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São Tomé and Príncipe: Review of Performance Under a Staff-Monitored Program

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SÃO TOMÉ AND PRÍNCIPE

Review of Performance Under a Staff-Monitored Program

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(In consultation with the Legal, Monetary and Exchange Affairs,
Policy Development and Review, and Treasurer's Departments)

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October 31, 2002

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Background

- São Tomé and Príncipe's PRGF-supported program went off track at end-2000 because of fiscal and structural slippages, which were compounded in 2001 by the emergence of oil-sector governance concerns. The authorities requested a staff-monitored program (SMP) for the first half of 2002, but spending overruns reoccurred, and most of the SMP's benchmarks were missed.

Performance under the SMP through end-June 2002

- Program implementation during the first half of 2002 was disappointing, as the key quantitative benchmarks for end-June 2002 were not observed.

- Greater-than-expected revenue mobilization was more than offset by spending overruns owing to trade union wage demands, higher energy and utility costs, and spending related to the March 2002 legislative elections. As a result, the primary fiscal deficit (including HIPC Initiative social expenditures) increased to 3.2 percent of GDP in the first half of 2002, compared with a targeted deficit of 1.6 percent of GDP.

- Net bank credit to the government expanded by 12 percent of the beginning-of-year money stock during the first half of 2002 (compared with a 5 percent target), as the government drew on its deposits at the central bank to finance its larger-than-targeted deficit. As a result, quantitative benchmarks on net bank credit to the government, the central bank's net domestic assets, and the central bank's net international reserves were not observed.

- The government pressed ahead with public service reform, but it reversed water and electricity rate increases that were implemented to ensure cost recovery, as a prior action for the SMP.

Extension of the SMP through end-December 2002

- The authorities have agreed to extend the SMP through end-December 2002 in order to reestablish a satisfactory track record of policy implementation. The government appointed an internationally reputable firm to audit three large government procurement contracts as a prior action. The extended SMP aims at containing inflation within 9 percent in 2002 and narrowing the external current account deficit to 10 percent of GDP in 2002 from 16 percent of GDP in 2001. Real GDP growth is projected to reach 5 percent in 2002.

- The fiscal component of the extended SMP focuses on strong revenue mobilization efforts and strict spending controls. Given the magnitude of the slippages during the first half of 2002, the primary budget deficit (including HIPC Initiative social spending) is to narrow from 10 percent of GDP in 2001 to 5 percent of GDP in 2002, rather than to 3 percent under the original SMP.

- Key structural benchmarks under the extended SMP include the following: (i) submission to the National Assembly of a draft budget for 2003 consistent with the medium-term macroeconomic framework; (ii) observance of the automatic price adjustment mechanisms on retail petroleum prices and water and electricity rates; and (iii) increased transparency and accountability in government operations (e.g., publication of reports on audits of government procurement contracts).

Issues stressed in the staff appraisal

- The extended SMP is ambitious, but the authorities have reiterated their commitment to implement the macroeconomic and structural policies agreed for the second half of 2002. The SMP provides crucial tests of the authorities' resolve to continue reforms, including strict adherence to the fiscal policy stance agreed for 2002 and actions to be taken to enhance transparency and accountability in government operations.

- The country remains vulnerable to fluctuations in its terms of trade and highly dependent on aid flows. Additionally, administrative capacity is limited, and social pressure and the onset of disbursements of sizable oil-related bonuses may limit the resolve of the authorities to maintain fiscal discipline.

- Regarding next steps, the start of discussions of a new PRGF-supported medium-term program would be contingent on the satisfactory implementation of the extended SMP through end-December 2002.

I. Introduction

1. **Discussions for the review of performance under the staff-monitored program (SMP) through end-June 2002, and for its extension for six months through end-December 2002, were held in Washington during May 15–17, and September 26–30, 2002, and in São Tomé during August 11-23, 2002.**[1,2] In the attached supplementary letter of intent dated September 30, 2002 (Appendix I), the Minister of Planning and Finance of São Tomé and Príncipe describes the policies and measures that the government intends to implement under the extended SMP to reestablish a track record of policy implementation,[3] stabilize the macroeconomic situation, and pave the way for new discussions on a medium-term program that could be supported by a new Poverty Reduction and Growth Facility (PRGF) arrangement. An update of the debt sustainability analysis (DSA) as at end-December 2001 is presented in Appendix II; and summaries of São Tomé and Príncipe's relations with the Fund and the World Bank Group are contained in Appendices III and IV, respectively.

2. **The most recent Article IV consultation was concluded on January 30, 2002.**[4] On that occasion, Executive Directors expressed regret that the PRGF-supported program had gone off track. They welcomed, however, the authorities' commitment to implement strong corrective measures under the six-month SMP through end-June 2002, in order to correct the

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[1] The authorities were represented by President Fradique de Menezes, Prime Minister Gabriel Costa, the Minister of Planning and Finance (Mrs. Maria dos Santos Tebús Torres), the Governor of the Central Bank (Mrs. Maria do Carmo Trovoada Silveira), and other senior government officials, including the Ministers of Trade, Industry, and Tourism; Justice, Administrative Reform, and Civil Service; and Infrastructure, Natural Resources, and Environment. Meetings were also held with the Speaker of the National Assembly, Dionísio Tomé Dias, as well as representatives of the commercial banks, public enterprises, trade unions, and the international donor community in São Tomé.

[2] The mission consisted of Mr. I. Thiam (Head), Mr. Bartsch, Mr. House (EP), Mr. Floerkemeier (EP), and Ms. Ng Choy Hing (Administrative Assistant) (all AFR. Mr. Ebrahim-zadeh, the Fund's Resident Representative in São Tomé and Príncipe, assisted the mission. Mr. Nguema, Advisor to the Executive Director for São Tomé and Príncipe, participated in some of the discussions. A parallel World Bank mission participated in the discussions on the poverty reduction strategy paper (PRSP), the debt sustainability analysis, and progress in implementing the HIPC Initiative completion point triggers.

[3] The slippages that took the Poverty Reduction and Growth Facility (PRGF)-supported program off track in late 2000 continued during the first half of 2002 under the SMP.

[4] São Tomé and Príncipe is on the standard 12-month consultation cycle; the next Article IV consultation is expected to be concluded by end-April 2003.

slippages observed in 2001 and reestablish a track record of good policy implementation. Directors urged the authorities to maintain their resolve to strengthen fiscal discipline, enhance their public expenditure control and monitoring mechanisms, and increase the transparency with which the oil sector was managed, particularly given the possible onset of sizable oil-related compensation payments.

3. **Early legislative elections in March 2002 resulted in a split National Assembly**.[5] In order to overcome political divisions and focus the government's activities on economic development, President Fradique de Menezes appointed a government of national unity, supported by all three parties represented in the National Assembly. The government, which took office on April 8, 2002, was headed by Prime Minister Gabriel Costa, a member of the President's party, through end-September. Mrs. Maria das Neves replaced Mr. Gabriel Costa as Prime Minister in a cabinet reshuffle on October 6, 2002. Mrs. Maria dos Santos Tebús Torres remains Minister of Planning and Finance.

II. PERFORMANCE UNDER THE STAFF-MONITORED PROGRAM THROUGH END-JUNE 2002

4. **Economic activity expanded during the first half of 2002, in line with program projections, owing to continued strong increases in food production, construction, commerce, and tourism**. Real GDP growth is projected to rise to 5 percent in 2002 from 4 percent in 2001. However, the adjustment in water and electricity rates in January 2002 and continued government spending overruns caused the 12-month inflation rate to increase to 10.5 percent at end-June 2002 from 9.4 percent in 2001 (Table 1). **On the external side,** the real effective exchange rate depreciated by 1 percent during the first half of 2002, and the external current account deficit (including official transfers) is projected to narrow by 6½ percentage points to 9½ percent of GDP in 2002 (54 percent of GDP, excluding official transfers, Table 2). The improvement in the external current account reflects a large improvement in the country's terms of trade (as a result of a 40 percent increase in world cocoa prices), as well as continued interim assistance from multilateral creditors under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative). Regarding the capital account, in July 2002 the government received a short-term advance from the Nigerian government in the amount of US$5 million (9 percent of GDP).[6] **As regards external debt**

[5] The former ruling party (the Movement for the Liberation of São Tomé and Príncipe, MLSTP) holds 24 of the 55 seats in the new National Assembly, a decrease of 7 seats from the outgoing legislature; the President's new party (the Democratic Movement of the Forces for Change, MDFM) has 23 seats; and a third grouping, the Ue/Kedadji, headed by former President Miguel Trovoada and his Independent Action Party, elected the remaining 8 legislators.

[6] The advance will be repaid using signature bonuses for oil exploration contracts expected by end-2003. The interest rate of the short term advance is zero.

rescheduling, the May 2000 Paris Club debt rescheduling on Naples terms has become inoperative, pending the approval of a new PRGF arrangement for São Tomé and Príncipe, and the government has accumulated (reschedulable) external payments arrears to bilateral creditors during 2001–02. Bilateral debt renegotiation agreements have been signed only with France and Spain; agreements have been concluded, but remain unsigned, with Belgium, Germany, Portugal, and Russia.

5. **Program implementation during the first half of 2002 was disappointing. The key quantitative benchmarks for end-June 2002 were not observed,** including those on the primary budget balance and net bank credit to the government (Table 3). Moreover, two out of five structural benchmarks were missed; these relate to (i) the submission of the draft budget for 2002 to the National Assembly; and (ii) the publication of a report on the independent external audit of three large government procurement contracts.[7] The budget for 2002 was submitted with a two-month delay, and the publication of the audit report has been postponed to end-December 2002 (Table 4).

6. **In the fiscal area, the slippages that took the PRGF-supported program off track in late 2000 continued during the first half of 2002**. Budget execution at end-June 2002 showed that continued spending overruns were not fully offset by revenue mobilization that was greater than projected, mainly owing to improvements in tax collection.[8] The authorities attributed the spending overruns (excluding foreign-financed investment) to (i) higher wage demands from trade unions; (ii) increased government energy costs resulting from upward adjustments in petroleum product retail prices and in water and electricity rates; and (iii) higher spending associated with the March 2002 legislative elections.[9] As a result of these slippages, the primary budget deficit, including HIPC Initiative-financed social expenditure, increased to 3.2 percent of GDP during the first half of 2002, compared with a targeted deficit of 1.6 percent of GDP (Table 5). The primary deficit, excluding HIPC Initiative-financed social expenditure, exceeded the program target by about 1 percent of GDP. HIPC Initiative social spending amounted to about 3 percent of GDP during the first half of 2002, ½ of 1 percentage point above the program projection

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[7] Under the SMP, the authorities undertook to audit three government contracts and tenders of over US$500,000 concluded over the period 1998–2000, with a view to improving government procurement procedures.

[8] Total revenue mobilization (excluding grants) exceeded the program projection by 1.5 percent of GDP at end-June.

[9] Payments on account of foreign-financed investment also exceeded program projections by a very large margin at end-June 2002.

7. **On the monetary front, the government drew on its deposits at the central bank to finance the larger-than-targeted deficit during the first half of 2002,** causing net bank credit to the government to rise by 12 percent of the beginning-of-year money stock, compared with a targeted increase of 5 percent. As a result, the end-June 2002 quantitative benchmarks on net bank credit to the government, the central bank's net domestic assets, and the central bank's net international reserves were not observed. Reflecting the economy's expansion, credit to the private sector at end-June 2002 rose by 23 percent, while broad money expanded by 20 percent from the beginning of 2002 (Tables 6–8).

8. **As regards the country's emerging oil sector,** in June 2002 the government, with assistance from the World Bank, concluded a legal review of the contracts signed during 2001 with its partners in the sector. The authorities are now laying the groundwork for renegotiating all oil sector contracts—including that awarding the U.S.-Nigerian company ERHC an overriding royalty of 1.5 percent on oil output accruing to São Tomé and Príncipe—before launching the licensing round for exploration acreage in the Joint Development Zone with Nigeria (see letter of intent, Appendix I, para. 7).

9. **On the structural agenda,**[10] the civil service reform proceeded as scheduled, and in January 2002, the new management of the public water and electricity company (EMAE) raised water and electricity rates as agreed under the SMP (Appendix I, para. 8). However, the electricity rate increase was achieved by eliminating the social electricity rate for small consumers, while leaving the other rates unchanged, contrary to the Fund staff's advice. In July 2002, under social pressure, the government reverted to the end-December 2001 water and electricity rates. The company implemented revenue collection and cost-cutting measures to avoid a deficit. However, the new rates give rise to concerns for the financial soundness of EMAE. The authorities agreed to review EMAE's pricing and cost structures and to take action, if necessary, to preserve the financial viability of the company (Appendix I, para. 18).

III. Extension of the Staff-Monitored Program Through End-December 2002

10. **Against this backdrop, the new government acknowledged that performance during the first half of 2002 had been less than satisfactory and that more time was needed to reestablish the track record necessary to start discussions on a new PRGF-supported program**. In the circumstances, the authorities requested the extension of the SMP for six months through end-December 2002, in the context of a medium-term macroeconomic framework through end-2005, and on September 30, 2002 they appointed an internationally reputable auditor for three large government procurement contracts as a prior action.

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[10] See also Box 1 for the status of Fund and World Bank structural conditionality.

11. **Taking into account the slippages during the first half of 2002, the government's macroeconomic objectives under the extended SMP and the macroeconomic framework are the following:** (i) containing inflation within 9 percent in 2002 on an end-of-year basis,[11] compared with 9.4 percent in 2001, and reducing it to 7 percent in 2003 and to 3 percent by 2005; and (ii) narrowing the external current account deficit (including official transfers) to 10 percent of GDP in 2002 from 16 percent of GDP in 2001 (the external current account deficit is projected to increase to 31 percent of GDP in 2003 and peak at about 380 percent of GDP by 2005, reflecting the onset of foreign-financed private investment in petroleum exploration and development).[12] Real GDP growth is projected to reach 5 percent in 2002 and 2003, in line with the original program, and remain at that level through 2005 (see Appendix I, para. 9).

12. **The slippages incurred during the first half of the year are reflected in the government's revised fiscal program for 2002**, as is the government's contracting and receipt, in July 2002, of the US$5 million (9 percent of GDP) short-term advance from the Nigerian government. During the discussions, the authorities indicated their wish to use this advance to finance public investment projects. The staff took the view that, given the country's limited absorptive capacity, government expenditure should be contained within the appropriations of the budget approved by parliament for 2002, which included the use of only US$1 million (or 2 percent of GDP) of the advance. The authorities are committed to maintaining the balance of the advance in their deposits at the central bank with a view to increasing international reserves (see Appendix I, para. 19).

13. **The government's budget for 2002,** which was approved by the National Assembly at end-July, **and that for 2003**, which is to be submitted to parliament by end-December 2002 as a benchmark under the SMP, are based on continued strong revenue mobilization efforts and a containment of primary expenditures, with increasing budgetary outlays for education and health (Appendix I, paras. 10–13). In 2002, the higher than originally programmed expenditure implies that the primary budget deficit, including HIPC Initiative-financed social spending, is now projected to narrow from 10 percent of GDP in 2001 to 5 percent of GDP;[13] the overall fiscal deficit (including grants) would narrow to 7 percent of GDP (or 48 percent of GDP, excluding grants) from 12 percent in 2001. Finally, the program aims at avoiding the accumulation of nonreschedulable external and domestic payments arrears during the period of the program.

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[11] The inflation target for 2002 under the original SMP was 7 percent on the same basis.

[12] The external current account deficit, excluding official transfers, will be reduced from 62 percent in 2001 to 54 percent of GDP in 2002 and will increase to 69 percent of GDP in 2003, and 415 percent by 2005.

[13] Compared with a target of 3 percent of GDP under the original SMP.

14. **In 2003**, the primary budget deficit is projected to increase to about 8 percent of GDP, and the overall fiscal deficit (including grants) to 12 percent of GDP (and stabilize at 47 percent of GDP, excluding grants), reflecting an expansion in both HIPC Initiative-related social spending and expenditure financed out of the advance from Nigeria.[14] HIPC Initiative-related social spending is projected to reach about 5 percent of GDP in 2002, consistent with the original SMP, and 6 percent in 2003. The authorities will strengthen their mechanism for tracking social expenditures and conduct an independent audit of the HIPC Initiative special treasury account at the central bank by end-October 2002. The authorities acknowledged that their limited administrative capacity hampered the execution of HIPC expenditures during 2001–02, and agreed to contain spending during the second half of 2002 and during 2003.

15. **Within the fiscal program**, primary expenditure (excluding foreign-financed investments, but including HIPC Initiative-related social spending) is projected at 27 percent of GDP in 2002 (up 1 percentage point of GDP from the ratio projected under the original SMP), compared with 30 percent of GDP in 2001. The implementation of the civil service reform and downsizing program will allow for an increase in the minimum wage, while the total wage bill will be maintained within a limit of 9 percent of GDP in 2002 (also up 1 percentage point of GDP from the original SMP), compared with 9.6 percent of GDP in 2001 (Table 5). Priority will continue to be given to social sector spending; control over expenditures (including investments) will be strengthened; and all government projects will be included in the budget and the public investment program (PIP).

16. **Monetary policy will continue to aim at containing inflation and at improving the net foreign assets position of the banking system.** To achieve these objectives, the discount rate will be maintained above the inflation rate, and the authorities will continue to maintain their flexible, market-based exchange rate regime. Broad money is projected to increase by 23 percent over the whole of 2002, with only 3 percentage points of this increase falling in the second half of 2002 (Appendix I, para. 15), and with velocity declining slightly. The much slower pace of monetary expansion in the second half of 2002 reflects the decline expected in net bank credit to the government as a result of the mobilization in July of the short-term advance from Nigeria, as well as projected World Bank and African Development Bank (AfDB) nonproject financing.[15] Following several unsuccessful attempts to find investors to recapitalize the Banco Comercial do Equador (BCE), which has been closed since May 2001, the authorities have taken legal action to liquidate the bank. They have confirmed that neither the treasury nor the central bank will be financially involved in this liquidation

[14] In the medium term, assuming the mobilization of exceptional oil signature bonuses starting in 2003, government spending would continue to expand, and the primary budget deficit is projected to increase further to 11.6 percent of GDP in 2004 and 12 percent of GDP in 2005.

[15] The second tranche of the World Bank Public Resource Management Credit will amount to \$2.5 million, and the first tranche of the AfDB credit to \$0.8 million.

(Appendix I, para. 16). It is expected that the majority of deposits will be covered by the existing assets of the bank.

17. **The structural reform agenda**, which has been prepared with assistance from the World Bank, calls for (i) continued application of mechanisms by which adjustments in the retail prices of petroleum products and water and electricity rates reflect import, production, and distribution costs; (ii) implementation of a restructuring and privatization program for the public water and electricity company; (iii) preparation of an action plan for strengthening incentives for private sector investment and adoption of a revised investment code (see Appendix I, para. 18); and (iv) implementation of measures to improve transparency and good governance in oil and other government operations, including an independent external audit of three large government procurement contracts, publication of the report on this audit, and submission to the National Assembly of a draft law on oil resource management (Appendix I, paras. 19–20).

18. **The medium-term macroeconomic framework in the context of which the extended SMP has been prepared is dominated by the prospects of an emerging oil sector.** Under the framework, it is projected that (i) the licensing round for oil exploration will be launched in the Joint Development Zone with Nigeria by end-2002, (ii) oil exploration investments will intensify during 2003–04, and an oil field will be developed during 2004–06; and (iii) oil production and shipment will start in 2006. During the period of development of the oil field, the external current account deficit (excluding official transfers) could exceed four times GDP, with large foreign direct investment inflows. However, it is expected that all private sector oil operations will be offshore and only that part of oil revenue accruing to the government under the agreements with private companies will flow onshore. As the government is committed to a prudent use of this revenue, it is projected that the currency will not appreciate in real effective terms.[16]

19. **São Tomé and Príncipe's debt burden remains unsustainable (see Tables 9-10 and Appendix II), and the authorities should continue to rely on grants and highly concessional external loans (with a grant element of at least 50 percent)**. As described in the letter of intent (Appendix I, para. 25), the country's external financing requirements for 2002 are only partially covered by donors' project and nonproject assistance, the already received short-term advance from Nigeria, and interim assistance from multilateral creditors under the HIPC Initiative; São Tomé and Príncipe is expected to accumulate new (reschedulable) external payments arrears to its bilateral creditors. The authorities will make every effort to conclude and sign all bilateral agreements under the Paris Club's rescheduling of May 2000 and seek comparable treatment from other bilateral creditors.

[16] Before finalizing discussions on a possible PRGF-supported program, the staff will prepare a contingency scenario in which oil bonuses and revenue would trigger a substantial appreciation of the currency in real effective terms.

