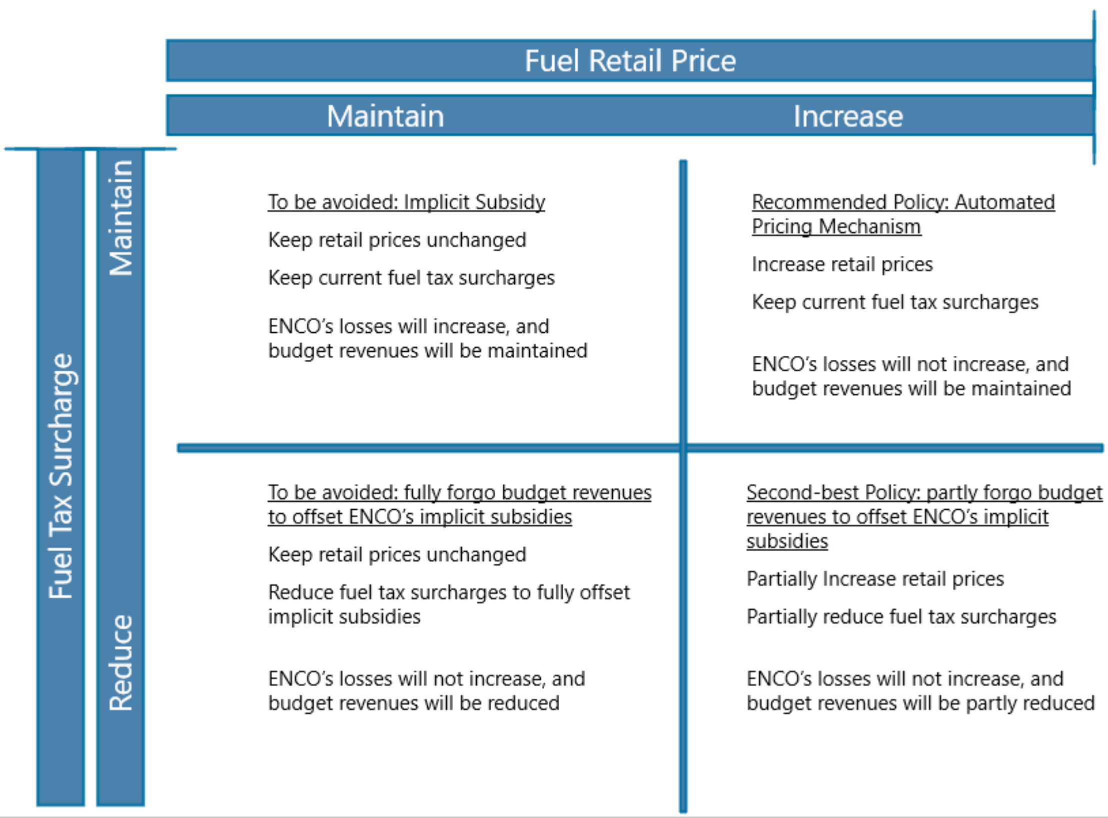
	2020 Act.	Jun. 2021 Act.	Sep. 2021 Est.	Dec. 2021 Est.
Import taxes	571	274	420	531
General import taxes	265	113	207	230
Fuel surcharge	**198**	**107**	**157**	**265**
Gasoline	113	58	86	143
Diesel	85	49	71	122
Kerosene	0	0	0	0
Fuel price differencial	**108**	**54**	**56**	**36**
Arrears payment to ENCO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

Source: GAMAP and staff estimates

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

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

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



Source: IMF Staff

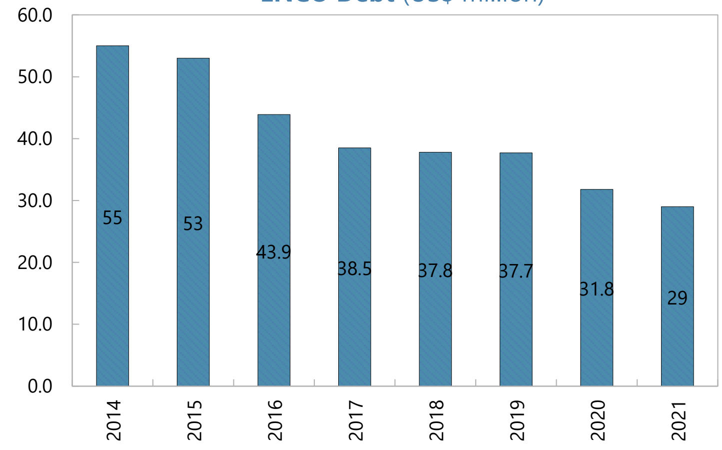
[9] Under the current assumption of an average price of US$ 80.00 per barrel of oil in international markets.

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

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

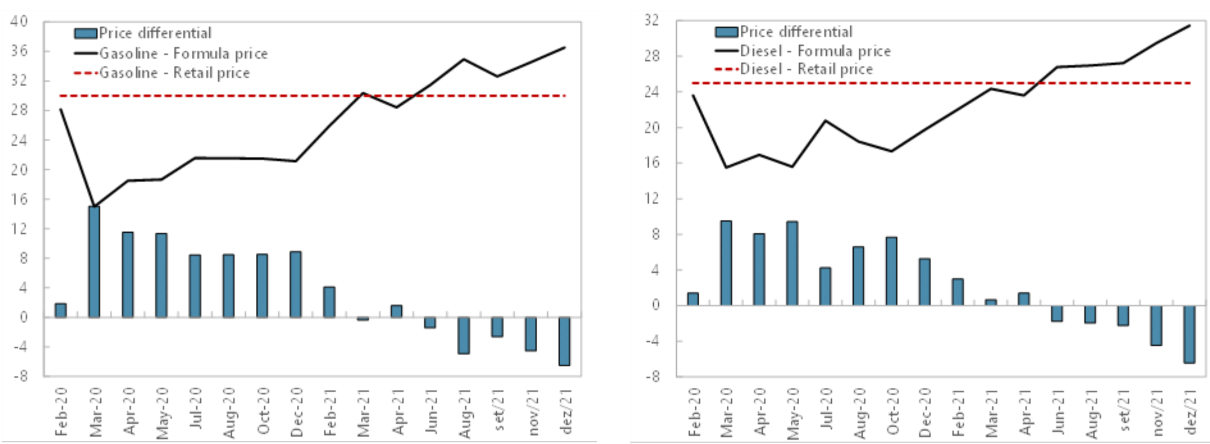
Historically, implicit subsidies from below the market fuel pricing in 2006-2014 resulted in significant losses for ENCO, estimated about US$ 55 million at end-2015. Effective implementation of the automatic fuel price adjustment mechanism prevented further incurrence of losses and allowed reduction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

ENCO Debt (US$ million)



Ministry of Finance.

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



Source: GAMAP. Staff elaboration

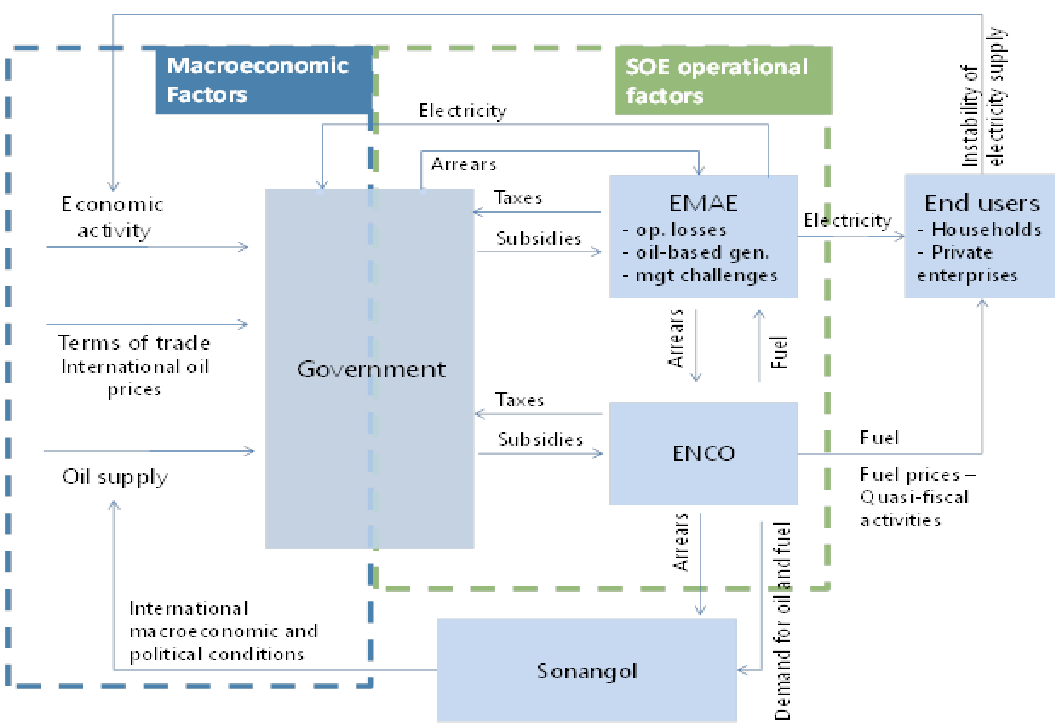
EMAE: Electricity SOE

26. Fossil-fuel based electricity power generation is expensive, unreliable, and inadequate to meet São Tomé and Príncipe's needs. Even though the country's electricity tariff is one of the highest in the region, it is insufficient to cover generation costs, reflecting a small scale of operations, an obsolete power generation infrastructure, high fuel costs, and management inefficiencies. Relatedly, electricity tariffs payment discipline is weak. Delays in implementing the Least Cost Development Plan (LCDP) supported by the World Bank—which targeted cost and tariff reductions by shifting the energy generation mix to more sustainable sources, management reforms in EMAE, and payment collections—were further exacerbated by the pandemic. The recent persistent power outages call for more decisive actions to advance short-term measures to contain EMAE's losses such as installing new meters, improving payment discipline, including ensuring payments of electricity bills by public entities, and rolling out LED bulbs program (SB), and fostering transition to renewable energy sources (Text Table 5) (MEFP ¶39-41).

Authorities' Views

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

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



Source: IMF Staff.

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

Measures	Status	Target date
1. Develop terms of reference of the new executive management team of EMAE for implementing reform measures.	**Completed.** ToRs were developed and the Council of Ministers has approved commencements of competitive selection process for EMAE's senior management.	End-September 2021
2. Government establishes a mechanism with EMAE to cap consumption and ensure timely bill payment by public entities.	Delayed due to restrictions imposed by the pandemic.	To continue after crisis subsides
3. Complete the LED program, as previously agreed with IMF Staff, to replace incandescent/fluorescent light bulbs with LED bulbs in the country, pursuant to the LED program parameters **(SB)**	Technical inspection in the LED factory in China was concluded in January 2022 to allow for fabrication of lamps throughout February and March. LED bulbs expected to arrive in São Tomé and Príncipe in the second quarter of 2022 for distribution.	Mid-2022
4. Continue to develop arrears clearance plan with non-public customers.	Delayed due to restrictions imposed by the pandemic.	To continue after crisis subsides
5. Implement the meter program supported by EIB and the World Bank, including completing the installation of 3000 consumption meters for large clients, and install diesel meters to monitor delivery and consumption at power plants.	Non-objection from EIB was granted in December. AFAP is negotiating terms of contract with selected bidders.	End-2023
6. Issue a decree covering: (i) tariff structure definition, (ii) customer category definition, (iii) social tariffs adjustments, and (iv) agreed conditions and a broad timeline to achieve full cost-recovery structure.	**Broadly achieved.** Decree Law 88 covering i), ii), and iii) was passed in November 2021. The decree provides for the principle of full-cost approach to be applied in the tariff structure. Effective implementation of the new tariff structure depends on regulator AGER.	End-2021

C. Modernizing Monetary and Financial Systems

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

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

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

31. The impact of the COVID-19 pandemic on the financial sector is yet to be fully determined. Systemwide NPLs decreased from about 29.6 percent in Q4 2020 to an estimated 28.6 percent in Q4 2021, following the expiration of the payment moratorium on NPLs in June 2021. The level of provisioning in the banking sector was about 90 percent in end-2021. BCSTP is addressing the still high level of NPLs with the approval of new regulations in October 2021 which banks are required to comply with by April 2022: i) the regulation on Asset Classification and Provisions establishes prudential requirements for the classification of financial instruments, the constitution of loan-loss provisions, and requires banks to write off eligible NPLs (with a loss classification) within a maximum of 12 months following this classification; ii) the regulation on capital adequacy aims to guarantee that banks maintain adequate levels of own funds, in line with international standards, including the use of a more granular and conservative methodology in the calculation of risk weighted assets. The BCSTP completed the bank stress tests by end-February 2022 (MEFP ¶30, SB delayed from end-December 2021). Progress to liquidate three banks continues but has been delayed, including due to the pandemic (MEFP ¶32). The BCSTP will also submit a new draft Financial Institutions Law to the Government by end-June 2022 (SB, delayed from end-December 2021). Following the expected completion of the authorities' stress testing exercise to identify possible credit risk pressures from the pandemic by end-February 2022, Fund staff will discuss the results with the authorities and provide feedback on how to strengthen stress testing methodology.

Authorities' Views

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

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

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

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

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

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

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

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

Authorities' Views

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

PROGRAM ISSUES, SAFEGUARDS, AND RISKS

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

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

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

40. Prompt Fund support is considered essential for the successful implementation of the country's adjustment program. São Tomé and Príncipe is pursuing appropriate policies, is making a good faith effort to reach a collaborative agreement with their creditors and facilitate a collaborative agreement between private debtors and their creditors, and good prospects exist for the removal of exchange controls. Staff supports the completion of the financing assurances review.

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

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

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

[1] Grants amount excludes HIPC interim assistance.

STATISTICAL ISSUES, CAPACITY DEVELOPMENT, AND OUTREACH

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

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

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

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

[14] See Informational Annex.

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

STAFF APPRAISAL

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

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

46. Modernizing monetary and financial legal frameworks remain a priority. Given inflation pressures, monetary policy should continue to be anchored by the peg to the Euro and use active liquidity management. The authorities' actions to submit the new Organic Law of the BCSTP to the Parliament and their progress in implementing the remaining safeguards recommendations are welcome and efforts should continue to be made to implement the overdue recommendations. The BCSTP should continue to actively manage liquidity in the banking sector to support the peg, access to credit, and economic recovery. With the difficult economic environment, further enhancing the BCSTP's capacity to actively manage risks and vulnerabilities in the financial sector and strengthen sector oversight are also important. To this end, improving stress testing and strengthening supervision practices are integral components for the authorities to focus on to modernize the BCSTP.

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

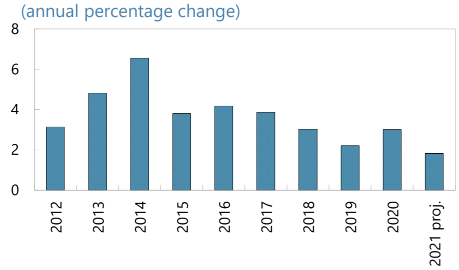
48. Staff recommends the completion of the fourth review under the ECF arrangement. The authorities' economic policies for 2022 are consistent with the program's objectives. The authorities met the end-June 2021 quantitative targets for the review, except for the temporary deviations with respect to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

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

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

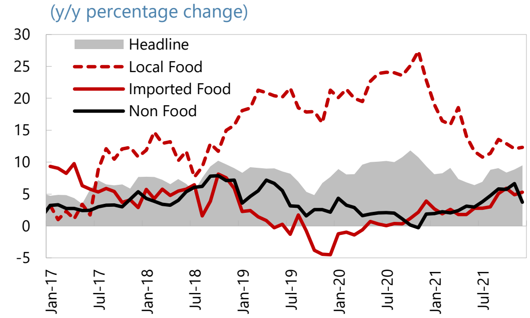
Real GDP growth is estimated at 1.8 percent in 2021, weighed down by power outages

Real GDP
(annual percentage change)



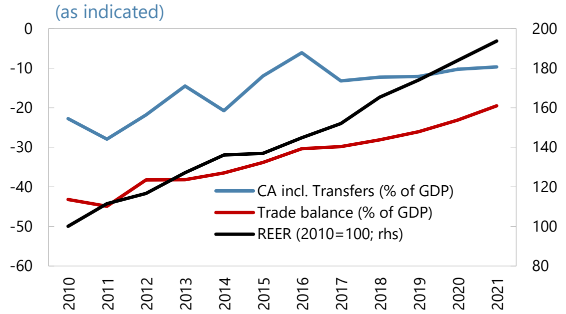
Headline inflation rose to 9.5 percent (y-o-y) by end-December, driven by high food prices

Consumer Price Index
(y/y percentage change)



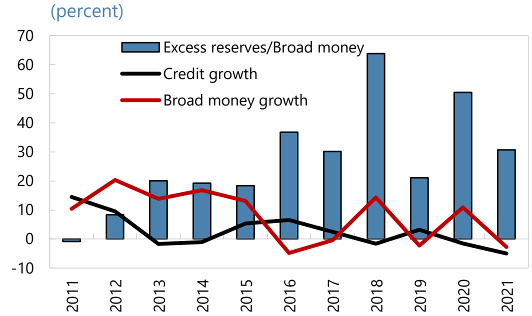
With a recovery in international travel and exports, the current account narrowed in 2021 …

Current Account Balance and REER
(as indicated)



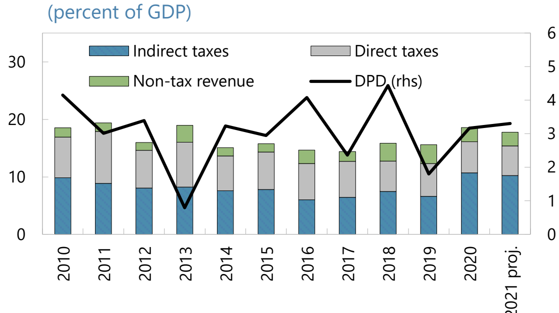
Credit growth decelerated despite the central bank's actions to ensure ample liquidity, and

Liqudity, Credit and Broad Money
(percent)



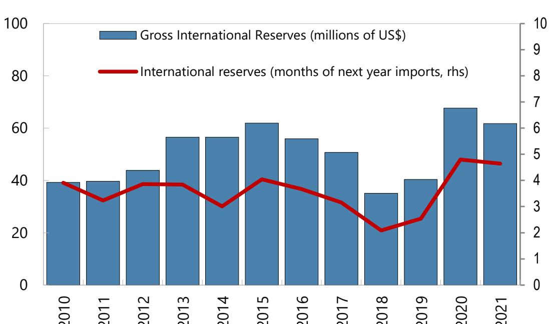
…the domestic primary balance (DPB), excluding grants, remained broadly unchanged.

Government Revenue and Primary Balance
(percent of GDP)



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

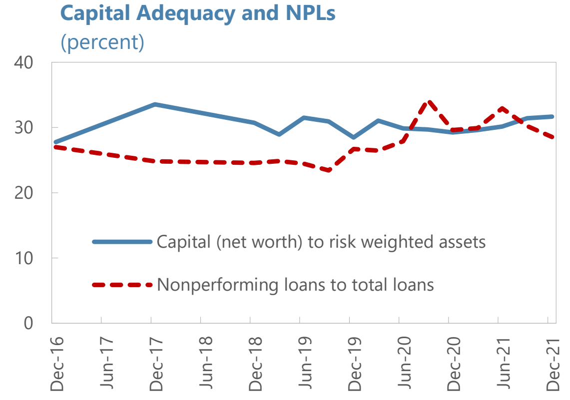
International Reserves
(as indicated)



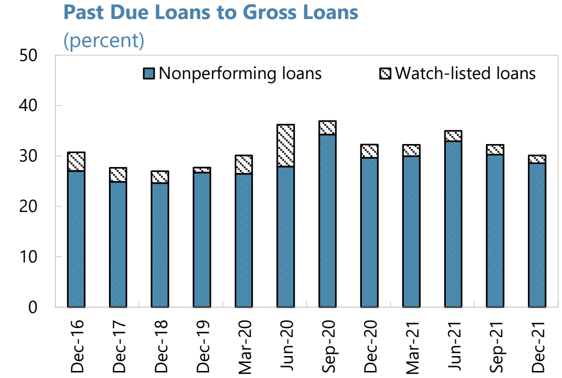
Sources: São Tomé and Príncipe authorities; Information Notice System and IMF staff estimates

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

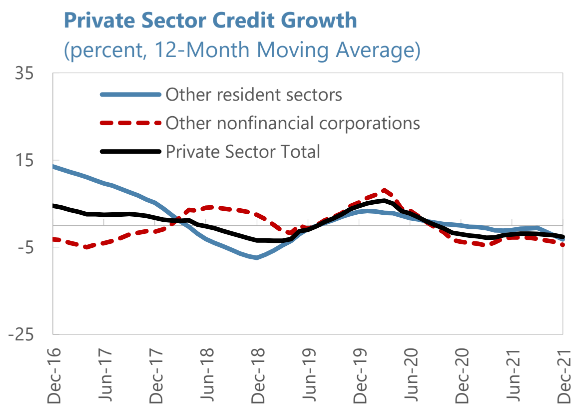
Banks remain well capitalized, but the pandemic is weighing on their asset quality. Repayments of arrears contributed to an improvement in banks' NPLs in 2021...



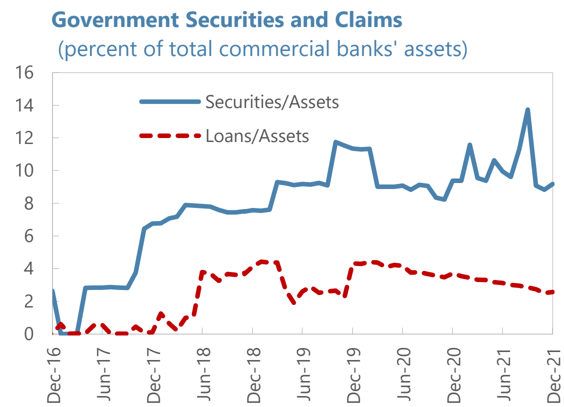
and a decline in watch-listed loans.



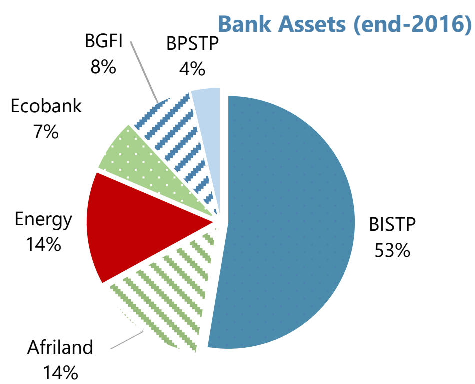
Private sector credit growth declined during the pandemic.



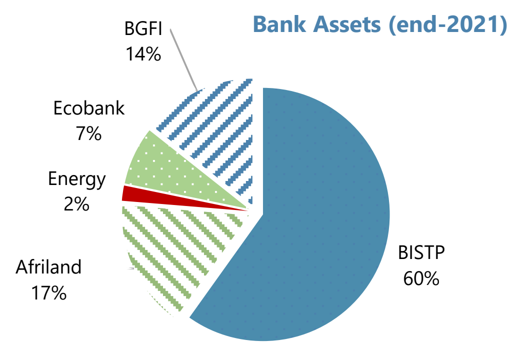
Meanwhile, banks' exposure to the government increased.



The banking system has become more concentrated...

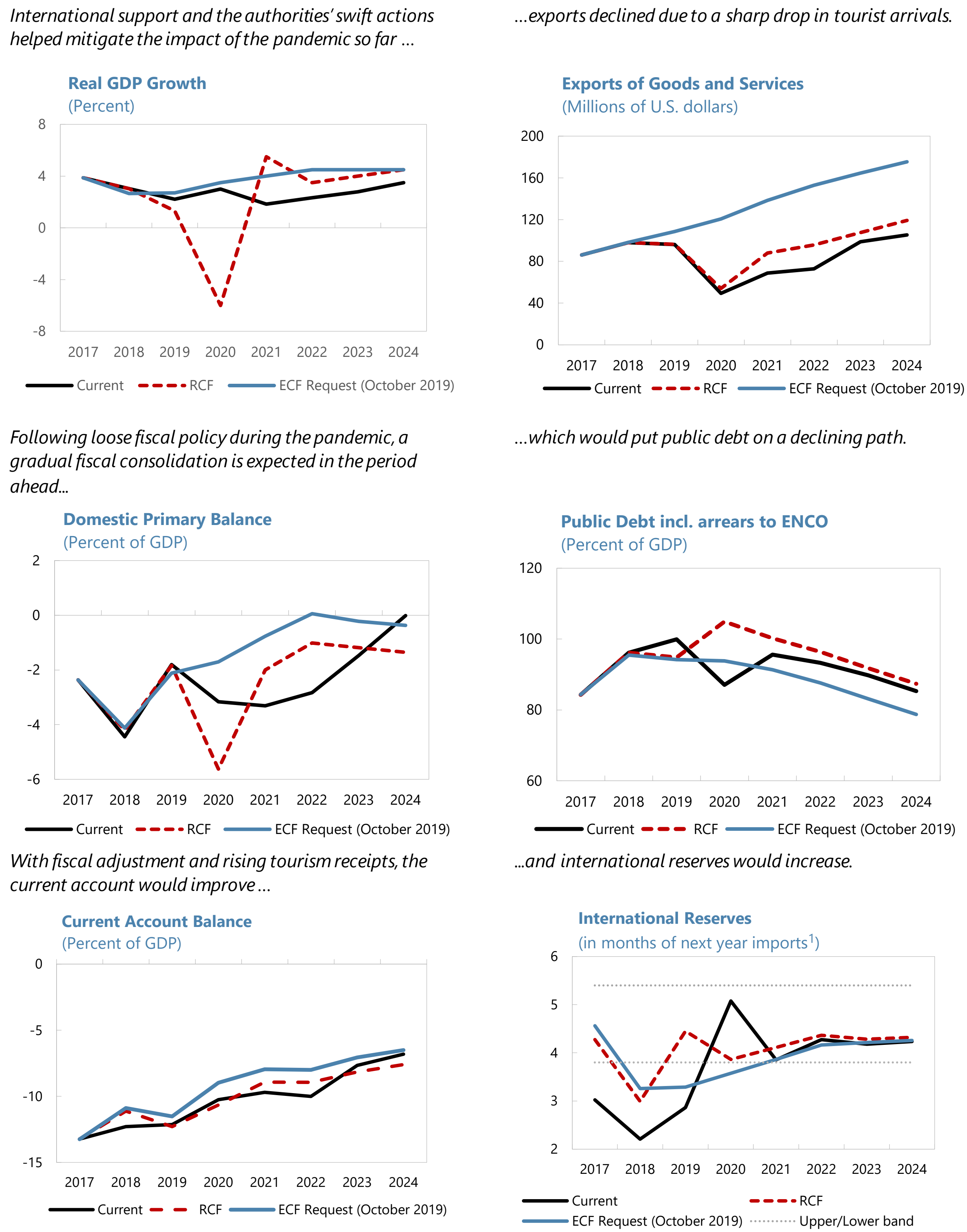


...as the share of the largest bank's total assets increased.



