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São Tomé and Príncipe: 2001 Article IV Consultation and Staff-Monitored Program—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for São Tomé and Príncipe.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2001 Article IV consultation and Staff-Monitored Program with São Tomé and Príncipe, the following documents have been released and are included in this package:

- the staff report for the 2001 Article IV consultation and Staff-Monitored Program, prepared by a staff team of the IMF, following discussions that ended on **November 16, 2001,** with the officials of São Tomé and Príncipe on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on January 9, 2002.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- the Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its January 30, 2002 discussion** of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for São Tomé and Príncipe.

The document(s) listed below have been or will be separately released.

Statistical Appendix

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INTERNATIONAL MONETARY FUND

SÃO TOMÉ AND PRÍNCIPE

Staff Report for the 2001 Article IV Consultation and Staff-Monitored Program

Prepared by the African Department

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

Approved by Amor Tahari and Martin Fetherston

January 9, 2002

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Background

- São Tomé and Príncipe reached its decision point under the enhanced HIPC Initiative in December 2000 at the time of the completion of the first review of its PRGF-supported program. Policy implementation deteriorated in 2001, and the program went off track because of fiscal and structural slippages, and the rise of governance problems in the oil sector. The authorities have requested the staff to monitor a six-month economic program in 2002, with a view to starting discussions on a new medium-term program under the PRGF arrangement.

Performance under the PRGF-supported program

- Fiscal slippages, delays in structural reforms, and governance problems during the fourth quarter of 2000 and the first three quarters of 2001 led to the program going off track. The key quantitative performance criterion on the primary budget balance and the quantitative benchmark on government spending were not observed at either end-December 2000 or end-June 2001. Revenue mobilization was stronger than projected in 2000 and 2001, owing to improved customs and consumption tax collection. Nevertheless, spending overruns, partly financed out of the receipt of an unprogrammed signing bonus related to an oil exploration option contract, forced the 2001 primary budget balance (excluding HIPC Initiative-financed social spending) into a deficit of more than 3 percent of GDP, compared with a targeted surplus of 2.7 percent. Although monetary policy remained tight in 2000-01, the budget deficit caused net bank credit to the government to exceed its quantitative performance criterion.

- Also, none of the structural performance criteria and benchmarks were observed, with the exception of the benchmarks on the adjustment of retail prices of petroleum products and the submission to the Fund of monthly monetary data. In addition, the negotiation of oil sector contracts in 2001, including the settlement in May 2001 that awarded a substantial share of potential oil revenue to a private company, lacked transparency.

Staff-monitored program for 2002

- To make up for the delays in the implementation of structural measures, the authorities implemented three prior actions under the staff-monitored program (SMP): (a) the adoption of a price adjustment mechanism for the water and electricity utility; (b) the implementation of the civil service reform and downsizing program; and (c) the adoption of terms of reference for an audit of three government contracts and bids. In addition, they requested assistance from the World Bank in the area of oil sector policy, including a cost-benefit analysis of their contract with the Environmental Remediation Holding Company (ERHC) and a study on the negotiation procedures for government contracts signed in 2001 in the oil sector.

- The SMP is intended to correct the slippages incurred in 2001 and reestablish a track record of policy implementation. The program's macroeconomic objectives are: (a) to reduce end-of-year inflation to 7 percent in 2002; and (b) to narrow the external current account deficit (including official transfers) to less than 1 percent of GDP in 2002. Real GDP growth is projected to reach 5 percent that year.

- In the fiscal area, the program aims to reduce both the overall fiscal deficit (on a commitment basis, including grants) from 15 percent of GDP in 2001 to 5 percent in 2002, and the primary budget deficit (including HIPC Initiative-financed social spending) from 7 percent of GDP in 2001 to 3 percent in 2002. Government revenue is projected to increase by 15 percent in 2002 to the equivalent of 22.5 percent of GDP, while primary expenditure will be reduced to 25.4 percent of GDP in 2002, from 27.7 percent in 2001. Combined with the resources freed by the HIPC Initiative's interim assistance, these developments will allow increased spending on health and education.