20. **The authorities have agreed on a number of quantitative and structural benchmarks under the extended SMP,** in addition to the prior action on the nomination of an internationally reputable firm to audit three large government procurement contracts, which has been implemented (Appendix I, paras. 27–28, Tables 1–2). The review of performance under the SMP is scheduled to be concluded by end-February 2003 (Appendix I, para. 31).

IV. Staff Appraisal

21. Economic activity continued to recover in 2002, and tax collection efforts led to higher-than-projected government revenue at end-June. **However, spending overruns and delays in the implementation of structural measures, which took the PRGF-supported program off track in late 2000, reoccurred during the first half of 2002,** resulting in a higher-than-targeted rate of inflation.

22. **Against this backdrop, the new government of national unity agreed that more time was needed to reestablish a track record of good policy implementation.** The mission reached understandings with the authorities on the steps needed to ensure an orderly and transparent use of oil-related revenue, including an understanding that the government will keep the proceeds of the short-term advance from Nigeria as deposits at the central bank. The authorities also reiterated their intention to implement firmly the macroeconomic and structural policies agreed for the second half of 2002. They agreed that satisfactory implementation of the extended SMP through end-December 2002 was a necessary condition for the conclusion of discussions on a new PRGF arrangement which, in turn, would eventually lead to the attainment of the completion point under the enhanced HIPC Initiative, and the alleviation of São Tomé and Príncipe's unsustainable external debt burden.

23. **Nevertheless, the staff believes that there are substantial risks to the successful implementation of the extended SMP.** The country is vulnerable to fluctuations in its terms of trade and highly dependent on the availability of foreign aid. Additionally, its administrative capacity is limited, which could hamper program implementation. Political instability and social pressure are likely to add to the difficulties involved in strictly adhering to the agreed fiscal policy stance, as evidenced by the recent reversal of cost recovery adjustments in water and electricity rates. Finally, the recent mobilization of a short-term advance from Nigeria and the possible onset of disbursements of more sizable oil-related bonus payments could weaken the authorities' resolve to maintain prudent macroeconomic policies.

24. **The extended SMP is designed to provide a crucial test of the authorities' resolve to continue their reforms.** The authorities' commitment to further reform will be evidenced by (i) strict adherence to the fiscal policy stance agreed for 2002 under the extended SMP; (ii) the adoption of a government budget for 2003 consistent with the medium-term macroeconomic framework; (iii) the preservation of the financial viability of the public electricity and water company, and the continuous application of the automatic adjustment mechanisms for water and electricity rates; and (iv) the actions taken to enhance transparency and accountability in government operations. **Regarding next steps, the staff recommends**

that the start of discussions of a new PRGF-supported medium-term program be contingent on the satisfactory implementation of the extended SMP through end-December 2002. The discussions could begin in early 2003, in the context of the 2002 Article IV consultation.

Box 1. São Tomé and Príncipe: Structural Conditionality for 2002

Coverage of structural conditionality in the staff-monitored program

Public sector management. Given the predominance of the public sector in the economy, the government budget for 2002 is the most important instrument for regulating economic activity. Also, personnel management, including civil service reform, is covered in the staff-monitored program.

Energy pricing. Price adjustment mechanisms have been introduced for electricity, water, and petroleum products to cover costs. The failure to adjust these prices to cover production and distribution costs has led to large arrears in tax payments by the distribution companies and the need for subsidies to cover operating costs. With regard to electricity pricing, the staff-monitored program will evaluate ex post the effect of revenue improving and cost-cutting measures implemented after the rollback of the January rate increase.

Governance. Following the legal review, contracts in the oil sector will be renegotiated; large government procurement contracts will be audited. The oil sector is likely to become the dominant sector in São Tomé and Príncipe in the medium term, and transparency and accountability should be ensured in oil sector contract negotiations. The foreign-financed public investment program constitutes a large share of GDP; audits will help improve the efficiency in the use of donor and domestic funds.

Status of structural conditionality in the PRGF-supported program

Prior actions and benchmarks under the staff-monitored program were already performance criteria or benchmarks under the PRGF-supported program. None of the structural targets were met under the PRGF-supported program, except for the adjustment of retail prices of petroleum products and the publication of monetary statistics.

Structural areas covered by World Bank lending and conditionality

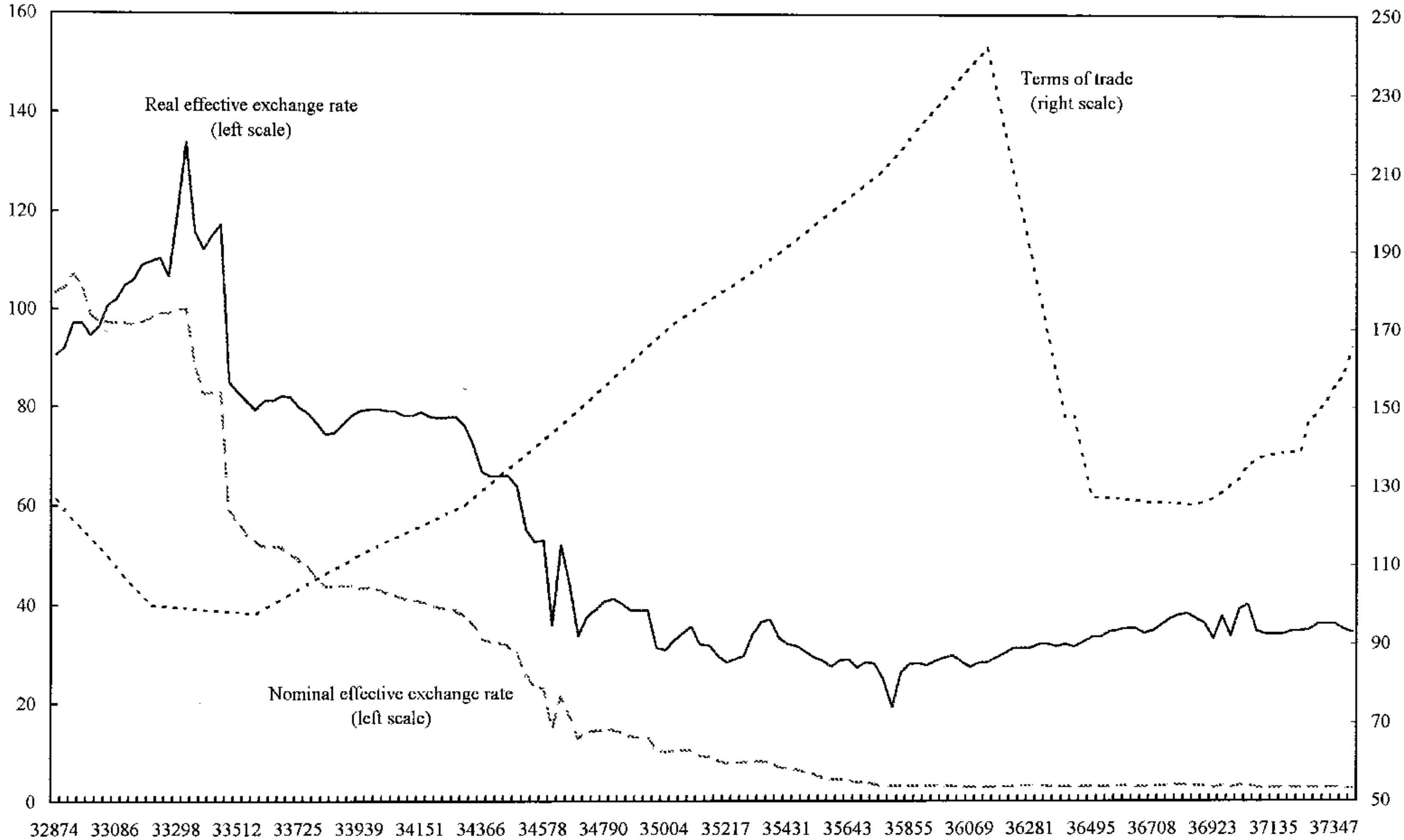
Linked to disbursements of the Public Resource Management Credit (PRMC), World Bank conditionality covers improvements in revenue collection at customs (elimination of ad hoc exemptions and the implementation of the customs computerization system—SYDONIA), direct taxation (through the introduction of taxpayer identification numbers), and indirect taxation (through the implementation of a general sales tax); public expenditure reviews for the education and health sectors; and the privatization of public enterprises. In addition, the World Bank is supporting the following reform measures through technical assistance: the preparation of an action plan to improve incentives for private investment, the review of the investment code (together with the Foreign Investment Advisory Service—FIAS), the restructuring of the water and electricity utility (EMAE), the adjustment of the mechanism for water and electricity rates, the liberalization of the telecommunications sector, the formulation of an educational strategy, the preparation of a public expenditure review and costing of the health and education strategies, the planning of the three-year public investment program, and the civil service reform.

Structural areas covered by HIPC Initiative completion point conditionality

The following public sector management areas are covered by the enhanced HIPC Initiative completion point conditionality: sectoral strategies for health and education in the context of a medium-term expenditure framework; control and monitoring of budgetary operations, including the use of HIPC Initiative interim assistance; programming and execution of foreign-financed capital expenditure in the Ministry of Planning and Finance; and creation of institutions to manage oil revenue.

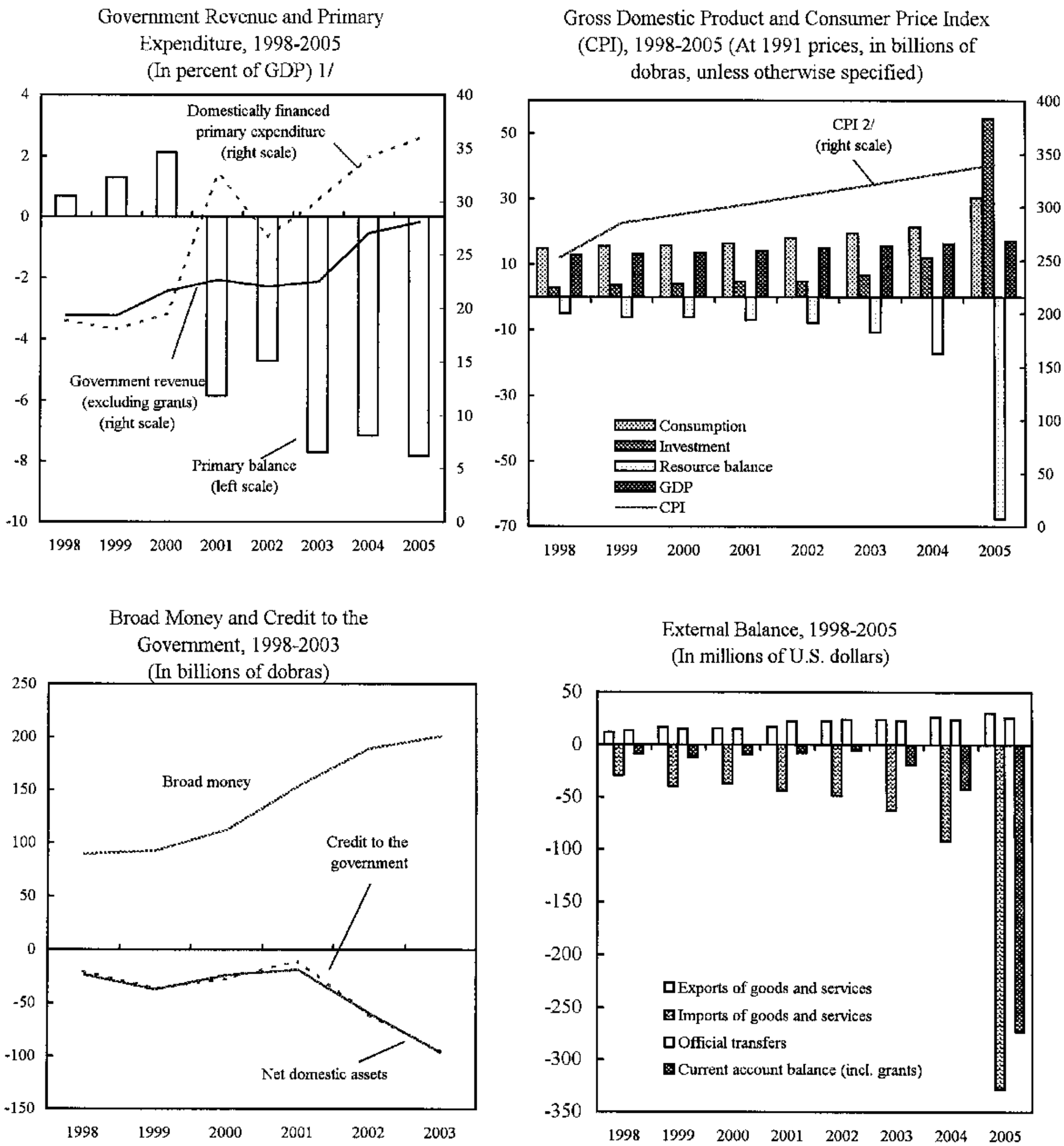
Under governance, conditionality covers the operationalization of the Auditor General's Office and establishment of an arbitration court for business and contract matters.

Figure 1. São Tomé & Príncipe: Real and Nominal Effective Exchange Rates, January 1990-June 2002
(Index, 1990=100)



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

Figure 2. São Tomé and Príncipe: Economic and Financial Indicators



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

1/ Primary balance includes HIPC Initiative-financed expenditure.
2/ Consumer price index (end-December 1996=100).

Table 1. São Tomé and Príncipe: Selected Economic Indicators, 2000-05

	2000	2001		2002		2003	2004	2005
		EBS/02/3	Est.	SMP	Rev. SMP		Proj.	
				(In units indicated)				
Production								
Cocoa export volume (in thousands of metric tons)	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Cocoa export unit value (in U.S. dollars per kilogram)	0.9	1.1	1.1	1.1	1.5	1.5	1.4	1.4
Gross domestic product (in billions of dobras)	369.5	422.0	422.0	482.1	491.0	550.5	605.3	647.5
At constant prices (percentage change)	3.0	4.0	4.0	5.0	5.0	5.0	5.0	5.0
Gross domestic product deflator (percentage change)	7.4	9.8	9.8	8.8	10.8	6.8	4.7	1.9
Consumer prices (percentage change; end of period)	9.6	9.0	9.4	7.0	9.0	7.0	5.0	3.0
Consumer prices (percentage change; average)	11.0	9.3	9.5	8.0	9.2	8.0	6.0	4.0
				(Annual percentage change, unless otherwise specified)				
External sector								
Exports, f.o.b.	-18.7	21.0	9.4	4.9	85.4	-3.0	-0.8	2.0
Imports, c.i.f.	-2.7	5.1	11.1	12.7	14.7	31.0	32.1	283.7
Exchange rate (in dobras per U.S. dollar; period average) 1/	7,909	...	8,756	...	8,987	...	...	...
Exchange rate (in dobras per U.S. dollar; end of period) 1/	8,568	...	8,949	...	9,025	...	...	...
Real effective exchange rate 2/	11.3	...	-6.5	...	-1.1	...	...	...
Terms of trade	-1.5	10.8	10.8	7.5	38.4	-13.9	1.0	-5.4
Money and credit (end of period)								
Net domestic assets 3/	15.0	-9.8	5.0	-44.3	-26.6	...	...	...
Credit to government (net) 3/	9.7	5.1	15.4	-49.9	-32.6	...	...	...
Credit to the economy 3/	1.4	1.4	-2.0	4.1	4.3	...	...	...
Broad money	28.8	19.8	36.7	12.3	23.1	...	...	...
Velocity (ratio of GDP to average broad money)	3.7	3.5	3.2	3.5	3.1	...	...	...
Central bank discount rate (in percent; end of period)	17.0	...	...	...	...	...	...	...
Commercial bank lending rate (in percent; end of period)	34.0 to 39.0	33.0 to 39.0	34.0 to 39.0	...	...	...	...	...
Commercial bank deposit rate (in percent; end of period)	14.0 to 16.0	19.0 to 23.0	14.0 to 16.0	...	...	...	...	...
				(In percent of GDP, unless otherwise specified)				
National accounts								
Consumption	103.5	98.4	105.2	98.0	103.0	105.4	101.9	102.5
Gross investment	43.5	49.9	50.0	45.3	45.2	58.4	95.6	411.4
Public investment	26.0	33.0	33.1	28.4	28.3	28.7	29.3	29.0
Private investment	17.5	16.9	16.9	16.9	16.9	29.8	66.3	382.4
Of which: oil sector	0.0	0.0	0.0	0.0	0.0	17.3	44.6	361.4
Gross domestic savings	-3.5	1.6	-5.2	2.0	-3.0	-5.4	-1.9	-2.5
Public savings	-8.4	-11.0	-12.5	-13.1	-10.7	-12.1	-10.3	-10.5
Private savings	4.9	12.6	7.4	15.0	7.7	6.7	8.4	8.1
Gross national savings	23.1	39.3	34.2	44.9	35.1	27.0	32.8	32.2
Government budget								
Total revenue and grants	49.6	61.4	64.9	68.0	63.0	57.5	60.4	61.8
Of which: grants	28.0	39.2	42.3	45.5	41.0	35.0	33.3	33.7
Total expenditure	66.1	76.4	76.7	72.6	69.7	69.7	73.2	74.6
Of which: noninterest current expenditure	17.6	19.9	21.8	18.3	19.6	19.7	20.1	21.0
Overall balance (commitment basis)	-16.5	-15.0	-11.8	-4.6	-6.7	-12.1	-12.8	-12.7
Primary balance (commitment basis; incl. HIPC Initiative spending) 4/ 5/	2.1	-7.4	-9.9	-3.0	-4.7	-7.7	-7.1	-7.8
Primary balance (commitment basis; excl. HIPC Initiative spending) 4/ 5/	2.1	-3.4	-5.9	1.7	-0.1	-1.9	1.2	0.2
External sector								
Current account balance (excluding official transfers)	-52.3	-54.6	-62.4	-49.1	-54.2	-68.9	-98.4	-415.0
Current account balance (including official transfers)	-20.4	-10.6	-16.1	-0.4	-10.0	-31.4	-62.8	-379.2
Net present value of total debt 6/ 7/ 8/	920.8	708.2	908.9	646.4	825.9	704.0	620.4	564.9
Net present value of total debt 6/ 7/ 9/	1,353.2	1,023.6	1,339.1	973.8	1,259.1	1,084.2	830.8	752.0
				(In millions of U.S. dollars, unless otherwise specified)				
External sector								
Export earnings	3.2	3.9	3.5	4.0	6.5	6.3	6.2	6.4
Of which: cocoa	2.9	3.4	3.1	3.6	5.1	4.7	4.6	4.6
Overall balance	-2.4	1.7	1.5	4.6	3.4	32.9	-10.1	-11.2
Outstanding public external debt (before debt relief)	252.0	286.7	259.3	283.0	263.6	261.9	265.7	269.1
Of which: arrears	0.0	...	2.1	...	6.9	6.9	6.9	6.9
Gross foreign reserves (in months of following year's imports of goods and services)	3.5	3.9	3.8	6.1	4.8	5.1	4.7	4.1
External debt service								
Before debt relief 8/	36.2	31.4	22.3	33.4	30.1	63.6	37.9	38.1
Actual debt service paid 8/	26.1	10.8	4.2	...	...	...	...	...

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

1/ For 2002, as at end-August.
2/ For 2002, as at end-June.
3/ In percent of broad money at beginning of period.
4/ Excluding interest obligations, grants, and foreign-financed capital outlays.
5/ Excluding oil revenue.
6/ Includes arrears to Italy on a loan that remains in dispute.
7/ Assumes the completion point under the enhanced HIPC Initiative is reached in 2003.
8/ In percent of exports of goods and services.
9/ In percent of government revenue.