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

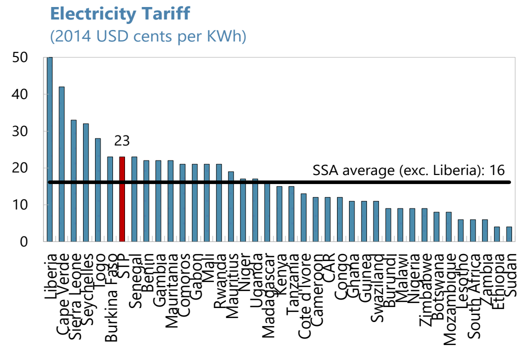
Figure 3. São Tomé and Príncipe: Macroeconomic Effects of the COVID-19 Pandemic



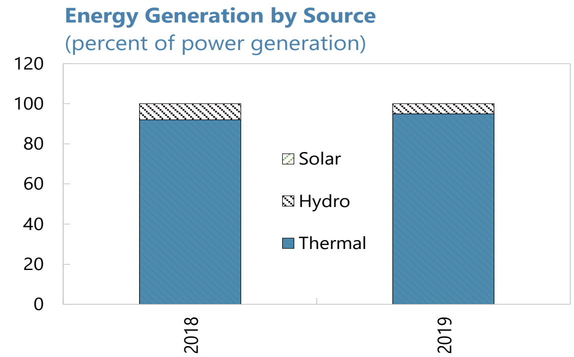
Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections
1/ Imports of goods and services, including investment and technical assistance.

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

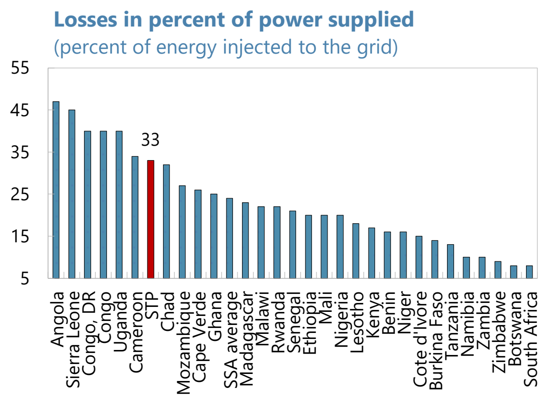
Electricity tariffs in São Tomé and Príncipe are above the sub-Saharan African average...



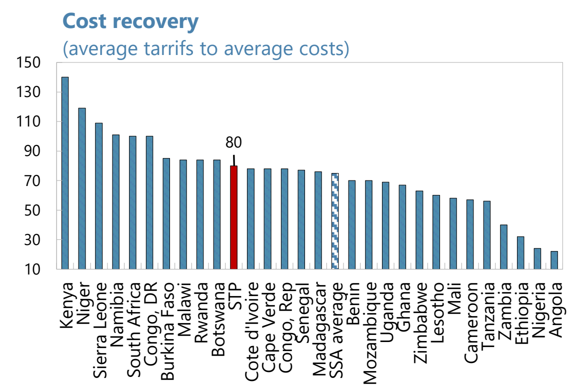
...reflecting the country's dependence on expensive thermal electricity generation.



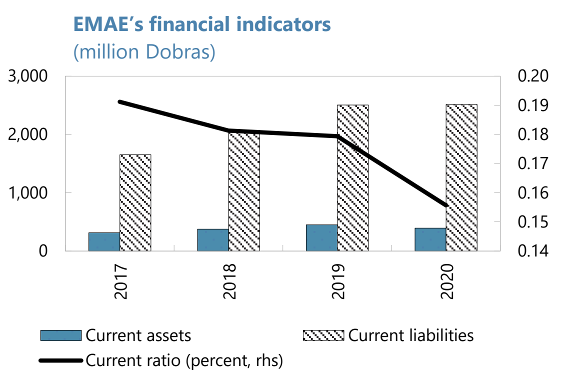
In addition, total losses (technical and commercial) are among the highest in the region ...



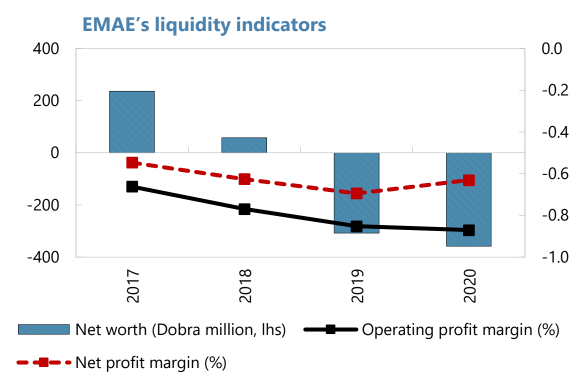
...preventing the sector from achieving cost recovery despite the high tariffs.



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



The company has reported a negative net worth since 2019.



Sources: São Tomé and Príncipe authorities and IMF staff estimates. Least Cost Development Plan (LCDP) and Management Improvement Plan (MIP). FAD SOEs Health Check Tool; Alleyne, T. - Energy Subsidy Reform in Sub-Saharan Africa – IMF 2013; Trimble, C. et al - Financial Viability of Electricity Sectors in Sub-Saharan Africa – World Bank Group 2016

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

(Annual Change in Percent, Unless Otherwise Indicated)

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

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

[1] Central Bank (BCSTP) mid-point rate.

[2] Excludes oil related revenues, ENCO debt repayment, grants, scheduled interest payments, and foreign-financed capital outlays per definition in TMU.

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

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

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

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

Table 2a. São Tomé and Príncipe: Financial Operations of the Central Government, 2018–27

(Millions of New Dobra)

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

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

[1] Revenue is measured on a cash basis.

[2] Excludes oil related revenues, ENCO debt repayment, grants, scheduled interest payments, and foreign-financed capital outlays per definition in TMU.

[3] Includes use of IMF program support.

Table 2b. São Tomé and Príncipe: Financial Operations of the Central Government, 2018–27

(In Percent of GDP)

	2018	2019	2020	2021		2022			2023	2024	2025	2026	2027
				Third Rev.	Est.	Third Rev.	Auth. Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants [1]	**24.1**	**22.0**	**26.0**	**25.7**	**22.5**	**24.8**	**30.3**	**28.4**	**24.5**	**25.8**	**26.2**	**26.1**	**26.2**
Total revenue	15.8	15.6	15.6	15.8	14.7	17.2	15.7	15.5	16.2	17.6	18.3	18.5	18.7
Tax revenue	12.8	12.3	13.1	13.3	12.3	14.4	13.1	12.9	13.7	14.9	15.5	15.5	15.6
Consumption taxes	1.8	1.6	2.1	2.3	2.2	2.1	2.1	2.6	3.4	4.6	5.1	5.1	5.1
Import taxes	5.6	5.0	5.6	5.7	4.9	5.6	5.6	5.3	5.3	5.3	5.3	5.3	5.3
Of which: oil price differential *(GAMAP)*	...	...	1.1	...	0.6	...	...	0.1	0.0	0.0	0.0	0.0	0.0
Other taxes	5.3	5.7	5.4	7.6	5.1	6.7	5.4	5.0	5.0	5.1	5.1	5.1	5.2
Nontax revenue [2]	3.1	3.3	2.4	2.5	2.4	2.8	2.6	2.5	2.6	2.7	2.9	3.0	3.2
Of which: oil revenue	2.5	0.7	0.3	0.0	0.1	0.3	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Grants	8.3	6.4	10.5	9.9	7.8	7.6	14.6	12.9	8.2	8.2	7.9	7.6	7.5
Project grants	6.5	3.5	3.2	5.6	5.2	4.3	11.1	8.3	5.0	5.0	5.0	5.0	5.0
Nonproject grants	1.5	2.0	6.9	4.1	2.4	2.7	2.9	4.0	2.6	2.6	2.4	2.1	2.1
HIPC Initiative-related grants	0.4	0.9	0.4	0.2	0.2	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.4
Total expenditure	**26.0**	**22.1**	**23.1**	**27.2**	**24.7**	**25.2**	**31.1**	**29.8**	**25.9**	**25.7**	**25.5**	**25.5**	**25.0**
Of which: Domestic primary expenditure	17.8	16.6	18.4	19.1	17.3	18.7	17.0	19.1	17.5	17.4	17.4	17.5	17.6
Current expenditure	16.7	17.1	16.9	17.8	16.9	17.5	17.7	17.4	17.5	17.4	17.3	17.2	17.2
Personnel costs	9.3	9.0	9.3	10.0	9.3	9.8	10.0	9.9	9.6	9.6	9.6	9.6	9.6
Interest due	0.4	0.7	0.3	0.4	0.2	0.4	0.7	0.5	0.5	0.5	0.4	0.3	0.3
Goods and services	3.0	2.5	2.3	2.4	2.4	2.4	2.1	2.2	2.4	2.4	2.4	2.4	2.4
Transfers	3.2	2.8	3.2	3.2	3.2	3.2	3.2	3.3	3.2	3.2	3.2	3.2	3.2
Other current expenditure	0.8	2.1	1.7	1.8	1.8	1.7	1.7	1.5	1.7	1.7	1.7	1.7	1.7
Capital expenditure	9.2	4.8	3.2	7.7	6.7	6.4	12.1	11.0	8.2	8.1	8.0	8.1	7.6
Financed by the Treasury	1.4	0.1	0.2	0.3	0.1	0.4	0.3	0.8	0.3	0.3	0.3	0.4	0.5
Financed by external sources	7.8	4.7	3.0	7.4	6.6	6.1	11.7	10.2	7.9	7.8	7.7	7.7	7.1
HIPC Initiative-related capital expenditure	0.1	0.1	0.1	0.2	0.1	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2
COVID-19 spending	...	...	2.9	1.5	1.0	1.0	1.0	1.0	...	...	...	...	...
Financed by the Treasury	...	...	1.6	1.3	0.4	1.0	1.0	0.0	...	...	...	...	...
Financed by external sources	...	...	1.3	0.3	0.6	0.0	0.0	1.0	...	...	...	...	...
Domestic primary balance [2]	-4.2	-1.8	-3.2	-3.5	-3.3	-2.0	-3.2	-2.8	-1.5	0.0	0.7	0.8	0.9
Overall fiscal balance (commitment basis)	-1.9	-0.1	2.9	-1.5	-2.2	-0.5	-0.8	-1.4	-1.4	0.1	0.7	0.6	1.2
Net change in external arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net change in domestic arrears	0.9	-1.1	-1.5	-0.7	-0.1	-0.2	0.0	-0.4	-0.2	-0.2	-0.2	-0.2	-0.1
Float and statistical discrepancies	2.2	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (cash basis)	**1.2**	**-0.5**	**1.4**	**-2.2**	**-2.3**	**-0.7**	**-0.8**	**-1.8**	**-1.6**	**-0.1**	**0.5**	**0.4**	**1.1**
Financing	**-1.2**	**0.5**	**-1.4**	**2.2**	**2.3**	**0.7**	**0.8**	**1.8**	**1.6**	**0.1**	**-0.5**	**-0.4**	**-1.1**
Net external	0.8	0.3	0.4	0.5	0.0	0.8	-0.3	0.8	1.7	1.3	1.1	1.0	1.0
Disbursements	1.3	1.0	1.1	1.8	1.4	1.8	0.6	1.9	2.9	2.8	2.7	2.7	2.1
Program financing (loans) [3]	0.2	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-0.8	-1.2	-0.7	-1.3	-1.4	-1.0	-0.9	-1.1	-1.1	-1.5	-1.6	-1.6	-1.1
Net domestic	-1.9	0.2	-1.8	1.7	2.3	-0.1	1.1	1.0	-0.1	-1.2	-1.7	-1.5	-2.1
Net bank credit to the government	-1.9	0.2	-1.8	1.8	2.9	0.1	1.3	1.2	0.1	-1.1	-1.5	-1.3	-2.0
Banking credit (net, excluding National Oil Account)	0.0	0.0	-2.3	1.3	2.3	-0.1	0.8	0.8	0.1	-1.0	-1.4	-1.3	-1.9
National Oil Account	-1.9	0.2	0.5	0.6	0.6	0.2	0.5	0.5	-0.1	-0.1	-0.1	-0.1	-0.1
Nonbank financing	0.0	0.0	0.0	-0.2	-0.6	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
Of which: Amortization payments to ENCO	...	...	...	-0.2	-0.6	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items													
Nominal GDP (Millions of new dobra)	8,619	9,424	10,247	10,750	10,759	11,281	11,281	11,365	12,139	12,938	13,853	14,999	16,322
Public debt	96	100	87	88	96	86	...	94	91	87	81	74	67
EMAE loss	3.8	4.1	...	...	...	...	...	...	...	...	...	...	...

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

[1] Revenue is measured on a cash basis.

[2] Excludes oil related revenues, ENCO debt repayment, grants, scheduled interest payments, and foreign-financed capital outlays per definition in TMU.

[3] Includes use of IMF program support.

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

(Millions of U.S. dollars)

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

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

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

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

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

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

(In Percent of GDP)

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

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

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

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

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

Table 4. São Tomé and Príncipe: Summary Accounts of the Central Bank, 2018–27

(Millions of New Dobra)

	2018	2019	2020	2021		2022		2023	2024	2025	2026	2027
				Third Rev.	Est.	Third Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	**1,416**	**1,502**	**1,555**	**1,326**	**1,156**	**1,391**	**1,210**	**1,583**	**1,702**	**1,826**	**1,945**	**2,054**
Claims on nonresidents	1,798	1,939	2,316	2,242	2,490	2,390	2,544	2,556	2,650	2,715	2,720	2,829
Official foreign reserves	1,352	1,447	1,831	1,760	1,920	1,917	1,961	1,971	2,043	2,094	2,098	2,182
Other foreign assets	446	492	485	482	570	474	582	585	607	622	623	648
Liabilities to nonresidents	-382	-437	-762	-916	-1,334	-1,000	-1,334	-973	-948	-889	-775	-775
Short-term liabilities to nonresidents[1]	-169	-222	-557	-712	-688	-799	-799	-775	-752	-693	-579	-579
Other foreign liabilities	-213	-215	-205	-204	-646	-200	-535	-198	-196	-196	-196	-196
Net domestic assets	**80**	**-117**	**359**	**291**	**999**	**247**	**1,052**	**771**	**791**	**826**	**908**	**1,039**
Net domestic credit	133	-90	-140	41	367	127	364	442	474	509	503	484
Claims on other depository corporations	195	190	198	198	198	198	198	198	198	198	198	198
Net claims on central government	-201	-418	-479	-304	25	-226	22	100	132	167	161	142
Claims on central government	310	305	280	355	784	433	780	859	890	925	920	900
Liabilities to central government	-511	-723	-758	-659	-758	-659	-758	-758	-758	-758	-758	-758
Claims on other sectors	139	138	141	147	144	154	144	144	144	144	144	144
Other items (net)	-53	-27	498	250	632	120	688	329	318	317	404	555
Base money (M0)	**1,496**	**1,385**	**1,913**	**1,617**	**2,156**	**1,638**	**2,262**	**2,354**	**2,493**	**2,652**	**2,853**	**3,085**
Currency issued	393	411	432	436	486	440	510	531	563	598	644	696
Bank reserves	1,103	974	1,482	1,181	1,669	1,198	1,752	1,823	1,930	2,054	2,209	2,389
Of which : domestic currency	947	843	1,349	1,069	1,398	1,084	1,465	1,526	1,616	1,725	1,876	2,038
Of which: foreign currency	157	131	133	112	271	114	287	296	314	328	334	352
Memorandum items:												
Gross international reserves (US$ millions)[2]	35.1	40.4	67.6	63.4	61.8	70.3	67.6	70.7	75.9	79.9	81.7	86.1
Months of imports of goods and services	2.2	2.9	4.5	4.0	3.5	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Months of imports of goods and nonfactor services[3]	3.0	4.4	6.9	5.7	5.6	5.9	5.9	6.0	6.2	6.2	6.5	6.5
Gross international reserves (US$ millions) inc. commercial banks reserves	42.4	46.4	74.2	69.1	74.3	76.1	81.1	84.8	91.0	95.9	98.0	103.3
Months of imports of goods and services	2.7	3.3	5.0	4.3	4.2	4.4	4.6	4.5	4.6	4.6	4.6	4.5
Months of imports of goods and nonfactor services[3]	3.7	5.0	7.6	6.2	6.8	6.4	7.1	7.2	7.5	7.4	7.9	7.8
Net international reserves (US$ millions)[4]	27.2	30.4	39.8	27.6	30.0	29.4	30.0	33.7	39.6	46.2	53.3	57.7
Months of imports of goods and services	1.7	2.2	2.7	1.7	1.7	1.7	1.7	1.8	2.0	2.2	2.5	2.5
Months of imports of goods and nonfactor services[3]	2.4	3.3	4.1	2.5	2.7	2.5	2.6	2.9	3.2	3.6	4.3	4.3
National Oil Account (US$ millions)	19.5	18.8	16.4	13.5	13.6	12.5	11.2	9.2	7.5	6.0	4.7	3.5
Commercial banks reserves in foreign currency (US$ millions)	7.3	7.0	5.7	5.6	12.5	5.8	13.5	14.1	15.2	16.0	16.3	17.2
Guaranteed deposits (US$ millions)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Base money (annual percent change)	0.8	-7.4	31.0	-10.8	12.7	1.3	4.9	4.1	5.9	6.4	7.6	8.1

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

[1] The Central Bank's short-term liabilities to nonresidents includes the country's liability to the IMF.

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

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

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

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

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

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

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

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

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

Table 7. São Tomé and Príncipe: External Financing Requirements and Sources, 2016–24

(Millions of U.S. dollars)

	2016	2017	2018	2019	2020	2021		2022		2023	2024
						Third Rev.	Proj.	Third Rev.	Proj.	Proj.	Proj.
Gross financing requirements	**-66.8**	**-92.0**	**-71.8**	**-83.3**	**-108.3**	**-106.3**	**-84.7**	**-94.6**	**-127.1**	**-101.6**	**-108.1**
Current account, excluding official transfers	-69.6	-91.5	-87.1	-79.9	-98.8	-113.1	-90.6	-86.6	-120.8	-90.7	-92.1
Exports, f.o.b.	13.6	15.6	16.0	14.1	13.9	19.4	17.6	22.0	20.1	25.1	24.7
Imports, f.o.b.	-119.1	-127.7	-132.9	-126.4	-124.4	-142.6	-135.6	-147.5	-163.3	-157.4	-166.7
Services and income (net)	19.9	3.9	13.5	16.2	-4.5	-5.5	13.5	20.6	7.7	24.1	29.1
Private transfers	15.9	16.7	16.3	16.3	16.1	15.6	13.9	18.3	14.7	17.7	20.8
Financial account	-3.9	-7.2	-0.4	-0.4	0.0	-5.5	-3.8	-6.3	-6.3	-7.3	-10.0
Scheduled amortization	-4.0	-4.4	0.0	0.0	0.0	-5.1	-3.4	-5.7	-5.7	-6.5	-9.3
IMF repayments	-0.9	-0.2	-0.4	-0.4	0.0	-0.4	-0.4	-0.6	-0.6	-0.7	-0.8
Change in net external reserves (- = increase)	6.8	6.7	15.8	-3.1	-9.4	12.3	9.8	-1.7	0.0	-3.7	-5.9
Available funding	**66.5**	**89.4**	**75.4**	**89.2**	**112.8**	**106.3**	**84.7**	**94.6**	**127.1**	**101.7**	**108.1**
National Oil Fund (net)	2.1	2.5	2.1	3.9	3.6	3.2	3.1	2.6	2.7	2.1	1.8
Oil signature bonuses	3.3	2.3	10.2	3.2	1.4	0.1	0.4	1.6	0.1	0.3	0.4
Saving (- = accumulation of oil reserve fund)	-1.2	0.1	-8.2	0.7	2.2	3.1	2.8	1.0	2.6	1.7	1.3
Expected disbursements	54.9	49.1	41.6	32.0	55.3	62.3	42.8	53.6	77.4	63.8	68.2
Multilateral HIPC interim assistance	2.9	3.1	1.6	3.9	1.9	3.3	1.3	3.3	3.0	3.4	3.4
Grants, excluding HIPC interim assistance	45.6	38.6	34.4	23.7	48.0	49.5	39.2	40.1	65.7	43.9	47.3
Concessional loans	6.4	7.4	5.6	4.4	5.4	9.4	2.3	10.2	8.7	16.5	17.4
Project loans	6.4	7.4	5.6	4.4	5.4	9.4	2.3	10.2	8.7	16.5	17.4
Program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector (net)	7.7	35.0	30.8	50.6	33.9	35.1	33.0	33.3	41.9	35.7	38.2
IMF ECF	1.8	2.8	0.9	2.7	5.2	5.1	5.1	5.1	5.1	0.0	0.0
IMF CCRT	…	…	…	…	0.4	0.6	0.6	…	…	…	…
IMF RCF	…	…	…	…	12.3	…	…	…	…	…	…
Financing Gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Other programmatic support	…	…	…	…	… …	…	…	0.0	0.0	0.0	0.0

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

Table 8. São Tomé and Príncipe: Indicators of Capacity to Repay the Fund, 2022–36

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Fund obligations based on existing credit (millions of SDRs)															
Principal	0.5	0.8	0.8	2.0	3.6	4.0	3.8	3.6	2.3	0.6	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit (millions of SDRs)															
Principal	0.5	0.8	0.8	2.0	3.6	4.4	4.9	4.8	3.5	1.7	0.8	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit															
Millions of SDRs	0.5	0.8	0.8	2.1	3.7	4.4	4.9	4.8	3.5	1.8	0.8	0.0	0.0	0.0	0.0
Millions of U.S. dollars	0.7	1.1	1.2	3.0	5.3	6.5	7.2	7.0	5.1	2.6	1.2	0.1	0.1	0.1	0.1
Percent of exports of goods and services	1.1	1.5	1.2	2.9	4.4	5.0	5.3	4.9	3.4	1.6	0.7	0.0	0.0	0.0	0.0
Percent of debt service [1]	9.9	13.1	10.2	24.0	38.7	66.1	75.4	74.3	52.3	26.2	12.1	0.6	0.6	0.6	0.6
Percent of quota	3.6	5.3	5.4	14.1	24.7	29.9	33.3	32.5	23.8	11.8	5.4	0.3	0.3	0.3	0.3
Percent of gross international reserves [2]	1.1	1.6	1.5	3.8	6.5	7.5	7.7	7.5	6.1	3.1	1.4	0.1	0.1	0.1	0.1
Percent of GDP	0.1	0.2	0.2	0.4	0.7	0.8	0.8	0.8	0.5	0.2	0.1	0.0	0.0	0.0	0.0
Outstanding Fund credit															
Millions of SDRs	27.2	26.4	25.7	23.6	20.0	15.6	10.7	6.0	2.5	0.8	0.0	0.0	0.0	0.0	0.0
Millions of U.S. dollars	38.4	37.7	36.9	34.3	29.2	22.8	15.7	8.7	3.6	1.1	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	54.5	51.8	37.4	32.6	23.9	17.7	11.5	6.1	2.4	0.7	0.0	0.0	0.0	0.0	0.0
Percent of debt service [1]	506.2	439.3	328.7	272.2	211.4	233.0	164.0	92.1	36.7	11.4	0.0	0.0	0.0	0.0	0.0
Percent of quota	183.6	178.6	173.4	159.6	135.1	105.5	72.4	40.3	16.7	5.1	0.0	0.0	0.0	0.0	0.0
Percent of gross international reserves [2]	56.7	53.4	48.7	42.9	35.8	26.5	16.7	9.3	4.3	1.3	0.0	0.0	0.0	0.0	0.0
Percent of GDP	7.4	6.5	5.9	5.1	4.0	2.9	1.8	0.9	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Net Use of Fund Credit (millions of SDRs)	-0.5	-0.8	-0.8	-2.0	-3.6	-4.4	-4.9	-4.8	-3.5	-1.7	-0.8	0.0	0.0	0.0	0.0
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.5	0.8	0.8	2.0	3.6	4.4	4.9	4.8	3.5	1.7	0.8	0.0	0.0	0.0	0.0
Memorandum items:															
Exports of goods and services (millions of U.S. dollars)	70.4	72.9	98.8	105.3	122.1	128.7	135.8	143.3	151.3	159.5	168.3	177.6	187.4	197.8	208.8
Debt service (millions of U.S. dollars)	7.6	8.6	11.2	12.6	13.8	9.8	9.5	9.5	9.8	9.7	9.6	9.6	9.4	9.3	9.0
Quota (millions of SDRs)	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8
Gross international reserves [2]	67.6	70.7	75.9	79.9	81.7	86.1	93.7	93.7	84.4	83.6	83.0	82.4	81.7	81.0	80.9
GDP (millions of U.S. dollars)	519.7	576.1	621.1	671.6	732.8	797.4	859.9	927.4	1000.5	1078.5	1141.8	1209.1	1280.8	1357.0	1438.2

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

[1] After HIPC and MDRI debt relief. Including IMF repurchases and repayments in total debt service.