- Monetary policy will remain tight, with broad money projected to increase by 12 percent in 2002, consistent with projected nominal GDP growth. With external assistance and oil-related bonuses, net bank credit to the government is targeted for a substantial reduction. The central bank will introduce open market operations by end-June 2002 while maintaining the flexible exchange rate system. Gross international reserves of the central bank are expected to increase to the equivalent of more than six months of imports in 2002.

- Key structural reforms proposed under the SMP include the following: (a) an increase in water and electricity tariffs to cover costs; (b) the submission to the National Assembly of a draft government budget for 2002; (c) the publication of an audit on three large government contracts and bids; (d) the application of the mechanism by which retail prices of petroleum products and water and electricity rates are adjusted to reflect changes in costs; and (e) continued regular submission of monthly monetary statistics.

Issues stressed in the staff appraisal

- As a means of reestablishing a track record of good policy implementation, the authorities need to make every possible effort to enact fully the SMP. Its successful implementation will pave the way for discussions of a new medium-term program supported under the PRGF arrangement.

- Several problems may hinder the successful implementation of the SMP: São Tomé and Príncipe's administrative capacity is very limited; political instability and the prospect of an early legislative election in March 2002 could hamper policy implementation; the possible onset of sizable oil-related receipts in 2002 may weaken the authorities' resolve to maintain prudent macroeconomic policies; and, finally, the country remains heavily dependent on external assistance and cocoa prices.

- São Tomé and Príncipe's limited administrative capacity may also impair the efficient use of its interim HIPC Initiative assistance for poverty reduction purposes. All HIPC Initiative resources need to be ring-fenced in the special treasury account at the central bank.

- The staff urges the authorities to make good use of the technical assistance they are receiving.

- The central bank needs to monitor closely bank portfolio performance and lending activities. It also needs to support the restructuring and recapitalization of an insolvent bank without further exposing financially either itself or the public treasury to this process.

I. Introduction

1. Discussions on the 2001 Article IV consultation and a staff-monitored program were held in São Tomé during February 4–16, June 24–July 6, and November 4–16, 2001.[1, 2] In the attached letter of intent (LOI) dated January 9, 2002 (Appendix I) and its accompanying memorandum of economic and financial policies (MEFP), the Minister of Planning and Finance of São Tomé and Príncipe describes the policies and measures that the government intends to implement during the six-month period ending June 2002, in the context of a policy framework covering 2002, to reestablish a track record of policy performance,[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.

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[1] The authorities were represented by Prime Minister Posser da Costa (in February and June-July), Prime Minister Evaristo Carvalho (in November), the Ministers of Planning and Finance (Mr. Adelino David in February and June-July, and Mrs. Maria dos Santos Torres in November), the Governor of the Central Bank of São Tomé and Príncipe (Mrs. Maria do Carmo Silveira), and other senior government officials, including the Ministers of the Economy; Education; Foreign Affairs and Cooperation; Health; Infrastructure, Natural Resources, and Environment; and Justice, Civil Service, and Employment. Meetings were held also with outgoing President Miguel Trovoada, incoming President Fradique de Menezes, and National Assembly Speaker Francisco Pires, as well as with representatives of trade unions, the chamber of commerce, the banks, public enterprises, and the international community in São Tomé.

[2] The missions consisted of Mr. Thiam (head), Mr. Bartsch, Ms. Zamora, Ms. Nyankiye (Research Assistant—all AFR), Ms. Linares, Ms. Perez, and Mrs. Amega (all Administrative Assistants—AFR). Mr. Ibrahim-Zadeh, the Fund's Resident Representative in São Tomé and Príncipe, assisted the mission in November. Mr. Kpétigo, Assistant to the Executive Director for São Tomé and Príncipe, participated in some of the discussions in November. In addition, three World Bank missions were in the field in November to (i) supervise the public resource management and technical assistance credits and review progress in the preparation of the full PRSP; (ii) prepare the completion report for the education and health project and identify a new social sector development operation; and (iii) review the telecommunications sector. They also participated in some of the discussions.