Table 2. São Tomé and Príncipe: Balance of Payments, 2000-05

(In millions of U.S. dollars, unless otherwise specified)

	2000	2001		2002		2003	2004	2005
		EBS/02/3	Est.	SMP	Rev. SMP		Proj.	
Trade balance	-18.2	-19.5	-20.2	-22.3	-20.7	-29.4	-40.9	-174.5
Exports, f.o.b.	3.2	3.9	3.5	4.0	6.5	6.3	6.2	6.4
Cocoa	2.9	3.4	3.1	3.6	5.1	4.7	4.6	4.6
Other	0.3	0.4	0.4	0.5	1.4	1.5	1.7	1.8
Imports, f.o.b.	-21.4	-23.4	-23.7	-26.4	-27.2	-35.7	-47.1	-180.8
Food	-4.5	-4.8	-5.6	-6.5	-6.4	-7.6	-8.9	-9.8
Investment goods	-11.8	-12.8	-12.8	-13.5	-13.5	-15.5	-16.6	-18.1
Petroleum-related investment	0.0	0.0	0.0	0.0	0.0	-3.4	-11.0	-141.1
Petroleum products	-4.0	-3.6	-3.6	-3.4	-4.4	-5.7	-6.1	-6.7
Other	-1.0	-2.2	-1.7	-3.0	-2.9	-3.5	-4.5	-5.1
Services and income (net)	-6.7	-9.8	-10.4	-9.6	-9.5	-13.4	-25.9	-124.7
Exports of services	12.3	13.8	13.7	16.8	16.1	17.5	20.5	24.0
Travel and tourism	8.7	9.3	9.6	11.9	11.6	12.8	15.0	17.7
Other services	3.6	4.5	4.1	4.9	4.5	4.7	5.5	6.3
Imports of nonfactor services	-16.1	-20.0	-20.5	-22.7	-21.7	-27.2	-45.2	-147.3
Freight and insurance	-4.7	-4.6	-4.9	-5.9	-5.8	-7.3	-10.0	-43.1
Technical assistance	-6.0	-10.5	-9.9	-11.6	-10.2	-10.8	-12.1	-13.1
Petroleum-related services	0.0	0.0	0.0	0.0	0.0	-3.0	-16.5	-84.0
Other	-5.3	-4.9	-5.6	-5.2	-5.7	-6.1	-6.6	-7.1
Interest due	-3.0	-3.7	-3.6	-3.7	-3.9	-3.7	-1.2	-1.4
Private transfers (net)	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Current account, excluding official transfers	-24.4	-28.8	-30.1	-31.3	-29.6	-42.1	-66.2	-298.5
Official transfers (net)	14.9	21.6	22.3	26.1	24.1	22.9	23.9	25.7
Public investment projects	12.0	14.2	13.8	17.1	15.1	18.4	19.9	21.7
Aid in kind	1.9	0.8	2.0	2.1	2.0	2.0	1.5	1.5
HIPC Initiative-related grants	...	2.9	2.9	4.2	4.2	0.0	0.0	0.0
European Union budget support	0.0	1.4	1.4	1.0	1.1	1.0	1.0	1.0
Other	1.0	2.4	2.3	1.7	1.7	1.5	1.5	1.5
Current account, including official transfers	-9.5	-7.2	-7.7	-5.2	-5.5	-19.2	-42.2	-272.8
Medium- and long-term capital (net)	7.1	8.9	8.9	9.8	3.9	52.1	32.1	261.6
Project loans	6.6	4.8	4.8	3.8	3.8	1.8	1.8	1.0
Nonproject loans	0.0	3.0	3.0	4.3	3.3	3.3	3.0	3.0
Oil signature bonuses 1/		2.0	2.0	5.0	0.0	45.0	0.0	1.5
Direct foreign investment	3.8	3.5	3.5	3.0	3.0	13.4	33.7	263.8
Of which: petroleum related	0.0	0.0	0.0	0.0	0.0	10.6	30.0	260.0
Amortization	-3.3	-4.4	-4.4	-6.2	-6.2	-11.4	-6.4	-7.7
Of which: repayment of Nigerian advance		...	...	...	...	-5.0	...	...
Short-term capital and errors and omissions	0.0	0.0	0.4	0.0	5.0	0.0	0.0	0.0
Of which: Nigerian advance		...	...	0.0	5.0	...	...	...
Overall balance	-2.4	1.7	1.5	4.6	3.4	32.9	-10.1	-11.2
Financing	2.4	-1.7	-1.5	-4.6	-3.4	-47.2	-0.2	-0.2
Change in reserves (increase -)	-2.0	-2.9	-2.7	-9.0	-6.6	-5.5	-0.2	-0.2
Oil reserve fund 1/	...	...	...	...	...	-37.4	0.0	0.0
Medium- and long-term arrears (net; decrease -) 2/	-32.5	0.0	1.0	0.0	3.3	-4.3	0.0	0.0
Short-term arrears (net; decrease -)	-22.3	-16.6	-16.6	0.0	0.0	0.0	0.0	0.0
Poverty Reduction and Growth Facility (net)	2.5	0.0	0.0	1.3	0.0	0.0	0.0	0.0
Other	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	57.1	17.8	16.8	3.1	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	14.3	10.3	11.4
Memorandum items:								
Exchange rate (in dobras per U.S. dollars, average) 3/	7,909	...	8,756	...	8,987	...	...	...
GDP (in billions of dobras)	369.5	422.0	422.0	482.1	491.0	550.5	605.3	647.5
Debt-service ratio (before debt relief) 4/ 5/	36.2	31.4	22.3	33.4	30.1	63.6	37.9	38.1
Debt-service ratio (after debt relief, including HIPC Initiative assistance) 4/ 5/	26.1	10.8	10.0	5.3	8.8	...	..	...
Debt service actually paid 4/ 6/	26.1	10.8	4.2	...	...	...	...	...
Current account, excluding official transfers (in percent of GDP)	-52.3	-58.7	-62.4	-58.4	-54.2	-68.9	-98.4	-415.0
Current account, including official transfers (in percent of GDP)	-20.4	-14.7	-16.1	-10.4	-10.0	-31.4	-62.8	-379.2
Gross reserves (in millions of U.S. dollars)	12.9	15.8	15.6	24.8	22.2	27.7	27.9	28.1
Gross reserves (in months of following year's imports)	3.5	3.9	3.8	6.1	4.8	5.1	4.7	4.1

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

1/ Oil contract signature bonuses expected in 2003 will mostly be deposited in the oil reserve fund.
2/ For 2002, the figure refers to the total amount of reschedulable arrears expected to be accumulated to bilateral creditors through end-December 2002, pending a possible new Paris Club rescheduling agreement.
3/ For 2002, as at end-August.
4/ In percent of exports of goods and services.
5/ Includes amortization to the IMF; excludes arrears.
6/ Includes obligations to the IMF and net changes in arrears.

Table 3. São Tomé and Príncipe: Quantitative Benchmarks Under the 2002 Staff-monitored program, January-June 2002

(In billions of dobras, unless otherwise specified)

	End-March 2002						End-June 2002					
	SMP	Excess or shortfall in program assistance	Excess or shortfall in oil concession	Adj. prog.	Estimate	Met (M) or not met (N)	SMP	Excess or shortfall in program assistance	Excess or shortfall in oil concession	Adj. prog.	Estimate	Met (M) or not met (N)
1. Floor on primary balance of the central government's financial operations, excluding foreign-financed investments (cumulative from beginning of year) 1/	-6.5	0.0	0.0	-6.5	-16.8	N	-7.9	0.0	0.0	-7.9	-15.5	N
2. Ceiling on changes in net bank credit to the central government (cumulative from beginning of year) 2/	-0.1	0.0	0.0	-0.1	20.8	N	7.1	0.0	0.0	7.1	18.4	N
3. Ceiling on changes in net domestic assets of the central bank (cumulative from beginning of year) 2/	0.1	0.0	0.0	0.1	23.4	N	7.3	0.0	0.0	7.3	13.7	N
4. Floor on changes in the net international reserves position of the central bank (cumulative from beginning of year; in millions of U.S. dollars) 1/	2.4	0.0	0.0	2.4	-1.5	N	1.9	0.0	0.0	1.9	0.4	N
5. Ceiling on central government's outstanding external payments arrears (in millions of U.S. dollars) 3/	0.0	0.0	0.0	0.0	0.0	M	0.0	0.0	0.0	0.0	0.0	M
6. Ceiling on contracting and guaranteeing of new nonconcessional debt by the central government with a maturity of more than one year (cumulative from beginning of year; in millions of U.S. dollars) 4/ 5/ 6/	0.0	0.0	0.0	0.0	0.0	M	0.0	0.0	0.0	0.0	0.0	M
7. Ceiling on change in the central government's outstanding stock of short-term external debt with a maturity of less than one year (cumulative from beginning of year) 5/ 6/	0.0	0.0	0.0	0.0	0.0	M	0.0	0.0	0.0	0.0	0.0	M
8. Floor on total central government revenue (cumulative from beginning of year) 2/	21.9	0.0	0.0	21.9	18.6	N	47.4	0.0	0.0	47.4	55.0	M
9. Ceiling on primary spending of the central government, excluding foreign-financed investments (cumulative from beginning of year) 1/	28.4	0.0	0.0	28.4	35.4	N	55.3	0.0	0.0	55.3	70.5	N
Memorandum items:												
Oil concession rights proceeds	0.0	0.0	0.0	0.0	0.0		0.0	...	0.0	0.0	0.0	
Program financing	0.0	0.0	0.0	0.0	0.0		0.0	0.0	...	0.0	0.0	
Exchange rate (in dobras per U.S. dollar; period average)	...				8,850.5		...				8,879.6	

Sources: São Tomé and Principe authorities; and staff estimates and projections.

1/ Based on a definition of expenditure excluding all interest payments and foreign-financed investment.

2/ The ceiling or the floor will be adjusted downward (or upward) to accommodate the positive (or negative) deviation between actual and projected disbursements of oil concession rights proceeds and program financing.

3/ Nonaccumulation of nonreschedulable new external payments arrears is a continuous benchmark.

4/ With a grant element of less than 50 percent.

5/ This benchmark applies not only to the debts defined in point 9 of the Directives Regarding External Debt Performance Criteria adopted on August 24, 2000, but also to debt contracted or guaranteed that has not yet been disbursed.

6/ The term "debt" is defined in accordance with point 9 of the Directives Regarding External Debt Performance Criteria adopted on August 24, 2000.

Table 4. São Tomé and Príncipe: Structural Benchmarks Under the Staff-Monitored Program, January–June 2002

Measures	Timetable	Status
1. Implementation of an upward adjustment in water and electricity tariffs of 16 percent.	End-March 2002.	Observed in January 2002.
2. Submission to the National Assembly of the draft budget for 2002.	End-April 2002.	Not observed; submitted end-June 2002.
3. Publication of a report on the external independent audit of three large government contracts and tenders for the period 1998-2000.	End-June 2002.	Not observed; to be published by end-December 2002.
4. Application of a mechanism for the adjustment of retail petroleum product prices to reflect import prices and distribution costs.	Continuous.	Observed.
5. Submission of monthly monetary data within four weeks of the end of each month.	Continuous.	Observed.

Table 5. São Tomé and Príncipe: Financial Operations of the Central Government, 2001-05

	2001	2002							2003	2004	2005
		Jan.-Mar.		Jan.-Jun.		Jan.-Sep.	Jan.-Dec.				
		SMP	Est.	SMP	Est.	Rev. SMP	SMP	Rev. SMP	Proj.		
	(In billions of dobras)										
Total revenue and grants	274.0	47.0	41.2	94.8	136.0	182.9	327.7	309.4	316.6	365.6	400.5
Total revenue	95.6	21.9	18.6	47.4	55.0	75.6	108.4	108.3	123.8	163.8	182.3
Tax revenue	78.6	17.1	17.4	38.3	45.8	62.2	88.7	87.8	101.1	111.7	127.0
Nontax revenue	17.1	4.8	1.2	9.1	9.2	13.4	19.7	20.5	22.6	52.1	55.3
Of which: oil reserve fund revenue	...	...	...	...	...	...	...	...	0.0	27.0	27.0
Grants	178.4	25.0	22.6	47.5	81.0	107.3	219.4	201.1	192.9	201.9	218.2
Of which : nonproject grants	17.3	5.4	3.3	16.9	9.5	22.8	27.6	27.6	27.0	22.5	22.5
HIPC Initiative-related grants	21.4	8.2	9.2	10.2	11.2	19.5	37.8	37.7	0.0	0.0	0.0
Total expenditure and net lending	323.6	56.3	63.1	102.9	162.1	207.6	349.9	343.3	383.5	442.0	478.7
Current expenditure	124.3	29.4	33.1	57.9	67.4	95.0	122.6	132.4	143.1	160.6	177.1
of which: noninterest current expenditure	92.2	20.4	23.6	40 1	48.7	69.0	88.4	96.3	108.3	121.5	136.1
Personnel costs	40.5	10.5	9.3	19.4	19.6	33.6	38.8	44.8	51.3	57.9	65.0
Goods and services	18.8	5.6	5.5	9.1	13.9	15.0	20.7	24.1	27.3	30.8	34.6
Interest on external debt due	31.0	9.0	9.5	17.7	18.7	25.5	33.1	35.0	33.7	37.9	39.9
Interest on internal debt due	1.1	0.0	0.0	0.2	0.0	0.4	1.1	1.1	1.1	1.1	1.1
Transfers	13.1	0.9	1.6	4.0	3.6	6.1	9.3	9.3	10.4	11.8	13.2
Other	17.0	3.1	6.9	7.0	11.1	13.0	17.8	16.3	18.3	20.6	23.1
Redeployment fund	2.8	0.3	0.3	0.6	0.5	1.3	1.8	1.8	0.9	0.5	0.2
Capital expenditure	180.3	17.1	15.9	29.5	74.8	88.9	199.7	182.2	208.4	230.9	249.4
Financed by the treasury	28.2	3.1	3.3	4.7	8.1	7.7	12.0	12.7	26.0	35.0	44.7
Financed by external sources	152.1	14.0	12.6	24.8	66.7	81 2	187.7	169.5	182.4	195.9	204.7
HIPC Initiative-financed social expenditure	17.2	4.9	8.4	10.6	13.7	17.6	22.6	22.5	31.9	50.5	52.3
Public service restructuring 1/	1.9	5.0	5.6	5.0	6.2	6.2	5.0	6.2	0.0	...	...
Net lending 2/	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											
(commitment basis, including grants)	-49.6	-9.4	-21.9	-8.1	-26.1	-24.7	-22.2	-33.8	-66.8	-76.4	-78.3
Change in arrears (net; reduction -)	-26.9	0.0	1.5	0.0	10.4	4.4	0.0	5.9	-7.7	0.0	0.0
External arrears (net; reduction -)	-26.9	0.0	1.5	0.0	4.0	4.4	0.0	5.9	-7.7	0.0	0.0
Domestic arrears (net; reduction -)	0.0	0.0	0.0	0.0	6.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (cash basis)	-76.5	-9.4	-20.4	-8.1	-15.7	-20.3	-22.2	-27.9	-74.5	-76.4	-78.3
Financing	76.5	9.4	20.4	8.1	15.7	20.3	22.2	27.9	-54.1	-17.1	-25.8
External (net)	42.0	9.5	-0.5	1.0	-2.8	-5.6	44.3	31.8	-86.9	-14.2	-33.4
Disbursements (projects)	15.8	2.5	2.5	4.5	6.4	16.1	33.8	33.7	16.5	16.5	9.0
Program financing (loans)	25.8	0.0	0.0	0.0	0.0	0.0	38.3	29.7	29.7	27.0	27.0
Amortization (net)	-144.2	-15.1	-3.0	-25.8	-9.2	-21.7	-55.4	-31.5	-133.2	-57.8	-69.4
Scheduled	-36.7	-15.1	-15.0	-25.8	-26.0	-39.5	-55.4	-55.2	-102.2	-57.8	-69.4
Net change in arrears (reduction -)	-107.5	0.0	12.0	0.0	16.8	17.8	0.0	23.7	-31.0	0.0	0.0
Debt relief 3/	144.6	22.0	0.0	22.4	0.0	0.0	27.7	0.0	0.0	0.0	0.0
Domestic (net)	34.6	-0.1	20.8	7.1	18.4	25.9	-22.2	-3.9	32.8	-2.8	7.6
Bank net credit	17.3	-0.1	20.8	7.1	18.4	-15.9	-67.2	-50.1	-35.3	-2.0	-2.0
Of which: HIPC Initiative account	-4.3	-4.9	-0.8	-1.5	2.5	-1.9	-22.5	-15.2	0.0	0.0	0.0
Oil concession rights proceeds	17.2	0.0	0.0	0.0	0.0	45.0	45.0	45.0	405.0	0.0	13.7
Oil reserve fund	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-336.9	0.0	0.0
Financing gap (excess financing -)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	128.7	93.4	104.1
Memorandum items:											
Domestically financed primary expenditure 4/ 5/	137.5	28.4	35.4	55.3	70.5	94.3	122.9	131.5	166.2	207.0	233.0
Primary balance (commitment basis) 4/ 5/	-41.9	-6.5	-16.8	-7.9	-15.5	-18.7	-14.6	-23.1	-42.4	-43.3	-50.7
External debt-service cash payments	36.1	2.1	11.0	21.1	23.8	42.8	60.8	60.6	174.6	95.7	109.3
	(In percent of GDP, unless otherwise indicated) 6/										
Total revenue	22.7	4.9	3.8	9.6	11.2	15.4	22.5	22.1	22.5	27.1	28.2
Of which: tax revenue	18.6	3.4	3.5	7.8	9.3	12.7	18.4	17.9	18.4	18.5	19.6
Total expenditure and net lending	76.7	11.8	12.8	21.0	33.0	42.3	72.6	69.7	69.7	73.2	74.6
Of which: education	11.4	...	...	...	...	...	...	8.9	11.9	12.1	12.3
health	10.8	...	...	...	...	...	...	13.0	13.0	13.2	13.4
Current expenditure	29.5	6.5	6.7	11.8	13.7	19.3	25.4	27.0	26.0	26.7	28.0
Of which: personnel costs	9.6	2.4	1.9	3.9	4.0	6.8	8.0	9.0	9.0	9.0	9.0
Capital expenditure	42.7	3.2	3.2	6.0	15.2	18.1	41.4	37.1	37.9	38.1	38.5
Domestically financed primary expenditure 4/ 5/	32.6	6.2	7.2	11.3	14.4	19.2	25.5	26.8	30.2	34.2	36.0
Of which: current expenditure	21.8	4.7	4.8	8.3	9.9	14.1	18.3	19.6	19.7	20.1	21.0
Primary balance 4/ 5/	-9.9	-1.3	-3.4	-1.6	-3.2	-3.8	-3.0	-4.7	-7.7	-11.6	-12.0
Primary balance (excluding HIPC-financed exp.) 4/	-5.9	-0.3	-1.7	0.6	-0.4	-0.2	1.7	-0.1	-1.9	-3.3	-3.9
Quasi-fiscal balance of the central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis, incl. grants) 5/	-11.8	-2.1	-4.5	-1.6	-5.3	-5.0	-4.6	-6.7	-12.1	-12.8	-12.7
Overall balance (commitment basis, excl. grants) 5/	-54.0	-6.9	-9.1	-11.3	-21.8	-26.9	-50.1	-47.6	-47.2	-46.1	-46.4
Gross domestic product (in millions of dobras)	422.0	...	...	...	...	...	482.1	491.0	550.5	605.3	647.5

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

1/ Severance packages totalling Db 8,000 million to be financed by a Structural Adjustment Facility grant from the European Union in 2001.

2/ Includes net proceeds from the liquidation of the former Caixa Nacional de Poupança e Crédito.

3/ For 1999, rescheduling of arrears on debt service to Arab Bank for Economic Development in Africa in February 1999. For 2000, Paris Club debt rescheduling of May 16, 2000.

4/ Excluding interest obligations, grants, and foreign-financed capital outlays.

5/ Includes HIPC-related social expenditure

6/ For within-year quarterly data, ratios are based on end-year GDP.