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

Table 9. São Tomé and Príncipe: Schedule of Disbursements Under ECF Arrangement, 2019–22

Availability Date[1]	Disbursement conditions	SDR Amount	Percent of Quota[2]
10/02/19	Board approval of arrangement.	1,902,857	12.86
03/15/20	Observance of continuous and end-December 2019 PCs and completion of the first review.	3,382,857	22.86
11/15/20	Observance of continuous and end-June 2020 PCs and completion of the second review.	1,902,857	12.86
05/15/21	Observance of continuous and end-December 2020 PCs and completion of the third review.	1,902,857	12.86
09/15/21	Observance of continuous and end-June 2021 PCs and completion of the fourth review.	1,902,857	12.86
04/15/22	Observance of continuous and end-December 2021 PCs and completion of the fifth review.	1,902,858	12.86
10/15/22	Observance of continuous and end-June 2022 PCs and completion of the sixth review.	1,902,857	12.86
	Total	14,800,000	100.0

Source: International Monetary Fund.

[1] An RCF disbursement of SDR9.028 million was approved in April 2020.

[2] Overall access and percent of quota were increased by the augmentation of 10 percent.

Table 10. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2021–2022
(Millions of New Dobra, Cumulative from Beginning of Year, Unless Otherwise Specified)

	2021									2022			
	June				Sept.				Dec.	March		June	
	Performance Criteria				Indicative Target				Performance Criteria	Indicative Target		Performance Criteria	
	Third Review	With Adjusters	Prel.	Status	Third Review	With Adjusters	Prel.	Status	Third Review	Third Review		Third Review	Prop.
Performance Criteria:													
Floor on domestic primary balance (as defined in the TMU) [1]	-225	-250	-229	Met	-300	-326	-278	Met	-379	-80	-125	-160	-162
Ceiling on changes in net bank financing of the central government (at program exchange rate) [2, 3, 4]	200	254	212	Met	300	379	340	Met	354	80	125	160	162
Floor on net international reserves of the central bank (US$ millions) [1, 3]	25	23	20	Not met	24	24	33	Met	23	25	27	26	28
Ceiling on the accumulation of central government's new external payment arrears (US$ millions) [4, 5, 6, 7]	0		0	Met	0		0.3	Not met	0	0	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the central government or the BCSTP (in nominal value, US$ millions) [4, 5, 6, 7, 8]	0		0	Met	0		0	Met	0	0	0	0	0
Not to: (i) impose or intensify exchange restrictions, (ii) introduce or modify multiple currency practices, (iii) conclude bilateral payments agreements that are inconsistent with Article VIII, or (iv) impose or intensify import restrictions for balance of payments reasons	Continuous: Met												
Indicative Targets:													
Ceiling on change of central government's new domestic arrears	-20		-38.5	Met	-30		-37.6	Met	-60	0	0	-20	-20
Floor on pro-poor expenditures	300		420	Met	450		709	Met	600	157	157	315	315
Floor on tax revenue	700		622	Not met	1050		986	Not met	1400	344	310	751	679
New concessional external debt contracted or guaranted with original maturity of more than one year by the central government or the BCSTP (in present value term, US$ millions) [4, 6, 7, 9]	4		0	Met	7		0	Met	9	3	0	6	0
Memorandum items:													
Ceiling on dobra base money (stock)	1,454		1,949		1,520		1,828		1,586	1,619	1,960	1,612	1,925
Transfer from NOA to the budget (US$ millions)	3.2		3.1		3.0		3.1		3.2	2.7	2.6	2.7	2.6
Net external debt service payments [10]	65		31		98		37		130	41	41	82	82
Official external program support [10]	105		58		105		114		261	148	156	148	262
IMF program disbursement	56		58		56		114		112	56	59	56	59
Budget support grants	49		0		49		0		149	92	97	92	203
Domestic arrears clearance (-, exclude debt payment to ENCO)	0		-39		-10		-38		-73	…	…	…	…
Treasury-funded capital expenditure	15		7		20		10		30	6	15	14	34
Ceiling on personnel expenses	599		488		770		734		1,070	260	264	519	528

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

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

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

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

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

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

[6] The term "external" is defined on the basis of the residency of the creditor per paragraph 5 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 16919-(20/103) of the Executive Board (October 28, 2020).

[7] This performance criterion or memorandum item applies not only to debt as defined in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 16919-(20/103) of the Executive Board (October 28, 2020), but also to commitments contracted or guaranteed for which value has not been received. For further details on the definition of debt and external arrears refer to the TMU, ¶6 and 17.

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

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

[10] As defined in the TMU, valued at the program exchange rate, excludes HIPC-related amortization.

Table 11. São Tomé and Príncipe: Program Performance of Structural Benchmarks Under the ECF Program, 2021

Policy Objectives and Measures	Timing	Status	Macro Rationale	TA involved
Prior actions				
Tax Directorate to validate the first module of the VAT IT system for taxpayers' registration (MEFP ¶16)			To enhance revenue	With the World Bank support
Customs and Tax Directorates to agree technical understandings on applicability of the VAT law at customs collection points issued in Ministerial Order (MEFP ¶16)			To enhance revenue	
Submit the BCSTP organic law to Parliament (MEFP ¶28)			To strengthen financial supervision and improve governance and oversight	LEG
Strengthening Public Finances				
Implement VAT awareness and communications public information campaign (MEFP ¶18)	End-June 2022		To enhance revenue	With World Bank support
Introduce the VAT at a 15 percent rate according to the October 2019 law (MEFP ¶16)	End-October 2021	Not met. Rescheduled to end-Sept 2022. Two prior actions added.	To enhance revenue	With World Bank support
Continue relying on the automatic fuel price adjustment mechanism and maintaining retail fuel prices aligned to international markets (continuous SB) to prevent implicit fuel subsidies and contain fiscal risks (MEFP ¶16)	Continuous	End-June: Met. End-September: Not met.	To enhance revenue	No TA involved
Publishing on the Ministry of Finance (MOF) website (i) adjudication notices of public procurement contracts, as required by the Procurement Law (no. 8/2009, articles 29-2, 44-1, and 70-1); (ii) all signed public procurement contracts above the threshold for requiring prior authorization from the Court of Accounts as per the Organic Law (no. 11/2019) (including COVID-19 related); (iii) the ex-post validation of delivery of the contracts —all (i) to (iii) to be published within two weeks documents become available to COSSIL— and (iv) monthly COVID-19 related expenditure reports within a 45-day lag (MEFP ¶23).	Continuous	Not met. Implemented with delays.	To increase transparency and accountability	No TA involved
Publishing on the Ministry of Finance's (MOF) website ownership information and any information available about beneficial ownership of companies receiving public procurement contracts (same contracts as above), within two weeks (MEFP ¶23).	Continuous	Not met. Implemented with delays.	To increase transparency and accountability	LEG
Enhancing Monetary Policy and Financial Stability				
Conduct bank stress tests, with input from the IMF, to identify possible credit risk pressures due to the fallout from the COVID-19 pandemic	End-December 2021	Not met. Met end-Feb. 2022.	To support financial sector stability	MCM
Submit the BCSTP organic law to Parliament (MEFP ¶28)	End-September 2021	Not met. To be implemented as a prior action.	To strengthen financial supervision and improve governance and oversight	LEG
Submit to the Government the revised financial institutions law, enhancing the legal framework for bank regulation and supervision, including the powers, responsibilities, and functions of the BCSTP and the prudential requirements for banks. The draft shall be prepared in consultation with IMF staff.	End-December 2021	Not met. Rescheduled to end-June 2022.	To strengthen financial supervision and improve governance and oversight	LEG
Activate the liquidity management toolkit to reduce excess liquidity during 2021 below the end-2020 levels, including by rolling over existing CD, and issuing CDs as needed.	End-December 2021	Met	Stabilize excess liquidity and support the peg	MCM
Facilitating Business Activities and Energy Efficiency				
Develop a plan to remove the country from the European Union's Air Safety blacklist (MEFP ¶39)	End-December 2021	Not met. Rescheduled to end-September 2022.	To facilitate the recovery of the tourism sector	With World Bank support
Rolling out the LED program, as previously agreed with IMF Staff, to replace incandescent/fluorescent light bulbs with LED bulbs in the country, pursuant to the LED program parameters (MEFP ¶40)	End-December 2021	Not met. Rescheduled to end-June 2022.	To contain fiscal risk	With World Bank support

Annex I. Implementation of Past IMF Advice

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

Annex II. Climate Change in São Tomé and Príncipe

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

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

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

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

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

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

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

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

Annex III. Risk Assessment Matrix[1]

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

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

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

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

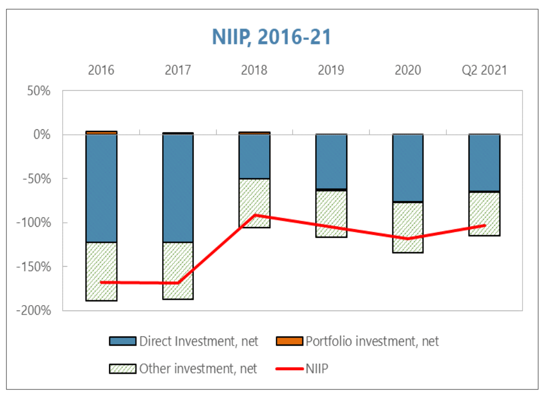
Annex IV. External Sector Assessment

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

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

Foreign Assets and Liabilities: Position and Trajectory

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



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

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

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

Current Account

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

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

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

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

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

Real Exchange Rate

Background. In 2021, the real effective exchange rate (REER), based on Consumer Price Index, appreciated by 6 percent relative to its 2020 average. Since the introduction of the exchange rate peg to the euro in January 2010, the REER has appreciated by 84 percent in the next decade, as the gradual disinflation process was too slow to close the inflation differential with trading partners. The peg has helped to reduce average inflation to 8 percent during 2010-2020, half its rate during the previous decade. Although a substantial reduction, inflation has remained much higher than in the euro area, contributing to the REER appreciation. Average Euro area inflation was 1.3 percent in 2010-20 compared to 8.4 percent in São Tomé and Príncipe, implying prices increases of 124 percent in São Tomé and Príncipe during the period versus only 14 percent in the euro area.

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

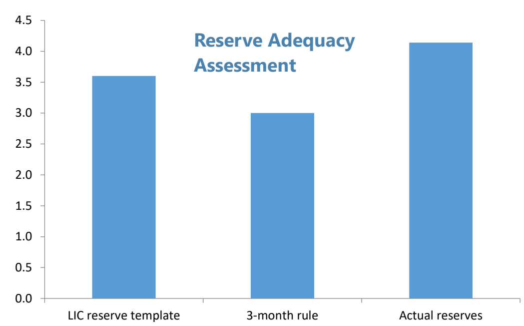
Capital and Financial Accounts: Flows and Policy Measures

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

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

FX Intervention and Reserves Level

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



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

Annex V. Capacity Development

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix I. Letter of Intent

São Tomé, March 7, 2022

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431, USA

Dear Managing Director Georgieva:

The government of the Democratic Republic of São Tomé and Príncipe requests the IMF Executive Board to complete the fourth review of the program supported by the Extended Credit Facility (ECF) arrangement and approve the fifth disbursement based on performance under end-June 2021 performance criteria (PC) and the completion of prior actions.

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

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

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

The IMF's continued strong support to our country is helping address the health and socio-economic impacts of the COVID-19 pandemic. The completion by the IMF Executive Board of the reviews under the ECF arrangement, the augmentation of ECF access, Rapid Credit Facility (RCF), and Catastrophe Containment and Relief Trust (CCRT) were all timely and helped the government address the COVID-19 pandemic in 2020-21.

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

Despite difficult context, progress has been made in implementing structural benchmarks through end-December 2021. We remain committed to strengthening governance and fulfilling our commitment on fostering full transparency in all COVID-19-related spending. We are publishing procurement documents, COVID-related expenditure reports, and are reviewing the draft Public Procurement Law to enable the collection and publication of beneficial ownership information. While progress is being made in strengthening the central bank and in advancing the implementation of outstanding safeguards assessment recommendations, structural benchmarks related to new central bank organic law and stress testing were implemented with delays and the structural benchmark for the financial institutions law is expected to be completed by end-June 2022. In addition, we will continue to rely on the automatic fuel price adjustment mechanism to prevent implicit fuel subsidies and contain fiscal risks. Furthermore, due to capacity constraints and travel restrictions, there were delays in reforms in the state-owned utility company (EMAE) and in developing a plan to remove the country from the EU air safety blacklist to facilitate the recovery of tourism.

The support of the IMF continues to be important as we tackle tremendous challenges in the period ahead. We believe that the policies contained in the October 2019, July 2020, February 2021, August 2021 MEFP, and the attached supplementary MEFP are adequate to achieve the objectives of the program. We stand ready to take additional measures should they be needed to meet the objectives of the economic program and will consult with the IMF in advance of any necessary revisions to the policies contained in this letter and attached Memorandum, in line with Fund policies on such matters. We will also consult in advance with IMF staff on the terms of possible external borrowing to ensure that such borrowing does not jeopardize debt sustainability and is in line with the IMF's debt limits policy. Furthermore, we are committed to not (i) imposing or intensifying restrictions on the making of payments and transfers for current international transactions, (ii) imposing or intensifying import restrictions for balance of payments reasons (iii) introducing or modifying multiple currency practices, or (iv) concluding bilateral payment agreements in violation of Article VIII of the Articles of Agreements, which are continuous performance criteria under the ECF arrangement.

In line with its commitment to transparency and accountability, the government authorizes the IMF to publish this letter, its attachments, and related staff report, including placement of these on the IMF website in accordance with IMF procedures, following the IMF Executive Board's approval of the request.

Sincerely yours,

/s/	/s/
Mr. Engrácio do Sacramento Soares da Graça, Minister of Planning, Finance, and the Blue Economy	Mr. Américo Soares De Barros, Governor of the Central Bank of São Tomé and Príncipe

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

INTRODUCTION

1. **This supplementary Memorandum of Economic and Financial Policies (MEFP) updates the MEFP approved by the IMF Executive Board on October 2, 2019, on July 27, 2020, February 26, 2021, and August 27, 2021.** In this MEFP, we review recent developments and performance under the ECF-supported program, assess the economic outlook and risks, and set out our macroeconomic policies for 2022 and beyond, also keeping in mind the limitations on implementing new policy measures imposed by the COVID-19 pandemic and the impact of the floods at end-December 2021.

2. **São Tomé and Príncipe has made considerable progress under the ECF to preserve fiscal and external sustainability and foster development amid the COVID-19 pandemic.** Despite difficult context, we overperformed on the domestic primary deficit target for end-June 2021. We also met other QPCs for end-June 2021, except for the QPC on NIR, which was missed by a small margin reflecting lower-than-expected disbursements. Due to liquidity problems, there was also a temporary breach of the continuous PC of zero ceiling on external arrears by US$ 0.3 million in September, which were fully paid in October 2021. Due to capacity constraints and the COVID pandemic, we faced delays in implementing structural benchmarks, although some progress was achieved.

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

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

RECENT ECONOMIC DEVELOPMENTS

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

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

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

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

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

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

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

[1] The public debt stock here excludes pre-HIPC legacy arrears to Angola ($36 million) and pre-HIPC legacy arrears to Italy ($24.3 million). It also excludes disputed Nigeria debt ($30 million), as there is no signed contract between two countries.

PROGRAM PERFORMANCE

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

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

OUTLOOK, RISKS AND STRATEGY

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

11. **The country remains in debt distress due to long standing post-HIPC external arrears that we are trying to regularize.** We expect the present value (PV) of total public and publicly guaranteed (PPG) debt[2] to return below the debt sustainability analysis (DSA) thresholds associated with the weak debt-carrying capacity by 2026. We remain actively engaged in discussions with Angola (US$4.8 million), Brazil (US$4.3 million), and Equatorial Guinea (US$1.7 million) to regularize our outstanding external arrears (2.2 percent of GDP). An agreement with the Brazilian government was reached, pending ratification by the Brazilian Senate. The negotiations with Angola and Equatorial Guinea are progressing well with technical steps completed, pending the final signed agreements. In 2019 we also reached an agreement with the government of Angola and EMAE to

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

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

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

13. Against this backdrop, we remain committed to preserving the achievements to date and implementing the policies agreed under the program, while addressing the challenges posed by the pandemic and recent torrential rains. Our strategy is focused on: preserving fiscal sustainability, safeguarding financial stability, and accelerating reforms in the energy sector to support growth and external vulnerabilities.

POLICY OBJECTIVES FOR 2022

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

A. Fiscal Policy and Transparency

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

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

16. We are committed to delivering on the 2022 DPB target of 2.8 percent of GDP, reflecting our flood-related reconstruction efforts. COVID-19 related expenditures will continue in 2022 and are expected to be phased out as the health crisis subsides. To deliver on our policy objectives, we are taking the following actions and measures:

- Introduce the VAT at a 15 percent rate by September 2022 **(structural benchmark)**.
- Tax Directorate will validate the first module of the VAT IT system for taxpayers' registration **(Prior Action).**
- Customs and Tax Directorates will agree technical understandings on applicability of the VAT law at customs collection points, which issued in a ministerial order **(Prior Action)**
- Collection of tax arrears (Dobras 30.56 million).
- Alcohol tax surcharges (Dobras 16 million).
- Introduction of an airport tax (Euro 20 per passenger, Dobras 7 million)
- To contain personnel costs within the spending limits, ministerial order was issued in February 2022 freezing new public sector hiring
- Contingency measures reducing administrative costs by about 20 percent in case revenues do not materialize which includes goods and services, travel and other non-essential spending lines.
- Continue relying on the automatic fuel price adjustment mechanism and maintaining retail fuel prices aligned to international markets (continuous SB) to prevent implicit fuel subsidies and contain fiscal risks.

17. Over the medium term, we will continue implementing policies agreed under the program to approach a balanced DPB position by 2024. To achieve this objective, we intend to adopt wage and employment policies to gradually reduce personnel costs (as a share of GDP) over time and keep other current expenses under control. External borrowing would be capped and restricted to concessional loans only to reduce debt vulnerabilities. Should downside risks materialize, we stand ready to take contingency measures to preserve debt sustainability, including through recalibrating fiscal efforts and improving further the financing mix. To deliver on our policy objectives, we are taking following actions and measures in fiscal year 2022 and following years:

- Reduce the wage bill to close to 10 percent of GDP by continuing over fiscal years 2023-24 current policies of suspending inflation adjustments, and by limiting new hiring to maintain the total number of civil servants broadly unchanged over time through attrition rules and reforming the public administration. We will provide the IMF with quarterly updates on the total number of civil servants by main functional sectors, including education, health, and defense.
- Keep transfers and other current expenditures (including the *despesas consignadas dos serviços de cobrança*) constant in nominal terms in 2023 and contain the increase broadly in line with

GDP growth thereafter. In this regard, the government will not approve borrowing by public entities to offset lower transfers from Treasury.

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

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

20. We continue to strengthen tax administration. Following IMF assistance, actions include the: (i) reorganization of the *Direção dos Impostos (DI)* to improve management and strategic planning focused on tax compliance; (ii) adoption of modern compliance risk management practices, including audit programs that make use of information from third parties; and (iii) overhaul of the current performance monitoring framework including key performance indicators and a rewards program. Moreover, pending support from development partners, we intend to undertake a comprehensive tax administration diagnostic assessment (TADAT) of our current revenue administration practices before the end of 2022.

21. We started publishing detailed statistics on tax collections in April 2021 and we will be closely monitoring taxpayers to ensure timely tax collections. We will fully apply existing legal and administrative procedures to ensure payments are made, especially by large taxpayers. We will improve DI's access to third-party sources of data, which will allow for cross-checking of tax information and increase the analytical capacities of the data captured by E-invoice to strengthen controls on registration, declaration, payment, and reporting of tax obligations. In addition, we will continue staff training to enhance auditors' skills focusing on the telecommunication, banking, and insurance sectors. Finally, we are committed to recover tax obligations from large taxpayers that suspended their tax payments during the crisis through a recovery program.

22. The government is committed to continuing strengthening public financial management systems and avoiding the accumulation of new domestic arrears. Specific reforms include:

1) *Improving macro-fiscal framework projections (revenues and expenditures).* With IMF assistance, we have recently developed a methodological manual to strengthen macro-fiscal forecasting and will gradually implement the manual to strengthen our revenue forecasting capacity. Moreover, for the first time, we have incorporated in the 2022 budget documents medium-term fiscal framework (MTFF) projections for a three-year period.

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

3) *Strengthening expenditure control, preventing the accumulation of arrears and updating the arrears clearance plan to cover all domestic arrears.* In the 2023 budget cycle we will start a commitment ceiling mechanism to manage expenditures at the commitment stage in selected spending ministries covering on a pilot basis all spending agencies, with the exclusion of the ministries of education, health, defense, and justice. As part of the pilot, we will elaborate quarterly commitment ceilings to support the commitment control mechanism in pilot ministries. This pilot will be gradually expanded to all line ministries and spending agencies overtime.

4) *Enhancing fiscal reporting and improving the consistency of above and below the line fiscal data.* We will continue to provide the IMF with the monthly TOFE (central government financial operation table) by the 21st of the following month. Moreover, during 2022, we will continue our efforts to reconcile the financing data with the BCSTP at least on a quarterly basis and seek assistance if needed.

5) *Enhancing the enforcement of procurement laws to improve the efficiency of public expenditure and reduce vulnerabilities to corruption.* With the support of the World Bank and IMF, we drafted a new procurement law, to include e-procurement; sustainability, environmental, social, and hygiene issues; framework contracts; the complaint mechanism; and the collection and publication of beneficial ownership information. During 2022 we will continue taking steps towards adopting the new draft procurement law with beneficial ownership information-related provisions and strengthening transparency of procurement contracts and supporting documents.

23. Strengthening fiscal transparency continuous to be our key priority (Structural Benchmark):

- Since November 2020, we have been publishing on the Ministry of Finance (MOF)'s website public procurement contracts and monthly COVID-19 spending reports. For companies that received public procurement contracts, which were published on the ministry's website, we have also published owner information and we are working to enhance our procurement law to enable collection and publication of beneficial ownership information for companies being awarded public contracts. Publications have been delayed in the second half of 2021 due to operational difficulties, but we have restored regular publication of these documents in February

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

- We are committed to continue enforcing these high transparency standards. Thus, we will publish on the MOF's website: (i) adjudication notices of public procurement contracts, as required by the Procurement Law (no. 8/2009, articles 29-2, 44-1, and 70-1); (ii) all signed public procurement contracts above the threshold for requiring prior authorization from the Court of Accounts as per the Organic Law (no. 11/2019); and (iii) the ex-post validation of delivery of the contracts—all (i) to (iii) to be published within two weeks after documents become available—and (v) monthly COVID-19 related expenditure reports with a 45-day lag; as well as ownership information and any information available about beneficial ownership of companies awarded public procurement contracts (same as above) to be published within two weeks

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

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

- Currently we have no integrated system, and all procurement documents are collected manually. Therefore, there are operational difficulties for our procurement agency COSSIL to access in a timely manner contracts signed by the line ministries. Looking forward, we are working with the World Bank to develop a webpage for the procurement agency COSSIL, which will expedite the publication of procurement documents and facilitate management and transparency over public contracts.

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

B. Monetary Policy, Foreign Exchange Reserves, and Safeguards

25. We remain committed to improving our monetary policy framework to support the peg, including by actively managing liquidity. The BCSTP broadly has a toolkit in place to help manage liquidity and has been issuing Certificate of Deposits (CDs) each month throughout 2021 to mop up excess liquidity and to support the exchange rate peg. We removed the restrictions on the amount and frequency to access the Standing Credit Facility and extended our liquidity forecasting framework to one month using historic data. The minimum reserve requirements for domestic currency and for foreign currency remained at 18 percent and 21 percent respectively during 2021.

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

27. As noted in the Letter of Intent, we will not introduce regulations and practices that could lead to the introduction of new and intensification/modification of existing exchange restrictions/multiple currency practice. We will seek approval from the IMF for the existing exchange rate restrictions and multiple currency practice and will consult the IMF when revising relevant regulations or laws.