[3] The medium-term program supported by the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) approved on April 28, 2000 (in an amount equivalent to SDR 6.657 million—90 percent of quota) went off track after one year. Only two disbursements were made under the arrangement (of SDR 0.951 million each, respectively, on May 4, 2000 and December 27, 2000). São Tomé and Príncipe's outstanding use of Fund resources amounted to SDR 1.90 million (25.7 percent of quota) at end-December 2001.

2. **The most recent Article IV consultation was concluded on April 28, 2000.**[4] On that occasion Executive Directors commended the authorities on the progress achieved during the 1998 government policy framework and the 1999 staff-monitored program. They pointed out, however, that São Tomé and Príncipe's economic situation remained fragile and vulnerable to terms of trade fluctuations and the availability of foreign assistance. Directors underscored the importance of consolidating gains achieved in macroeconomic adjustment, accelerating the implementation of structural reforms, and developing a comprehensive strategy to diversify the economy, promote real growth, and reduce poverty.

3. In December 2000, at the time of the completion of the first review of the PRGF-supported program, the Fund and the World Bank Executive Boards decided that São Tomé and Príncipe had reached its decision point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative). The World Bank is also supporting São Tomé and Príncipe's poverty reduction strategy through a public resource management credit (PRMC).[5] The authorities have published their interim Poverty Reduction Strategy Paper (PRSP) and the MEFP. They have also participated in the pilot program on the release of Article IV staff reports.

4. São Tomé and Príncipe continues to avail itself of the transitional arrangements of Article XIV, but maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. Summaries of São Tomé and Príncipe's relations with the Fund and with the World Bank Group are contained in Appendices II and III, respectively; statistical issues are described in Appendix IV; and basic data are included in Appendix V.

5. **A newly elected head of state (President Fradique de Menezes) took office on September 3, 2001,** following a presidential election on July 29, 2001 that was deemed free, fair, and transparent by local and foreign observers.[6] The new President is a member of the same minority opposition party as outgoing President Miguel Trovoada, who is constitutionally barred from running for reelection after having served two five-year terms in office. Negotiations between the President and the parliamentary majority on the composition

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[4] São Tomé and Príncipe is on the standard 12-month consultation cycle.

[5] The World Bank Board approved the PRMC on November 2, 2000 in an amount of US$7.5 million, together with a technical assistance credit in an amount of US$2.5 million.

[6] The President won 55 percent of the vote, with 38 percent of the vote going to his closest contender, former President Pinto da Costa (of the majority party in the National Assembly, the Movement for the Liberation of São Tomé and Príncipe—MLSTP). President Pinto da Costa led the country to independence in 1975 and was head of state from then until 1990 under one-party rule.

of the cabinet failed, and a government of presidential initiative, which is not supported by the majority party in the National Assembly, was appointed at end-September 2001. The President dissolved the National Assembly and called for an early legislative election for March 3, 2002.

II. Background and Performance Under the PRGF-Supported Program

6. **Economic activity continued to recover during 2000–01 despite higher-than-targeted inflation**, but the program went off track because of fiscal and structural slippages, and mounting governance problems in the oil sector. With little change in the terms of trade, economic activity benefited from a strong pickup in foodcrop production, construction,[7] trade and tourism; real GDP growth is estimated to have reached 4 percent in 2001, in line with the program projection, compared with 3 percent in 2000 (Table 1). However, it is estimated that higher petroleum product prices, combined with a depreciation of the dobra against the U.S. dollar (5 percent in 2001), led to a slower-than-targeted reduction in the inflation rate. The 12-month rate of consumer price inflation stabilized at 9–9.5 percent during 2000–01, compared with a revised program objective of 5 percent for end-2001. The external current account deficit (including official transfers) is estimated to have narrowed to 11 percent of GDP in 2001, almost half the program target, from 21 percent of GDP in 2000 (Table 2). This improvement in the external current account reflected the interim assistance under the HIPC Initiative and the mobilization of an unprogrammed, oil-related signature bonus. The spread between the official exchange rate and the parallel market rate fluctuated between 1 percent and 2 percent in 2001 (Figure 1).