Table 6. São Tomé and Príncipe: Monetary Survey, 2000-02

	2000	2001					2002						
		Mar.	June	Sep.	Dec.		Mar.		June		Sep.	Dec.	
			Est.		EBS/02/3	Est.	SMP	Est.	SMP	Est.	Rev. SMP	SMP	Rev. SMP
	(In billions of dobras; end of period)												
Net foreign assets	136.2	180.9	177.5	176.7	169.5	171.9	166.8	158.4	162.8	181.0	214.0	243.9	248.2
Central bank	89.3	129.5	125.5	120.1	115.1	117.0	111.4	112.2	106.4	117.4	154.0	184.5	176.6
Commercial banks	46.9	51.5	52.0	56.6	54.4	54.9	55.4	46.2	56.4	63.5	60.0	59.4	71.5
Net domestic assets	-23.9	-63.3	-61.7	-42.5	-35.0	-18.3	-29.3	1.4	-23.6	2.6	-29.2	-94.6	-59.1
Net domestic credit	-2.2	-35.1	-29.5	-12.4	5.1	12.9	6.4	35.0	14.4	37.4	3.6	-56.5	-30.0
Net credit to government	-27.5	-63.6	-55.0	-38.2	-21.8	-10.2	-21.9	10.7	-14.8	8.2	-26.1	-89.0	-60.3
Claims	54.0	53.9	54.6	55.1	55.1	56.4	55.1	54.5	55.1	56.3	56.4	66.7	56.2
Of which: use of SDR allocation	27.7	27.6	28.3	28.7	28.7	30.1	28.7	28.1	28.7	30.0	30.1	40.3	29.8
bank liquidation (net)	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
Deposits	-81.6	-117.5	-109.7	-93.3	-76.9	-66.6	-76.9	-43.8	-69.8	-48.1	-82.5	-155.6	-116.5
Budgetary deposits	-44.6	-49.6	-51.7	-50.3	-39.7	-32.1	-39.8	-13.9	-32.6	-14.2	-47.9	-118.5	-81.9
Of which: HIPC Initiative resources	...	-2.5	-4.0	-5.9	...	-4.3	-4.3	-5.1	...	-1.7	-6.1	...	-4.3
Counterpart funds	-23.5	-23.0	-22.8	-23.3	-23.0	-24.5	-23.0	-25.0	-23.0	-24.9	-24.5	-23.0	-24.5
Foreign currency deposits	-13.5	-44.9	-35.2	-19.7	-14.1	-10.1	-14.1	-4.9	-14.1	-9.0	-10.1	-14.1	-10.0
Net claims on other public institutions	-0.7	-0.7	-0.7	-0.9	-0.7	-0.7	-0.7	-0.7	-0.7	0.0	0.0	-0.7	0.0
Credit to the economy	26.0	29.1	26.2	26.7	27.6	23.8	29.0	25.1	29.9	29.2	29.7	33.1	30.3
Other items (net)	-21.8	-28.2	-32.2	-30.1	-40.1	-31.2	-35.7	-33.7	-38.1	-34.8	-32.9	-38.0	-29.1
Of which: revaluation accounts	-18.5	-3.2	-7.3	-6.7	-6.7	-6.3	-6.7	2.7	-6.7	-8.7	-4.1	-6.7	-4.1
Other	-3.2	-25.0	-24.9	-23.3	-33.3	-24.9	-28.9	-36.3	-31.3	-26.2	-28.7	-31.3	-25.0
Broad money (M2)	112.3	117.6	115.7	134.2	134.6	153.5	139.3	159.8	140.9	183.6	184.8	151.1	189.1
Local currency	65.6	71.2	69.8	79.4	80.7	98.1	85.2	101.4	85.1	106.2	109.7	93.0	116.3
Money	58.5	63.9	62.1	71.0	72.6	89.2	76.3	91.3	75.9	95.3	99.5	83.0	105.6
Currency outside banks	25.1	23.5	25.2	27.7	30.6	35.8	31.6	36.3	32.7	35.1	40.4	34.8	41.9
Demand deposits	33.3	40.4	36.9	43.3	42.0	53.4	44.7	55.0	43.2	60.2	59.1	48.2	63.7
Time deposits	7.1	7.3	7.7	8.3	8.1	8.9	8.9	10.1	9.3	10.9	10.2	10.0	10.7
Foreign currency deposits	46.7	46.4	45.9	54.9	53.9	55.4	54.1	58.4	55.8	77.3	75.0	58.1	72.7
	(Changes from the beginning of the year in billions of dobras)												
Net foreign assets	12.0	44.7	41.2	40.5	33.3	35.6	-5.1	-13.5	26.5	9.1	42.1	107.6	76.3
Net domestic assets	13.1	-39.4	-37.8	-18.5	-11.0	5.6	-10.9	19.7	11.3	20.9	-10.9	-59.6	-40.8
Net domestic credit	10.3	-32.9	-27.3	-10.2	7.3	15.1	-6.5	22.2	9.3	24.5	-9.3	-61.6	-42.9
Net credit to government	8.4	-36.0	-27.5	-10.7	5.7	17.3	-11.7	20.8	7.1	18.4	-15.9	-67.2	-50.1
Net claims on other public institutions	0.6	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.7	0.7	0.0	0.7
Credit to the economy	1.2	3.1	0.1	0.6	1.6	-2.3	5.2	1.3	2.3	5.4	5.9	5.5	6.5
Other items (net)	2.8	-6.5	-10.4	-8.3	-18.3	-9.5	-4.5	-2.4	2.0	-3.6	-1.6	2.0	2.1
Broad money (M2)	25.1	5.3	3.4	21.9	22.2	41.2	-14.2	6.2	6.3	30.0	31.2	16.5	35.5
	(Change in percent of beginning-of-period money stock, unless otherwise specified)												
Net foreign assets	13.8	51.2	40.5	36.0	29.6	31.7	-4.0	-10.6	19.7	5.9	27.4	80.0	49.7
Net domestic assets	15.0	-45.2	-37.1	-16.5	-9.8	5.0	-8.6	15.6	8.4	13.6	-7.1	-44.3	-26.6
Net credit to government	9.7	-41.3	-27.0	-9.5	5.1	15.4	-9.2	16.5	5.3	12.0	-10.3	-49.9	-32.6
Counterpart funds	5.5	0.5	0.7	0.2	0.4	-0.9	1.1	-0.5	0.0	-0.3	0.0	0.0	0.0
Credit to the economy	1.4	3.5	0.1	0.6	1.4	-2.0	4.1	1.0	1.7	3.5	3.8	4.1	4.3
Credit to the economy (percentage change from beginning of the year)	4.9	11.8	0.5	2.4	6.0	-8.8	...	5.5	...	22.8	24.9	...	27.6
Broad money (M2)	28.8	6.0	3.3	19.5	19.8	36.7	-11.2	4.9	4.7	19.6	20.3	12.3	23.1
Local currency	17.8	6.4	11.0	18.5	13.4	28.9	10.0	2.6	3.3	5.3	7.6	9.2	11.9
Broad money (net of valuation adjustment)	20.5	13.7	20.5	35.7	25.5	43.8	12.2	6.9	6.8	21.4	22.2	14.5	25.0
Foreign currency deposits (net of valuation adjustment)	2.7	7.2	8.8	16.0	11.2	12.9	2.0	4.2	3.4	16.0	14.5	5.1	13.0
Memorandum items:													
M2/base money multiplier	2.0	1.9	1.8	1.8	1.8	1.6	1.8	1.4	1.8	1.7	1.6	1.8	1.7
Velocity (ratio of GDP to average broad money)	3.7	...	...	...	3.5	3.2	...	...	...	...	...	3.5	3.1
Foreign currency deposits (in percent of total deposits)	53.6	49.3	50.7	51.5	51.8	47.1	50.2	47.3	51.5	52.1	52.0	50.0	49.4

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

Table 7. São Tomé and Príncipe: Summary Accounts of the Central Bank, 2000-02 1/

(In billions of dobras; end of period)

	2000	2001					2002						
		March	June	Sep.	Dec.		March		June		Sep.	Dec.	
			Est.		EBS/02/3	Est.	SMP	Est.	SMP	Est.	Rev. SMP	SMP	Rev. SMP
Net foreign assets	89.3	129.5	125.5	120.1	115.1	117.0	111.4	112.2	106.4	117.4	154.0	184.5	176.6
Gross official reserves	110.7	150.9	146.8	141.8	136.4	139.7	132.7	133.5	127.6	140.1	176.7	217.4	199.1
Liabilities	-21.4	-21.4	-21.4	-21.7	-21.2	-22.7	-21.2	-21.2	-21.2	-22.6	-22.7	-32.9	-22.4
Net domestic assets	-33.3	-68.3	-62.6	-46.8	-38.9	-21.3	-33.2	2.1	-26.0	-7.6	-36.6	-100.3	-67.8
Net domestic credit	-23.8	-57.7	-52.5	-37.4	-21.5	-9.7	-19.9	11.3	-12.8	9.3	-24.9	-87.0	-59.1
Net credit to government	-23.1	-59.4	-52.6	-35.6	-19.2	-7.5	-19.2	13.5	-12.1	11.0	-23.4	-86.3	-57.6
Claims	54.0	53.9	54.6	55.1	55.1	56.4	55.1	54.5	55.1	56.3	56.4	66.7	56.2
Of which: use of SDRs/Poverty Reduction and Growth Facility	27.7	27.6	28.3	28.7	28.7	30.1	28.7	28.1	28.7	30.0	30.1	40.3	29.8
bank liquidation (CNPC)	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
Deposits	-77.2	-113.3	-107.2	-90.6	-74.2	-64.0	-74.3	-41.0	-67.2	-45.3	-79.8	-153.0	-113.8
Ordinary	-44.1	-49.3	-53.2	-51.6	-41.0	-33.3	-41.0	-14.9	-33.9	-15.3	-49.2	-119.7	-83.2
Of which: HIPC Initiative resources	...	-2.5	-4.0	-5.9	...	-4.3	-4.3	-5.1	...	-1.7	-6.1	...	-4.3
Bank liquidation (CNPC; net of claims)	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Counterpart funds	-21.3	-20.9	-20.6	-21.1	-20.9	-22.3	-20.9	-22.9	-20.9	-22.8	-22.3	-20.9	-22.3
Foreign currency	-13.5	-44.9	-35.2	-19.7	-14.1	-10.1	-14.1	-4.9	-14.1	-9.0	-10.1	-14.1	-10.0
Net claims on other public institutions	-0.7	-0.7	-0.7	-0.9	-0.7	-0.7	-0.7	-0.7	-0.7	0.0	0.0	-0.7	0.0
Certificate of deposit	0.0	0.0	0.0	-1.7	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net)	-9.5	-10.6	-10.1	-9.4	-17.4	-11.6	-13.3	-9.2	-13.3	-16.9	-11.7	-13.3	-8.7
Revaluation accounts	-18.5	-3.2	-7.3	-6.7	-6.7	-6.3	-6.7	2.7	-6.7	-8.7	-4.1	-6.7	-4.1
Other	-39.0	-55.6	-52.0	-53.1	-61.1	-58.5	-57.0	-65.1	-57.0	-61.8	-61.1	-57.0	-58.1
Bilateral payment agreements	48.0	48.2	49.2	50.5	50.5	53.2	50.5	53.2	50.5	53.5	53.5	50.5	53.5
Base money	56.0	61.1	62.8	73.3	76.2	95.6	78.3	114.4	80.4	109.8	117.4	84.2	108.8
Currency outside banks	25.0	23.4	25.1	27.6	30.5	35.8	31.6	36.2	32.6	35.0	40.3	34.8	41.8
Bank reserves 2/	31.0	37.7	37.7	45.7	45.7	59.9	46.7	78.2	47.7	74.8	77.1	49.5	67.0
Memorandum item:													
Change in net official reserves (cumulative from beginning of year)	9.9	40.1	36.1	30.8	25.8	27.6	-3.7	-4.7	-8.7	0.5	37.0	69.4	59.7

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

1/ With reclassifications, including amalgamation of the bank in liquidation (CNPC) with the central government and identification of the social security administration as "other public administration."

2/ Net of deposits constituted by short-term credit from the central bank.

Table 8. São Tomé and Príncipe: Summary Accounts of Banking Institutions, 2000-02 1/

(In billions of dobras; end of period)

	2000	2001					2002						
		Mar.	June	Sep.	Dec.		Mar.		June		Sep.	Dec.	
			Est.		EBS/02/3	Est.	SMP	Est.	SMP	Est.	Rev. SMP	SMP	Rev. SMP
Net foreign assets	46.9	51.5	52.0	56.6	54.4	54.9	55.4	46.2	56.4	63.5	60.0	59.4	71.5
Foreign assets	46.9	51.5	52.0	56.6	54.4	54.9	55.4	46.2	56.4	63.5	60.0	59.4	71.5
Foreign liabilities	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 domestic assets	40.3	42.6	38.6	49.9	49.6	62.8	52.3	77.3	51.8	84.9	84.3	56.8	75.6
Reserves	31.0	37.6	37.7	45.6	45.7	59.8	46.7	78.1	47.7	74.7	77.0	49.5	66.9
Cash holdings	3.4	4.4	3.3	4.8	4.8	7.8	4.8	5.5	4.8	4.0	3.8	4.8	3.8
Dobra deposits in the central bank	24.8	30.1	30.0	35.1	35.1	46.3	36.1	71.0	37.2	68.4	71.0	38.9	60.9
Foreign exchange deposits in the central bank	2.7	3.0	4.4	5.8	5.8	5.7	5.8	1.6	5.8	2.4	2.2	5.8	2.2
Other	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
Short-tem credit from the central bank	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 domestic credit	21.6	22.6	23.0	25.0	26.6	22.6	28.0	23.7	28.9	28.1	28.5	32.1	29.1
Net credit to government	-4.4	-4.2	-2.4	-2.6	-2.6	-2.7	-2.6	-2.8	-2.6	-2.8	-2.7	-2.6	-2.7
Claims	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
Deposits	-2.3	-2.1	-0.3	-0.5	-0.5	-0.5	-0.5	-0.7	-0.5	-0.7	-0.5	-0.5	-0.5
Counterpart funds 2/	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1
Deposits of bank in liquidation (CNPC)	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
Certificate of deposits from the central bank	0.0	0.0	0.0	1.7	1.7	0.0	1.7	0.0	1.7	0.0	0.0	1.7	0.0
Credit to the economy	26.0	26.8	25.4	25.9	27.6	25.2	28.9	26.5	29.8	30.9	31.2	33.1	31.8
Other items (net)	-12.2	-17.6	-22.1	-20.7	-22.7	-19.6	-22.4	-24.5	-24.8	-17.9	-21.2	-24.8	-20.4
Deposits	87.2	94.1	90.6	106.5	104.0	117.7	107.7	123.5	108.2	148.5	144.4	116.2	147.2
Local currency	40.5	47.7	44.7	51.7	50.1	62.3	53.6	65.1	52.4	71.1	69.4	58.1	74.4
Demand deposits	33.1	40.2	36.7	43.1	41.8	53.2	44.5	54.8	43.0	60.0	58.9	47.9	63.5
Time deposits	7.1	7.3	7.7	8.3	8.1	8.9	8.9	10.1	9.3	10.9	10.2	10.0	10.7
Nonresidents' deposits	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Foreign currency	46.7	46.4	45.9	54.9	53.9	55.4	54.1	58.4	55.8	77.3	75.0	58.1	72.7
Demand deposits	41.9	42.0	42.3	51.4	50.4	51.0	50.6	53.7	52.3	71.8	69.6	54.6	67.4
Time deposits	1.3	1.4	1.5	1.8	1.3	1.9	1.3	1.3	1.3	2.1	2.0	1.3	1.9
Nonresidents' deposits	3.5	3.1	2.1	1.7	2.1	2.5	2.1	3.3	2.1	3.5	3.5	2.1	3.5
Memorandum item:													
Net position vis-à-vis the central bank	31.0	37.6	37.7	47.3	47.4	59.8	48.4	78.1	49.4	74.7	77.0	51.2	66.9

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

1/ With reclassifications, including amalgamation of the bank in liquidation (CNPC) with the central government and identification of the social security administration as "other public administration."

2/ In March 1998, in order to satisfy reserve requirements, deposits of public institutions and counterpart funds were transferred to the central bank.

Table 9. São Tomé and Príncipe: Stock of Public External Debt, 2001-05 1/

(In millions of U.S. dollars, unless otherwise indicated)

	2001		2002		2003		2004		2005	
	Total	*Of which:* arrears	Total	*Of which:* arrears	Total	*Of which:* arrears	Total	*Of which:* arrears	Total	*Of which:* arrears
Total outstanding debt	258.2	1.0	264.8	4.3	263.4	4.3	267.3	4.3	270.3	4.3
Medium- and long-term debt	258.2	1.0	259.8	4.3	263.4	4.3	267.3	4.3	270.3	4.3
Multilateral 2/	177.0	0.0	177.0	0.0	183.6	0.0	190.6	0.0	198.1	0.0
IMF	2.6	0.0	2.6	0.0	2.6	0.0	2.6	0.0	2.5	0.0
IDA	66.9	0.0	65.8	0.0	64.8	0.0	63.7	0.0	62.6	0.0
Of which: new disbursements in 2000-01	7.2	0.0	7.2	0.0	7.2	0.0	7.2	0.0	7.2	0.0
African Development Bank (AfDB/ADF)	87.4	0.0	86.3	0.0	85.2	0.0	84.1	0.0	82.9	0.0
Of which: new disbursements in 2000-01	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0
Arab Bank for Economic Development in Africa (BADEA)	6.7	0.0	5.9	0.0	5.2	0.0	4.4	0.0	3.7	0.0
Others	13.4	0.0	12.8	0.0	12.4	0.0	12.0	0.0	11.4	0.0
European Investment Bank (EIB)	0.8	0.0	0.7	0.0	0.7	0.0	0.7	0.0	0.6	0.0
International Fund for Agricultural Development (IFAD)	6.9	0.0	6.6	0.0	6.4	0.0	6.1	0.0	5.8	0.0
Of which: new disbursements in 2000-01	0.5	0.0	0.4	0.0	0.4	0.0	0.4	0.0	0.4	0.0
Organization of Petroleum Exporting Countries (OPEC)	5.8	0.0	5.5	0.0	5.4	0.0	5.2	0.0	4.9	0.0
Of which: new disbursements in 2000-01	1.3	0.0	1.2	0.0	1.2	0.0	1.1	0.0	1.1	0.0
New borrowing 3/	...	...	3.5	0.0	13.4	0.0	23.7	0.0	35.1	0.0
Official bilateral 4/	81.2	1.0	82.8	4.3	79.8	4.3	76.8	4.3	72.1	4.3
Paris Club	54.4	0.4	53.8	1.9	51.4	1.9	48.9	1.9	45.9	1.9
Portugal	29.8	0.0	27.9	0.0	26.0	0.0	24.1	0.0	22.2	0.0
Germany	4.7	0.3	5.8	1.1	5.8	1.1	5.8	1.1	5.8	1.1
France	6.8	0.0	6.6	0.1	6.2	0.1	5.8	0.1	5.5	0.1
Spain	3.4	0.1	3.6	0.4	3.5	0.4	3.3	0.4	3.1	0.4
Russia 5/	3.3	0.0	3.3	0.0	3.3	0.0	3.3	0.0	3.3	0.0
Belgium	0.9	0.0	1.1	0.2	1.1	0.2	1.0	0.2	1.0	0.2
Italy 6/	5.5	0.0	5.5	0.0	5.5	0.0	5.5	0.0	5.1	0.0
Non-Paris Club	26.7	0.6	29.0	2.4	28.4	2.4	27.9	2.4	26.2	2.4
China	16.7	0.0	16.6	0.0	16.0	0.0	15.5	0.0	13.8	0.0
Others	10.0	0.6	12.4	2.4	12.4	2.4	12.4	2.4	12.4	2.4
Angola	7.9	0.4	9.8	1.9	9.8	1.9	9.8	1.9	9.8	1.9
Cape Verde	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Algeria	0.4	0.0	0.6	0.1	0.6	0.1	0.6	0.1	0.6	0.1
Yugoslavia, Fed. Rep. of	1.7	0.1	2.1	0.4	2.1	0.4	2.1	0.4	2.1	0.4
Short-term debt 7/	...	...	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nigeria	...	...	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
May 2000 bilateral debt forgiven	43.8	...	39.0	...	39.0	...	39.0	...	39.0	...
Net present value (NPV) of debt outstanding at end-2001 (incl. arrears) 8/	148.9		150.8		144.6		143.1		140.2	
Net present value (NPV) of total debt (incl. arrears) 8/	148.9		152.0		149.1		151.2		152.3	
NPV of total debt (in percent of GDP)	303.4		277.8		243.7		224.8		211.7	
NPV of total debt (in percent of exports of goods and services) 9/	908.9		825.9		704.0		620.4		564.9	
NPV of total debt (in percent of government revenue)	1339.1		1259.1		1084.2		830.8		752.0	

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

1/ Base year 2001. Refers to public and publicly guaranteed debt only, and includes short-term debt ineligible for treatment under the HIPC Initiative. Includes two OPEC and one AfDB/ADF pre-cutoff-date loans omitted in the HIPC Decision Point DSA, as well as the first disbursement under the IMF PRGF.

2/ Projected and not fully reconciled. IDA and EIB have provided HIPC Initiative interim assistance on 100 percent of debt service due in 2001 on pre-cutoff- date debt, while AfDB/AfDF provided HIPC Initiative interim assistance on 83 percent of debt service due in 2001 on pre-cutoff-date debt. It is assumed that IDA, EIB and AfDB/AfDF will continue providing assistance through end-2002; IFAD, BADEA, and OPEC do not provide any HIPC Initiative interim assistance.

3/ Projected from 2002. Includes known estimated and projected disbursements by IDA and AfDB/ADF; additional financing requirements assumed to be provided on IDA terms with no implied assumption regarding their source.

4/ Projected and not fully reconciled. All arrears on eligible outstanding debt to Paris Club creditors at end-March 2000 and on current maturities from April 2000 to end-April 2003 were rescheduled on Naples terms on May 16, 2000; the first phase of rescheduling was provided for the April 2000 to April 2001 period and the second and third phases are inoperative; consequently, the assistance planned under the second and third phases is assumed to accrue as arrears during May-December 2001 and throughout 2002. Non-Paris Club creditors are assumed to provide similar treatment.