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

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

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

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

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

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

6) *Maintaining GIABA membership*. We will preserve the country's membership in the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) by engaging with the GIABA Secretariat and staying current on membership contributions. Losing GIABA membership exposes to public listing by the FATF, which would cause reputational damage and potential loss of correspondent banking relationships.

7) *Implementing Safeguards recommendations*. We are committed to implementing the outstanding safeguards recommendations, including to finalize and send the Organic Law to Parliament (prior action), implement International Financial Reporting Standards with IMF TA, complete the 2020 audit of the BSCTP's financial statements, improve internal audit capacity, finalize the memorandum of agreement on legacy government debt, and complete drafting the financial institutions law and send it to the government. To this end, we have provided the IMF with an updated timeline and undertake to provide regular updates and documentation on the status of the outstanding recommendations.

C. Financial Sector Policy

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

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

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

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

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

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

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

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

Exchange Restrictions

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

D. External Debt

35. Given the high debt level, we will continue to borrow cautiously. We will continue relying on grant financing and borrow only at concessional terms. Continued EMAE reform (see ¶41-43) will reduce fiscal liabilities. All these measures will ensure the present value of the public debt to GDP ratio remain below the high-risk debt distress threshold (see Borrowing Plan table). We will strive to keep external debt disbursements below 2 percent of GDP and limit contracting of new loans to 3 percent of GDP. These parameters will be adjusted according to the development of debt vulnerability. We will also continue to engage actively with bilateral creditors to regularize post-HIPC arrears.

36. The government is implementing measures to strengthen debt management. Following the Debt Management Performance Assessment (DeMPA)'s main recommendations, we have published a medium-term debt management strategy. With support from the World Bank, we are creating a debt database that will improve our capacity to perform debt service projections and risk analyses and report detailed debt information stock. Once the new database is ready, we will update our public debt strategy. The ongoing IMF Technical Assistance mission on public sector debt statistics will also be very helpful to further improve the statistics of debt.

E. Managing Fiscal Risks from Loss-Making SOEs

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

Text Table 1. Actual Revenues from Fuel Price Differential

(In Millions of Dobras)

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

Source: GAMAP. Staff elaboration

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

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

39. Despite the slow progress during COVID-19 crises, we remain committed to the comprehensive reform strategy for the energy sector, which aims to shift thermoelectric

generation towards more sustainable energy sources. The strategy is centered on implementing the Least Cost Development (LCDP) and the Management Improvement (MIP) plans and have EMAE achieving full cost recovery. It comprises four clear objectives that combine together to improve electricity generation capacity and contain consumption, enhance efficiency in EMAE's operations by reducing losses and increasing collection rates, besides enhancing the design of the tariff structure for electricity in the country:

Objective 1: Reduce the cost of electricity generation and change the generation mix towards renewable sources.	**Target:** Reduce the average cost of energy produced from 0.25 to 0.14 USD/kWh by 2024. Increase renewable sources' share from 5 percent to 45 percent by 2024.
Objective 2: Reduce electricity consumption (Table B.).	**Target:** Reduce electricity consumption by 15 percent within 12 months.
Objective 3: Improve management of electricity distribution by the state-owned corporation EMAE to reduce losses and improve collection rates.	**Target:** Reduce losses (commercial and technical) and improve the collection rate. (**Table A. Below)**
Objective 4: Reform tariff structure and strengthen regulatory framework.	**Target:** Gradually achieve a cost-reflective tariff structure by 2024.

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

(In percent)

	Baseline		Target	
	2019	Dec-20	Dec-21	June-22
Reducing loss (commercial + technical)	33	33	29	23
Raising bill collection rate to [1,2]	85	91	93	95
Reduce diesel loss to	6.3	6.3	5	

[1]Deterioration in 2019 due to expansion of network in 2018 by the previous government.
[2] No target manageable in the current context for end-2020.

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

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

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

41. Since March 2021, the country has been experiencing persistent daily shortages in electricity supply and we are working diligently to overcome this situation. The shortages were caused by the depreciation and lack of maintenance in oil-based electricity generators which became non-operational. We understand that permanent solutions require accelerating development of alternative sustainable energy sources (a photovoltaic solar and hydropower) as part of overall energy sector reform strategy. We are currently reviewing our strategy and reform measures with a view to address immediate capacity constraints, in consultation with development partners.

F. The Implementation of Other Structural Reforms

42. We will continue our efforts to strengthen the country's resilience to climate change and protect our natural resources. The impact of climate change primarily reflects in rising temperatures and sea level, costal erosion, and changing precipitation patterns, which damages agriculture, fisheries, and eventually tourism. As a signatory to the UN's Framework Convention on Climate change, we updated the Nationally Determined Contributions document in June 2021 and participated in the COP26 meetings in fall 2021. We began work on the Fourth Communication Report for our country on climate change.

43. We recognize the criticality of removing the country from the European Union's Air Safety blacklist to facilitate the recovery of the tourism sector and exports. However, with the pandemic, we were unable to meet our goal of finalizing the plan to remove the country from the air safety blacklist by end-December 2021 (Structural Benchmark), and we now expect to have the plan completed by end-September 2022. To this end, we managed to secure the visit from international air safety regulator (ICAO) to assess progress. We have been able to make some upgrades to the airport over the past year to improve social distancing. We are also updating laws and regulations to bring them in-line with EU guidelines and providing training to staffs.

Improving Economic Statistics

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

Table B. São Tomé and Príncipe: EMEA/Energy Sector: Expected Key Actions and Timeline, 2021		
Measures	**Status**	**Target date**
1. Develop terms of reference of the new executive management team of EMAE for implementing reform measures.	**Completed.** ToRs were developed and the Council of Ministers has approved commencements of competitive selection process for EMAE's senior management.	End-September 2021
2. Government establishes a mechanism with EMAE to cap consumption and ensure timely bill payment by public entities.	Delayed due to restrictions imposed by the pandemic.	To continue after crisis subsides
3. Complete the LED program, as previously agreed with IMF Staff, to replace incandescent/fluorescent light bulbs with LED bulbs in the country, pursuant to the LED program parameters **(Structural Benchmark)**	Technical inspection in the LED factory in China was concluded in January 2022 to allow for fabrication of lamps throughout February and March. LED bulbs expected to arrive in STP in the second quarter of 2022 for distribution.	mid-2022
4. Continue to develop arrears clearance plan with non-public customers.	Delayed due to restrictions imposed by the pandemic.	To continue after crisis subsides
5. Implement the meter program supported by EIB and World Bank, including completing the installation of 3000 consumption meters for large clients, and install diesel meters to monitor delivery and consumption at power plants.	Non-objection from EIB was granted in December. AFAP is negotiating terms of contract with selected bidders.	end-2023
6. Issue a decree covering: (i) tariff structure definition, (ii) customer category definition, (iii) social tariffs adjustments, and (iv) agreed conditions and a broad timeline to achieve full cost-recovery structure.	**Broadly achieved.** Decree Law 88 covering i), ii), and iii) was passed in November 2021. The decree provides for the principle of full-cost approach to be applied in the tariff structure. Effective implementation of the new tariff structure depends on regulator AGER.	End-2021

Capacity Development

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

PROGRAM MONITORING

46. The program will be monitored on a semi-annual basis, through quantitative and/or continuous performance criteria and indicative targets (Table 1) and structural benchmarks (Table 2). Quantitative targets are set for end-December 2021, and end-June 2022, while those for end-September 2021 and end-March 2022 are indicative targets. The fifth review should be completed on or after April 15, 2022, and the sixth review should be completed on or after October 15, 2022.

Table 1. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2021-22
(Millions of new Dobras, cumulative from beginning of year, unless otherwise specified)

	2021									2022	
	June				Sept.				Dec.	March	June
	Performance Criteria				Indicative Target				Performance Criteria	Indicative Target	Performance Criteria
	Third Review	With Adjusters	Prel.	Status	Third Review	With Adjusters	Prel.	Status	Third Review		Prop.
Performance Criteria:											
Floor on domestic primary balance (as defined in the TMU)[1]	-225	-250	-229	Met	-300	-326	-278	Met	-379	-125	-162
Ceiling on changes in net bank financing of the central government (at program exchange rate)[2, 3, 4]	200	254	212	Met	300	379	340	Met	354	125	162
Floor on net international reserves of the central bank (US$ millions)[1, 3]	25	23	20	Not met	24	24	33	Met	23	27	28
Ceiling on the accumulation of central government's new external payment arrears (US$ millions)[4, 5, 6, 7]	0		0	Met	0		0.3	Not met	0	0	0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the central government or the BCSTP (in nominal value, US$ millions)[4, 5, 6, 7, 8]	0		0	Met	0		0	Met	0	0	0
Not to: (i) impose or intensify exchange restrictions, (ii) introduce or modify multiple currency practices, (iii) conclude bilateral payments agreements that are inconsistent with Article VIII, or (iv) impose or intensify import restrictions for balance of payments reasons	Continuous: Met										
Indicative Targets:											
Ceiling on change of central government's new domestic arrears	-20		-38.5	Met	-30		-37.6	Met	-60	0	-20
Floor on pro-poor expenditures	300		420	Met	450		709	Met	600	157	315
Floor on tax revenue	700		622	Not met	1050		986	Not met	1400	310	679
New concessional external debt contracted or guaranteed with original maturity of more than one year by the central government or the BCSTP (in present value term, US$ millions)[4, 6, 7, 9]	4		0	Met	7		0	Met	9	0	0
Memorandum items:											
Ceiling on dobra base money (stock)	1,454		1,949		1,520		1,828		1,586	1,960	1,925
Transfer from NOA to the budget (US$ millions)	3.2		3.1		3.0		3.1		3.2	2.6	2.6
Net external debt service payments[10]	65		31		98		37		130	41	82
Official external program support[10]	105		58		105		114		261	156	262
IMF program disbursement	56		58		56		114		112	59	59
Budget support grants	49		0		49		0		149	97	203
Domestic arrears clearance (-, exclude debt payment to ENCO)	0		-39		-10		-38		-73	…	…
Treasury-funded capital expenditure	15		7		20		10		30	15	34
Ceiling on personnel expenses	599		488		770		734		1,070	264	528

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

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

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

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

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

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

[6] The term "external" is defined on the basis of the residency of the creditor per paragraph 5 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 16919-(20/103) of the Executive Board (October 28, 2020).

[7] This performance criterion or memorandum item applies not only to debt as defined in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 16919-(20/103) of the Executive Board (October 28, 2020), but also to commitments contracted or guaranteed for which value has not been received. For further details on the definition of debt and external arrears refer to the TMU, ¶6 and 17.

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

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

[10] As defined in the TMU, valued at the program exchange rate, excludes HIPC-related amortization.

Table 2. São Tomé and Príncipe: Structural Benchmarks

Policy Objectives and Measures	Timing	Status	Macro Rationale	TA involved
Prior actions				
Tax Directorate to validate the first module of the VAT IT system for taxpayers' registration (MEFP ¶16)			To enhance revenue	With the World Bank support
Customs and Tax Directorates to agree technical understandings on applicability of the VAT law at customs collection points issued in Ministerial Order (MEFP ¶16)			To enhance revenue	
Submit the BCSTP organic law to Parliament (MEFP ¶28)			To strengthen financial supervision and improve governance and oversight	LEG
Strengthening Public Finances				
Implement VAT awareness and communications public information campaign (MEFP ¶18)	End-June 2022		To enhance revenue	With World Bank support
Introduce the VAT at a 15 percent rate according to the October 2019 law (MEFP ¶16)	End-October 2021	Not met. Rescheduled to end-Sept 2022. Two prior actions added.	To enhance revenue	With World Bank support
Continue relying on the automatic fuel price adjustment mechanism and maintaining retail fuel prices aligned to international markets (continuous SB) to prevent implicit fuel subsidies and contain fiscal risks (MEFP ¶16)	Continuous	End-June: Met. End-September: Not met.	To enhance revenue	No TA involved
Publishing on the Ministry of Finance (MOF) website (i) adjudication notices of public procurement contracts, as required by the Procurement Law (no. 8/2009, articles 29-2, 44-1, and 70-1); (ii) all signed public procurement contracts above the threshold for requiring prior authorization from the Court of Accounts as per the Organic Law (no. 11/2019) (including COVID-19 related); (iii) the ex-post validation of delivery of the contracts —all (i) to (iii) to be published within two weeks documents become available to COSSIL— and (iv) monthly COVID-19 related expenditure reports within a 45-day lag (MEFP ¶23).	Continuous	Not met. Implemented with delays.	To increase transparency and accountability	No TA involved
Publishing on the Ministry of Finance's (MOF) website ownership information and any information available about beneficial ownership of companies receiving public procurement contracts (same contracts as above), within two weeks (MEFP ¶23).	Continuous	Not met. Implemented with delays.	To increase transparency and accountability	LEG
Enhancing Monetary Policy and Financial Stability				
Conduct bank stress tests, with input from the IMF, to identify possible credit risk pressures due to the fallout from the COVID-19 pandemic	End-December 2021	Not met. Met end-Feb. 2022.	To support financial sector stability	MCM
Submit the BCSTP organic law to Parliament (MEFP ¶28)	End-September 2021	Not met. To be implemented as a prior action.	To strengthen financial supervision and improve governance and oversight	LEG
Submit to the Government the revised financial institutions law, enhancing the legal framework for bank regulation and supervision, including the powers, responsibilities, and functions of the BCSTP and the prudential requirements for banks. The draft shall be prepared in consultation with IMF staff.	End-December 2021	Not met. Rescheduled to end-June 2022.	To strengthen financial supervision and improve governance and oversight	LEG
Activate the liquidity management toolkit to reduce excess liquidity during 2021 below the end-2020 levels, including by rolling over existing CD, and issuing CDs as needed.	End-December 2021	Met	Stabilize excess liquidity and support the peg	MCM
Facilitating Business Activities and Energy Efficiency				
Develop a plan to remove the country from the European Union's Air Safety blacklist (MEFP ¶39)	End-December 2021	Not met. Rescheduled to end-September 2022.	To facilitate the recovery of the tourism sector	With World Bank support
Rolling out the LED program, as previously agreed with IMF Staff, to replace incandescent/fluorescent light bulbs with LED bulbs in the country, pursuant to the LED program parameters (MEFP ¶40)	End-December 2021	Not met. Rescheduled to end-June 2022.	To contain fiscal risk	With World Bank support

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) contains definitions and adjuster mechanisms that clarify the measurement of quantitative performance criteria and indicative targets in Table 1, which are attached to the Memorandum of Economic and Financial Policies for 2019-23. Unless otherwise specified, all quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from the beginning of each calendar year.

2. The program exchange rate for the purposes of this TMU[1] will be the rates at end-2018, specifically 21.6925 new dobras per U.S. dollar, 24.5 new dobras per euro, 29.17221 new dobras per SDR, and 30.1865 new dobras per UA.

PROVISION OF DATA TO THE FUND

3. Data with respect to all variables subject to performance criteria and indicative targets will be provided to Fund staff on the frequency described below (¶27) with a lag of no more than four weeks for data on net international reserves of the Central Bank of São Tomé and Príncipe (BCSTP) and six weeks for other data. The authorities will transmit promptly to Fund staff any data revisions. For variables that are relevant for assessing performance against program objectives but are not specifically defined in this memorandum, the authorities will consult with Fund staff as needed on the appropriate way of measuring and reporting. Performance criteria included in the program are defined below, specifically (i) the floor on domestic primary balance; (ii) the ceiling on changes in net bank financing of the central government; (iii) the floor on net international reserves of the central bank; (iv) the ceiling on central government's outstanding external payments arrears; and (v) the ceiling on the contracting or guaranteeing of new non-concessional external debt by the central government or the BCSTP.

DEFINITIONS

4. For the purposes of this TMU, **external and domestic** shall be defined on a residency basis.

5. Central government is defined for the purposes of this TMU to comprise all governmental departments, offices, establishments, and other bodies that are agencies or instruments of the central authority of São Tomé and Príncipe. The central government does not include the operations of state-owned enterprises.

6. Debt is defined as in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 16919-(20/103) of the Executive Board (October 28, 2020). "Debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in

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

the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract."

7. **Government domestic revenue** (including oil tax surcharge and excluding oil revenue) comprises all tax and non-tax revenue of the government (in domestic and foreign currencies), excluding: (1) foreign grants, (2) the receipts from the local sale of in-kind grants (e.g., crude oil received from Nigeria, food aid, etc.), and (3) any gross inflows to the government on account of oil signature bonus receipts and accrued interest on the National Oil Account (NOA). Revenue will be measured on a cash basis as reported in the table of government financial operations prepared by the Directorate of Budget and the Directorate of Treasury in the Ministry of Planning, Finance and the Blue Economy (MOF).

8. **Domestic primary expenditure** comprises all government spending assessed on a commitment basis (*base compromisso*), excluding (1) capital expenditure financed with external concessional loans and project grants, (2) the cost assumed by the budget to pay off small depositors following the liquidation of Banco Equador, and (3) scheduled interest payments. Reporting of government domestic expenditure will be based on the state budget execution prepared every month by the Directorate of Budget and the Directorate of Treasury in the MOF. All capital expenditures financed by budget support grants (including EU's) are treated as part of domestic primary spending, with no exception.

São Tomé and Príncipe: Official External Program Support

	2020 *H1*	2020	2021 *H1*	2021	2022 *H1*	2022	Currency
Projected budgetary support grants							
World Bank	0.0	10.0	0.0	10.0	0.0	6.06	million US dollars
European Union	3.0	5.2	0.0	4.3	4.1	4.10	million euros
African Development Bank	0.0	13.5	1.8	0.0	3.7	0.0	million UA
IMF ECF program	0.0	3.4	1.9	3.8	1.9	3.81	million SDR
IMF RCF	9.0	9.0	0.0	0.0	0.0	0.0	million SDR

Source: Sources: STP authorities; AFDB, WB, and Fund staff estimates.

PERFORMANCE CRITERIA

9. **Performance criterion on the floor on domestic primary balance.** This performance criterion refers to the difference between government domestic revenue (including oil tax surcharge and excluding oil revenue) and domestic primary expenditure. Planned payment of (price differential) debt to ENCO (¶22) are deducted from the oil surcharge revenue. To control spending, MoF will not approve borrowing by any public entity in the central government other than Treasury. Accordingly, for the purpose of program monitoring, borrowing by any public entity other than Treasury recorded in the monetary survey as loans to the central government will be added as additional expenditure to the DPD. For reference, the domestic primary balance for end 2020 based on ***hypothetical outturns*** would be -324 million new dobras, broken down as follows:

São Tomé and Príncipe: Domestic Primary Balance
(2020, millions of new dobras)

		ECF Second Rev.	Estimates	Diff.
I	Total revenue (=1+2)	1526	1596	69
I.A	***of Which: Government Domestic Revenue (=I–2.1+3)***	***1525***	***1565***	***39***
1	Tax revenue	1300	1346	46
2	Nontax revenue	226	250	24
2.1	*of which: oil revenue*	*23*	*31*	8
3	Amortization of debt to ENCO	22	0	-22
II	Total Domestic expenditure (=4+5+6+7)	1997	1924	-73
II.A	***Of which: Domestic primary expenditure (=II–4.2)***	***1956***	***1889***	**-67**
4	Current expenditure	1774	1731	-43
4.1	Personnel costs	980	956	-24
4.2	Interest due	42	35	-7
4.3	Goods and services	255	237	-18
4.4	Transfers	318	325	7
4.5	Other current expenditure	179	178	-1
5	Domestic capital expenditure	27	20	-7
5.1	Financed by the Treasury	28	20	-8
5.2	Financed by privatization proceeds	-1	0	1
6	HIPC Initiative-related social expenditure	18	13	-5
7	COVID-19 spending financed by the Treasury 1/	178	160	-17
III	**Domestic primary balance (= I.A–II.A)**	**-475**	**-324**	**150.5**

Sources: STP authorities; and Fund staff estimates.
1/ Does not include 23.6 billion dobras in COVID-related wages and salaries, which are included in personnel costs.

10. **Performance criterion on the ceiling on changes in net bank financing of the central government (NCG).** This performance criterion refers to the increase (decrease) of net bank financing of the central government, which equals the stock of all outstanding claims on the central government held by the BCSTP and by other depository corporations (ODCs), less the stock of all deposits held by the central government with the BCSTP and with ODCs, plus the increase, if any (with the approval of the ministry of finance) of ODC's credit to the public entities. The balance of the National Oil Account (NOA), deposits from project grants and project loans, contingent liabilities, and social security operations are not included in NCG. All foreign exchange-denominated accounts will be converted to new dobras at the program exchange rate. The relevant data are reported monthly by the BCSTP to the IMF staff. For reference, at end-2020, outstanding net bank financing of the central government (excluding NOA) was 482 million new dobras and change in net bank financing was -251 million new dobras as illustrated below.

São Tomé and Príncipe: Net Bank Financing
(millions of new dobras)

		2019	2020
I	***Net credit to government by the BCSTP (=I.1-I.2)***	***11***	***(132)***
I.1	BCSTP credit, including use of IMF resources:	305	280
I.2	Government deposits with the BCSTP (excluding NOA)	294	412
	Treasury dobra-denominated accounts	25	76
	Treasury foreign currency-denominated accounts (excl'g NOA)	173	273
	Counterpart deposits	96	63
II	***Net credit to government by ODCs***	***722***	***615***
II.1	ODC's credit to the government	908	780
II.2	Government deposits with ODCs	186	165
III	***Net bank financing of the government (excluding NOA) (=I+II)***	***733***	***482***
IV	***Changes during 2020 in net bank financing of the central government (NCG)***	**...**	***(251)***

Source: STP Authorities and Staff calculations.

11. Performance criterion on the floor on net international reserves (NIR) of the BCSTP. The NIR of the BCSTP are defined for program-monitoring purposes as short-term (i.e., original maturities of one year or less), tradable foreign assets of the BCSTP minus short-term external liabilities, as well as all liabilities to the IMF. All short-term foreign assets that are not fully convertible external assets nor readily available to and controlled by the BCSTP (i.e., they are pledged or otherwise encumbered external assets, including but not limited to the HIPC umbrella SDR account and assets used as collateral or guarantees for third-party liabilities) will be excluded from the definition of NIR. Securities whose market value on the last day of the year differs by over 20 percent from their original nominal issue price will be assessed at their market value as reported by the BCSTP's Markets Department. The balance of (1) NOA at the BCSTP, (2) banks' deposits related to capital or licensing requirements, and (3) banks' reserves denominated in foreign currency are excluded from the program definition of NIR. All values are to be converted to U.S. dollars at the actual mid-point market exchange rates prevailing at the test date. For reference, at end-2020 NIR was 813 million new dobras (or $37 million, using the exchange rate of 21.6925 new dobras per U.S. dollar), calculated as follows:

12. Performance criterion on the ceiling on the contracting or guaranteeing of new non-concessional external debt by the central government or the BCSTP. This continuous performance criterion covers the contracting or guaranteeing of new external debt of any maturity (including overdraft positions but excluding short-term import-related and supplier credits) by the central government and/or the BCSTP. Debt is considered non-concessional if it includes a grant element less than 35 percent. The grant element is the difference between the nominal value of the debt and its net present value, expressed as a percentage of the nominal value. The ceiling on the contracting or guaranteeing of new non-concessional external debt applies to nominal value of all new non-concessional external debt. The net present value of the debt at the date on which it is contracted is calculated by discounting the stream of debt service payments at the time of the contracting. The discount rate used for this purpose is 5 percent. For program purposes, a debt is considered contracted on the signature date of the contract, unless it is specified in the contract that it becomes effective upon ratification by the parliament. In the latter case, the debt is considered contracted upon ratification by parliament. This performance criterion does not apply to IMF resources. Debt being rescheduled or restructured is excluded from this ceiling to the extent that such non-concessional debt is used for debt management operations that improve the overall public debt profile. Medium- and long-term debt will be reported by the Debt Management Department of the MOF (as appropriate), measured in U.S. dollars at the prevailing exchange rates published by the BCSTP. The government should consult with IMF staff before contracting or guaranteeing new debt obligations.

São Tomé and Príncipe: International Reserves

(millions of new dobras)

	Dec-20
Gross international reserves	**1502**
Cash	**35**
Demand deposits	**851**
Term deposits (excl. National Oil Account)	**243**
Securities other than shares	**346**
Accrued interest on securities	**4**
Reserve position in the Fund	0
SDR holdings	**23**
Foreign exchange liability	**689**
Short-term bilateral liabilities	20
Liabilities to the IMF	537
Banks' reserves denominated in foreign currency	133
Banks' guaranteed deposits denominated in foreign currency	0
Net international reserves (NIR) (=I - II)	**813**
Net other foreign assets	**280**
Other foreign assets	485
Medium and long-term liabilities (including SDR allocation)	205
Net foreign assets (III+IV)	**1093**
Memorandum item: National Oil Account (NOA)	**329**

Source: STP Authorities and Staff calculations.

13. Performance criterion on the ceiling on the accumulation of central government's new external payment arrears. This is a continuous performance criterion. New central government external payment arrears consist of external debt service obligations (principal and interest) that have not been paid at the time they are due, as specified in the contractual agreement, subject to any applicable grace period. This performance criterion does not apply to arrears resulting from the nonpayment of debt service for which a clearance framework has been signed by the debtor and creditor before the relevant payment comes due or for which the government has sought rescheduling or restructuring as of March 2019.