7. **In the final quarter of 2000 and the first three quarters of 2001, fiscal slippages and continued delays in structural reforms hampered program implementation, and the authorities agreed with the staff that the program was off track.** The key quantitative performance criteria on the primary budget balance and net bank credit to the government, as well as the quantitative benchmark on government spending, were not observed at end-December 2000 and end-June 2001 (Table 3).[8] In addition, none of the structural

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[7] Expansion in construction activities stemmed from an increase in the rate of implementation of the public investment program (PIP) during 2001.

[8] The quantitative performance criteria at end-June and end-December 2001 on net domestic assets and net international reserves of the central bank were also not observed. Although performance criteria and benchmarks were not formally agreed for end-September 2001, Table 3 shows that the indicative targets on the primary balance, net bank credit to the government, domestic assets of the central bank, international reserves of the central bank, and primary expenditure were not met. Targets for end-December 2001 are also estimated not to have been observed.

performance criteria and benchmarks were observed, with the exception of the benchmark on the adjustments in retail prices of petroleum products and that on the submission of monthly monetary data (Table 4). The structural performance criterion on the submission to parliament of a draft budget law for 2001 consistent with the program was implemented with a four-month delay, and the mechanism to adjust water and electricity rates to reflect production and distribution costs was adopted in December 2001 with a one-year delay.[9] Moreover, concern is growing over governance in the emerging oil sector stemming from the lack of transparency that surrounded the negotiation of the contract (signed in May 2001) awarding the U.S.-Nigerian Environmental Remediation Holding Company (ERHC) a substantial share of São Tomé and Príncipe's possible oil revenue, including an overriding royalty of 1.5 percent on oil produced in the joint development zone with Nigeria (see Box 1).

8. **In the fiscal area, spending overruns exceeded higher-than-projected revenue in 2000 and in 2001.** Government revenue shortfalls during the first half of 2000 were more than offset during the second half of the year, owing to a strong increase in customs and consumption tax collection during the last quarter, and the mobilization of an unforeseen amount of fishing royalties (Db 2.3 billion) in December 2000. As a result, government revenue exceeded the program target by Db 3 billion at end-December 2000 (Table 5).[10] Domestically financed primary expenditure also exceeded the program target by about Db 3 billion, owing to longer-than-expected maritime border negotiations with Nigeria and higher energy costs. Corrected for the unscheduled amount of fishing royalties, the primary budget surplus, at 2.1 percent of GDP (or Db 7.8 billion), fell short of the performance criterion at end-December 2000 (Figure 2). The wage bill was contained within the revised targets at end-December because of a strike by education and health workers, which lasted for nearly three months for the former and one month and a half for the latter. To end the strikes, the government agreed on a salary increase for education and health workers in 2001(see footnote 13 below).

[9] The structural benchmarks on the establishment of a single computerized system for civil service and payroll management and on the adoption of a three-year public investment program for 2001–03 were also implemented with delays of five months to one year, while the publication of the report on the audit of three large government contracts has been postponed until end-June 2002.

[10] Corrected for the unscheduled amount of fishing royalties, government revenue exceeded the target by only Db 0.7 billion.