5/ Arrears to Russia were converted at the Russian ruble-U.S. dollar rate of 0.6 and were reduced by 70 percent before the May 2000 Paris Club rescheduling.

6/ Debt to Italy was under discussion at the 2000 HIPC Decision Point. It is assumed to be rescheduled on backdated Naples flow terms for April 2000 to April 2001 to provide treatment similar to that provided by the other Paris Club creditors.

7/ A one-time, interest-free US$5 million advance from Nigeria in 2002 on expected oil contract signing bonuses that is programmed to be repaid in 2003. Short-term debt is not eligible for treatment under the enhanced HIPC Initiative.

8/ Discounted on the basis of the average commercial interest reference rate for the respective currency for the second half of 2001.
Conversion of currency-specific NPVs into U.S. dollars made at the 2001 end-period exchange rate.

9/ Exports are calculated as a three-year backward-looking average (e.g., average over 1999-2001 for exports in 2001).

Table 10. São Tomé and Príncipe: Public External Debt Service, 2001-05 1/
(In millions of U.S. dollars)

	2001			2002			2003			2004			2005		
	Principal	Interest	Debt service	Principal	Interest	Debt service	Principal	Interest	Debt service	Principal	Interest	Debt service	Principal	Interest	Debt service
Total debt service	4.4	3.7	8.1	6.2	3.7	9.9	11.4	3.7	15.0	6.4	3.8	10.2	8.1	3.3	11.4
Medium- and long-term debt service	4.4	3.7	8.1	6.2	3.7	9.9	6.4	3.7	10.0	6.4	3.8	10.2	8.1	3.3	11.4
Multilateral	3.0	1.3	4.3	3.5	1.2	4.7	3.3	1.2	4.5	3.3	1.3	4.6	3.9	1.6	5.4
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1
IDA	0.7	0.5	1.1	1.1	0.4	1.5	1.1	0.4	1.5	1.1	0.5	1.5	1.1	0.5	1.6
African Development Fund	1.0	0.7	1.6	1.1	0.6	1.7	1.1	0.6	1.7	1.1	0.6	1.7	1.2	0.6	1.8
Arab Bank for Economic Development in Africa	0.7	0.0	0.7	0.7	0.0	0.7	0.7	0.0	0.7	0.7	0.0	0.7	0.7	0.0	0.7
Others	0.6	0.2	0.8	0.6	0.1	0.7	0.4	0.1	0.5	0.4	0.1	0.5	0.7	0.2	0.9
European Investment Bank	0.2	0.1	0.3	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
International Fund for Agricultural Development	0.1	0.1	0.2	0.1	0.1	0.2	0.1	0.1	0.2	0.2	0.1	0.2	0.2	0.1	0.2
Organization of Petroleum Exporting Countries	0.2	0.1	0.3	0.2	0.1	0.3	0.2	0.0	0.3	0.2	0.0	0.3	0.4	0.1	0.6
Official bilateral	1.4	2.4	3.8	2.7	2.5	5.1	3.1	2.5	5.5	3.1	2.6	5.6	4.2	1.8	5.9
Paris Club	1.0	1.6	2.5	2.5	1.6	4.0	2.5	1.5	4.0	2.5	1.6	4.1	2.5	1.2	3.7
Portugal	0.0	0.9	0.9	1.9	0.8	2.7	1.9	0.8	2.7	1.9	0.7	2.6	1.9	0.7	2.6
Germany	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	0.3	0.3
France	0.4	0.1	0.5	0.4	0.1	0.5	0.4	0.1	0.5	0.4	0.1	0.5	0.4	0.1	0.5
Spain	0.2	0.1	0.2	0.2	0.1	0.2	0.2	0.0	0.2	0.2	0.0	0.2	0.2	0.1	0.3
Russia	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
Belgium	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
Italy	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
2000 Rescheduling	0.4	0.5	0.9	0.0	0.5	0.6	0.0	0.6	0.6	0.0	0.7	0.7	0.0	0.7	0.7
Non-Paris Club	0.4	0.8	1.3	0.2	0.9	1.1	0.6	0.9	1.5	0.6	1.0	1.5	1.7	0.6	2.2
China	0.1	0.0	0.1	0.2	0.0	0.2	0.6	0.0	0.6	0.6	0.0	0.6	1.7	0.0	1.7
Others	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	0.6	0.6
Angola	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	0.4	0.4
Cape Verde	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
Algeria	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
Yugoslavia, Fed. Rep. of	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	0.1	0.1
2000 Rescheduling	0.3	0.7	1.0	0.0	0.7	0.7	0.0	0.7	0.7	0.0	0.7	0.7	0.0	0.7	0.7
New borrowing	0.0	0.2	0.2	0.0	0.2	0.2	0.0	0.3	0.3	0.0	0.3	0.3	0.0	0.3	0.3
Short-term debt service	0.0	0.0	0.0	0.0	0.0	0.0	5.0	0.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Nigeria	...	...	...	...	...	...	5.0	0.0	5.0	...	...	...	...	...	...

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

1/ Before debt relief.

Table 11. São Tomé and Príncipe: Oil Assumptions for the Joint Development Zone and Revenue Payments Accruing to Nigeria, São Tomé and Príncipe, and the ERHC, 2005-24
(In millions of U.S. dollar, unless otherwise stated)

	2005	2006	2007	2008	2009	2010	2011	2016	2020	2021	2022	2023	2024	Average per Year 2011-16	Average per Year 2017-24	Total (Cumulative)	Net Present Value (NPV)
Production (barrels per day)	0	25,000	75,000	75,000	120,000	120,000	240,000	240,000	30,000	10,000	10,000	0	0	240,000	47,500	...	...
Price (U.S. dollars per barrel)	22	22	22	22	22	22	22	22	22	24	25	25	26	22	23	...	...
Gross export revenue	0.0	200.8	602.3	602.3	963.6	963.6	1,927.2	1,927.2	240.9	88.5	90.3	0.0	0.0	1,927.2	383.7	17,965.2	6,187.0
Production and investment costs																	
Operating costs	0.0	18.3	54.8	54.8	87.6	87.6	175.2	148.9	18.6	6.2	6.2	0.0	0.0	157.7	29.5	1,484.8	527.2
Capital cost	600.0	600.0	200.0	600.0	200.0	400.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,600.0	1,380.7
Exploration costs	50.0	50.0	50.0	55.5	40.0	40.0	10.0	10.0	0.0	0.0	0.0	0.0	0.0	10.0	1.3	355.5	181.2
Total Joint Development Zone (JDZ) revenue																	
Royalty (10-15 percent of gross prod. value)	0.0	20.1	60.2	65.8	114.0	114.0	258.6	258.6	24.1	8.8	9.0	0.0	0.0	258.6	45.0	2,285.5	774.8
Bonuses	4.0	12.5	11.9	0.0	1.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	31.4	21.2
Profit oil (10-30 percent of revenue, net of costs)	0.0	0.0	27.1	26.8	51.0	51.0	166.9	754.9	0.0	0.0	0.0	0.0	0.0	555.7	105.8	4,336.3	1,181.1
Income tax (40 percent of net taxable inc.)	0.0	0.0	24.9	34.3	87.2	78.8	260.0	358.3	49.5	18.4	18.8	0.0	0.0	315.8	76.7	2,733.5	809.9
Total revenue	4.0	32.6	124.1	127.0	253.2	243.8	686.5	1,371.7	73.6	27.2	27.8	0.0	0.0	1,130.4	227.5	9,386.7	2,787.1
Total revenue (in percent of gross export revenue)	...	16.2	20.6	21.1	26.3	25.3	35.6	71.2	30.6	30.7	30.8	...	...	58.7	59.3	52.2	45.0
Nigerian share																	
Royalty	0.0	10.2	30.7	34.1	59.7	59.7	137.8	137.8	12.3	4.5	4.6	0.0	0.0	137.8	23.5	1,209.6	409.2
Bonuses	2.3	7.2	6.8	0.0	0.6	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	18.0	12.2
Profit oil	0.0	0.0	16.3	16.1	30.6	30.6	100.1	452.9	0.0	0.0	0.0	0.0	0.0	333.4	63.5	2,601.8	708.7
Income tax	0.0	0.0	15.0	20.6	52.3	47.3	156.0	215.0	29.7	11.0	11.3	0.0	0.0	189.5	46.0	1,640.1	486.0
Nigerian government revenue	2.3	17.4	68.8	70.8	143.2	137.6	394.5	805.7	42.0	15.5	15.9	0.0	0.0	660.9	133.0	5,469.6	1,616.0
Nigerian share (in percent of total JDZ revenue)	57.5	53.5	55.4	55.7	56.6	56.4	57.5	58.7	57.1	57.1	57.1	...	...	58.5	58.5	58.3	58.0
São Tomé and Príncipe share																	
Royalty	0.0	6.8	20.5	22.7	39.8	39.8	91.9	91.9	8.2	3.0	3.1	0.0	0.0	91.9	15.7	806.4	272.8
Bonuses	1.5	4.7	4.5	0.0	0.4	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	11.8	8.0
Profit oil	0.0	0.0	9.8	9.7	18.4	18.4	60.1	271.7	0.0	0.0	0.0	0.0	0.0	200.1	38.1	1,561.1	425.2
Income tax	0.0	0.0	10.0	13.7	34.9	31.5	104.0	143.3	19.8	7.3	7.5	0.0	0.0	126.3	30.7	1,093.4	324.0
São Tomé and Príncipe government revenue	1.5	11.5	44.7	46.1	93.4	89.7	256.3	506.9	28.0	10.4	10.6	0.0	0.0	418.4	84.4	3,472.7	1,029.9
São Tomé and Príncipe share (in percent of total JDZ revenue	37.5	35.3	36.0	36.3	36.9	36.8	37.3	37.0	38.0	38.0	38.1	...	...	37.0	37.1	37.0	37.0
Environmental Remediation Holding Company's (ERHC) share																	
Royalty (1.5 percent of gross prod. value)	0.0	3.0	9.0	9.0	14.5	14.5	28.9	28.9	3.6	1.3	1.4	0.0	0.0	28.9	5.8	269.5	92.8
Bonuses (5 percent)	0.2	0.6	0.6	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.6	1.1
Profit oil (10 percent of São Tomé and Príncipe share)	0.0	0.0	1.1	1.1	2.0	2.0	6.7	30.2	0.0	0.0	0.0	0.0	0.0	22.2	4.2	173.5	47.2
ERHC revenue	0.2	3.6	10.7	10.1	16.5	16.5	35.6	59.1	3.6	1.3	1.4	0.0	0.0	51.2	10.0	444.5	141.1
ERHC share (in percent of total JDZ revenue)	5.0	11.2	8.6	8.0	6.5	6.8	5.2	4.3	4.9	4.9	4.9	...	...	4.5	4.4	4.7	5.1
ERHC share (in percent of São Tomé and Príncipe gov. reve	13.3	31.6	24.0	21.9	17.7	18.4	13.9	11.7	12.9	12.8	12.8	...	...	12.2	11.8	12.8	13.7

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

Washington, DC, September 30, 2002

Mr. Horst Köhler
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
U.S.A.

Dear Mr. Köhler:

1. This supplementary letter of intent, which updates and completes the memorandum of economic and financial policies of January 9, 2002, takes stock of the implementation of the staff-monitored program (SMP) of the authorities of São Tomé and Príncipe during the first half of 2002, describes the prior actions that have been put in place to correct the nonobservance of some of the program benchmarks, and presents the macroeconomic objectives for 2002 and 2003, as well as the expected measures envisaged by end-2002. Taking account of the prior actions that have been implemented, as well as the objectives and measures that are envisaged, the authorities request the extension of the SMP through end-December 2002.

2. In order to correct the observed slippages in the execution of the program supported by the International Monetary Fund under the Poverty Reduction and Growth Facility (PRGF), resolve governance problems in the management of the petroleum sector, and reestablish the credibility of economic policy, the authorities adopted in January 2002, a SMP within the context of a macroeconomic framework covering 2002. However, government spending overruns continued during the first half of 2002, prior to and after the early-March 2002 legislative elections. Therefore, in spite of revenue collection efforts, the end-March and end-June 2002 quantitative benchmarks on the government's primary budget surplus, net bank credit to the government, net domestic assets of the central bank, and net international reserves of the central bank were not observed. In addition, two structural benchmarks—the submission of a draft budget for 2002 to the National Assembly and the publication of a report on the independent external audit of large government contracts—were not observed.

Implementation of the SMP during the first half of 2002

3. Economic activity continued to recover during the first half of 2002, owing to the strong expansion in food production, construction, trade and tourism; real GDP growth is projected at 5 percent in 2002, as in the initial SMP. Due to the adjustment of water and electricity rates, and the continued expansion of government spending, the end-of-period inflation rate increased to 10.5 percent at end-June 2002, compared with 9.4 percent in 2001. In the first half of 2002, the dobra stabilized against the U.S. dollar and depreciated against the euro, resulting in a 1 percent depreciation in real effective terms.

4. In the fiscal area, the nonobservance of the quantitative benchmarks on the primary budget surplus at end-March and end-June 2002 was explained by expenditure overruns, which in turn were attributed to (i) the civil service unions' call for salary increases, (ii) higher government energy costs (due to increases in petroleum product retail prices and water and electricity rates), and (iii) higher-than-expected expenditures related to the legislative elections. Nevertheless, the tax collection efforts of the new government bore fruit during the second quarter, raising government revenue at end-June 2002 above targeted levels.

5. Monetary developments during the first half of 2002 were marked by a 20 percent growth of the money supply and a 23 percent growth of credit to the economy. The central bank maintained the reserve ratio at 22 percent and its reference interest rate at 15.5 percent; the commercial banks also kept their deposit rates at about 14 percent and their lending rates around 34 percent. The authorities have not adopted the decree-law authorizing the central bank to issue monetary regulation bills to organize a money market. Net bank credit to the government increased by 12 percent of the beginning-of-the-year money stock, as the treasury made substantial drawings on its deposits at the central bank to finance a larger-than-targeted budget deficit. In these circumstances, neither the quantitative benchmark at end-June 2002 on net bank credit to the government nor those on the net domestic assets of the central bank and on the net international reserves of the central bank were observed.

6. None of the attempts to restructure and recapitalize the insolvent commercial bank (Banco Comercial do Equador—BCE) were successful. In these circumstances, the central bank, which had already suspended the BCE's banking license at end-June 2001, reactivated its bankruptcy proceedings against the bank in São Tomé's court in April 2002. A court ruling is scheduled for end-October 2002.

7. In the petroleum sector, in May–June 2002, the government completed a legal review of the contracts signed in 2001 with the help of the World Bank. Following this legal review, the new government decided to renegotiate four contracts before launching the oil exploration licensing round in the Joint Development Zone with Nigeria. The four contracts are as follows: (i) the technical assistance contract with the U.S. company, Exxon-Mobil; (ii) the option contract on petroleum exploration and production signed with a Norwegian company (PGS); (iii) the contract giving a U.S. company (Environmental Remediation Holdings Company—ERHC) overriding royalties on the petroleum produced, as well as a percentage of the signature bonuses and of the production shares accruing to São Tomé and Príncipe; and (iv) the memorandum of understanding with the Nigerian government on the special regime area of the Joint Development Zone. However, the government has not yet published the implementing decrees for its petroleum legislation, nor has it submitted to the National Assembly the bill organizing the management of petroleum resources and instituting the reserve fund for future generations.

8. With respect to structural measures, in order to contain the wage bill, the government implemented the civil service reform and downsizing program, retrenching 265 civil servants out of about 4,500 and 158 workers at the water and electricity utility (EMAE) out of about 400. The severance payments necessitated by the retrenchment program, which were financed by the European Union's structural adjustment facility, amounted to about Db 8 billion. Later, in order to make up for the nonobservance of structural and quantitative benchmarks and to extend the SMP into the second half of 2002, the government signed a contract with an internationally

reputable firm on September 30, 2002 for an independent external audit of three government contracts and tenders of more than US$500,000.[1] The government also submitted a draft budget for 2002 (as described in paras 11 to 13 below) to the National Assembly, which approved it at end-July 2002. Moreover, in applying the automatic mechanism for adjusting water and electricity rates in line with production and distribution costs, the government raised electricity rates by 16 percent and water rates by 27 percent in January 2002. However, under social pressure, it returned these rates to their December 2001 levels, starting in July 2002.[2] Furthermore, the authorities have not held quarterly meetings with donors on the monitoring of public investment.

Macroeconomic framework and fiscal policy for the second half of 2002 and for 2003

9. The SMP for 2002 was revised to take account of the slippages observed during the first half of the year. The main macroeconomic objectives of the government are to (i) limit the end-of-period rate of inflation to 9 percent, compared with 9.4 percent in 2001; and (ii) narrow the external current account deficit (including official transfers) to 10 percent of GDP from 16 percent of GDP in 2001. The improvement in the external current account reflects the mobilization of interim assistance under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative). In the medium term, the inflation rate should be reduced to 7 percent in 2003 on an end-of-period basis, and to 3 percent by 2005; the external current account deficit should widen to 31 percent of GDP in 2003 and to about 380 percent of GDP by 2005, as a result of imports of goods and services associated with investments in petroleum exploration and development. Real GDP growth should remain at 5 percent per year during the period 2003-05. To attain its goals and, notably, to limit inflation, the government will pursue prudent fiscal, monetary, and exchange policies, and implement a number of structural reforms.

10. In the area of fiscal policy, the objectives are to reduce the primary budget deficit (excluding foreign-financed investment) from 10 percent of GDP in 2001 to 5 percent of GDP in 2002, and to contain it within 8 percent of GDP in 2003, including HIPC Initiative-financed expenditures. By end-December 2002, the government will submit to the National Assembly a draft budget for 2003 consistent with the objectives mentioned above and in line with the other fiscal data indicated in paragraphs 11 to 13 below. The government will not accumulate new domestic or non-reschedulable external payments arrears during the period of the staff-monitored program.

[1] The projects are (i) the rehabilitation of a road between Neves and Santa Catarina; (ii) the construction of 66 apartments in São Tomé; and (iii) the rehabilitation of urban roads and of the drainage and sewage system in São Tomé.

[2] To compensate for the reduction in billings resulting from these new rates, EMAE has undertaken to reduce its costs of production and distribution (including production losses), to enhance its revenue collection, and to provide incentives to induce several electricity-using companies with independent electricity generators to become clients of the company once again.

11. Government revenue is projected to stabilize at about 22 percent of GDP during 2002–03. The authorities will simplify the general sales tax and extend its coverage (at the single rate of 2 percent) to domestic goods and services (hotels, restaurants, telecommunications, and maintenance and repair services), starting in October 2002. The government will continue to strengthen the tax inspection and audit departments of the tax directorate and the customs administration, and will continue its efforts to reduce tax and customs exemptions.

12. Primary expenditure will be contained within 27 percent of GDP in 2002 (up 1 percentage point of GDP from the initial projection) and within 30 percent of GDP in 2003, compared with 33 percent of GDP in 2001. The government has granted a general salary increase averaging 17 percent, effective July 1, 2002. Given the downsizing in the civil service, the wage bill will be limited to 9 percent of GDP in 2002 and 2003 (compared with 9.6 percent of GDP in 2001).

13. The government will ensure that spending levels on education represent 9 percent of GDP in 2002 and 12 percent of GDP in 2003, compared with 11 percent of GDP in 2001, and that spending levels on health care represent 13 percent of GDP in 2002 and 2003, compared with 11 percent of GDP in 2001. By end-December 2002, the government will also finalize and adopt, in consultation with the World Bank, a three-year public investment program (PIP) for 2003–05 that will conform to the priorities laid out in the interim poverty reduction strategy paper (the priority sectors being human resource development and infrastructure maintenance).

14. The government will also reactivate the conducting of quarterly meetings to monitor public investment, with the participation of the main donors represented in São Tomé and Príncipe, in order to improve transparency in monitoring the execution of PIP projects. It will prepare and publish, by end-December 2002, a report on the independent external audit of the three government contracts and tenders of over US$500,000 during the period 1998–2000, with a view to improving government procurement, preparing a mechanism to control and monitor the execution of foreign-financed investment projects, and ensuring the centralization of all project accounts under the financial control of the treasury.

Monetary and exchange rate policy

15. The central bank will pursue a prudent monetary policy aimed at reducing the inflation rate to 9 percent by December 2002, on an end-of-year basis, and will continue to keep the central bank's reference interest rate above the inflation rate observed during the program period. The resumption of disbursements of nonproject external assistance, including the advance on oil contract signature bonuses extended to São Tomé and Príncipe by the Nigerian government in July 2002 (see para 19), interim assistance provided under the HIPC Initiative, and the reduction of the primary budget deficit, should make it possible to reduce net bank credit to the government by 33 percent of the beginning-of-year money stock during 2002. Credit to the private sector should increase by 28 percent and broad money by 23 percent in 2002 (the latter of which corresponds to a growth rate of 3 percent in the second half of the year). Gross international reserves of the central bank should increase to US$22 million, or 4.8 months of imports, by end-2002.