INDICATIVE TARGETS

14. Ceiling on change of central government's new domestic arrears is set on the difference between expenditure on a commitment basis and cash payments (amounts past due after 40 days and unpaid).

15. Within domestic primary expenditure, the floor on pro-poor expenditure refers to the floor on government outlays recorded in the budget that have a direct effect on reducing poverty, as agreed with the IMF and World Bank staffs. These expenditures, which include both current and capital outlays, are defined as follows:

a. **Pro-poor current spending:** These cover the following functional classifications and expenditure categories (by budget code) as described in the matrix below:

b. **Pro-poor treasury-funded capital spending:** This covers projects that are deemed to have a direct impact on alleviating poverty in the following sectors: education, health, social safety nets, agriculture and fisheries, rural development, youth and sports, provision of potable water, and electrification.

São Tomé and Príncipe: Economic Classification of Expenditures

Code	Economic classification of current expenditure	Education	Health	Social Security and Assistance	Housing and Community Services	Culture and Sport	Fuel and Energy	Agriculture and Fisheries
310000	Personnel Expenses	x	x					
331210	Specialty Durable Goods	x	x					
331290	Other Durable Goods	x	x					
331120	Fuels and Lubricants[1]	x	x					
331130	Foodstuffs, Food[1] and Accommodation	x	x					
331140	Specialized Current Consumable Materials (Specific to Each Sector)	x	x					
331190	Other Consumer Non Durable Goods	x	x					
332110	Water and Energy Services	x	x					
332120	Communication Services	x	x					
332130	Health services	x	x					
332220	Maintenance and Conservation Services	x	x					
353900	Other Miscellaneous Current Expenses	x	x	x				
352200	Transfers to non-profit institutions (private)		x	x				
352310	Retirement Pension and Veterans		x	x				
352320	Family Benefit		x	x				
352330	Scholarships	x						
352390	Other Current Transfers to Families		x	x				
353100	Unemployment Fund		x	x				
Code	**Economic classification of capital expenditure**							
411110	Feasibility Study and Technical Assistance	x	x	x	x	x	x	x
411120	Procurement and Construction of Real Estate	x	x	x	x	x	x	x
411200	Rehabilitation Works and Facilities	x	x	x	x	x	x	x
411300	Means and Equipments of Transportation	x	x	x	x	x	x	x
411400	Machinery and Equipment	x	x	x	x	x	x	x
411900	Other Fixed Capital Goods	x	x	x	x	x	x	x
412000	Stocks	x	x	x	x	x	x	x

Source: Diário da Republica de São Tome e Principe No. 21 - May 7, 2008, pages 12-13.
[1] Expenditures on fuels and lubricants (*combustíveis e lubrificantes*) that are affected for administrative purposes are excluded. Likewise, food (*alimentação*) and clothing and shoes (*roupas e calçados*) supplied to administrative staff are excluded.

16. Floor on tax revenue is set on tax revenue that includes direct and indirect taxes as well as recovery of tax arrears and additional collection efforts.

17. New concessional external debt contracted or guaranteed by the central government or the BCSTP measures the present value of such debt with a grant element of at least 35 percent, and the limits on this debt are cumulative from the beginning of each calendar year. The ceiling on the contracting or guaranteeing of new concessional external debt applies to present value of all new concessional external debt. The present value of the debt is calculated on the date on which it is contracted by discounting the future stream of payments of debt service due on this debt using a discount rate of five percent.

MEMORANDUM ITEMS

18. Net external debt service payments by the central government are defined as debt service due less the accumulation of any new external payment arrears, as defined under the performance criterion on the ceiling on central government's outstanding external payment arrears.

19. Official external program support is defined as budget support grants and budget support loans, including disbursements from the IMF under the ECF and RCF arrangement, and other exceptional financing provided by foreign official entities and incorporated into the budget. Budget support grants include in-kind aid when the products are sold by the government and the receipts are used to finance a budgeted spending item.

20. Treasury-funded capital expenditure is part of domestic primary expenditure and covers public investment projects that are not directly financed by project grants and concessional project loans. It includes government's co-financing of capital projects financed mainly by project grants and loans. It includes spending on new construction, rehabilitation, and maintenance. Expenditure on wages and salaries and the purchase of goods and services related to the projects will not be classified as capital expenditure.

21. Ceiling on base money is set on the sum of currency issued—which consists of currency outside depository corporations and cash in vaults—and bank reserves denominated in new dobras. Bank reserves refer to reserves of commercial banks (in new dobras) held with the central bank and include reserves in excess of the reserve requirements.

22. Planned payment of debt to ENCO is the targeted amount to be deducted from the oil surcharge to pay back debt to ENCO during the year as discussed in paragraph 9. Higher than planned payments are not excluded from the revenue and will be included in domestic debt service. The planned annual payment is US$1.2 million and US$1.3 million in 2021 and 2022, respectively, half of which will be paid during the first semester.

23. Domestic arrear clearance is measured as changes in the stock of government arrears to domestic suppliers, excluding debt payments to ENCO as defined in paragraph 14.

24. Ceiling on personnel expenses is the targeted amount of ceiling to measure personnel costs as part of current expenditure of the central government.

USE OF ADJUSTERS

25. The performance criterion on the domestic primary balance will have one adjuster. The floor on the domestic primary balance will be adjusted upward for the shortfall of budgetary grants and downward if the government receives more than projected budget support grants and privatization receipts in 2021 and 2022; the adjustment down will be capped at 26 million new dobras (a little over ¼ percent of 2020 GDP) for the second semester of 2021 and 30 million new dobras for the first semester of 2022.[2] The adjustment upward will be capped at 51 million new dobras in 2021. For program purpose, the projected privatization proceeds are 0 in 2021 and 2022.

26. The performance criteria on net bank financing of the central government and net international reserves of the central bank will be subject to the following adjusters based on deviations calculated cumulatively from end-December 2020 or end-December 2021, as appropriate (MEFP Attachment I, Table 1):

- ***Adjusters on ceilings on changes in net bank financing of the central government (NCG)***: Quarterly differences between actual and projected receipts of budget transfers from the NOA, budget support grants, net external debt service payments, and domestic arrears will be converted to new dobras at the program exchange rate and aggregated from end-December 2020 or end-December 2021, as appropriate, to the test date. The ceilings will be adjusted:
    - (i) downward (upward) by cumulative deviations downward (upward) of actual from projected net external debt service payments (exclude HPIC),
    - (ii) downward (upward) by deviation upward (downward) in budget transfers from the NOA,
    - (iii) downward by deviation upward of budget support grants in excess of 26 and 30 million new dobras in the second semester of 2021 and the first semester of 2022 respectively; upward by deviation downward of budget support grants in excess of at 51 million new dobras.
    - (iv) downward (upward) by deviation upward (downward) of domestic arrears.

The combined application of all adjusters at any test date is capped at the equivalent of US$5 million at the program exchange rate.

- ***Adjusters for the floor on net international reserves (NIR) of the BCSTP***: Quarterly differences between actual and projected receipts of budget transfers from the NOA, budget support grants and loans, net external debt service payments, and domestic arrears in new dobras, will be converted to U.S. dollars at the program exchange rate and aggregated from end-December 2020 or end-December 2021, as appropriate, to the test date. The floor will be adjusted upward (downward):
    - (i) by the cumulative deviation downward (upward) of actual from projected net external debt service payments of the central government;

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

- (ii) by deviations upward (downward) for budget transfers from the NOA;
- (iii) by deviations upward (downward) of budget support grants and loans. Budget support loans in 2020 and 2021 are projected to be 0.

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

DATA REPORTING

27. The following information will be provided to the IMF staff for the purpose of monitoring the program.

1) **Fiscal Data:** The Directorate of Treasury and Directorate of Budget at the MOF will provide the following information to IMF staff, within three weeks after the end of each month or quarter, except for the public investment program (PIP), which will be provided three months after each quarter:

- Monthly data on central government operations for revenues, expenditure, and financing, including detailed description of net earmarked resources (*recursos consignados*), on commitment (*compromisso*) and cash payments (*caixa*);
- Monthly data on net credit to the government by the BCSTP, recorded account by account in a format fully compatible with the monetary accounts of the BCSTP;
- Monthly detailed data on tax and nontax revenues;
- Monthly detailed data on domestically financed capital expenditure on commitment (*compromisso*) and cash payments (*caixa*);
- Monthly data on domestic arrears by type and by creditor;
- Quarterly data on implicit arrears to ENCO on account of fuel retail prices eventually not covering import costs, distribution margins and applicable taxes;
- Quarterly data on EMAE's arrears to ENCO;
- Monthly data on official external program support (non-project);
- Quarterly data on the execution of the public investment program (PIP) by project and sources of financing;
- Quarterly data on the execution of Treasury-funded capital expenditure by project type, amount, timetable of execution, and progress of execution;
- Quarterly data on project grant and loan disbursement (HIPC and non-HIPC);

- Quarterly data on bilateral HIPC debt relief;
- Quarterly information on the latest outstanding petroleum price structures and submission of new pricing structures (within a week of becoming available).
- Quarterly pro-poor expenditure.

2) **Monetary Data:** The BCSTP will provide the IMF staff, within three weeks from the end of each month, the monetary accounts of the BCSTP. Other monetary data will be provided within six weeks after the end of each month for monthly data, within two months after the end of each quarter for quarterly data, and within two months after the end of the year for annual data. The BCSTP will provide the following information to IMF staff:

- Daily data on exchange rates, to be posted on the central bank's website;
- Daily data on interest rates, to be posted on the central bank's website;
- Daily liquidity management table, including base money (in new dobras) and currency in circulation, to be posted on the central bank's website;
- Daily net international reserve position, to be posted on the central bank's website;
- Monthly balance sheet data of BCSTP (in IMF report form 1SR, with requested memorandum items);
- Monthly consolidated balance sheet data of other depository corporations (in IMF report form 2SR);
- Monthly consolidated depository corporations survey (in IMF survey 3SG);
- Monthly monetary aggregates (in IMF report form 5SR);
- Monthly BCSTP and market interest rates (in IMF report form 6SR);
- Monthly NOA flows data;
- Monthly central bank foreign exchange balance (*Orçamento cambial*);
- Quarterly table on bank prudential ratios and financial soundness indicators;
- Quarterly data on the BCSTP's financial position (profit and loss statement, deficit, budget execution, etc.).

3) **External Debt Data:** The Directorate of Treasury at the MOF will provide the IMF staff, within two months after the end of each month the following information:

- Monthly data on amortization and interest on external debt by creditor; paid, scheduled, in arrears, and subject to debt relief or rescheduled;
- Quarterly data on disbursements for foreign-financed projects and program support loans;
- Annual data on future borrowing plans.

4) **National Accounts and Trade Statistics:** The following data will be provided to the IMF staff:

- Monthly consumer price index data provided by the National Institute of Statistics within one month after the end of each month;
- Monthly data on imports (value of imports, import taxes collected, and arrears) and commodity export values, provided by the Customs Directorate at the MOF, within two months after the end of each month;
- Monthly data on petroleum shipments and consumption (volumes and c.i.f. prices, by product), provided by the Customs Directorate.

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

March 14, 2022

STAFF REPORT FOR 2022 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVERS FOR NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

Prepared By | The African Department (in consultation with other Departments)

CONTENTS

RELATIONS WITH THE FUND

(As of January 31, 2022)

Membership Status

Joined: September 30, 1977; Article XIV

General Resources Account:	**SDR Million**	**% Quota**
Quota	14.80	100.00
Fund holdings of currency	14.80	100.02
Reserve tranche position	0.00	0.00

SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	21.28	100.00
Holdings	0.79	3.72

Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
RCF Loans	9.03	61.00
ECF Arrangements	12.94	87.43

Latest Financial Commitments:

Arrangements

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
ECF	10/02/2019	02/01/2023	14.80	9.09
ECF	07/13/2015	12/31/2018	4.44	3.81
ECF	07/20/2012	07/13/2015	2.59	1.11

Outright Loans :

Type	**Date of Commitment**	**Date Drawn/Expired**	**Amount approved (SDR Million)**	**Amount Drawn (SDR Million)**
RCF	04/21/2020	04/23/2020	9.03	9.03

1/ Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date of commitment, i.e. Board approval date.

Overdue Obligations and Projected Payments to Fund[1]

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

	Forthcoming				
	2022	2023	2024	2025	2026
Principal	0.50	0.75	0.76	2.04	3.62

Charges/Interest	0.02	0.02	0.02	0.02	0.02
Total	0.52	0.76	0.78	2.06	3.64

1/ 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)[1]	124.30
Of which: 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[2]	0.04
Total disbursements	0.87

1/ 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.

2/ 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)[1]	1.43
Financed by: MDRI Trust	1.05
Remaining HIPC resources	0.38

Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGT**	**Total**
December 2007	N/A	0.38	0.38

March 2007	N/A	1.05	1.05

[1/] 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.

Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR Million)
N/A	04/13/2020	0.11	0.11
N/A	10/02/2020	0.17	0.17
N/A	04/01/2021	0.17	0.17
N/A	10/06/2021	0.14	0.14
N/A	12/15/2021	0.10	0.10

Safeguards Assessments:

Safeguards assessments were conducted in 2009, 2013, and 2015. Severe capacity constraints continue to contribute to a weak safeguards framework at the BCSTP exacerbated by challenges faced in implementing recommendations due to the COVID-19 pandemic. However, progress is gradually being made. The draft of the new BCSTP Law (Organic Law), which improves autonomy, governance provisions, and independent oversight of BCSTP, was finalized and sent to the government at end-January 2022, and is expected to be submitted to Parliament by end-February 2022 (new prior action). Implementation of the International Financial Reporting Standards (IFRS) was delayed during the pandemic as technical assistance from Banco Central do Brazil had lapsed. As a result, the authorities requested Fund TA in December 2021, which is planned to commence in Q2 2022. An external audit of the 2020 BCSTP financial statements began in January 2022 and is expected to be finalized by end-April 2022. In addition, an MOU on legacy government debt was sent by the BSCTP to the Ministry of Finance in January 2022 and the authorities expect to reach agreement on it by end-April 2022. The authorities have also prepared a plan to enhance the BCSTP's capacity for internal audit and implementation is planned to begin in March 2022. A manual on investment policy to manage foreign reserves operations was updated and shared with the IMF in end-2021 and the withdrawal of damaged bank notes from circulation which has been delayed is currently planned for Q1 2022. Notwithstanding, further effort is required to strengthen safeguards at the BCSTP.

Exchange Arrangements:

The de jure and de facto exchange rate arrangement is a conventional peg against the euro. São Tomé and Príncipe has pegged the dobra to the euro since January 2010, initially at a rate of dobra 24,500 per euro; however, it redenominated the currency by removing three zeros in January 2018. The organic law of the BCSTP authorizes it to make decisions regarding exchange rate policy.

The commission on foreign exchange sales by banks cannot be higher than 2 percent for the euro, while the spread for other currencies cannot exceed 4 percent. Purchases of euro by banks must be done at the rate published by the BCSTP and no commissions are allowed. The BCSTP finances current international transactions at the official exchange rate and only after verification of the documentation establishing the bona fide nature of the bank's request. Access to foreign exchange is limited to banks having a net open position in the transaction currency of less than 12 percent of qualified capital, a net open position in total foreign currency less than 25 percent of qualified capital, and which are in compliance with the solvency and liquidity ratios set by the central bank, as well as minimum capital requirement. Banks are allowed to have a direct access to the central bank's facilities regardless of the above conditions if the foreign exchange is to be used for importation of goods in periods of crisis or for the importation of fuel. The central bank charges 1.5 percent commission on sales of euro and a 0.5 percent commission on purchases of euro. The buying rate is mainly indicative because the BCSTP rarely makes purchases.

São Tomé and Príncipe continues to avail itself of the transitional arrangements under Article XIV, but it does not maintain restrictions under Article XIV. However, it maintains restrictions subject to Fund approval under Article VIII. One exchange restriction regarding limitations on the transferability of net income from investment arises from Article 3(g) and Article 18 of the Investment Code (Law No. 19/2016). This restriction results from the requirement that taxes and other obligations to the government have to be paid/fulfilled 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. The second exchange restriction arises from limitations on the availability of foreign exchange through rationing of foreign exchange by BCSTP. This exchange restriction also gives rise to a multiple currency practice as the rationing has channeled bona fide current transactions to the parallel market where the exchange rate is at a spread of more than 2 percent from the exchange rate in the formal market.

Article IV Consultation:

São Tomé and Príncipe is currently under a 24-month consultation cycle. The Executive Board concluded the last Article IV consultation on July 23, 2018.

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

None.

Resident Representative:

A Resident Representative has been selected for São Tomé and Príncipe and is expected to begin working in the country by March 2022. The Fund has not had a Resident Representative office in São Tomé and Príncipe since October 2006.

Technical Assistance 2019–22:

Table 1. Sao Tome and Principe: TA Delivered 2019-2022

Date	
Feb-22	STA remote mission on public sector debt statistics (PSDS)
Nov-21	STA remote mission on government financial statistics (coverage expansion)
Nov-21	FAD remote mission on tax policy and VAT administration reform
Sept-21	STA remote mission on external sector statistics
Aug-21	FAD follow-up on cash flow and TSA implementation
Jul-21	FAD remote mission on PFM (budget preparation)
Jul-21	STA remote mission on real sector national accounts
May 21	LEG remote mission to reform the financial institutions law
Apr-21	FAD remote mission on PFM (improve budget execution & accounting)
Apr-21	FAD remote mission on tax and customs administration (tax debt management)
Apr-21	MCM remote mission to review draft foreign exchange law
Apr-21	STA remote mission on government finance statistics
Mar-21	FAD remote mission on VAT implementation and IT solutions
Dec-20	FAD remote mission on PFM (improve methodological manual on macro-fiscal forecasts)
Dec-20	FAD remote mission on tax policy
Nov-20	AFRITAC remote mission to review & upgrade off-site/on-site supervision
Oct-20	FAD remote mission on VAT
Sept-20	STA remote mission on government finance statistics
Jun-20	FAD remote mission on customs administration
Jun-20	FAD remote mission on PFM (improve methodological manual on macro-fiscal forecasts)
Jun-20	STA remote mission on national accounts statistics
Jun-20	AFRITAC remote mission to draft banking supervision manual
May-20	MCM remote mission on bank rating model & prudential regulation
Feb-20	FAD mission on tax administration
Feb-20	FAD mission on PFM
Feb-20	LEG mission to reform the financial institutions law
Jan-20	FAD mission on PFM (macro-fiscal multi-year planning)
Dec-19	LEG mission on reform of central bank law
Nov-19	FAD mission on PFM (budget execution & controls, management of arrears)
Nov-19	FAD mission on tax administration
Nov-19	FAD mission on tax policy (VAT and excise implementation)
Nov-19	MCM mission to draft a prudential regulation on risk management
Nov-19	STA mission on national accounts statistics
Sept-19	STA mission on government finance statistics
Sept-19	FAD mission on tax and customs administration
Aug-19	MCM mission on monetary operations & debt market development
Aug-19	FAD mission on tax administration

Table 1. Sao Tome and Principe: TA Delivered 2019-2022 (concluded)	
Jul-19	FAD mission on tax and customs administration
May-19	STA mission on government finance statistics
May-19	FAD mission on tax administration
May-19	FAD mission on tax and customs administration
May-19	STA mission on national accounts statistics

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

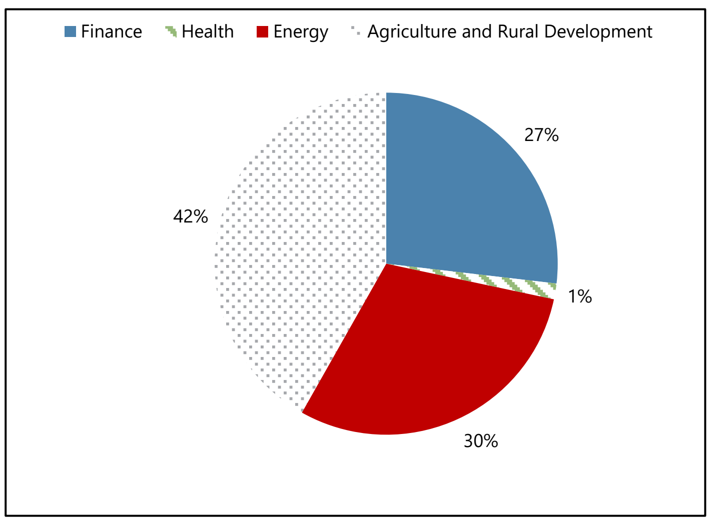
World Bank: https://www.worldbank.org/en/country/saotome

The African Development Bank Group

(As of February 28, 2022)

The African Development Bank Group commenced lending operations in São Tomé and Príncipe in 1978. To date, the Bank approved loans and grants, amounting to a cumulative commitment of over US$200 million.

As of February 2022, the Bank's active portfolio in São Tomé and Príncipe consisted of six operations, amounting to roughly UA 33.52 million (US$46.6 million). The six operations are translated into five projects, being: the Infrastructure Rehabilitation for Food Security Support Project – second phase (PRIASA II); the Energy Transition and Institutional Support Program (ETISP); the Payment System Infrastructure and Financial Inclusion Project; the Zuntámon Lusophone Compact Initiative; and the multinational project "Support to the COVID-19 Pandemic Crisis" (Table 1). The portfolio is relatively young. The average age of the portfolio is 3.4 years, and the cumulative disbursement rate is 40.1 percent after the closure of three operations in 2021 (i.e., COVID-19 Crisis Response Budget Support Program with a disbursement rate of 100 percent; Economic Reform and Power Sector Support Program with a disbursement rate of 100 percent; and Study for the elaboration of the Lan-use Plan of STP with a disbursement rate of 99.4 percent). In terms of sectoral distribution, the agriculture and rural development sector accounts for 42 percent, followed by the energy with 30 percent, finance with 27 percent and social sector with 1 percent. Currently, there is no ongoing private sector operations. The portfolio is largely funded by African Development Fund (92 percent) and complemented by the Global Environmental Fund (GEF) (8 percent). The Bank also conducted analytical work focused in the areas of energy, agriculture, public financial management, and the private sector development strategy 2015–24.



The AfDB current involvement in São Tomé and Príncipe is guided by the Country Strategy Paper (CSP)
2018-2022, approved in June 2018. The strategy is focused on two pillars: Pillar I– Supporting

agricultural value chains development; and Pillar II–Improving the quality of life of the population. The CSP's main objective is to accelerate São Tomé and Príncipe's development and economic transformation with focus on agriculture, power and the financial sector to unlock potentials for value addition and job creation. The current CSP has also gone its Medium-Term Review in July 2021 to assess the relevance of the Bank's intervention in the country. The CSP is anchored on STP 2017-2021 National Development Plan (NDP) and the Long-Term Strategy (Vision 2030) as well as the Bank's Ten-Year Strategy TYS (2013-2022), which places focus on high fives (Feed Africa, Power Africa, Industrialize Africa, Integrate Africa, and Improve the quality of life for the People of Africa).

The Bank support has been focused on putting in place an enabling environment for agri-business and value chains development through investments in agriculture-supporting infrastructure and in key complementary sectors of energy and water infrastructure. Support has also been towards on capacity building of key public-sector institutions for the formulation and effective implementation of macroeconomic and public financial management reforms, with a view to improving the prioritization, allocation and use of public resources.

As part of its strategy and knowledge products, the AfDB also envisages to undertake the following economic and sector work: (i) Private Sector Study; (ii) Fragility Assessment; and (iii) Gender Profile study. These studies will inform the preparation of future programs and provide support to the government's policy reform efforts.