Box 1. São Tomé and Príncipe: The ERHC Settlement and Oil Revenue Sharing in the Joint Oil Development Zone with Nigeria

In May 2001, a settlement was reached with the ERHC, ending international arbitration proceedings that started in 1999. The agreement awards to the company an overriding royalty of 1.5 percent of oil produced in the joint development zone (JDZ), 10 percent of São Tomé and Príncipe's share of profit oil from the JDZ, 5 percent of São Tomé and Príncipe's share of signature bonuses, an option to acquire a 15 percent working interest in all oil field developments, an option on three license blocks in São Tomé and Príncipe's exclusive economic zone, and a waiver of signature bonuses for the production -sharing agreements to be negotiated for these blocks. The settlement with the ERHC arose because the authorities contracted the ERHC in May 1997 to be their exclusive representative in oil negotiations, with an overriding royalty of 5 percent awarded on oil produced in São Tomé and Príncipe and a 49 percent stake in São Tomé and Príncipe's oil development company (STPETRO) in return for a signature bonus of US$5 million, which the ERHC paid during 1998-99. The contract was in arbitration from 1999 to May 2001, during which time the government alleged nonperformance by the ERHC and sought to oppose the overriding royalty claim. Meanwhile, a Nigerian financier acquired a majority position in the ERHC and brokered the settlement of the dispute with the two governments, which were interested in resolving all third parties' claims to make the treaty effective.

The table below, which is a summary of Table 12, shows oil revenue accruing to Nigeria, São Tomé and Príncipe, and the ERHC for a hypothetical oil development in the JDZ. The assumptions underlying the table are the discovery of a medium-sized oil reservoir of about 800 million barrels of recoverable reserves, with production start-up in 2006 and abandonment in 2025, and a production plateau of 240,000 barrels per day, which will be reached in 2011. The table shows production and cost data, as well as the different elements of government revenue from the oil development, namely, royalties, bonuses, profit sharing, and income tax. It indicates that total government oil revenue will average US$200-900 million per year in the JDZ, with a little over 58 percent for Nigeria, some 37 percent for São Tomé and Príncipe, and 4-5 percent for the ERHC. Assuming the ERHC takes up the option to acquire a 15 percent working interest in the field, its taxable income from the participation will amount to US$70 million per year on average (the initial losses during the investment phase are included in the average).

Oil Revenue Accruing to Nigeria, São Tomé and Príncipe, and the ERHC, 2005–24
(In millions of U.S. dollars, unless otherwise indicated)

	Average per Year 2005-10	Average per Year 2011-16	Average per Year 2017-24	Total (cumulative)	Net Present Value (NPV)
Production (barrels per day)	69,167	240,000	50,000	...	...
Price (U.S. dollars per barrel)	20	20	22	...	...
Gross export revenue	499	1,752.0	374.1	16,497.8	5,611.5
Costs in the current year, except interest	536	168.0	32.3	4,484.7	2,111.8
Royalty (10-15 percent of gross prod. value)	56	235.1	43.4	2,094.3	703.0
Bonuses	5	0.3	0.0	31.4	21.2
Profit oil (10-30 percent of revenue net of costs)	23	435.9	95.2	3,517.5	937.3
Income tax (40 percent of net taxable income)	25	277.9	74.3	2,411.3	684.5
Total JDZ revenue	109	949.2	212.9	8,054.5	2,346.0
Total JDZ revenue (in percent of gross export revenue)	21.9	54.2	56.9	48.8	41.8
Nigerian share (in percent of total JDZ revenue)	55.8	58.3	58.4	58.1	57.8
São Tomé and Príncipe share (in percent of total JDZ revenue)	36.3	37.1	37.2	37.0	36.9
ERHC share (in percent of total JDZ revenue)	7.9	4.6	4.4	4.8	5.2
ERHC share (in percent of São Tomé and Príncipe gov. revenue)	21.8	12.4	11.9	13.1	14.2
ERHC income from 15 percent working interest	15.0	166.7	44.6	1,446.8	415.3