16. The central bank will continue to strengthen bank supervision and keep a close oversight on the banking system, with a view to ensuring smooth financial intermediation, the profitability of the banks, the quality of their lending portfolios, and the continued compliance of the banks with prudential and solvency ratios. The central bank will organize by end-December 2002 the liquidation of the BCE without further financial support from the central bank or the treasury. The central bank will also continue to enhance its inspection services and its internal control over its operations, with technical assistance from the Fund. In April 2002, the central bank published and posted on its website for the third consecutive year the report on the audit conducted by an independent, internationally recognized firm, which certified its 2001 accounts. The central bank will continue to have its accounts certified every year by independent external auditors.

17. Regarding the exchange rate, the authorities will ensure that their flexible exchange regime (based on signals from the market) operates effectively, thereby allowing them to maintain the gap between the official exchange rate and the parallel market rate at a very low level. In this context, the central bank will not attempt to influence the exchange rate offered by commercial banks and will limit its intervention on the exchange markets strictly to reaching its international reserves objective. However, on the occasion of the tenth anniversary of the central bank, the authorities have started to reflect on the relative merits of their flexible exchange rate regime versus those of a fixed exchange rate regime within the context of monetary integration with neighboring countries.

Structural and sectoral policies

18. Regarding structural measures, the government will apply, during the period of the program, the mechanism for adjusting retail petroleum product prices in line with import prices and distribution costs, as well as the new mechanism for adjusting water and electricity rates to reflect production and distribution costs. Having already liberalized trade and reduced customs tariffs, the government will submit to parliament, before end-December 2002, a new bill revising fundamentally the investment code, specifically by eliminating all preferential tax regimes, with the exception of that applying to the free trade zone. Concerning the business climate, the government will continue to enhance the incentives for private sector activity and investment, particularly by strengthening the legal, regulatory, and judicial systems. It will also pursue the financial restructuring of EMAE, with a view to its eventual privatization. In this regard, it will elaborate, by end-December 2002, an appropriate accounting and budgeting system, new, enhanced procedures for the collection of revenue, and a medium-term strategy and investment program. The review of the SMP will examine expost the financial impact of the July 2002 reduction of electricity and water rates, and of the compensatory measures taken in 2002 to improve the management of EMAE's operations account, with the aim of identifying necessary corrective measures, including a possible adjustment of rates.

19. With respect to oil exploration issues, the government will continue to ensure transparency in the conduct of future operations. While awaiting the launch of a call for bids on the exploration licenses for the oil blocks in the Joint Development Zone with Nigeria, the government contracted in July 2002, a US$5 million short-term advance from the Nigerian government (with a zero interest rate), to be repaid against the possible signature bonuses for oil exploration contracts expected for São Tomé and Príncipe in 2003. This advance will be maintained in the treasury's deposits at the central bank and will contribute to the strengthening

of international reserves during the period of the extended SMP. The government will consult with the staff of the IMF and will request technical assistance from the World Bank on oil sector contracts and resource management. With the support of this technical assistance, the government will install and make operational, by end-March 2003, an administrative division charged with the management of oil resources, and, by end-September 2003, it will submit to the National Assembly a bill organizing the management of oil resources and establishing a reserve fund for future generations.

20. Regarding other governance concerns, the government will continue to fight fraud and corruption. In the case of the treasury bond fraud attempt uncovered by the authorities in February 1999, the two officials implicated were dismissed and prosecuted. With respect to the judiciary, the government intends, with the assistance of Portugal, to strengthen and modernize the courts and tribunals and train magistrates by end-2002. In 2003, it will establish the Auditor General's Office and prepare criminal, civil, and business laws and codes. Eventually, the government will also establish an arbitration court for commercial disputes.

21. With the support of the donor community, and in consultation with civil society, the government expects to finalize a poverty reduction strategy paper (PRSP) in the coming months to supplement and update the interim paper of April 6, 2000. This strategy is expected to include programs to improve human resources (i.e., education, primary health care, access to drinkable water, etc.). It will be supplemented by an analysis of the costs of implementing the poverty reduction policies and sectoral strategies, which, in order to ensure long-term economic growth, shall remain compatible with macroeconomic stability.

22. The resources freed under the enhanced HIPC Initiative will be used to fund

poverty-reducing expenditures, particularly in the priority sectors of education and health. To guarantee a transparent and effective mechanism for controlling and monitoring these expenditures, the government established, in November 2000, a special treasury subaccount at the central bank, into which interim assistance under the enhanced HIPC Initiative shall be lodged. Furthermore, a monitoring and control committee responsible for ensuring the transparent and effective expenditure of resources provided by the enhanced HIPC Initiative assistance was established in January 2001 with the participation of civil society and donors. The government will publish, by end-October 2002, an independent external audit of expenditures financed in 2001 by the treasury's special HIPC Initiative account at the central bank.

23. The government will intensify efforts to improve the quality and timely production of statistical data, provide the Fund with the basic data required in connection with Article IV consultations, and strengthen program control and monitoring. It completed a statistical survey of households, and it will prepare a series of social welfare and poverty indicators to be monitored in the context of its poverty reduction policy. In addition, the government will continue to ensure that the monthly monetary survey is available within four weeks following the end of each month.

External sector and financing assurances

24. In the external sector, the government will pursue its objective of reducing the external current account deficit by applying the macroeconomic and structural adjustment policies described in this letter, and without resulting to restrictions on current transactions.

25. Overall, the external current account deficit (excluding official transfers) is projected at US$29.4 million (or 54 percent of GDP) in 2002. Taking into account the amortization of external public debt (US$6.2 million) and the target for improving the central bank's international reserves position (US$6.6 million), the gross external financing requirement for 2002 rises to US$42.2 million. This financing requirement will be partially covered by grants and concessional project loans (US$18.9 million), food aid and other grants (US$3.7 million), flows of private capital (US$3.0 million), the second tranche of the Public Resource Management Credit from the World Bank (US$2.5 million), the first tranche of the structural adjustment credit from the AfDB (US$0.8 million), the structural adjustment grant from the European Union (US$1.1 million), and the bridge advance payment made by the Nigerian government on possible oil contract signature bonuses (US$5.0 million). A residual financing gap of US$7.2 million will remain, which the authorities wish to cover through interim assistance from multilateral creditors under the HIPC Initiative. However, pending a new PRGF arrangement and a new Paris Club rescheduling, São Tomé and Príncipe will accumulate new arrears to its bilateral creditors. The authorities will conclude all bilateral agreements under the Paris Club's May 2000 rescheduling before end-October 2002 and seek comparable treatment from other bilateral creditors.

26. To cover its financing needs, the government will continue to seek grants and loans on highly concessional terms only. In this respect, it will neither contract nor guarantee any new external nonconcessional borrowing (with a grant element of less than 50 percent) having a maturity of more than one year. Furthermore, the government will neither contract nor guarantee external borrowing with an initial maturity of less than one year—with the exception of the bridge advance payment of US$5 million on oil contract signature bonuses that was contracted with the Nigerian government in July 2002. With a view to normalizing its relations with its major external creditors and donors, São Tomé and Príncipe will remain current on its nonreschedulable debt-service obligations during the program period. The government acknowledges that the nonaccumulation of new nonreschedulable external payments arrears is a continuous benchmark.

Program monitoring

27. To ensure the successful implementation of the SMP, the government has taken a prior action, namely, the signing of a contract with an internationally reputable firm for an independent external audit of three large government contracts and tenders for the period 1998-2000.

28. To ensure monitoring of progress in implementing the SMP, the government has established quantitative benchmarks for end-September and end-December 2002 (Table 1), as well as structural benchmarks (Table 2). The government will also communicate any information that Fund staff may request in order to ensure the control and monitoring of progress in implementing economic and financial policies and the measures required to achieve the SMP's

objectives. A technical memorandum of understanding describing the quantitative benchmarks of the program is attached (Attachment).

29. During the period of the SMP, the government will neither introduce nor intensify restrictions on payments or transfers in current international transactions without Fund approval; it will neither introduce multiple exchange rate practices nor enter into any bilateral payments agreements incompatible with Article VIII of the Fund's Articles of Agreement; and, lastly, it will neither introduce nor intensify import restrictions for balance of payments reasons.

30. The government is convinced that the policies described in this letter of intent will permit it to achieve the objectives of its program, and it stands ready to take any other measures needed in this regard. During the period of the SMP, the authorities will consult the Managing Director of the Fund on any measures that would be suitable to adopt, either on their own initiative or at the request of the Managing Director.

31. In any event, the authorities of São Tomé and Príncipe will review performance under the SMP with the Fund staff no later than end-February 2003. On that occasion, they would like also to conclude the discussions with the Fund on a medium-term program that could be supported under a PRGF arrangement. Finally, the authorities hope that São Tomé and Principe will reach the completion point under the enhanced HIPC Initiative as soon as possible.

Yours very truly,

/s/
Maria dos Santos Tebús Torres
Ministre du Plan et des Finances

Attachments: Table 1: Quantitative benchmarks for the staff-monitored program for July–December 2002
Table 2: Prior actions and structural benchmarks for the staff-monitored program for July–December 2002
Technical memorandum of understanding

Table 1. São Tomé and Príncipe: Quantitative Benchmarks for the Staff-Monitored Program for July-December 2002

(In billions of dobras, unless otherwise specified)

	2001	2002			
		End-Mar.	End-June	End-Sep.	End-Dec.
		Est.		Rev. SMP	
1. Floor on primary balance of the central government's financial operations, excluding foreign-financed investments (cumulative from beginning of year) 1/	-41.9	-16.8	-15.5	-18.7	-23.1
2. Ceiling on changes in net bank credit to the central government (cumulative from beginning of year) 2/	17.3	20.8	18.4	-15.9	-50.1
3. Ceiling on changes in net domestic assets of the central bank (cumulative from beginning of year) 2/	12.0	23.4	13.7	-15.2	-46.5
4. Floor on changes in the net international reserves position of the central bank (cumulative from beginning of year; in millions of U.S. dollars)	3.2	-1.5	0.4	4.1	6.6
5. Ceiling on central government's stock of outstanding external payments arrears (in millions of U.S. dollars) 3/ 4/ 5/	0.0	0.0	0.0	0.0	0.0
6. Ceiling on contracting and guaranteeing of new nonconcessional debt by the central government with a maturity of more than one year (cumulative from beginning of year; in millions of U.S. dollars) 4/ 5/ 6/	0.0	0.0	0.0	0.0	0.0
7. Ceiling on central government's stock of outstanding short-term external debt with a maturity of less than one year (cumulative from beginning of year; in millions of U.S. dollars)	0.0	0.0	0.0	5.0	5.0
8. Floor on total central government revenue (cumulative from beginning of year)	95.6	18.6	55.0	75.6	108.3
9. Ceiling on primary spending of the central government, excluding foreign-financed investments (cumulative from beginning of year) 1/	137.5	35.4	70.5	94.3	131.5
Memorandum items:					
Oil contract signature bonuses	17.2	0.0	0.0	0.0	0.0
Program financing, including nonproject short-term advances	25.8	0.0	0.0	45.0	74.7
Exchange rate (in dobras per U.S. dollar; period average)	8,758.3	8,944.9	8,879.6	...	...

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

1/ Based on a definition of expenditure excluding all interest payments and foreign-financed investment.

2/ The ceiling or the floor will be adjusted downward (or upward) to accommodate the positive deviation of actual from projected disbursements of oil-related bonuses and program financing, including nonproject short-term advances.

3/ Nonaccumulation of new nonreschedulable external payments arrears is a continuous benchmark.

4/ This benchmark applies not only to the debts defined in point 9 of the Directives Regarding External Debt Performance Criteria adopted on August 24, 2000, but also to debt contracted or guaranteed that has not yet been disbursed.

5/ The term "debt" is defined in accordance with point 9 of the Directives Regarding External Debt Performance Criteria adopted on August

6/ With a grant element of less than 50 percent.

Table 2. São Tomé and Príncipe: Prior Actions and Structural Benchmarks for the Staff-Monitored Program for July-December 2002

Measures	Timetable
Prior action	
1. Signature of a contract with an internationally reputable firm for an independent external audit of three large government contracts and tenders covering the period 1998–2000, as described in paragraph 8.	
Structural benchmarks	
1. Submission to the National Assembly of the draft budget for 2003, as indicated in paragraph 10.	End-December 2002.
2. Publication of the report on the independent external audit of three large government contracts and tenders covering the period 1998-2000 by an internationally reputable firm, as described in paragraph 14.	End-December 2002.
3. Application of the mechanism for the adjustment of retail petroleum product prices to reflect import prices and distribution costs, as indicated in paragraph 18.	Continuous.
4. Application of the mechanism for the adjustment of water and electricity rates to reflect the costs of production and distribution, as indicated in paragraph 18.	Continuous.
5. Submission of monthly monetary data within four weeks of the end of each month, as indicated in paragraph 23.	Continuous.

SÃO TOMÉ AND PRÍNCIPE

Technical Memorandum of Understanding on the Staff-Monitored Program

September 30, 2002

1. The purpose of this memorandum is to describe the quantitative benchmarks adopted for monitoring the execution of the staff-monitored program (SMP) and to establish the list of data and information to be submitted to Fund staff for program-monitoring purposes. This SMP is outlined in the memorandum of economic and financial policies (MEFP) for 2002, attached to the letter of January 9, 2002 from the Minister of Planning and Finance to the Managing Director of the International Monetary Fund, which is updated by the supplementary letter of intent of September 30, 2002. The quantitative benchmarks for the SMP are listed in Table 1 of the aforementioned supplementary letter. These definitions may be reexamined in the next review of the SMP.

A. Quantitative Benchmarks

2. The quantitative benchmarks are based on the following variables at end-September and end-December 2002:

- a floor on the primary balance of government financial operations, excluding foreign-financed investments (cumulative from January 1);
- a ceiling on changes in net banking system credit to the government (cumulative from January 1);
- a ceiling on changes in the net domestic assets of the central bank (cumulative from January 1);
- a floor on changes in the net international reserves position of the central bank (cumulative from January 1, in millions of U.S. dollars);
- a ceiling on the stock of external payments arrears of the government (in millions of U.S. dollars);
- a ceiling on new nonconcessional borrowing (with a grant element of less than 50 percent) contracted or guaranteed by the government with a maturity of more than one year (cumulative from January 1, in millions of U.S. dollars);
- a ceiling on new external borrowings contracted or guaranteed by the government with a maturity of less than one year (cumulative from January 1);
- a floor on total government revenue (cumulative from January 1); and

- a ceiling on government primary spending, excluding foreign-financed investment (cumulative from January 1, on a commitment basis).

3. The primary balance of government financial operations is defined as the difference between total government revenue and primary spending, excluding foreign-financed investment. It is assessed in light of the government budget execution statement prepared every month by the Directorate of Budget and Directorate of Treasury in the Ministry of Planning and Finance. At end-June 2002, this balance was assessed at Db -15.5 billion, broken down as follows:

Primary balance, excluding foreign-financed investment	-15.5
Total revenue	55.0
Less: primary expenditure, excluding foreign-financed investment	70.5

4. Total government revenue is assessed on a cash basis in the table of government financial operations prepared by the Directorate of Budget and Directorate of Treasury. Total revenue at end-June 2002 was estimated at Db 55.0 billion, broken down as follows:

Total revenue	55.0
Tax revenue (customs, tax directorate)	45.8
Nontax revenue	9.2

5. Primary spending (excluding interest payments) by the government, excluding foreign-financed investment, is assessed on a commitment basis. Primary spending, excepting foreign-financed investment at end-June 2002, was estimated at Db 70.5 billion, broken down as follows:

Primary government spending, excluding foreign-financed investment	70.5
Current spending (excluding interest payments)	48.7
Personnel expenses	19.6
Goods and services	13.9
Other	15.2
Capital spending financed by the treasury	8.1
Spending financed by HIPC Initiative resources	13.7

6. Changes in net banking system credit to the government are assessed according to the monetary survey prepared by the central bank. At end-June 2002, outstanding net credit to the government was assessed at Db 8.2 billion, broken down as follows:

Net banking system credit to the government	8.2
Central bank advances, including use of Fund resources	56.3
Commercial bank advances	0.0

Less: deposits to the BCSTP	45.3
Less: deposits in commercial banks	0.7
Less: counterpart funds in commercial banks	2.1

7. Changes in the net domestic assets of the central bank are assessed according to the monetary survey prepared by the central bank. At end-June 2002, the net domestic assets of the central bank were assessed at Db -7.6 billion, broken down as follows:

Net domestic assets of the central bank	-7.6
Base money	109.8
Currency in circulation	35.0
Bank reserves	74.8
Less: net external assets of the central bank	117.4

8. Changes in the net international reserves position of the central bank are assessed according to the monetary survey prepared by the central bank. Reserve assets are central bank liquid assets in convertible foreign currencies held by nonresidents, and that are immediately available. Assets that are pledged or otherwise not available, including (but not limited to) the assets used as collateral (or security for third-party liabilities), are excluded from the reserve assets. Reserve liabilities are defined as short-term central bank claims on nonresidents, including use of Fund resources. At end-June 2002, the net international reserves of the central bank were assessed at US$13.1 million, broken down as follows:

Net international reserves of the central bank (in millions of U.S. dollars)	13.1
Gross international reserves of the central bank (in billions of dobras)	140.1
Less: external liabilities of the central bank (in billions of dobras)	22.6
Divided by the dollar exchange rate on June 30, 2002 (average rate, in dobras per U.S. dollar)	9,003

9. The nonaccumulation of new external payments arrears is a continuous benchmark of the SMP. Government external payment arrears are defined as all unpaid external public debt obligations, according to the data established by the central bank's foreign debt division, with the exception of arrears pending rescheduling arrangements. During the first six months of 2002, the stock of external debt arrears was estimated at zero.

10. The benchmarks related to external debt are (i) ceilings on new nonconcessional borrowing contracted or guaranteed by the government with an initial maturity of more than

one year,[1] and (ii) the ceilings set for changes in the stock of amounts due but not paid on external debt contracted or guaranteed by the government with an initial maturity of less than one year.[2] The concessionality of loans is assessed according to the currency-specific reference interest rate published by the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). For loans of terms of no less than 15 years, the ten-year average of commercial interest reference rates (CIRR) for the currency in which the loan is denominated will be used. For loans of shorter terms, the six-month average will apply. A loan is deemed to be on concessional terms if, on the initial date of disbursement, the ratio of the present value of the loan, calculated on the basis of the reference interest rate, to the nominal value of the loan is less than 50 percent (in other words, a grant element of at least 50 percent, excluding IMF resources). By way of example, the reference interest rates at mid-August 2002 were as follows (six-month average):

	(Rate in percent)
U.S. dollar	5.86
Euro	5.91
SDR	5.32

For currencies with no available reference interest rates, the SDR rate will be used. Debt reschedulings and restructurings are excluded from the ceilings set on nonconcessional lending. The government of São Tomé and Príncipe will consult with Fund staff before contracting obligations if it is uncertain whether said obligations are included in the performance limits.

11. The automatic benchmark adjustment mechanism mentioned in footnote 2 of Table 1 concerns (i) the ceiling on changes in net credit to the government; (ii) the ceiling on changes in net domestic assets of the central bank; and (iii) the floor on changes in the net international reserves of the central bank. Discrepancies will be assessed by comparison with the data on disbursements for (i) oil contract signature bonuses; and (ii) program assistance (including nonproject short-term advances), which are shown in a memorandum item at the bottom of Table 1. If a discrepancy is positive (disbursements greater than projected), the ceilings will be revised downward and the floors revised upward. If a discrepancy is negative (disbursements smaller than projected), the ceilings will be revised upward and the floors revised downward.

[1] This benchmark applies not only to the debts defined in point 9 of the Directives Regarding External Debt Performance Criteria adopted on August 24, 2000, but also to debt contracted or guaranteed that has not yet been disbursed.

[2] The term "debt" is defined in accordance with point 9 of the Directives Regarding External Debt Performance Criteria adopted on August 24, 2000.

B. Program Monitoring

12. Within two weeks following the end of each month, a monthly evaluation report will be prepared on the monitoring of quantitative and structural program benchmarks. This report will be used to assess the progress of SMP execution.

13. The technical committee charged with monitoring the program will regularly fax or e-mail the data necessary for program monitoring to the IMF's African Department. These data are included in the list in Table 3 of the MEFP, dated January 9, 2002, (see São Tomé and Príncipe: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding, January 9, 2002).