Table 1. Sao Tome and Principe: AfDB Ongoing Projects (Millions of UA)

Description	Approval Date	Completion Date	Net commitments (UA million)	Disbursement Rate (%)	Window
Infrastructure Rehabilitation for Food Security Support Project (PRIASA II)	10/06/2015	12/31/2022	11.50	86.66	ADF loan
			2.52	21.73	GEF grant
Total Agriculture sector			**14.02**	**52.2**	
Energy Transition and Institutional Support Program (ETISP)	03/25/2020	12/24/2024	10.00	0.96	ADF grant
Total Energy sector			**10.00**	**0.96**	
Payment System Infrastructure and Financial Inclusion Project (PISPIF)	03/02/2017	12/31/2022	1.50	31.23	ADF loan
Zuntámon LC Initiative	06/10/2021	05/28/2025	7.50	0.0	ADF grant
Total Finance Sector			**9.00**	**15.62**	
Support to the COVID-19 Pandemic Crisis	06/23/2020	03/31/2022	0.5	100.00	ADF grant
Total Social sector			**0.5**	**100.00**	
Total Portfolio			**33.52**	**40.1**	

STATISTICAL ISSUES

(As of March 4, 2022)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance. Serious financial, human, and technological resource constraints pose challenges to further strengthen the statistical system. Increasing macro-fiscal forecasting capacity remains a priority.
National Accounts: The National Statistics Office (INE) disseminates annual GDP series compiled by the production approach, based on the recommendations of the System of National Accounts 1993, with base year 2008. With the technical assistance of AFRITAC Central, improved estimates for 2008-20 were compiled using the same base year (2008), reconciling the production and expenditure approaches and they are expected to be disseminated in the first half of 2022. Quarterly GDP estimates are currently not compiled.
Consumer Price Statistics: The INE began to disseminate a new Consumer Price Index (CPI) (base: 2014 = 100) from January 2016. With the assistance of AFRISTAT, the product mix was changed, and the weights were updated, using the results of a household expenditure survey (HES) conducted in 2010. Due to financial constraints, the new CPI only covers the capital city. A technical assistance mission in FY2018 reviewed the re-referenced index, performed diagnostics on the entire series, linked the pre- and post-rebased series to produce an analytical series for the IMF database and statistical purposes, and considered INE's plans for further updates to the CPI upon completion of the new HES that is underway with World Bank support.
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. São Tomé and Príncipe joined the AFRITAC Central project in 2017 with plans to develop GFS. Since then, TA missions have taken place each year. AFC assisted the Ministry of Finance to compile GFS for the budgetary central government. In that regard, a series dating back from FY 2014 to 2020 following the GFSM 2014 has been compiled. An assessment of public sector debt statistics was done in early 2022 and a follow-up mission is scheduled during FY2023 to support the authorities improve and expand the coverage of public sector debt data.
Monetary and Financial Statistics: STA missions provided technical assistance on monetary statistics in several rounds, the last one on monetary operations in August 2019. 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 improved significantly. The BCSTP reports monthly data to STA for the central bank and other depository corporations on a regular basis. The BCSTP monthly trial balance sheet is broadly adequate to compile monetary statistics in line with the *Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG).*

The BCSTP reports data on some key indicators of the Financial Access Survey, including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals. While the central bank produces a quarterly Financial Soundness Indicators table, it is not submitted to STA for validation or dissemination. MCM TA missions on banking supervision have helped expand the coverage of the table and improved the data quality.
External Sector Statistics: The BCSTP compiles quarterly balance of payments and international investment position (IIP) statistics consistent with the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*. The balance of payments and IIP series have been converted to the *BPM6* presentation starting 1997-Q1 and 2013-Q4 respectively. Data submission to STA is regular. The BCSTP conducts quarterly surveys to collect balance of payments and IIP data from the private nonfinancial sector and from the oil and gas sector. However, the response rates are low and the net errors and omissions figures are still very large. In this regard, the BCSTP is evaluating the collection of data through different methods until the survey response rate is deemed adequate. The September 2021 remote TA recommended to : (i) reclassified part of National Petroleum account in the BCSTP from "Reserve assets" to "Other investments—deposits of the central bank"; (ii) include all imports of oil-related products handled through the customs warehouse in the balance of trade in goods; (iii) replace the banks' surveys—due to their low response rate, with actual bank balance sheet data for compiling the financial account of the balance of payments and IIP statistics; and (iv) compile and disseminate external debt statistics data to the Quarterly External Debt Statistics managed by the World Bank.
II. Data Standards and Quality
São Tomé and Príncipe is a participant in the Fund's enhanced General Data Dissemination System (eGDDS) and has implemented the National Summary Data Page in December 2019.

São Tomé and Príncipe: Table of Common Indicators Required for Surveillance

(As of March 4, 2022)

	Date of Last Actual Observation	Date Received	Frequency of Data[6]	Frequency of Reporting	Frequency of Publication
Exchange rates	Jan 2022	Feb 2022	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	Feb 2022	Feb 2022	D	D	D
International investment position	Jun 2021	Jan 2022	Q	Q	Q
Reserve/base money	Dec 2021	Jan 2022	D	D	D
Broad money	Dec 2021	Jan 2022	M	M	M
Central bank balance sheet	Dec 2021	Jan 2022	M	M	M
Consolidated balance sheet of the banking system	Dec 2021	Jan 2022	M	M	M
Interest rates[2]	Sep 2021	Feb 2022	M	I	I
Consumer Price Index	Jan 2021	Feb 2022	M	M	M
Revenue, expenditure, balance and composition of financing[3] – general government[4]	Dec 2011	Feb 2022	M	M	M
Revenue, expenditure, balance and composition of financing[3] – central government	Dec 2021	Feb 2022	M	M	M
Stocks of central government and central government-guaranteed debt[5]	Dec 2021	Feb 2022	M	Q	Q
External current account balance	Q3 2021	Jan 2022	Q	Q	Q
Exports and imports of goods	Q3 2021	Jan 2022	Q	Q	Q
GDP/GNP[6]	2021	Feb 2022	A	A	A
Gross external debt	Dec 2021	Feb 2022	Q	Q	Q

[1] Includes reserve asset pledged or otherwise encumbered as well as net derivative positions.

[2] Central bank's reference rate.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); not available (NA).

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

STAFF REPORT FOR 2022 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVERS FOR NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

March 14, 2022

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

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

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

The country remains in debt distress due to prolonged unsettled external arrears of more than 2 percent of GDP. Staff assesses that the country has the capacity to repay the external arrears over time, as indicated by the moderate external debt ratios. While the present value (PV) of the external public and publicly guaranteed (PPG) debt-to-exports ratio breaches its threshold from 2021 to 2023 due to the COVID-19 shock and debt service-to-exports ratio marginally breaches its threshold from 2022 to 2026, all other external PPG debt burden indicators remain below their thresholds throughout the projection horizon in the baseline scenario. The PV of total PPG debt (after accounting for the concessional terms of EMAE (a state-owned utility company) and central government debt and arrears to the country's fuel supplier, ENCO) is projected to breach the benchmark associated with a weak debt-carrying capacity (35 percent of GDP) through 2025. As the downward trajectory of the public debt remains intact, predicated on the authorities' commitment to implement EMAE's planned reforms and borrow externally only on concessional terms at a measured pace, public debt sustainability is preserved but subject to large risks. The likelihood of contingent liabilities

materializing, particularly ENCO's arrears to its parent company Sonangol (a state-owned company of Angola), remains low.

PUBLIC DEBT COVERAGE

1. **For the purpose of the DSA for São Tomé and Príncipe, PPG debt includes central government and EMAE (Empresa de Agua e Electricidade, a state-owned utility company) debt[1,2] , and the public-sector debt coverage is comprehensive albeit not yet complete.** EMAE has been accumulating arrears over the years to its fuel supplier, ENCO (Empresa Nacional de Combustíveis e Óleos), totaling 26 percent of GDP at end-2020. Three state owned enterprises (SOEs) besides EMAE— ENAPORT, ENASA, and *Correios*—are not included in the analysis due to lack of reliable data.[3] The DSA uses the residency-based assumption on debt. The use of the currency criterion would trigger substantial differences in results as EMAE's arrears denominated in USD are classified as domestic debt.[4]

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

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

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

2. **Contingent liabilities are captured in the contingent liability stress test (Text Table 2)**. Additional potential liabilities from the other SOEs are assumed with the default value of 2 percent of GDP. Contingent liabilities from financial markets are also set at their default value of 5 percent of GDP. In addition, the contingent liability stress test includes disputable debt of $30 million owed to Nigeria. The authorities maintain that its repayment was conditional on oil revenues, which have no near-term prospect for materialization. Estimated fines of $12.4 million (2.4 percent of GDP) imposed by the Permanent Court of Arbitration after its ruling on the country's seizure of a Maltese ship in 2013 are also included in the shock. Pre-HIPC arrears are excluded. Finally, for the external DSA, the contingent liability shock also includes assumptions on ENCO's external arrears to

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

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

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

[4] ENCO, majority-owned by an Angolan SOE, is registered domestically.

Sonangol, estimated at $35.5 million (7.4 percent of GDP) for the public DSA and $136 million (28.5 percent of GDP) for the external DSA[5].

Text Table 2. São Tomé and Príncipe: Coverage of the Contingent Liabilities' Stress Test

1	**The country's coverage of public debt**	The central government, central bank, and government-guaranteed debt. There is no debt by social security or borrowing by extra budgetary entities.			
		Default		**Used for the analysis**	**Reasons for deviations from the default settings**
2	**Other elements of the general government not captured in 1.**	0	percent of GDP	16.3 for public; 37.4 for external	Includes the loan from Nigeria (6.3 percent of GDP), which is under dispute and Permanent Court of Arbitration fine (2.6 percent of GDP) for public and external DSAs to be prudent. Includes assumptions of ENCO's arrears to Sonangol in external DSA (28.5 percent of GDP) and in public DSA (7.4 percent of GDP).
3	**SoE's debt (guaranteed and not guaranteed by the government) 1/**	2	percent of GDP	2	
4	**PPP**	35	percent of PPP stock	0	The PPP project is pre-HIPC and is excluded from the DSA analysis.
5	**Financial market (the default value of 5 percent of GDP is the minimum value)**	5	percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)			23.3 percent of GDP for the public DSA and 44.4 percent of GDP for the external DSA.	

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

Sources: IMF and World Bank staff.

[5] ENCO's external arrears to Sonangol is estimated at $205 million. For the stress test of the public DSA, the shock of $35.5 million is based on the government's direct ownership of about 16 percent in ENCO. For the external DSA, the shock of $136 million is the sum of the $35.5 million (described above) and the share of EMAE's debt and arrears to ENCO that would be reclassified as external debt in the extreme scenario where the government buys out ENCO from Sonangol.

BACKGROUND

A. Debt

3. **Total PPG debt reached 87 percent of GDP in 2020, including external debt of 43 percent of GDP (Text Table 3).**[6] Total PPG debt is projected to reach around 96 percent of GDP in 2021, with external debt of 46 percent of GDP. PPG debt includes the arrears of the state-owned utility company, EMAE, to its fuel supplier ENCO, which rose to around $123 million in 2020 (26 percent of GDP or nearly 30 percent of total PPG debt) from $43 million in 2015. The expansion of the electricity distribution network and the associated large losses are key drivers for the rise in PPG debt. The presence of significant arrears of EMAE to its supplier also reflects severe liquidity constraints in the public sector. Staff assesses that São Tomé and Príncipe has the capacity to repay these arrears over time as long as the country implements reforms to the lossmaking state-owned enterprise, EMAE, and continues to borrow externally at concessional terms.

Text Table 3. São Tomé and Príncipe: Decomposition of Public Debt and Debt Service by Creditor, 2020-22[1,2]

	Debt Stock (end of period)			Debt Service					
	2020			2020	2021	2022	2020	2021	2022
	(In US$ mil)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ mil)*			*(Percent GDP)*		
Total	415.7	100.0	87.1	5.1	7.8	12.3	1.1	1.5	2.2
External	205.6	49.5	43.1	2.6	4.6	7.6	0.5	0.9	1.4
Multilateral creditors[4]	76.9	18.5	16.1	1.7	2.8	2.8	0.4	0.5	0.5
IMF	25.5	6.1	5.3						
World Bank	11.5	2.8	2.4						
ADB/AfDB/IADB	18.7	4.5	3.9						
Other Multilaterals	21.3	5.1	4.5						
o/w: Arab Bank for Economic Development in Africa	12.4	3.0	2.6						
o/w : International Fund for Agricultural Development	5.2	1.3	1.1						
Bilateral Creditors	118.7	28.6	24.9	0.8	1.8	4.8	0.2	0.3	0.9
Paris Club	0.8	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Belgium	0.8	0.2	0.2						
Non-Paris Club	117.9	28.4	24.7	0.8	1.8	4.8	0.2	0.3	0.9
o/w: Angola	52.7	12.7	11.0						
o/w: Portugal	61.2	14.7	12.8						
o/w: Nigeria[3]	0.0	0.0	0.0						
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	10.0	2.4	2.1	0.0	0.0	0.0	0.0	0.0	0.0
o/w: China	10.0	2.4	2.1						
o/w: Italy [7]	0.0	0.0	0.0						
Domestic	210.1	50.5	44.0	2.5	3.2	4.7	0.5	0.7	1.0
Held by residents, total	NA	NA	NA						
Held by non-residents, total	NA	NA	NA						
T-Bills	27.6	6.6	5.8						
Bonds	0.0	0.0	0.0						
Loans	182.5	43.9	38.2						
Memo items:									
Collateralized debt[5]	0.0	0.0	0.0						
o/w: Related	0.0	0.0	0.0						
o/w: Unrelated	0.0	0.0	0.0						
Contingent liabilities [8]	61.6	14.8	12.9						
o/w: Public guarantees	0.0	0.0	0.0						
o/w: Other explicit contingent liabilities[6]	0.0	0.0	0.0						
Nominal GDP	477.3			477.3	524.0	556.7			

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.
2/Some public debt is not shown in the table due to [confidentiality clauses/capacity constraints].(Include for all creditor groups where applicable)
3/ Individual creditors accounting for more than 5 percent of total debt. The debt with Nigerian is disputable so it is not included in the DSA.
4/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)
5/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.
6/ Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).
7/ Commercial loans with Italy are classified as technical external arrears and excluded in the DSA.
8/ As defined in the contingent liabilities stress test, contingent liabilities are estimated at 12.9 percent of GDP for public DSA and 55.7 for external DSA.

[6] Due to the broadened debt coverage discussed above, the "central government direct and guaranteed debt" in this DSA has the same coverage as the "total PPG debt" in the previous DSA. Consistent with the new DSF framework, the term "total PPG debt" refers to the coverage that includes the central government and EMAE (the government's arrears to EMAE are excluded during the consolidation)

4. **The country continues to engage actively with bilateral creditors to regularize post-HIPC arrears, with the amount remaining unchanged.** In total, such arrears stood at 2.2 percent of 2020 GDP (US$10.7 million), which are to Angola (US$4.8 million), Brazil (US$4.3 million), and Equatorial Guinea (US$1.7 million). An agreement with the Brazilian government was reached, pending ratification by the Brazilian Senate. The government has also actively sought debt rescheduling agreements with Angola and Equatorial Guinea through correspondence and high-level meetings and reached good progress with technical steps completed, pending the final signed agreements. These post-HIPC arrears are reflected in the debt stock. Text Table 4 provide details on the situation of arrears.

Text Table 4. São Tomé and Príncipe: Arrears and Disputable Debt
(As of End-2020)

Type	Description	DSA Treatment
Pre-HIPC legacy arrears (12.6 percent of GDP)	São Tomé and Príncipe has pre-HIPC legacy arrears to Angola (US$36 million[1/]) and Italy (US$24.3 million), in total US$60.3 million. São Tomé and Príncipe is making best efforts to reach an agreement consistent with the representative Paris Club agreement. In 2017 São Tomé and Príncipe was able to secure relief from pre-HIPC legacy arrears to China of US$18.4 million.	Not included in the DSA on the assumption of expected forgiveness.
Post-HIPC bilateral arrears (2.2 percent of GDP)	São Tomé and Príncipe has post-HIPC arrears to Angola (US$4.8 million), Brazil (US$4.3 million), and Equatorial Guinea (US$1.7 million), in total $10.7 million. The negotiations with Angola and Equatorial Guinea are progressing well with technical steps completed, pending the final signed agreements. An agreement with the Brazilian government was reached, pending ratification by the Brazilian Senate. These arrears are the result of weak debt management, and staff assesses that São Tomé and Príncipe has the capacity to repay them over time.	Included in the baseline scenario at end-2020.
Domestic arrears[2/] (15.8 percent of GDP)	São Tomé and Príncipe has domestic arrears to the telecom company CST (US$6.1 million), EMPRESAS (US$7 million), fuel price differentials (US$31.8 million), and other private suppliers (US$30.5 million, mostly construction companies). In total, the domestic arrears amount to US$75.4 million.	Included in the baseline scenario.
Disputable debt (6.3 percent of GDP)	A loan from Nigeria in the amount of US$30 million was excluded from the debt stock, as there is no signed contract with repayment conditions between the two countries. Nonetheless, the authorities acknowledged the receipt of the funds, which were spent as evidenced by budget documents. This loan was extended as advances on oil revenues in the context of the joint development zone between these two countries, but this project has stalled. According to São Tomé and Príncipe authorities, this loan is under dispute since it should only be repaid in case revenues from oil materialize.	Included in the contingent liability stress tests for both the public DSA and external DSA.

[1/]The amount increased from US$30.6 million to US$36 million in 2019, reflecting the fact to include Angola Arrears Commercial Debt in the amount of Arrears debts to Angola from the month of October 2019, after the reconciliation meeting held in May 2019.

[2/]The domestic arrears in Text Table 4 DSA reflect the latest actual data compilations by the authorities for 2019 and 2020, updating previous staff projections. Based on the latest compilations from the authorities, the stock of domestic arrears was US$88.3 million in 2019 and declined to US$75.4 million in 2020, which also contributed to the decline in debt levels in 2020.

B. Macroeconomic Forecast

5. The macroeconomic assumptions are updated, relative to the September 2021 DSA.

- **Growth and inflation:** The 3 percent GDP growth rate in 2020 was supported by externally financed public spending, despite the negative impacts of the pandemic. Transfers to vulnerable households and businesses provided relief to the service sector which made surprisingly positive contribution to growth. Similarly, expansion of externally financed public spending, including on education and health boosted construction growth. The improvement in current account in 2020 was mainly due to lower imports and higher official transfers. Major externally financed projects in 2020 include Drinking Water Supply Project, Project of Infraction Support to Food Industry, Project of Study of the National Land Use Plan, Payment and Inclusion System Infrastructure Financing Project, and Project to Support Marketing, Agricultural Productivity and Nutrition. The projections assume that the residual of financing needs will be filled with short-term locally issued debt, while the actual domestic financing needs are significantly lower with the concessional terms of the EMAE debt and arrears to ENCO. The public and external debt levels improved in 2020 compared to 2019, mainly due to higher growth outturn. The real GDP growth is projected to decline to 1.8 percent in 2021 as a result of power shortages, the pandemic, and lower external financing, which would contribute to the slight increase in debt levels in 2021. Average real growth stays at 3.7 percent throughout the 2021-41 projection horizon (Text Table 5). Inflation (GDP deflator) was 5.6 percent in 2020 and is projected to decline to 3.1 percent in 2021. Inflation rates are forecasted to decline to an average of 2.8 percent throughout the 2021-41 projection horizon.

- **External:** Exports are expected to accelerate over the medium term, as the tourism strategy is being implemented with World Bank support, and the sector boosted gradually by improvement of infrastructure, a new international payment system (currently expected to be completed in about three years), and a new tourism school. Cocoa and palm oil exports are expected to contribute also to the export growth given the high quality of this product in STP, and the positive effects of the recovery of the direct exports to Europe.

- **Fiscal:** The domestic primary budget deficit improved to 0.6 percent of GDP through the projection horizon, lower than the average of 1.3 percent of GDP of the previous DSA. The authorities aim to achieve a domestic primary surplus by 2025. Medium-term fiscal consolidation would be supported by the introduction of the VAT at a 15 percent rate with minimum exemptions in 2022, strengthening of revenue administration, management of the impact of rapidly rising world prices on revenues and implicit subsidies, implementation of PFM reforms, and strengthening of fiscal transparency and governance. In line with the IMF Extended Credit Facility arrangement, it is assumed that the budget deficit will be mainly financed by grants and concessional loans. In addition, the current account will also be financed by FDI. The economy is expected to recover with the implementation of long- delayed construction projects and a recovery in tourism and global demand of commodities.

Text Table 5. São Tomé and Príncipe: Macroeconomic Assumptions

	Historical		Forecasts	
	Sep 2021 DSA	Last 4 years	Sep 2021 DSA[1]	This DSA
	2017-20	2017-20	2021-41	2021-41
Real GDP growth (percent)	3.0	3.0	3.8	3.7
Inflation (percent average)	4.3	4.3	2.6	2.8
Domestic primary balance (percent of GDP)	-4.7	-4.6	-1.3	-0.6
Grants (percent of GDP)	8.7	8.9	4.6	7.2
FDI (percent of GDP)	6.2	6.6	4.9	5.4
USD export growth (percent)	-11.3	-11.9	9.0	8.5
USD import growth (percent)	-1.5	-1.7	5.2	5.7
Current account balance, including grants (percent of GDP)	-12.9	-12.0	-4.3	-5.9
Current account balance, excluding grants (percent of GDP)	-21.9	-21.1	-9.6	-13.2

1 IMF Country Report No. 2021/202

6. **The realism tool outputs compared the projections to cross-country experiences and to São Tomé and Príncipe's own historical experience (Figures 3 and 4).** Drivers of debt dynamics suggest some changes in the decomposition of debt-creating flows. The decomposition of debt-creating flows indicates that the projected contribution of the current account deficit will have a lower impact on external debt accumulation as a result of projected improvements on current account deficits over the medium term with the recovery of tourism sector. While lower growth and lower impact of price and exchange rate will contribute to slower debt reduction compared to historical drivers. For the total public debt, lower primary deficits than in the past will be key drivers of public debt dynamics. The worsening in the primary balance over the next 3-years is in the bottom quartile of the distribution, reflecting the unwinding of temporary external support which supported the fiscal surplus in 2020. The projected scaling-up of public investment is expected to yield a growth dividend in line with historical factors. This will be supported by the authorities' intentions to improve public investment management and enact reforms which will allow for additional domestic financing.

C. Country Classification and Determination of Scenario Stress Tests

7. **The country's debt carrying capacity is assessed to remain weak under the Composite Index, as in the Sep 2021 DSA of the Third Review of ECF**. The new Composite Index (CI) of debt carrying capacity reflects macroeconomic variables, such as real GDP growth, remittances, reserves, and world growth, in addition to CPIA. The CI is 2.673, reflecting to a weak debt carrying capacity, and is estimated based on the October 2021 WEO and 2020 WB's CPIA (Text Table 6). This along with other revisions to the framework confirms São Tomé and Príncipe as a weak debt-carrying capacity country. The applicable thresholds for the ratios of PV of PPG external debt relative to GDP and exports are 30 percent and 140 percent. The benchmark for the PV of total PPG debt is to 35 percent of GDP. The thresholds for PPG external debt service are 10 percent of exports and 14 percent of revenue.

Text Table 6. São Tomé and Príncipe: Classification of Debt Carrying Capacity

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Weak	Weak	Weak	Weak
	2.673	2.663	2.678

8. **The DSA incorporates the costs and risks of natural disasters in the tailored natural disaster stress test.** São Tomé and Príncipe is vulnerable to natural disasters that are influenced by climatic factors. Floods frequently affect this island nation with heavy rainfall events and storms, which could cause soil erosion, landslides, increase the risk of waterborne diseases, and decrease crop production. The tailored stress test assumes a one-off natural disaster shock of 10 percent of GDP to external PPG debt-GDP ratio in the second year of the projection period, with associated real GDP growth shock of 1.5 percent of GDP and associated exports growth shock of 3.5 percent of GDP. The results of our analysis indicate that, by the end of 2026, a natural disaster shock may increase PV of public debt-to-GDP ratio from 57 percent of GDP under the baseline scenario to 65 percent of GDP under the stress-test scenario, and PV of external debt-to-GDP ratio will increase from 21 percent of GDP under the baseline scenario to 26 percent of GDP under the stress-test scenario.

DEBT SUSTAINABILITY

A. External Debt Sustainability

9. **Despite in the debt distress rating, the DSA indicates that total external PPG debt is sustainable under the program baseline scenario.** Under the baseline scenario[7], the external PPG debt stock and debt service ratios remain below the DSA threshold values throughout the projection horizon, except for some temporary breaches (Figure 1). The PV of PPG external debt-to-GDP ratio remains below the threshold of 30 percent throughout the period, and the PV of PPG external debt-to-exports ratio remains below the threshold of 140 percent of GDP from 2024 onward. The improvement of the solvency indicators over the medium term reflects fiscal consolidation, cautious external borrowing, economic growth, and an improved current account balance. The liquidity indicators remain below their threshold values of 10 and 14 percent for the debt service-to-exports and debt service-to-revenue ratios respectively, except temporary breaches of the debt service-to-exports ratio related to the projected IMF and deferred DSSI repayments from 2022 to 2026. Like the solvency indicators, the liquidity ratios also improve over time reflecting higher exports and revenues. These results suggest that the external PPG debt is sustainable. While risks of external debt are considerable as the baseline scenario for external debt is dangerously close to thresholds under the indicators of external debt to exports ratio and external debt service to exports ratio, and

[7] The debt projections reflect the updated assumption that part of the future disbursements of annual IDA allocations are assumed to be under credit terms (with interest rate of 0.75 percent for small economy) instead of grant terms.

baseline scenarios diverge considerably from historical scenarios, as historical scenarios suggesting an upward trend of debt path without fiscal consolidation and energy reforms.

10. While the baseline scenario is sustainable, stress tests suggest the vulnerability of external debt in the presence of extreme shocks. The solvency indicators breach their threshold values under the most extreme shock scenario. One of the most extreme shock scenarios is the combined contingent liability shock (for external debt-to-GDP ratio). This shock scenario includes the potential repayment of the Nigeria loan (US$30 million), payment of Permanent Court of Arbitration fine (US$12.4 million), and ENCO's arrears to Sonangol (US$136 million) which may ultimately fall on the government, as well as the standard assumption of a financial market bailout. As Text Table 2 indicates, ENCO's external arrears to Sonangol represent the primary contingent liability in this extreme shock scenario.[8] These results highlight the importance of developing plans for contingent liabilities and arrears. The most extreme shock for debt service-to-revenue ratio is a one-time depreciation shock. The most extreme shock for debt-to-exports ratio and for debt service-to-exports ratio is an exports shock and, which also suggests the importance of promoting strong export growth. The PV of debt-to-exports ratio and the debt service-to-exports ratio breach their respective thresholds throughout all of the projection horizon but decline over time under the exports shock scenario.