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

9. In 2001, government revenue was 1.2 percentage points of GDP (or Db 5 billion) higher than the program projections.[11] The spending overruns, which amounted to close to 7 percent of GDP, were financed partly out of an unprogrammed signature bonus paid in March 2001 by a Norwegian company (PGS) for an oil exploration option contract, in an amount equivalent to 4 percent of GDP.[12] These overruns were explained by (i) sizable extrabudgetary expenditures, travel expenses, and lawyer-and-consultant fees, in the context of the protracted maritime border negotiations with Nigeria; (ii) higher costs for the consumption of petroleum products (as a result of upward price adjustments); (iii) an exceptional advance to the national water and electricity utility (EMAE) in an amount of 1 percent of GDP, which became necessary because of continued delays in adjusting rates to reflect fuel costs; (iv) a larger wage bill, owing to general salary increases[13] and delays in implementing the civil service reform and downsizing program;[14] and (v) the cost of the July 2001 presidential election.

10. **As a result of these spending overruns, the primary budget balance (excluding HIPC Initiative-financed social expenditure) turned into a deficit of more than 3 percent of GDP in 2001, compared with a targeted surplus of 2.7 percent of GDP.** Including HIPC Initiative-financed social spending, the primary budget deficit exceeded the program target by an even larger margin. The committee to control and monitor HIPC Initiative-related spending, which was created in January 2001, has met several times to approve financing of social expenditure, and progress has been more rapid than expected. It is estimated that HIPC Initiative-related spending amounted to about 4 percent of GDP in 2001, or double the program projection (2 percent of GDP).

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[11] Refers to program targets from EBS/00/253 (12/5/00).

[12] Out of the US$2 million signature bonus received in March 2001, by end-October 2001, US$0.6 million had been spent on travel expenses, salaries, and fees related mostly but not exclusively to the oil sector. The government had also implemented infrastructure projects worth US$ 0.6 million.

[13] The government granted a 30 percent salary increase for education and health workers, effective January 2001. It also paid a one-off bonus of Db 100,000 to each civil servant in February 2001, and a second one-off bonus equivalent to one month of salary in December 2001.

[14] The wage bill is estimated to have increased by 25 percent in 2001, reaching 8.5 percent of GDP, compared with 7.8 percent of GDP in 2000 and a projection of 7.5 percent in the original program.

11. **Monetary policy continued to be prudent during 2000-01, but net credit to the government crowded out the private sector.** The central bank maintained the reserve requirement ratio at 22 percent. Taking account of the lower inflation rate, commercial banks reduced their lending interest rates by 5 percentage points to 34 percent and their deposit rates by 10 percentage points to 14 percent in September 2000. In February 2001, the central bank lowered its reference interest rate (which had remained unchanged at 17 percent since August 1999) by 1.5 percentage points to 15.5 percent. In this context, broad money is estimated to have increased by 20 percent in 2001, and credit to the private sector by 6 percent (Tables 6–8). The banking system's net foreign assets rose by 30 percent in 2001, mainly reflecting the disbursement of the first tranche of the World Bank public resource management credit, which was made effective only in February 2001, and the payment of the US$2 million oil bonus. However, the larger primary budget deficit caused net bank credit to the government to rise by 5 percent of beginning-of-the-year stock of money.

12. **Under the transitional procedures governing safeguards assessments, the central bank's accounts for 1999 and 2000 have been certified by an independent international accounting firm** (Box 2). The central bank posted on its website the audit report certifying its accounts for 1999 and the audit report certifying its accounts for 2000 in August 2000 and in April 2001, respectively. In addition, the 1999 certified accounts were published in the national gazette (*Diário da República*) on August 9, 2001.