14. The technical monitoring committee will also provide the African Department with any information it deems necessary or that Fund staff may request for program-monitoring purposes.

São Tomé and Príncipe: Update of Debt Sustainability Analysis[1]

A. Introduction

1. This note provides an update of the debt sustainability analysis (DSA) prepared for São Tomé and Príncipe in December 2000 and included in the enhanced HIPC Initiative decision point document (see HIPC Enhanced Heavily Indebted Poor Countries (HIPC) Initiative - Decision Point Document, December 5, 2000). The update and related net present value (NPV) calculations are based on external public and publicly guaranteed debt outstanding and disbursed at end-2001.[2] The authorities provided the staff with information on their external debt on a loan-by-loan basis, which was reconciled with data collected for the DSA included in the initiative for Heavily Indebted Poor Countries (HIPC Initiative) decision point document.[3] Reconciliation was completed on end-2001 debt data for the IMF, International Development Association (IDA), International Fund for Agricultural Development (IFAD), and Organization of Petroleum Exporting Countries (OPEC) Fund, which accounted for 34 percent of total nominal claims outstanding. The World Bank staff is reconciling debt data for the African Development Bank and African Development Fund (AfDB/AfDF), which accounted for 34 percent of outstanding debt at end-2001; see Figure 1) and the European Union (0.3 percent of outstanding debt), and the authorities are requesting end-2001 data from their bilateral creditors in order to complete the reconciliation.

B. Debt Developments During 2000–02

2. New loans were contracted in 2000 and 2001 with the IMF, IDA, AfDB/AfDF, Arab Bank for Economic Development in Africa (BADEA), IFAD, and the OPEC Fund. These loans are highly concessional and, with the exception of the financing provided by the IMF under the Poverty Reduction and Growth Facility (PRGF), the loan from BADEA, and the loan from IFAD, they all have a grant element of more than 50 percent (see Table 2).

3. Although São Tomé and Príncipe's PRGF-supported program went off track at end-2000, three multilateral creditors have continued to provide interim assistance in 2001 and 2002 on the terms agreed under the enhanced HIPC Initiative at the December 2000 decision

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[1] Prepared jointly by the authorities and the staffs of the IMF and the World Bank.

[2] The NPV of debt was calculated using average currency-specific commercial interest reference rates (CIRRs) for the six-month period ended December 31, 2001, and, as with all nominal debt values, converted to U.S. dollars using end-2001 exchange rates (see Table 1).

[3] Debt data as at end-1999 were reconciled with creditor statements in 2000 for creditors accounting for 97 percent of total debt.

point.[4] The IDA and the European Union, through the European Investment Bank (EIB), have provided HIPC Initiative interim assistance on 100 percent of debt service due in 2001 and thus far in 2002, while the AfDB and the AfDF have provided interim assistance on 83 percent of debt service due in 2001 and thus far in 2002. The BADEA, IFAD, and the OPEC Fund have not provided interim assistance under the enhanced HIPC Initiative.

4. The May 2000 flow rescheduling of Paris Club debt on Naples terms (a 67 percent reduction in NPV terms) became inoperative at end-April 2002, as the second review of São Tomé and Príncipe's three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) could not be completed. As a result, only the first phase of the Paris Club relief (applicable to all arrears on eligible debt outstanding at end-March 2000 and on current maturities from April 2000 to end-April 2001) has been provided. Bilateral debt renegotiation agreements were signed with France and Spain in 2001, while agreements have been concluded, but remain unsigned, with Belgium, Germany, Portugal, and Russia.[5] Outstanding short-term debt to Italy (US$17 million) was reconciled at the decision point, but the creditor authorities are still determining whether it is a commercial or official debt. Consequently, it was not treated in the May 2000 Paris Club rescheduling and was ineligible for HIPC Initiative treatment; however, it has been included in this update as official debt.

5. In the HIPC Initiative decision point document, it was assumed that non-Paris Club official bilateral creditors would provide treatment comparable to that provided by Paris Club creditors.[6] Negotiations were not concluded with the non-Paris Club official bilateral creditors, and no payments were made to either Paris Club official bilateral creditors or non-Paris Club official bilateral creditors during 2001–02.

C. Update on the External Debt Situation

6. The update of São Tomé and Príncipe's DSA is summarized in Tables 3 and 4. Based on debt developments described in paragraphs 2–5 above, Table 3 assumes that IDA, AfDB/AfDF, and EIB will continue to provide interim HIPC Initiative assistance through end-2002, but no assumptions are made regarding further bilateral debt relief in 2003 and beyond. Table 4 assumes a new Paris Club flow rescheduling by end-June 2003 on Cologne terms, involving a 90 percent reduction in NPV terms (with comparable treatment from non-Paris Club bilateral creditors), continued interim HIPC Initiative assistance from IDA, AfDB/AfDF and EIB, and a completion point at end-June 2004.

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[4] No debt was outstanding to the IMF at end-December 1999; as a result, the Fund did not provide assistance to São Tomé and Príncipe under the enhanced HIPC Initiative.

[5] Belgium was a *de minimis* creditor for the May 2000 Paris Club rescheduling.

[6] Under the assumption that non-Paris Club creditors would provide relief comparable to that agreed under the May 2000 Paris Club rescheduling, Cape Verde has been treated as a *de minimis* creditor.

7. The macroeconomic assumptions underpinning the calculation of the debt ratios are presented in Box 1 and in Tables 1-11. They are consistent with the continuation of the sound macroecomonic policies envisaged under the country's extended staff-monitored program (SMP). It is also assumed that the projected financing gaps identified under the extended SMP and the new borrowing identified in the balance of payments projections are financed by multilateral lenders on IDA terms.[7]

8. Under these assumptions, Table 3 shows that, with no further debt relief, the NPV of the stock of debt would increase from US$149 million at end-2001 to US$153 million in 2006, and would decrease gradually in the subsequent years to US$120 million by 2021. The NPV of the stock of debt would average US$151 million during 2002-11 and US$134 million during 2012-21. The debt ratios are projected to decline quickly, following the expected coming onstream of a large oil field in 2006. The ratio of the NPV of total debt to exports of goods and services would fall from 909 percent in 2001 to 620 percent in 2004, to 262 percent in 2006, and to 105 percent in 2007; it would average 325 percent during 2002-11 and 22 percent during 2012-21. Meanwhile, the ratio of the NPV of total debt to government revenue is expected to drop from about 1340 percent in 2001 to 831 percent in 2004, to 423 percent in 2006, and to 199 percent in 2007; this ratio would average 498 percent during 2002-11 and 26 percent during 2012-21.

9. With a new flow rescheduling on Cologne terms at end-June 2003, followed by a stock-of-debt operation at end-June 2004, also on Cologne terms, São Tomé and Príncipe's ratio of the NPV of total debt to exports of goods and services would fall to 154 percent in 2004, rise slightly to 157 percent in 2005, and drop to 80 percent in 2006 (Table 4). The ratio of total debt to government revenue would drop to 207 percent in 2004, to 209 percent in 2005, and to 129 percent in 2006.

D. Conclusion

10. Oil production could boost São Tomé and Príncipe's exports significantly, starting in 2006, and thus bring the NPV of debt-to-exports ratio below the threshold of 150 percent in 2007, even assuming no further debt relief. However, São Tomé and Príncipe's debt burden will remain unsustainable through 2006, even assuming a completion point by end-June 2004.

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[7] Specifically, IDA terms involve a 10-year grace period, 40-year maturity and 0.75 percent rate of interest.

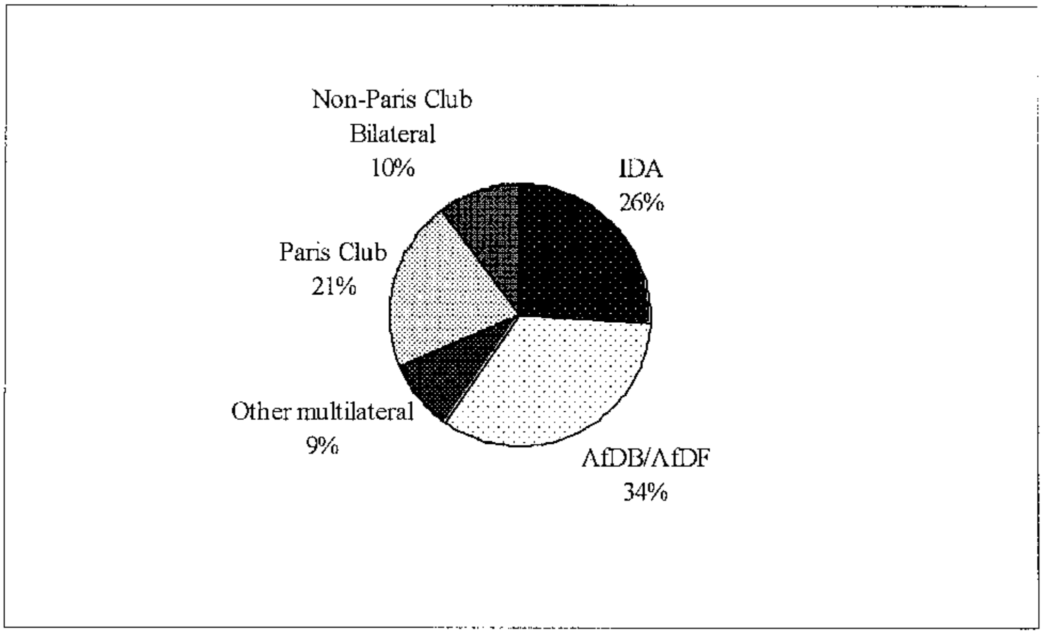
Box 1. Main Macroeconomic Assumptions, 2002–21

The principal macroeconomic assumptions used in this update of São Tomé and Príncipe's debt sustainability analysis (DSA) are the following:

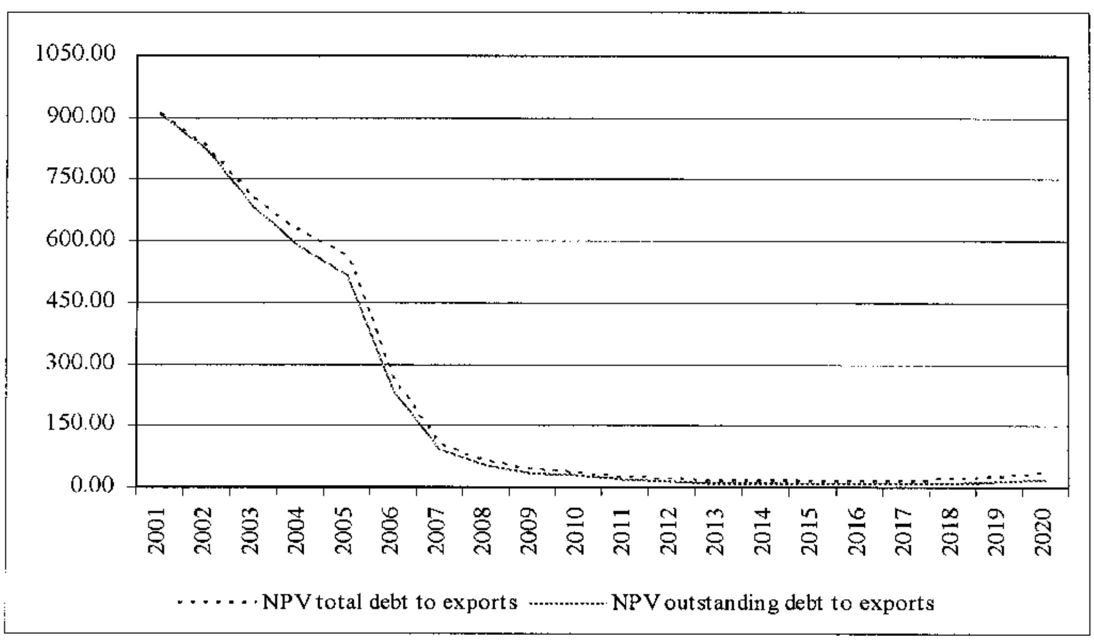
- Real GDP is projected to grow at an average annual rate of 5 percent during 2002-05. With the onset of oil production in 2006, real GDP is projected to grow by an average of 7 percent per year during 2006-21.
- Prudent fiscal policy is expected to bring the annual primary budget deficit (excluding HIPC Initiative-related spending) down from about 6 percent of GDP in 2001 to an average of 1 percent during 2002-05, followed by an average 3 percent surplus during 2006-21. Including HIPC Initiative-related spending, the annual primary budget deficit will be about 5 percent in 2002, before turning into an average 2 percent surplus during 2006-21.
- A tight monetary policy is expected to lower average annual inflation from 10 percent in 2001 to an annual average of 3 percent during 2006-21.
- Export values are projected to remain relatively unchanged during 2003-05 and then increase by over 1,200 percent in 2006 owing to the onset of oil production. Thereafter, the nominal value of exports will vary with oil production, which is expected to plateau in 2011.
- Nominal import growth, driven by developments in the oil sector, will increase substantially during 2002-05, peaking at 280 percent in 2005 and averaging about 7 percent during 2006-21.
- The import cover of official reserves will average about three months during 2002-21. In addition, São Tomé and Príncipe will accumulate large external financial assets by sterilizing part of the government oil revenue in a fund for future generations.
- New borrowing is assumed to have a grant element of 73 percent, on average, with almost all loans assumed to be contracted on IDA terms.

Figure 1. São Tomé and Príncipe: Nominal Stock of Debt and Net Present Value (NPV) of Debt-to-Exports Ratio (In percent, assuming no further debt relief)

Nominal Stock of Debt at End-2001



Net Present Value (NPV) of Debt-to-Export Ratios, 2001-20



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

Table 1. São Tomé and Príncipe: Discount and Exchange Rate Assumptions
(As at end-December 2001)

	Discount Rates 1/ (In percent per annum)	Exchange Rates 2/ (Currency per U.S. dollar)
Currency		
Algerian dinar	5.16	77.82
Austrian schilling	5.67	15.61
Belgian franc	5.67	45.77
Canadian dollar	6.40	1.59
Chinese yuan	5.16	8.28
Danish krone	5.68	8.41
Euro	5.67	1.13
Finnish markka	5.67	6.75
French franc	5.67	7.44
Deutsche mark	5.67	2.22
Pound sterling	6.04	0.69
Italian lira	5.67	2,197.06
Japanese yen	1.43	131.80
Norwegian krone	7.86	9.01
Portugese escudo	5.67	227.48
Russian ruble 3/	5.16	0.60
Spanish peseta	5.67	188.80
Special drawing rights	5.16	0.80
Swedish krona	5.76	10.67
Swiss franc	3.97	1.68
U.S. dollar	5.85	1.00

Sources: OECD; and IMF, *International Financial Statistics.*

1/ The discount rates used are the average commercial interest reference rates (CIRRs) for the respective currencies over the six-month period ended December 2001. For all currencies for which the CIRRs are not available, the SDR rate is used as a proxy.

2/ Local currency unit per one U.S. dollar.

3/ The Russian ruble-U.S. dollar rate of 0.6 was adopted for the conversion and reduction of arrears prior to the May 2000 Paris Club rescheduling.

Table 2. São Tomé and Príncipe: Concessionality of New External Loans Contracted During 2000-01

(In percent, unless otherwise noted)

Creditor Loan number	IMF 2006	BADEA 2007	AfDB/AfDF 2008	IDA 2009	IDA 2010	AfDB/AfDF 2011	IFAD 2012
Terms							
Interest rate per annum	0.50	2.00	0.75	0.75	0.75	0.75	1.80
Number of repayments per annum	2	2	2	2	2	2	2
Maturity (in years)	10.0	25.0	50.0	40.0	40.0	50.0	40.0
Grace period (in years)	5.5	6.0	10.0	10.0	10.0	10.0	10.0
CIRR	0.50	2.00	0.75	0.75	0.75	0.75	1.80
Discount rate per annum + margin 1/	7.24	7.64	7.74	7.74	7.74	7.74	4.42
Grant element	38.61	47.84	76.40	72.94	72.94	76.40	37.35

Sources: São Tomé and Príncipe authorities; individual debt contracts; and OECD.

1/ Margins added to discount rates are as follows: 0.75 percent for maturities less than 15 years; 1.00 percent for maturities between 15 and 20 years; 1.15 percent for maturities between 20 and 30 years; and 1.25 percent for 30-year maturities.

Table 3. São Tomé and Príncipe: Net Present Value of External Debt and Debt Service Due, 2001-21
(Assuming no further debt relief)

(In millions of U.S. dollars, unless otherwise indicated)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2002-11	20012-21
	Est.	Projections																				Averages	
NPV of debt																							
NPV of total debt 2/	148.9	152.0	149.1	151.2	152.3	152.5	151.9	150.8	149.6	148.5	147.9	147.0	143.0	140.2	137.4	133.8	132.2	130.2	127.3	124.0	120.0	150.6	133.5
NPV of outstanding debt	148.9	150.8	144.6	143.1	140.2	136.5	132.3	127.6	122.7	117.6	112.8	107.2	101.7	96.0	91.0	85.8	82.3	78.6	74.7	70.5	65.9	132.8	85.4
Multilateral 3/	82.6	85.5	85.6	85.8	85.6	84.7	83.4	81.7	79.8	78.0	76.5	74.4	72.3	70.2	68.0	65.8	63.6	61.3	58.8	56.3	53.6	82.7	64.4
Official bilateral 4/	66.3	65.3	59.0	57.4	54.6	51.8	48.9	45.9	42.8	39.7	36.3	32.8	29.4	25.8	23.0	20.0	18.7	17.3	15.9	14.2	12.3	50.2	20.9
Paris Club 5/	41.6	39.9	38.3	36.5	34.8	33.0	31.2	29.5	27.7	25.9	23.9	21.9	19.8	17.5	15.1	12.6	11.8	11.0	10.2	9.4	8.5	32.1	13.8
Other official bilateral 6/	24.7	25.4	20.7	20.8	19.8	18.8	17.6	16.4	15.1	13.8	12.3	10.9	9.6	8.3	7.9	7.5	6.9	6.3	5.6	4.8	3.9	18.1	7.2
NPV of new borrowing 7/	...	1.1	4.5	8.0	12.1	16.0	19.6	23.2	26.9	30.9	35.1	39.8	41.3	44.2	46.3	48.0	49.9	51.7	52.6	53.4	54.2	17.7	48.1
Debt service due																							
Total debt service	1.7	2.0	15.1	10.1	11.6	12.2	12.6	12.9	12.9	12.8	12.4	13.0	12.6	12.7	11.8	12.0	10.3	10.4	10.5	10.8	11.2	11.5	11.5
Multilateral 3/	1.7	1.9	4.9	4.9	5.2	5.9	6.2	6.7	6.6	6.5	6.0	6.6	6.5	6.3	6.3	6.2	6.1	6.0	6.0	6.0	6.0	5.5	6.2
Official bilateral 4/	0.0	0.0	10.1	5.1	6.1	6.0	6.0	5.8	5.8	5.7	5.7	5.7	5.3	5.3	4.3	4.3	2.5	2.5	2.5	2.6	2.8	5.6	3.8
Paris Club 5/	0.0	0.0	4.0	4.0	3.9	3.8	3.7	3.5	3.5	3.5	3.5	3.4	3.4	3.4	3.4	3.4	1.6	1.5	1.4	1.4	1.5	3.3	2.4
Other official bilateral 6/	0.0	0.0	6.3	1.3	2.4	2.4	2.4	2.5	2.5	2.4	2.4	2.4	2.1	2.1	1.0	1.1	1.1	1.2	1.2	1.3	1.3	2.5	1.5
New borrowing 7/	0.0	0.0	0.1	0.2	0.3	0.3	0.4	0.5	0.5	0.6	0.7	0.8	0.8	1.1	1.3	1.5	1.7	1.9	2.1	2.2	2.4	0.4	1.6
Memorandum items:																							
Exports of goods and services	17.2	22.6	23.8	26.7	30.4	117.7	286.7	297.3	455.3	465.5	863.8	874.9	885.5	892.8	900.6	909.0	725.3	478.1	326.8	273.8	185.4	259.0	645.2
Three-year export average 8/	16.4	18.4	21.2	24.4	27.0	58.3	144.9	233.9	346.4	406.0	594.9	734.7	874.7	884.4	893.0	900.8	845.0	704.1	510.1	359.6	262.0	187.5	696.8
Government revenues (excl. grants)	11.1	12.1	13.8	18.2	20.3	36.0	76.3	84.1	141.6	149.7	335.5	370.7	613.4	667.5	722.4	771.6	690.4	504.0	428.3	388.1	374.5	88.7	553.1
GDP	49.1	54.7	61.2	67.3	71.9	155.3	313.2	325.1	470.5	484.9	851.5	863.7	883.9	894.0	904.6	915.8	749.7	525.1	389.9	344.3	269.5	285.5	674.0
NPV of debt-to-exports ratio 8/																							
For total debt	908.9	825.9	704.0	620.4	564.9	261.8	104.8	64.5	43.2	36.6	24.9	20.0	16.3	15.9	15.4	14.9	15.6	18.5	25.0	34.5	45.8	325.1	22.2
For outstanding debt only	908.9	819.7	683.0	587.4	520.0	234.3	91.3	54.6	35.4	29.0	19.0	14.6	11.6	10.9	10.2	9.5	9.7	11.2	14.6	19.6	25.2	307.4	13.7
NPV of debt-to-revenue ratio 9/																							
For total debt	1,339.1	1,259.1	1,084.2	830.8	752.0	423.1	199.1	179.3	105.6	99.2	44.1	39.7	23.3	21.0	19.0	17.3	19.2	25.8	29.7	31.9	32.1	497.6	25.9
For outstanding debt only	1,339.1	1,249.6	1,051.8	786.6	692.3	378.7	173.5	151.8	86.6	78.6	33.6	28.9	16.6	14.4	12.6	11.1	11.9	15.6	17.4	18.2	17.6	468.3	16.4
Debt-service ratio (current year)	10.1	8.8	63.6	37.9	38.1	10.4	4.4	4.3	2.8	2.8	1.4	1.5	1.4	1.4	1.3	1.3	1.4	2.2	3.2	3.9	6.0	17.5	2.4
Debt-service ratio (three-year avg.)	10.5	10.8	71.5	41.6	42.8	21.0	8.7	5.5	3.7	3.2	2.1	1.8	1.4	1.4	1.3	1.3	1.2	1.5	2.1	3.0	4.3	21.1	1.9

Sources: São Tomé and Principe authorities; and staff estimates and projections.