B. Public Debt Sustainability

11. Total PPG debt can be deemed sustainable under the baseline scenario. Under the baseline, the PV of PPG debt is projected to have a downward trajectory, while the levels breach the DSA benchmark of 35 percent throughout the period. After accounting for the concessional terms of EMAE's and central government's debt to ENCO governed by a 2019 repayment agreement[9] (with fixed annual payments, no interest and a grant element over 80 percent), the PV of PPG debt is projected to breach the DSA threshold of 35 percent through 2025 before gradually declining to around 19 percent of GDP by 2031 (Figure 2). As its downward trajectory remains intact, predicated on the authorities' commitment to continue its fiscal consolidation, implement EMAE's planned reforms[10], and borrow externally only on concessional terms at a measured pace, public debt sustainability is preserved but now subject to large risks. In this regard, it would be important to develop an active plan to gradually strengthen São Tomé and Príncipe's debt-carrying capacity against a very uncertain global economic backdrop and preserve debt sustainability. Should downside risks materialize and lead to a further deterioration of the debt situation (compared to

[8] The size of the Sonangol shock (US$136 million) is calibrated to capture the maximum amount of liabilities that would be assumed by the government should the contingency materialize. The payment terms are assumed to have a grant element of about 37 percent, broadly consistent with the concessionality of PPG external debt.

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

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

staff's baseline), additional fiscal efforts and an improved financing mix (geared toward more grants and highly concessional borrowing) would be needed to safeguard debt sustainability.

12. Two total PPG debt ratios (PV of debt-to-GDP, PV of debt-to-revenue) and debt service-to-revenue ratio are sensitive to a combined contingent liabilities shock. Under such shocks, the three ratios would rise in the near term before declining gradually in the medium-to-long term. The dotted purple line in Figure 2 shows the shock scenario applied to the debt path after accounting for the concessional terms of EMAE's and central government's debt to ENCO, which the debt level will also rise to above the benchmark under the most extreme shock scenario which is the non-debt creating flows shock. In addition, given that EMAE's arrears to ENCO are denominated in foreign currency, the country's debt is subject to currency risk, even though such arrears are treated as domestic debt under the residency-based definition.

DEBT DISTRESS QUALIFICATION AND CONCLUSIONS

13. São Tomé and Príncipe's remains to be in debt distress as in the previous DSA. This is because the regularization of São Tomé and Príncipe's post-HIPC sovereign arrears (to Angola, Brazil, and Equatorial Guinea, totaling around 2.2 percent of GDP) is still ongoing. The significant arrears of EMAE to its supplier also reflect the severe liquidity constraints of the public sector. Staff assesses that São Tomé and Príncipe has the capacity to repay these arrears over time. São Tomé and Príncipe continues to actively seek rescheduling agreements with the creditors.

14. Despite the weak debt-carrying capacity and the in-debt distress rating, PPG external and total debt remain sustainable. The weak debt carrying capacity implies that lower debt burden indicator thresholds and some temporary threshold breaches of external and total PPG debt are observed. The PV of external debt-to-GDP remains below its thresholds from 2021 through the projection horizon, and the PV of discounted PPG debt-to-GDP declines to below its threshold from 2025 through the projection horizon.

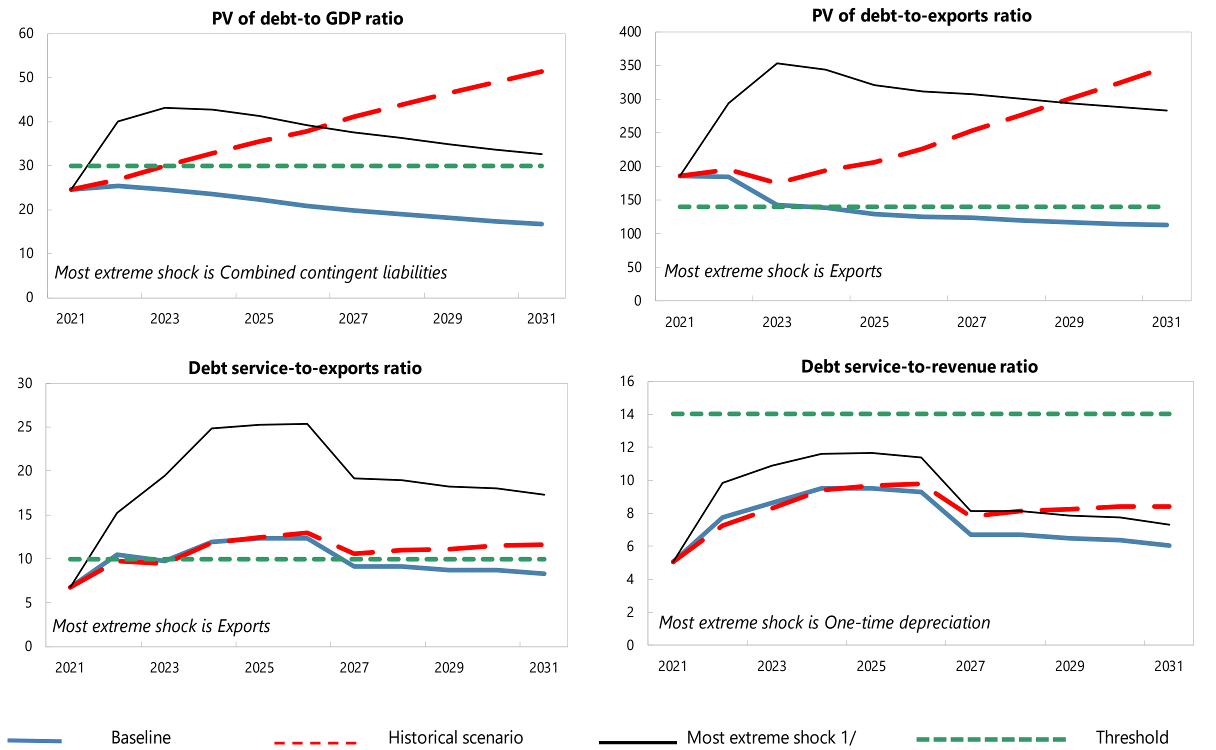
15. Risks around the baseline are substantial. In particular, stress tests indicate that the country's debt is especially vulnerable to shocks to exports and combined contingent liabilities. A particular stress test based on an extreme scenario where the government needs to buy out ENCO and be responsible for ENCO's significant external arrears to Sonangol reveals that the associated risks could be high if the extreme scenario materializes. However, key external debt ratios are expected to recover to below their thresholds in the medium term and the likelihood of materialization of the extreme scenario remains low due to the strong diplomatic ties between São Tomé and Príncipe and Angola.

16. Overall, the DSA highlights the importance of continuing fiscal reforms and maintaining strong policies in order to reduce debt-related risks and ensure debt sustainability. To mitigate fiscal risks, the country needs to continue with policies including deepening and prioritizing EMAE reforms (such as systematized least cost electricity planning, which supports clean transition by increasing renewable energy sources, a reform supported by the World Bank budget operation), continuing fiscal consolidation and revenue mobilization, eschewing non-concessional loans, improving the business climate to attract non-debt flows, strengthening macroeconomic policies as envisaged under the program to support the exchange rate peg, and promoting tourism and private sector-led growth. It is also important to continue reforms on strengthening public financial management systems and avoiding the accumulation of new domestic arrears, including measures such as improving macro-fiscal framework projections, strengthening cash management coordination mechanism and expenditure control, preventing the accumulation of arrears and updating the arrears clearance plan to cover all domestic arrears. In addition, contracting new concessional loans and external debt disbursements need to be carefully planned to balance debt sustainability concerns while addressing the country's large investment needs. Contracting of new concessional loans should be limited to 3 percent of GDP, and external debt disbursements should not exceed 2 percent of GDP per annum. These parameters can be adjusted according to debt developments and relaxed as debt vulnerability decreases. In this context, the country should strive to finance large projects with non-debt generating means, including by grants.

Authorities' Views

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

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



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

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

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	9	9

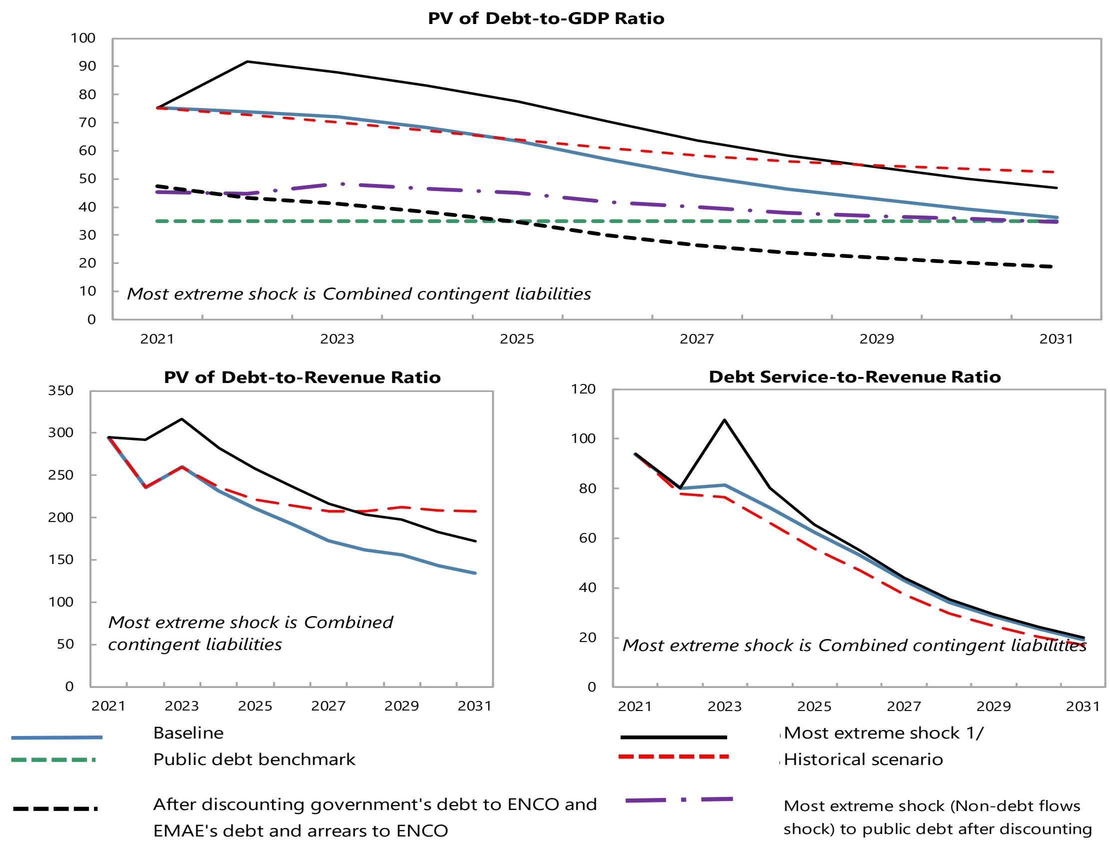
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

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

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

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

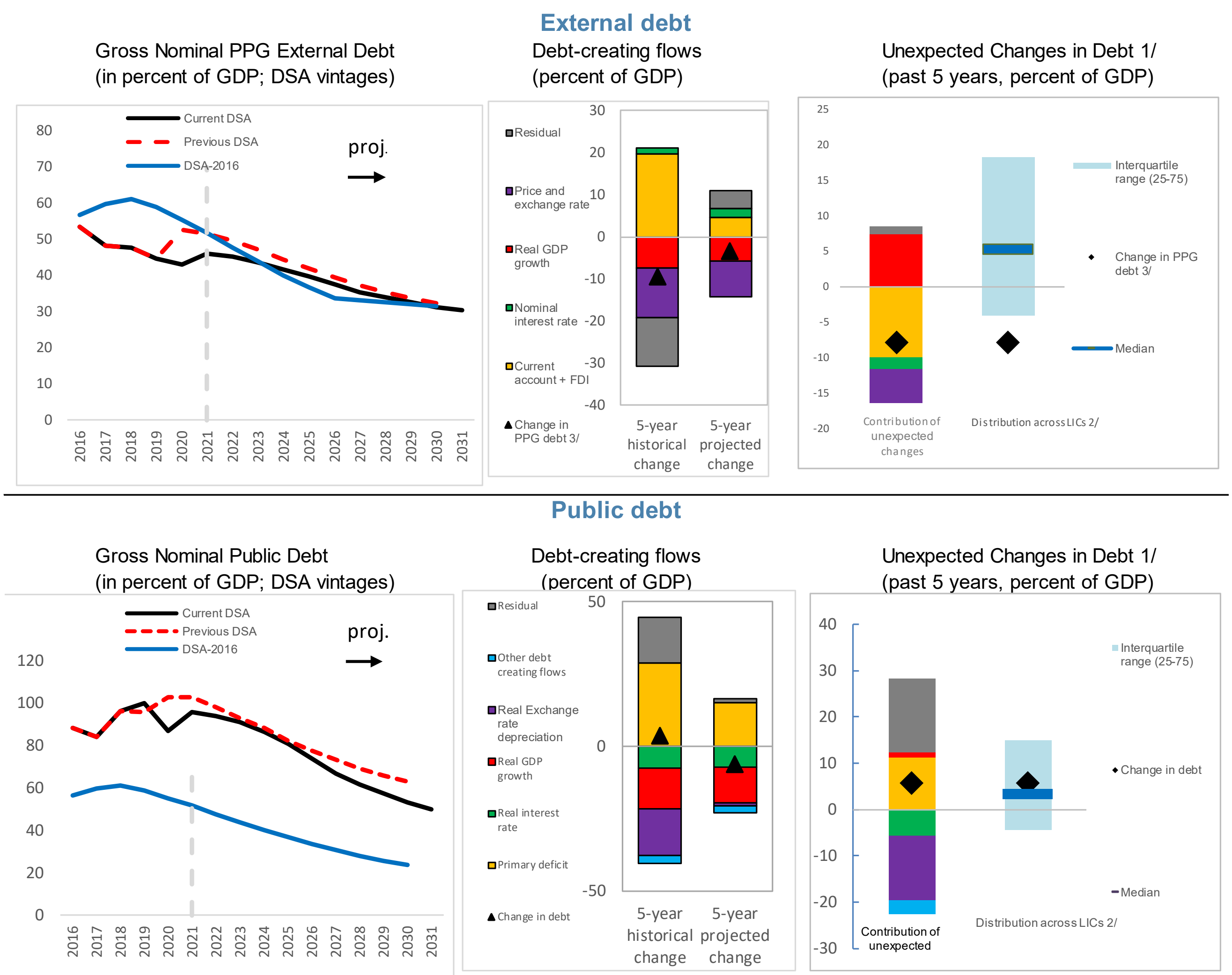


Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	24%	60%
Domestic medium and long-term	9%	9%
Domestic short-term	109%	31%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	9	9
Domestic MLT debt		
Avg. real interest rate on new borrowing	-3.3%	-3.3%
Avg. maturity (incl. grace period)	100	100
Avg. grace period	99	99
Domestic short-term debt		
Avg. real interest rate	-1.0%	-1.0%

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

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

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



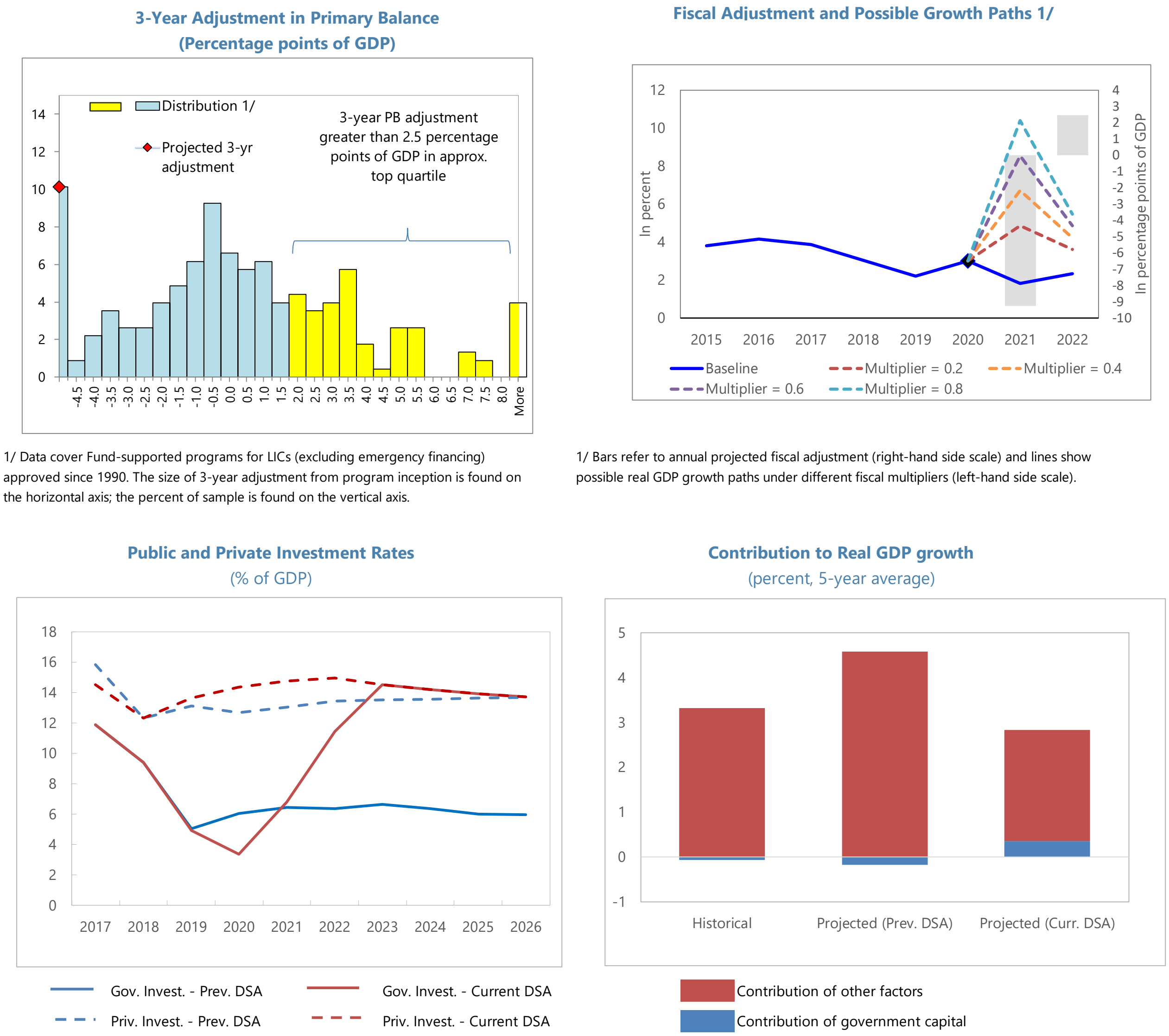
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

Sources: Country authorities; and staff estimates and projections.

Figure 4. São Tomé and Príncipe: Realism Tools



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

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

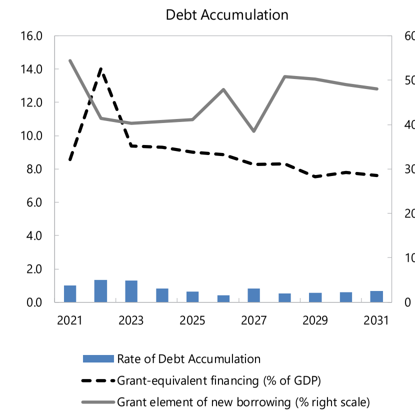
Sources: Country authorities; and staff estimates and projections.

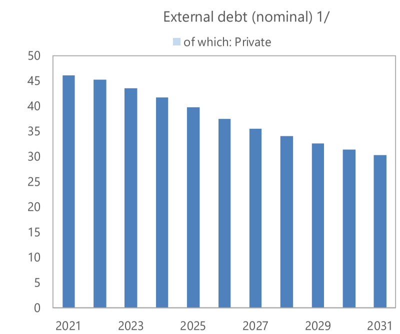
Table 1. São Tomé and Príncipe: External Debt Sustainability Framework, Baseline Scenario, 2019-2041

(In percent of GDP, unless otherwise indicated)

	Actual		Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	44.7	43.1	46.0	45.2	43.4	41.6	39.7	37.4	30.3	29.0	43.7	37.9
of which: public and publicly guaranteed (PPG)	44.7	43.1	46.0	45.2	43.4	41.6	39.7	37.4	30.3	29.0	43.7	37.9
Change in external debt	-2.9	-1.7	2.9	-0.8	-1.7	-1.8	-2.0	-2.2	-1.1	0.2		
Identified net debt-creating flows	3.5	-1.0	1.7	1.6	-0.3	-1.0	-1.1	-1.0	-1.6	0.3	4.9	-0.9
Non-interest current account deficit	11.6	10.0	9.4	9.5	7.0	6.1	5.8	5.6	4.6	4.9	14.8	6.0
Deficit in balance of goods and services	22.0	-10.3	21.2	26.6	19.8	19.3	18.4	17.7	15.4	14.6	29.3	18.3
Exports	22.3	10.3	13.2	13.7	17.2	16.9	17.2	16.7	14.8	13.2		
Imports	44.3	...	34.4	40.3	36.9	36.2	35.6	34.3	30.2	27.7		
Net current transfers (negative = inflow)	-10.2	-13.8	-10.5	-15.7	-11.3	-11.5	-11.2	-10.9	-9.9	-9.1	-17.6	-11.1
of which: official	-6.4	-10.5	-7.8	-12.9	-8.2	-8.2	-7.9	-7.6	-6.7	-6.0		
Other current account flows (negative = net inflow)	-0.2	34.2	-1.3	-1.4	-1.5	-1.6	-1.4	-1.2	-0.9	-0.6	3.1	-1.2
Net FDI (negative = inflow)		-6.8	-7.2	-7.1	-6.7	-6.3	-5.9	-5.6	-5.3	-3.9	-6.8	-6.0
Endogenous debt dynamics 2/	-1.1	-4.2	-0.5	-0.7	-0.6	-0.9	-0.9	-1.0	-0.8	-0.7		
Contribution from nominal interest rate	0.6	0.2	0.2	0.4	0.5	0.5	0.5	0.4	0.3	0.4		
Contribution from real GDP growth	-1.0	-1.2	-0.7	-1.0	-1.2	-1.4	-1.4	-1.4	-1.1	-1.1		
Contribution from price and exchange rate changes	-0.6	-3.2	...	...	...	...	...	...	...	...		
Residual 3/	-6.4	-0.7	1.2	-2.5	-1.4	-0.8	-0.9	-1.3	0.5	0.0	-4.5	-0.3
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators												
PV of PPG external debt-to-GDP ratio	...	25.7	24.5	25.3	24.5	23.5	22.3	20.8	16.7	16.3		
PV of PPG external debt-to-exports ratio	...	248.5	185.5	184.4	143.0	138.8	129.5	125.1	112.8	123.7		
PPG debt service-to-exports ratio	4.5	5.2	6.8	10.4	9.8	12.0	12.3	12.3	8.3	6.7		
PPG debt service-to-revenue ratio	5.6	2.9	5.0	7.8	8.6	9.5	9.5	9.3	6.0	4.8		
Gross external financing need (Million of U.S. dollars)	24.2	17.9	16.1	19.9	11.4	11.8	13.3	15.5	5.3	36.6		
Key macroeconomic assumptions												
Real GDP growth (in percent)	2.2	3.0	1.8	2.3	2.8	3.5	3.7	4.0	3.9	4.1	3.9	3.5
GDP deflator in US dollar terms (change in percent)	1.4	7.6	6.9	-0.2	5.6	4.2	4.2	5.0	3.7	1.9	5.4	4.1
Effective interest rate (percent) 4/	1.2	0.5	0.6	0.8	1.3	1.3	1.4	1.1	1.1	1.3	0.8	1.1
Growth of exports of G&S (US dollar terms, in percent)	-1.9	-48.7	39.3	6.0	35.6	6.5	10.0	5.4	5.5	0.0	12.2	11.9
Growth of imports of G&S (US dollar terms, in percent)	-5.3	-11.4	5.9	19.7	-0.6	5.7	6.3	5.2	5.8	0.0	4.6	6.2
Grant element of new public sector borrowing (in percent)	...	...	54.4	41.4	40.2	40.7	41.2	47.9	48.0	34.5	...	45.7
Government revenues (excluding grants, in percent of GDP)	18.0	18.3	17.8	18.5	19.5	21.3	22.2	22.1	20.4	18.3	17.2	20.6
Aid flows (in Million of US dollars) 5/	33.8	89.1	50.6	76.8	50.9	54.8	57.4	65.5	82.7	115.3		
Grant-equivalent financing (in percent of GDP) 6/	...	...	8.6	14.0	9.4	9.3	9.0	8.9	7.6	6.6	...	9.0
Grant-equivalent financing (in percent of external financing) 6/	...	...	92.9	90.2	84.5	84.9	84.8	86.4	88.0	84.3	...	87.6
Nominal GDP (Million of US dollars)	431	477	520	531	576	621	672	733	1,078	1,930		
Nominal dollar GDP growth	3.6	10.8	8.9	2.2	8.5	7.8	8.1	9.1	7.8	6.1	9.5	7.7
Memorandum items:												
PV of external debt 7/	...	25.7	24.5	25.3	24.5	23.5	22.3	20.8	16.7	16.3		
In percent of exports	...	248.5	185.5	184.4	143.0	138.8	129.5	125.1	112.8	123.7		
Total external debt service-to-exports ratio	4.5	5.2	6.8	10.4	9.8	12.0	12.3	12.3	8.3	6.7		
PV of PPG external debt (in Million of US dollars)		122.6	127.5	134.4	141.3	146.0	150.0	152.6	179.9	314.3		
(PVt-PVt-1)/GDPt-1 (in percent)			1.0	1.3	1.3	0.8	0.6	0.4	0.7	1.2		
Non-interest current account deficit that stabilizes debt ratio	14.5	11.7	6.5	10.3	8.7	7.9	7.7	7.9	5.7	4.6		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

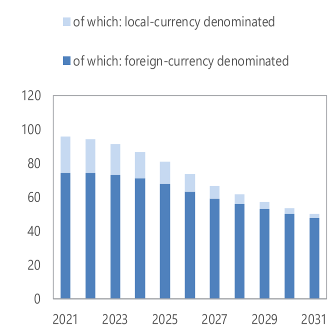
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

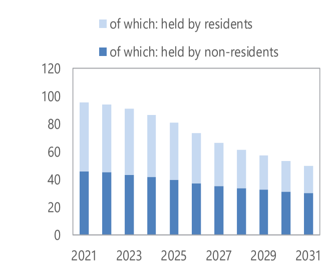
Table 2. São Tomé and Príncipe: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019-2041
(In percent of GDP, unless otherwise indicated)

	Actual		Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	99.9	87.1	95.6	94.0	91.3	86.6	80.8	73.7	50.0	32.1	76.3	73.7
of which: external debt	44.7	43.1	46.0	45.2	43.4	41.6	39.7	37.4	30.3	29.0	43.7	37.9
Change in public sector debt	3.8	-12.8	8.5	-1.5	-2.8	-4.6	-5.8	-7.1	-3.4	-2.2		
Identified debt-creating flows	0.3	-16.9	7.3	-2.3	-2.5	-4.4	-5.6	-7.0	-3.4	-2.5	-0.1	-3.5
Primary deficit	6.9	-3.0	6.3	3.8	3.8	1.3	0.1	-0.9	0.2	-1.0	6.5	1.1
Revenue and grants	24.4	28.7	25.6	31.4	27.7	29.5	30.1	29.7	27.1	24.3	29.3	28.5
of which: grants	6.4	10.5	7.8	12.9	8.2	8.2	7.9	7.6	6.7	6.0		
Primary (noninterest) expenditure	31.4	25.8	31.8	35.2	31.5	30.8	30.2	28.8	27.2	23.3	35.8	29.7
Automatic debt dynamics	-5.8	-13.6	1.2	-5.6	-5.8	-5.3	-5.3	-5.7	-3.3	-1.4		
Contribution from interest rate/growth differential	-4.1	-4.7	-4.0	-3.9	-3.8	-4.0	-4.0	-4.1	-2.6	-1.5		
of which: contribution from average real interest rate	-2.0	-1.8	-2.4	-1.7	-1.2	-1.0	-0.9	-1.0	-0.6	-0.1		
of which: contribution from real GDP growth	-2.1	-2.9	-1.6	-2.2	-2.5	-3.1	-3.1	-3.1	-2.0	-1.3		
Contribution from real exchange rate depreciation	-1.7	-8.8	...	...	...	...	...	...	...	...		
Denominator = 1+g	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0		
Other identified debt-creating flows	-0.8	-0.4	-0.2	-0.5	-0.5	-0.5	-0.5	-0.4	-0.2	-0.1	-0.7	-0.4
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	-0.8	-0.4	-0.2	-0.5	-0.5	-0.5	-0.5	-0.4	-0.2	-0.1		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	3.4	4.1	6.5	-1.0	-2.2	-1.4	-1.5	-1.8	-0.8	0.3	4.9	-0.6
Sustainability indicators												
PV of public debt-to-GDP ratio 2/	...	68.1	75.3	74.0	72.2	68.4	63.4	57.0	36.4	19.3		
PV of public debt-to-revenue and grants ratio	...	236.9	294.5	235.5	260.5	232.1	210.6	192.0	134.6	79.5		
Debt service-to-revenue and grants ratio 3/	...	...	93.8	80.2	81.5	72.3	62.5	53.4	19.3	-13.6		
Gross financing need 4/	7.4	-2.4	30.0	28.5	25.8	22.1	18.4	14.5	5.2	-4.4		
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	2.2	3.0	1.8	2.3	2.8	3.5	3.7	4.0	3.9	4.1	3.9	3.5
Average nominal interest rate on external debt (in percent)	1.3	0.5	0.6	0.8	1.3	1.3	1.3	1.1	1.1	1.3	0.9	1.1
Average real interest rate on domestic debt (in percent)	-6.5	-5.3	-2.5	-1.7	-2.5	-1.7	-2.0	-3.0	-3.0	-4.2	-6.1	-2.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.5	-12.4	...	...	...	...	...	...	...	...	-3.7	...
Inflation rate (GDP deflator, in percent)	7.0	5.6	3.1	3.2	3.9	3.0	3.2	4.1	3.7	1.9	6.8	3.6
Growth of real primary spending (deflated by GDP deflator, in percent)	-3.4	-15.4	25.8	13.3	-8.1	1.2	1.7	-0.7	3.1	-1.9	-1.5	4.3
Primary deficit that stabilizes the debt-to-GDP ratio 5/	3.2	9.9	-2.2	5.3	6.5	6.0	5.9	6.3	3.6	1.2	3.1	4.5
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Memorandum Item												
Primary deficit with HIPC grants and without EMAE loss	2.4	-9.6	6.0	-0.7	-0.4	-1.8	-2.1	-2.3	-0.1	-1.1	3.4	-0.4
EMAE loss	3.7	6.3	0.0	4.0	3.7	2.6	1.7	1.0	0.0	0.0	1.7	1.2

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

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

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	25	25	25	24	22	21	20	19	18	17	17
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	25	27	30	**33**	**35**	**38**	**41**	**44**	**46**	**49**	**51**
B. Bound Tests											
B1. Real GDP growth	25	26	25	24	23	22	21	20	19	18	17
B2. Primary balance	25	28	**30**	**30**	29	27	26	25	24	23	23
B3. Exports	25	28	**32**	**31**	29	28	26	25	24	23	
B4. Other flows 3/	25	30	**33**	**32**	**30**	29	27	26	25	24	23
B5. One-time 30 percent nominal depreciation	25	**32**	27	25	24	22	21	20	19	19	18
B6. Combination of B1-B5	25	**31**	**31**	**30**	29	27	26	24	23	22	22
C. Tailored Tests											
C1. Combined contingent liabilities	25	**40**	**43**	**43**	**41**	**39**	**38**	**36**	**35**	**34**	**33**
C2. Natural disaster	25	29	29	29	27	26	25	24	23	22	22
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	**185**	**184**	**143**	139	129	125	123	120	117	115	113
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**185**	**195**	**175**	**194**	**206**	**226**	**254**	**277**	**300**	**324**	**347**
B. Bound Tests											
B1. Real GDP growth	**185**	**184**	**143**	139	129	125	123	120	117	115	113
B2. Primary balance	**185**	**203**	**177**	**178**	**169**	**165**	**163**	**160**	**157**	**154**	**152**
B3. Exports	**185**	**294**	**353**	**343**	**321**	**312**	**307**	**300**	**294**	**288**	**283**
B4. Other flows 3/	**185**	**218**	**194**	**188**	**176**	**171**	**169**	**165**	**162**	**158**	**156**
B5. One-time 30 percent nominal depreciation	**185**	**184**	122	119	110	106	105	102	99	97	95
B6. Combination of B1-B5	**185**	**254**	**172**	**226**	**212**	**205**	**202**	**198**	**193**	**189**	**186**
C. Tailored Tests											
C1. Combined contingent liabilities	**185**	**292**	**251**	**252**	**240**	**235**	**233**	**229**	**225**	**222**	**220**
C2. Natural disaster	**185**	**216**	**174**	**172**	**162**	**159**	**158**	**155**	**153**	**151**	**150**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	7	**10**	10	**12**	**12**	**12**	9	9	9	9	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	7	10	9	**12**	**12**	**13**	**11**	**11**	**11**	**11**	**12**
B. Bound Tests											
B1. Real GDP growth	7	**10**	10	**12**	**12**	**12**	9	9	9	9	8
B2. Primary balance	7	**10**	**10**	**13**	**13**	**13**	**10**	10	10	9	9
B3. Exports	7	**15**	**20**	**25**	**25**	**25**	**19**	**19**	**18**	**18**	**17**
B4. Other flows 3/	7	**10**	**10**	**13**	**13**	**13**	**10**	**10**	10	10	9
B5. One-time 30 percent nominal depreciation	7	**10**	10	**12**	**12**	**12**	9	9	8	8	8
B6. Combination of B1-B5	7	**12**	**14**	**17**	**17**	**17**	**13**	**13**	**12**	**12**	**12**
C. Tailored Tests											
C1. Combined contingent liabilities	7	**10**	**12**	**14**	**15**	**15**	**11**	**11**	**11**	**11**	**10**
C2. Natural disaster	7	**11**	**11**	**13**	**13**	**13**	**10**	**10**	10	10	9
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	5	8	9	10	10	9	7	7	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	5	7	8	9	10	10	8	8	8	8	8
B. Bound Tests											
B1. Real GDP growth	5	8	9	10	10	10	7	7	7	7	6
B2. Primary balance	5	8	9	10	10	10	7	7	7	7	7
B3. Exports	5	8	9	11	10	10	7	7	7	7	7
B4. Other flows 3/	5	8	9	10	10	10	7	7	7	7	7
B5. One-time 30 percent nominal depreciation	5	10	11	12	12	11	8	8	8	8	7
B6. Combination of B1-B5	5	8	10	11	11	10	8	8	7	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	5	8	10	11	11	11	8	8	8	8	7
C2. Natural disaster	5	8	9	10	10	10	7	7	7	7	6
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

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

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

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of Debt-to-GDP Ratio											
Baseline	**75**	**74**	**72**	**68**	**63**	**57**	**51**	**46**	**43**	**39**	**36**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**75**	**73**	**70**	**67**	**64**	**61**	**58**	**56**	**55**	**54**	**53**
B. Bound Tests											
B1. Real GDP growth	**75**	**76**	**77**	**74**	**69**	**63**	**57**	**52**	**49**	**45**	**43**
B2. Primary balance	**75**	**80**	**84**	**79**	**74**	**67**	**60**	**55**	**51**		**44**
B3. Exports	**75**	**76**	**79**	**75**	**70**	**63**	**57**	**52**	**48**	**45**	**41**
B4. Other flows 3/	**75**	**79**	**81**	**77**	**71**	**65**	**58**	**54**	**50**	**46**	**43**
B5. One-time 30 percent nominal depreciation	**75**	**78**	**74**	**70**	**63**	**56**	**49**	**43**	**38**	34	30
B6. Combination of B1-B5	**75**	**77**	**76**	**69**	**63**	**56**	**50**	**46**	**42**	**39**	**36**
C. Tailored Tests											
C1. Combined contingent liabilities	**75**	**92**	**88**	**83**	**77**	**70**	**64**	**58**	**54**	**50**	**47**
C2. Natural disaster	**75**	**83**	**81**	**77**	**72**	**65**	**59**	**54**	**50**	**47**	**43**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	295	235	260	232	211	192	173	162	156	144	135
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	295	236	260	236	222	214	208	208	212	208	208
B. Bound Tests											
B1. Real GDP growth	295	241	274	247	227	210	191	181	177	164	156
B2. Primary balance	295	256	303	268	244	225	204	192	186	172	162
B3. Exports	295	243	285	254	232	212	193	182	176	162	153
B4. Other flows 3/	295	250	292	261	237	218	198	187	181	168	158
B5. One-time 30 percent nominal depreciation	295	256	275	241	215	192	169	154	144	127	114
B6. Combination of B1-B5	295	250	278	236	211	191	172	161	155	142	132
C. Tailored Tests											
C1. Combined contingent liabilities	295	292	317	282	257	237	216	204	198	183	173
C2. Natural disaster	295	264	291	260	238	219	199	188	183	169	160
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	94	80	81	72	62	53	43	34	29	23	19
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	94	78	77	66	56	47	38	30	25	20	17
B. Bound Tests											
B1. Real GDP growth	94	81	84	75	65	56	46	37	31	26	21
B2. Primary balance	94	80	90	83	66	55	44	35	29	24	20
B3. Exports	94	80	82	73	63	54	43	35	29	24	20
B4. Other flows 3/	94	80	82	73	63	54	43	35	29	24	20
B5. One-time 30 percent nominal depreciation	94	77	79	70	62	53	42	34	28	24	20
B6. Combination of B1-B5	94	78	80	76	62	52	42	33	28	23	19
C. Tailored Tests											
C1. Combined contingent liabilities	94	80	108	80	66	55	44	35	30	24	20
C2. Natural disaster	94	81	94	77	65	55	44	36	30	25	21
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

Statement by Mr. Andrianarivelo, Executive Director for the Democratic Republic of São Tomé and Príncipe, Mr. N'Sonde, Alternate Executive Director, and Mr. Carvalho da Silveira, Advisor to the Executive Director on the Democratic Republic of São Tomé and Príncipe
March 30, 2022

Introduction

1. On behalf of the authorities of Sao Tome and Principe (STP), we thank the Executive Board, Management and Staff for their continued engagement and support to the country's economic program. The authorities appreciate the quality discussions held in the context of the 2022 Article IV Consultation and the Fourth Review under the Extended Credit Facility (ECF) and broadly agree with staff's assessment and policy advice. They also would like to express their deep appreciation to the Fund for appointing the first resident representative in more than 18 years. The presence of a resident representation will help strengthen the relation with the IMF and deepen program implementation, particularly during such uncertain and challenging times for this small state facing significant capacity constraints.

2. In such environment exacerbated by the pandemic and climate-related shocks, the authorities have continued to implement their ECF-supported program in a satisfactory manner The authorities are nonetheless cognizant of the need to remain steadfast considering the remaining macroeconomic vulnerabilities and persistent development challenges which require continued support from the international community.

Recent Developments

3. The Covid-19 pandemic, electricity shortages, and natural disasters continue to take a toll on the economy. After a four-week surge with record-high cases of infection in early 2022, STP's fourth Covid-19 wave, which was mainly driven by the Omicron variant, has passed, prompting the easing of some restrictions. STP has made some progress with its goal to reach herd immunity with a vaccination rate of 70 percent by mid-2022. March 2022 data indicates that 51.4 percent of the population received the first dose, and 39.1 percent are fully immunized.

4. On December 28 and 29, 2021, STP was hit by torrential rains and floods, the most extreme climate event in the past three decades. This has caused significant suffering ranging from loss of human lives to property damages. The floods rendered the entire area of the capital city impassable. In addition, the flash floods destroyed several houses and the water treatment center in the city of Neves, and caused considerable damage in other sectors, notably agriculture. According to a report prepared by the government, the estimated costs for recovering damaged infrastructure, supporting businesses, and mitigating the effect on people's health and health services, amount to about $37.5 million, around 7 percent of GDP.

5. STP's economic growth slowed down to 1.8 percent in 2021 from 3.0 percent in 2020, reflecting a decrease in public investments, electricity shortages, and the weakening of the private sector, notably in the tourism area. This contributed to a decline in tax revenue While Covid-19 related assistance to vulnerable households and businesses increased, the authorities made efforts to contain and even reduce non-essential spending to reach the program's objectives. As a result, the fiscal deficit narrowed more than expected, from 3.8 percent of GDP in 2020 to about 3.3 percent at year-end 2021. Inflation has increased moderately to about 9.5 percent in 2021 as global oil and food price trends continue to exert pressure. The current account deficit has narrowed from 10.3 in 2020 to 9.6 percent in 2021 on the back of travel and export recovery, while gross international reserves stood comfortably at about 3.5 months of projected imports. Credit growth to the private sector slowed down during the period.

6. The authorities of STP appreciate the assistance received under the G-20's Debt Service Suspension Initiative (DSSI) endorsed by the Paris Club and under the Fund's Catastrophe Containment and Relief Trust (CCRT), which has continued to provide helpful debt service relief. It is also worth noting that STP has used half of its SDR allocation received in August 2021 to: (i) meet pandemic-related spending needs; and (ii) address health, education, transport, and energy infrastructure gaps, notably through renovations of hospitals, schools, and roads, and repairs of the power grid.

Performance under the ECF

7. Program implementation in STP has been broadly positive, despite the challenges imposed by the pandemic and electricity blackouts. While tax revenue underperformed, the authorities have continued their efforts to contain non-priority spending to ensure that the program remains on track. As a result, four out of five quantitative performance criteria (PCs) for end-June 2021 were met. The PC on net international reserve target was slightly missed due to lower-than-expected disbursements.

8. Regarding structural benchmarks (SBs), the pandemic and capacity constraints continue to impact the implementation of reforms, including the submission of Financial Institutions law, efforts to obtain the removal from the EU air safety blacklist, EMAE reforms, and the introduction of the VAT at a 15 percent rate. On the latter, the delay was fundamentally due to delays in developing the VAT IT system financed by the World Bank. To date, the contract is pending signature with the company that won the tender for the development of the IT application. The SB on the submission of the *Banco Central de Sao Tomé e Príncipe* (BCSTP) Organic Law to the Parliament was completed as a prior action. The authorities have also submitted to the Presidency of the Republic a decree that updates the price structure of petroleum products to prevent fuel subsidies and contain fiscal risks. Moreover, progress was made in maintaining transparency of Covid-19 spending and public procurement, albeit with minor delays. Measures in this regard include the submission of a

new draft procurement legislation requiring the collection and publication of beneficial ownership information, and continued publication of Covid-related expenditure reports and procurement contracts. The ex-post audit by the Auditor General of the 2020 Covid-19 related expenditures should be finalized in April 2022.

Outlook and Risks

9. Despite the impact of the floods on agriculture and trade, the authorities expect real GDP growth to accelerate to 2.3 percent in 2022 and firm up at around 4.0 percent over the medium-term as tourism and infrastructure growth pick up, and electricity supply stabilizes. Nonetheless, they are cognizant of the downside risks stemming from new Covid-19 variants, increased global fuel prices, supply chain disruptions, and natural disasters. Against this backdrop, they fully understand the importance of avoiding setbacks in fiscal adjustment and that of implementing key structural reforms in the energy sector. It should be emphasized however that the authorities are very concerned about the impact of the upcoming fuel price increase on the social environment, which could be more complicated by demands for a significant public sector wage increase. The authorities reiterate their commitments to the reforms under the program and to taking additional measures—after consulting with Fund staff—should risks materialize.

Policy Priorities for 2022 and Beyond

Fiscal Policy

10. The authorities continue to take the necessary steps to maintain the fiscal consolidation momentum. To achieve the 2022 revenue objectives and make room for flood and reconstruction response within the approved 2022 budget, actions are being taken to implement a new airport tax and a tax surcharge on alcohol beverages. Efforts are also being made to reinforce the monitoring and recovering of tax arrears from large taxpayers by collecting tax obligations suspended during the pandemic and forcefully applying existing legal procedures to ensure compliance. The VAT at a 15 percent rate is expected to be introduced by September 2022. To support this effort, the Tax Directorate has validated the first module of the VAT IT system for taxpayers' registration and a technical agreement has been reached between the Customs and Tax Directorates on the applicability of the VAT law at the Customs collection point. The VAT refund regulations, recently enacted by the President, have been harmonized with the excise tax decree and work is ongoing to also ensure its alignment with the stamp tax decree.

11. On the expenditure front, rationalization efforts will continue. A new Ministerial order was issued in February 2022 to freeze new hiring of civil servants to contain personnel costs, and contingency measures are in place to cut administrative costs by 20 percent should revenue underperform. Covid-19 spending will be rolled back when conditions allow. Regarding transparency, the government reiterates its commitment to continue to publish

information on public procurement contracts and monthly Covid-19 related expenses, including the beneficial ownership information. They acknowledge that the absence of an integrated system and other legal and operational constraints to collect and process information continues to lead to delays in publishing some information. In this regard, with the assistance of the World Bank and the IMF, a revised draft of the new Procurement Law, which incorporates beneficial ownership information collection and publication requirements, has been finalized. This, together with the website currently being developed for the procurement agency COSSIL will speed up the publication of documents and facilitate management and transparency over public contracts.

12. Over the medium-term, the authorities remain committed to undertake actions to (i) gradually reduce the wage bill to close to 10% of GDP by 2023-24 by limiting new hiring and halting inflation-based adjustments; (ii) maintain transfers and other current expenditures constant in nominal terms; and (iii) strengthen public financial management (PFM) and tax administration in line with IMF recommendations. On the latter point, significant progress was made on various fronts, including the incorporation of medium-term fiscal framework projections for a 3-year period in the 2022 budget documents and publication of the calendar of treasury bill auctions. The authorities also plan to undertake a comprehensive tax administration diagnostic assessment by end-2022.

Debt Policy and Management

13. The authorities concur with the results of the latest debt sustainability analysis (DSA), which indicates that the external debt is sustainable, despite the debt distress rating due to prolonged unsettled external arrears. They reiterate their commitment to continuing fiscal consolidation efforts as envisaged under the program and advance energy sector reforms to keep debt on a downward path and preserve its sustainability. They will also continue to pursue prudent debt management and keep engaging with creditors in an open and transparent manner to regularize arrears and restructure all outstanding debt.

Monetary and Exchange Rate Policies

14. BCSTP will continue to closely monitor systemwide liquidity to prevent liquidity tensions and stand ready to adjust monetary policy to safeguard the exchange rate peg to the Euro. They emphasize that the peg has been instrumental towards the Central Bank's primary objective of maintaining price stability and agree that building strong international reserve buffers is paramount, given the persistence of shocks the country faces. Therefore, sustaining fiscal consolidation efforts and advancing structural reforms aimed at bolstering competitiveness and energy efficiency will be important to help build larger reserve buffers.

15. The implementation of the outstanding recommendations of the 2019 Safeguard Assessment to improve the independence and transparency of the Central Bank is advancing well. The draft of the organic law has been approved by the BCSTP Board and submitted to

the Parliament as a prior action. Moreover, efforts are ongoing to enhance internal audit capacity, finalize the memorandum of agreement on legacy government debt, conclude the audit of financial statements and implement the International Financial Reporting Standards (IFRS). On the latter, the authorities look forward to Fund's technical assistance to make strides in the implementation. In addition, the BCSTP expects to finalize the revised draft Financial Institutions Law very soon and submit it to the government by end-June 2022 following consultation with Fund staff. The authorities also view preserving their membership in the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) as essential to protect the integrity of the country's financial system.

Financial Sector Policies

16. BCSTP expects to finalize the revised draft Financial Institutions Law very soon and submit it to the government by end-June 2022 following review and advice by Fund staff, with a view to strengthen financial supervision and improve governance and oversight. The Central Bank has taken actions to strengthen supervision capacity by completing its stress testing in February 2022.

17. The authorities fully understand that maintaining financial sector stability is crucial to support the economic recovery. They note that the sector has shown resilience during the crisis and is broadly sound. Although the systemwide non-performing loans (NPLs) ratio decreased in 2021, additional measures were introduced to further improve this indicator. In this connection, two new regulations were approved on Asset Classification and Provisions, and Capital Adequacy, primarily requiring banks respectively to (i) update the classification of financial instruments and write off "eligible NPLs" within 12 months; and (ii) maintain adequate levels of own funds, in line with international standards. Regarding the troubled banks, despite the authorities' best efforts, the liquidation process of the three banks is still ongoing, but they are hopeful that meaningful progress will be achieved in 2022.

Structural Reforms

18. The National Sustainable Development Plan 2020-2024, together with the National Strategy for Socioeconomic Resilience and Mitigation of Covid-19, continues to guide the vision for the country's structural transformation aimed at unleashing growth potential, fostering competitiveness, promoting gender inclusiveness, building capacity and infrastructure, and strengthening resilience to shocks. In this respect, the authorities welcome staff's assessment in the Selected Issues Paper (SIP). They broadly agree that addressing the large human capital and infrastructure financing gap is essential to meet the SDGs by 2030. To this end, they see merit in implementing the VAT in 2022 to improve revenue mobilization, complemented by efforts to enhance spending efficiency and foster private investment, will be critical to help close the financing gap. Given the size of the latter, external support is also paramount. To strengthen the financial sector's technological infrastructure and improve financial services to the public, work is underway to expand

access to international payment cards. In addition, the first license was awarded for a fintech for a payment processing business and issuance of e-money, which will contribute to the reduction of the use of paper money and promote the national financial inclusion strategy underway.

19. The authorities share staff's view on the criticality of accelerating reforms of the public utility company EMAE and the energy sector to help increase efficiency, facilitate the transition towards renewable sources as well as ensure public debt sustainability. Although lengthy approval procedures of some development partners may have hindered further progress on the energy sector reform agenda, the authorities remain fully committed to continue implementing the Least Cost Productions Plan and the Management Improvement Plan to achieve cost recovery. In this area, political economy factors should be carefully considered. While committed to the fuel price adjustment mechanism, under the current circumstances of growing social tensions amid rising inflation, floods, electricity shortages, and demand for higher wages, they consider prudent to only implement a partial increase in fuel prices at this stage. Additional price adjustments will be considered in the future while also taking into account the socio-political environment. Targeted social transfers will continue to play an important role in cushioning the impact on the vulnerable groups.

Conclusion

20. The authorities of Sao Tome and Principe reaffirm their commitment to the policy and reform agenda under the ECF-supported program. They are confident that steadfast implementation of their economic program, with the support of development partners, will continue to enhance macroeconomic stability while supporting the recovery and promoting inclusive growth. continues to make progress. They look forward to the Executive Board's completion of the 2022 Article IV consultation and the Fourth Review under the ECF. They also count on the Board's approval of waivers for nonobservance of performance criteria and modification of performance criteria, and financing assurances review.