1/ Base year 2001. Refers to public and publicly guaranteed debt only, and includes short-term debt ineligible for treatment under the HIPC Initiative. Includes two OPEC and one AfDB/AfDF pre-cut-off date loans omitted in the HIPC decision point DSA, as well as the first disbursement under the IMF PRGF.

2/ Discounted on the basis of the average commercial interest reference rate for the respective currency for the second half of 2001. Conversion of currency-specific NPVs into U.S. dollars is made at the 2001 exchange rate.

3/ Projected and not fully reconciled. IDA and EIB have provided HIPC Initiative interim assistance on 100 percent of debt service due in 2001 on pre-cut-off date debt, while AfDB/AfDF has provided HIPC Initiative interim assistance on 83 percent of debt service due in 2001 on pre-cutoff-date debt. IDA, EIB and AfDB/AfDB are assumed to continue providing assistance through end-2002; IFAD, BADEA, and OPEC do not provide any HIPC Initiative interim assistance.

4/ Projected and not fully reconciled. All arrears on eligible outstanding debt to Paris Club creditors at end-March 2000 and on current maturities from April 2000 to end-April 2003 were rescheduled on Naples terms on May 16, 2000; the first phase of rescheduling was provided for April 2000 to April 2001 and the second and third phases are inoperative; consequently, the assistance planned under the second and third phases is assumed to accrue as arrears during May-December 2001 and throughout 2002. Non-Paris Club creditors are assumed to provide similar treatment.

5/ Debt to Italy was under discussion at the 2000 HIPC decision point. It is assumed to be rescheduled on backdated Naples flow terms for the April 2000 to April 2001 period to provide treatment similar to that provided by the other Paris Club creditors.

6/ Includes a onetime, interest-free US$5 million advance from Nigeria in 2002 on expected oil contract signing bonuses that are programmed to be repaid in 2003.

7/ Projected from 2002. Includes known estimated and projected disbursements by IDA and AfDB/AfDF; additional financing requirements assumed to be provided on IDA terms with no implied assumption regarding their source.

8/ Exports are calculated as a three-year backward-looking average (e.g., average over 1999-2001 for exports in 2001).

9/ NPV of total debt in percent of current-year government revenue.

Table 4. São Tomé and Príncipe: Net Present Value of External Debt and Debt Service Due, 2001-21
(Assuming a Completion Point Under the Enhanced HIPC Initiative at end-June 2004)

(In millions of U.S. dollars, unless otherwise indicated)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2002-11	20012-21
	Est.										Projections											Averages	
NPV of debt																							
NPV of total debt 2/	99.7	104.2	97.1	37.6	42.4	46.6	50.3	54.1	58.1	62.4	67.1	72.4	74.4	77.9	80.6	82.8	85.5	88.0	89.7	53.4	54.2	62.0	75.9
NPV of outstanding debt	99.7	103.0	92.6	29.6	30.3	30.6	30.8	31.0	31.2	31.5	32.1	32.6	33.1	33.7	34.2	34.8	35.5	36.3	37.1	0.0	0.0	44.3	27.7
Multilateral 3/	35.3	35.2	35.1	25.8	26.5	26.7	26.9	27.1	27.3	27.7	28.2	28.8	29.3	29.9	30.5	31.2	32.0	32.9	33.8	0.0	0.0	28.7	24.8
Official bilateral 4/	64.4	67.8	57.5	3.8	3.8	3.8	3.8	3.9	3.9	3.8	3.8	3.8	3.8	3.7	3.7	3.6	3.5	3.4	3.3	0.0	0.0	15.6	2.9
Paris Club 5/	43.5	45.8	37.3	3.0	3.0	3.0	3.0	3.0	3.0	2.9	2.9	2.9	2.8	2.8	2.7	2.7	2.6	2.6	2.5	0.0	0.0	10.7	2.2
Other official bilateral 6/	20.9	22.1	20.3	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.0	0.0	4.9	0.7
NPV of new borrowing 7/	...	1.1	4.5	8.0	12.1	16.0	19.6	23.2	26.9	30.9	35.1	39.8	41.3	44.2	46.3	48.0	49.9	51.7	52.6	53.4	54.2	17.7	48.1
Debt service due																							
Total debt service	1.7	2.0	2.1	1.5	1.0	1.6	1.8	1.9	1.9	1.9	1.7	1.9	2.0	2.2	2.4	2.7	2.8	3.0	3.2	3.3	3.6	1.7	2.7
Multilateral 3/	1.7	1.9	1.9	1.2	0.5	1.1	1.1	1.2	1.2	1.0	0.8	0.9	0.9	0.9	0.9	0.9	0.7	0.7	0.7	0.7	0.8	1.2	0.8
Official bilateral 4/	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3
Paris Club 5/	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2
Other official bilateral	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	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1
New borrowing 6/	0.0	0.0	0.1	0.2	0.3	0.3	0.4	0.5	0.5	0.6	0.7	0.8	0.8	1.1	1.3	1.5	1.7	1.9	2.1	2.2	2.4	0.4	1.6
Memorandum items:																							
Exports of goods and services	17.2	22.6	23.8	26.7	30.4	117.7	286.7	297.3	455.3	465.5	863.8	874.9	885.5	892.8	900.6	909.0	725.3	478.1	326.8	273.8	185.4	259.0	645.2
Three-year export average 7/	16.4	18.4	21.2	24.4	27.0	58.3	144.9	233.9	346.4	406.0	594.9	734.7	874.7	884.4	893.0	900.8	845.0	704.1	510.1	359.6	262.0	187.5	696.8
Government revenues (excl. grants)	11.1	12.1	13.8	18.2	20.3	36.0	76.3	84.1	141.6	149.7	335.5	370.7	613.4	667.5	722.4	771.6	690.4	504.0	428.3	388.1	374.5	88.7	553.1
GDP	49.1	54.7	61.2	67.3	71.9	155.3	313.2	325.1	470.5	484.9	851.5	863.7	883.9	894.0	904.6	915.8	749.7	525.1	389.9	344.3	269.5	285.5	674.0
NPV of debt-to-exports ratio 7/																							
For total debt	608.5	566.1	458.4	154.3	157.3	79.9	34.7	23.1	16.8	15.4	11.3	9.9	8.5	8.8	9.0	9.2	10.1	12.5	17.6	14.9	20.7	151.7	12.1
For outstanding debt only	608.5	559.9	437.3	121.3	112.4	52.5	21.2	13.2	9.0	7.8	5.4	4.4	3.8	3.8	3.8	3.9	4.2	5.2	7.3	0.0	0.0	134.0	3.6
NPV of debt-to-revenue ratio 8/																							
For total debt	896.5	863.0	705.8	206.6	209.4	129.2	66.0	64.4	41.0	41.7	20.0	19.5	12.1	11.7	11.2	10.7	12.4	17.5	20.9	13.8	14.5	234.7	14.4
For outstanding debt only	896.5	853.5	673.5	162.5	149.6	84.8	40.4	36.8	22.0	21.1	9.6	8.8	5.4	5.0	4.7	4.5	5.1	7.2	8.7	0.0	0.0	205.4	4.9
Debt-service ratio (current year)	10.0	8.8	8.8	5.5	3.3	1.4	0.6	0.6	0.4	0.4	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.6	1.0	1.2	1.9	3.0	0.6
Debt-service ratio (three-year avg.)	10.5	10.8	9.9	6.0	3.7	2.8	1.2	0.8	0.6	0.5	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.4	0.6	0.9	1.4	3.7	0.5

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

1/ Base year 2001. Refers to public and publicly guaranteed debt only, and includes short-term debt ineligible for treatment under the HIPC Initiative. Includes two OPEC and one AfDB/AfDF pre-cut-off date loans omitted in the HIPC decision point DSA, as well as the first disbursement under the IMF PRGF.

2/ Discounted on the basis of the average commercial interest reference rate for the respective currency for the second half of 2001. Conversion of currency-specific NPVs into U.S. dollars is made at the 2001 exchange rate.

3/ Projected and not fully reconciled. IDA and EIB have provided HIPC Initiative interim assistance on 100 percent of debt service due in 2001 on pre-cutoff date debt, while AfDB/AfDF has provided HIPC Initiative interim assistance on 83 percent of debt service due in 2001 on pre-cutoff-date debt. IDA, EIB and AfDB/AfDB are assumed to continue providing this assistance through end-2025; IFAD, BADEA, and OPEC do not provide any HIPC Initiative interim assistance, but are assumed to provide a 100 percent reduction in debt service from the June 30, 2004 completion point through end-2025.

4/ Projected and not fully reconciled. All arrears on eligible outstanding debt to Paris Club creditors at end-March 2000 and on current maturities from April 2000 to end-April 2003 were rescheduled on Naples terms on May 16, 2000; the first phase of rescheduling was provided for April 2000 to April 2001 and the second and third phases are inoperative; consequently, the assistance planned under the second and third phases is assumed to accrue as arrears from May 2001 to June 2003. All arrears on eligible debt at end-June 2003 and debt service on current maturities during July 2003 to June 2004 are treated with a flow rescheduling on Cologne terms, followed by a stock-of-debt operation on Cologne terms on June 30, 2004. Non-Paris Club creditors are assumed to provide similar treatment.

5/ Debt to Italy was under discussion at the 2000 HIPC decision point. It is assumed to be rescheduled on backdated Naples flow terms for the April 2000 to April 2001 period to provide treatment similar to that provided by the other Paris Club creditors.

6/ Includes a onetime, interest-free US$5 million advance from Nigeria in 2002 on expected oil contract signing bonuses that are programmed to be repaid in 2003.

7/ Projected from 2002. Includes known estimated and projected disbursements by IDA and AfDB/AfDF; additional financing requirements assumed to be provided on IDA terms with no implied assumption regarding their source.

8/ Exports are calculated as a three-year backward-looking average (e.g., average over 1999-2001 for exports in 2001).

SÃO TOMÉ AND PRÍNCIPE: RELATIONS WITH THE FUND
(As of August 31, 2002)

I. **Membership Status**: Joined 09/30/1977; Article XIV

II. **General Resources Account**:	SDR million	%Quota
Quota	7.40	100.00
Fund holdings of currency	7.40	100.05

III. **SDR Department**:	SDR million	%Allocation
Net cumulative allocation	0.62	100.00
Holdings	0.01	1.24

IV. **Outstanding Purchases and Loans**:	SDR million	%Quota
Poverty Reduction and Growth Facility (PRGF) arrangements	1.90	25.7

V. **Financial Arrangements**:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF	04/28/2000	04/27/2003	6.66	1.90
Structural Adjustment Facility (SAF)	06/02/1989	06/01/1992	2.80	0.80

VI. **Projected Obligations to Fund**
(SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	08/31/02	2002	2003	2004	2005	2006
Principal	0.00	0.00	0.00	0.00	0.10	0.38
Charges/interest	0.00	0.01	0.02	0.02	0.03	0.02
Total	0.00	0.01	0.02	0.02	0.13	0.40

VII. **Implementation of HIPC Initiative**:

	Enhanced framework
Commitment of HIPC assistance	
Decision point date	12/20/00
Assistance committed (NPV terms) [1]	
Total assistance (US$ million)	97.00
Of which: Fund assistance (SDR million)	0.00
Completion point date (expected)	06/04
Delivery of Fund assistance (SDR million)	
Amount disbursed	0.00
Interim assistance	0.00
Completion point [2]	0.00
Amount applied against member's obligations (cumulative)	0.00

VIII. **Safeguards Assessments**:

Under the Fund's safeguards assessment policy, the Central Bank of São Tomé and Príncipe (CBSTP) is subject to the transitional procedures with respect to the PRGF arrangement (approved on April 28, 2000), which is scheduled to expire on April 27, 2003. It will be subject to the full safeguards assessment with respect to a possible new PRGF arrangement. The external audit assessment of the CBSTP was completed on February 6, 2001. The assessment concluded that the CBSTP's current external audit mechanism may not be adequate in certain respects. Appropriate recommendations were made, which are being implemented by the authorities (see São Tomé and Príncipe: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding,

[1] Net present value (NPV) terms at the decision point under the enhanced framework.

[2] Under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative), the nominal amount of assistance disbursed will include an additional amount corresponding to interest on amounts committed but not disbursed during the interim period, calculated using the average return (during the interim period) on the investment of resources held by, or for, the benefit of the PRGF-HIPC Trust.

January 9, 2002). The necessary documentation for the full safeguards assessment was requested from the authorities on February 20, 2002.

IX. **Exchange Arrangements**:

Between July 22, 1987 and August 1991, São Tomé and Príncipe's currency, the dobra, was pegged to a basket of currencies of the country's seven major trading partners. Between August 1991 and December 1994, the exchange rate of the dobra was determined on the basis of a crawling peg, with the objective of progressively depreciating the dobra in real effective terms. Since December 2, 1994, the official exchange rate has been market determined. The intervention currency for the dobra is the U.S. dollar. The exchange rate of the dobra was 8,567 per U.S. dollar on December 29, 2000, 8,949 on December 31, 2001, and 9,071 on June 30, 2002.

X. **Article IV Consultation**:

The last article IV consultation with São Tomé and Príncipe was concluded by the Executive Board on January 30, 2002. As São Tomé and Príncipe no longer maintains restrictions on the making of payments and transfers for current international transactions subject to Fund approval under Article VIII, Section 2*(a)*, no decision was taken. São Tomé and Príncipe reduced the spread between the official exchange rate and the free market rate to 1.0 percent during 2000-01 from 6.7 percent in 1996.

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

None.

XII. **Technical Assistance**:

From January 1998 to December 2001, an advisor of the Monetary and Exchange Affairs Department (MAE) panel was assigned to the central bank to assist in the conduct of monetary policy, banking supervision, and foreign exchange management. In March 1999 and in June 1999, MAE missions visited São Tomé and Príncipe to help the central bank establish procedures for effective internal control and inspection, and, in January 2000, another MAE mission helped strengthen bank supervision. An MAE mission visited São Tomé and Príncipe in June 2001, assisted the authorities in their handling of the banking crisis, and made recommendations regarding the foreign exchange market. Finally, an expert of the MAE panel visited São Tomé and Príncipe to provide general technical assistance to the central bank.

From January to June 1995, an expert from the Statistics Department (STA) was assigned to the central bank to help improve the presentation of monetary accounts and provide assistance in the compilation of balance of payments statistics. During the period April 23-

May 6, 1997, a money and banking statistics mission reviewed the procedures for gathering and compiling monetary statistics at the central bank and advised on the establishment of a system for regularly reporting data to the Fund.

A member of the Fiscal Affairs Department (FAD) panel was assigned to the Ministry of Planning and Finance from July 1991 to January 1994 to assist in the implementation of tax reforms.

XIII. **Resident Representative**:

A Fund Resident Representative has been assigned to São Tomé and Príncipe since November 1999. Mr. Zia Ebrahim-zadeh, who also covers Gabon and resides in Libreville, took up this position in November 2001.

São Tomé and Príncipe: Relations with the World Bank Group

IDA operations

1. São Tomé and Príncipe joined the World Bank and IDA in 1977 and became a borrower in 1985 when a line of credit of SDR 5.3 million (US$5.0 million equivalent) for an economic rehabilitation and modernization project was approved. The credit supported a series of institutional reforms and covered the foreign exchange cost of small investments in agriculture, transport, and energy.

2. In support of the government's structural adjustment program (1988-89) and reforms in the agricultural sector, IDA approved in 1987 a loan of SDR 6.1 million (US$7.9 million equivalent) for a cocoa rehabilitation project. In 1989, IDA approved a structural adjustment credit of SDR 3.1 million (US$4.0 million equivalent), together with SDR 2.3 million (US$3.0 million equivalent) from the Special African Facility and cofinancing of US$8.5 million from the African Development Fund.

3. A second structural adjustment credit was approved on June 26, 1990. This IDA credit provided SDR 7.5 million (US$9.8 million equivalent), with cofinancing of US$14.4 million from the African Development Fund and the government of Sweden, to maintain support for the government's structural adjustment program. A technical assistance component supported institutional reforms. The first tranche was disbursed in September 1991, and the second in November 1992. The third and final tranche was approved and disbursed in January 1996.

4. To mitigate the effects of the adjustment program on the most vulnerable population groups, mainly the poor and the redundant civil servants, IDA approved in June 1989 a multisector loan of SDR 3.9 million (US$5.0 million equivalent). The loan financed projects in infrastructure, health and education, environmental protection, and the private sector. A second multisector loan of SDR 4.6 million (US$6.0 million equivalent) was approved in June 1991, focusing on water supply and road rehabilitation.

5. In 1991, IDA approved a loan of SDR 7.4 million (US$9.8 million equivalent) to assist the agricultural development strategy. The main objectives of this project were (i) to support the distribution and leasing of about 20,000 hectares of land from public estates to smallholders and medium-sized private enterprises; (ii) to assist financially the laborers leaving the estates; (iii) to assist technically and financially the privatization of the cocoa estates; (iv) to finance ongoing investments in the cocoa plantations; and (v) to strengthen agricultural sector administration and support services. This project came to a close at end-December 2000.

6. In order to improve social conditions, IDA approved in March 1992 a multisector loan (with emphasis on health and education) of SDR 8.2 million (US$11.4 million equivalent); the loan financed a malaria control program (including infrastructure building) and provided essential drugs, education supplies, and textbooks. This project closed in June 2001.

7. On November 2, 2000, to support the government's three-year program (2000-02), IDA approved a Public Resource Management Credit in an amount of SDR 5.8 million (US$7.5 million equivalent) and a technical assistance credit of SDR 1.95 million (US$2.5 million equivalent). On the same date, the World Bank Board discussed a Country Assistance Strategy for São Tomé and Príncipe. IDA's strategy for the period 2000–05 is to support the government in the pursuit of its objectives as set out in the interim poverty reduction strategy paper (PRSP), namely, (i) to sustain strong economic growth that will raise income and reduce poverty; and (ii) to broaden access to services and improve their quality. IDA also aims to strengthen public resource management through periodic public finance reviews.

Statement of IDA Credits as of August 31, 2002
(In millions of U.S. dollars)

Credit Number	Fiscal Year	Purpose	IDA Commitment[1]	Undisbursed
1590	1985	Economic rehabilitation	5.0	0.0
A029	1987	Special African Facility	3.0	0.0
1825	1987	Structural adjustment credit	4.0	0.0
1830	1987	Cocoa rehabilitation credit	7.9	0.0
2038	1989	Multisector credit	5.0	0.0
2165	1990	Second structural adjustment credit	9.8	0.0
2280	1991	Multisector II credit	6.0	0.0
2325	1991	Agricultural sector	9.8	0.3
2343	1992	Health and education	11.4	0.5
3428	2000	Public resource management	7.5	5.0
3429	2000	Technical assistance	2.5	1.7
Total:			71.8	7.5
	Of which: repaid		1.0	

[1]Less cancellation.

IFC operations

8. São Tomé and Príncipe is not a member of the IFC. FIAS has provided technical assistance to the country by reviewing its tax system and private sector investment incentives.

Contact Name

9. Mr. David A. Craig, Country Director.