13. **In the area of structural reforms, the new government undertook several measures at end-December 2001 to make up for the nonobservance of structural performance criteria and benchmarks, as well as for the delays incurred earlier** (see Box 3). Following a World Bank-financed study on utility pricing, the government adopted an automatic mechanism to adjust prices for water and electricity to production and distribution costs; it intends to implement this mechanism in the first quarter of 2002. The authorities also implemented the new organizational and staffing plans, resulting in the downsizing of the civil service by 320 public employees (MEFP, para. 12).[15] The implementation of the civil service reform and downsizing program was a prior action of the staff-monitored program, taken to contain the government's wage bill for 2002 within the program targets. In addition, the government established a single computerized system of civil service and payroll management and prepared the terms of reference for two studies, one on the introduction of new categories in the civil service statutes, and the other on the implementation of a new wage scale.

14. Regarding **governance issues**, at end-December 2001, the authorities adopted the terms of reference for consultation with reputable international firms, with a view to carrying out an independent external audit of three large government contracts and bids for investment

[15] The water and electricity utility (EMAE) also retrenched 158 employees in December 2001.

**Box 2. São Tomé and Príncipe: Safeguards Assessment—
Summary of Conclusions**

Under its current arrangement with the Fund under the PRGF, São Tomé and Príncipe is subject to the transitional procedures governing safeguards assessments. These procedures require the Central Bank of São Tomé and Príncipe (CBSTP) to demonstrate, by providing certain documentation to Fund staff, that it publishes annual financial statements that are independently audited in accordance with internationally accepted standards (the "external audit mechanism"). The CBSTP has cooperated fully in providing Fund staff with the required documentation.

The staff has reviewed the documentation provided and noted that the external audit of the CBSTP's annual financial statements is conducted by an international accounting firm in accordance with generally accepted auditing principles, which are materially consistent with international auditing standards. However, the 1999 audited financial statements and related audit opinion were not published until August 2000 (although they were made available to the government and to Fund staff earlier) and the reliability and relevance of the financial statements are impaired, according to the qualified opinion rendered by the external auditors. **For these reasons, the staff concluded that the CBSTP's present external audit mechanism may not be adequate in certain respects and made the following recommendations:**

- The external audit mechanism should continue to be monitored for the duration of the current PRGF arrangement; therefore, the CBSTP is expected to provide Fund staff with its 2000, 2001, and 2002 financial statements and related audit reports as soon as they become available;

- Future audited financial statements should be published in a timely manner; and

- The authorities should request, for a certain period of time, that future audited financial statements and related audit reports be reviewed, prior to issuance, by an office of the same audit firm with experience in central bank activities.

The staff also notes that the financial statements are not prepared according to international accounting standards, the benchmark against which the CBSTP would be assessed under a Stage One assessment, which would be conducted if São Tomé and Príncipe sought a new arrangement from the Fund upon expiration or cancellation of the present one.

Box 3. São Tomé and Príncipe: Structural Conditionality

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; a reduction in the overall number of staff and a better allocation of remaining staff will make room for wage increases and improvements in efficiency.

- **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, and this situation has jeopardized the orderly execution of the government budget.

- **Governance.** Contracts in the oil sector will be reviewed and large government 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, with the exception of the budget law, which was referring to 2001 in 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 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 three-year public investment programming, 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.

projects.[16] **In the area of oil exploration, São Tomé and Príncipe's authorities concluded several contractual arrangements in 2001.** In February 2001, they signed an international treaty with the Nigerian government establishing a joint oil development zone.[17] The treaty, which grants 60 percent of oil revenue to Nigeria and 40 percent to São Tomé and Príncipe, also recognizes Nigeria's exclusive rights over a special regime area (of the joint development zone). With respect to this special regime area, the treaty provides for compensation, which is still under discussion, to be paid by Nigeria to São Tomé and Príncipe.

15. The authorities also signed two contracts with PGS, in February 2001, giving the company (i) exclusive rights to produce and market seismic surveys of São Tomé and Príncipe's exclusive economic zone (EEZ) and the joint development zone, and (ii) the option of first choice on three oil license blocks. **In May 2001, as indicated above, the government reached a settlement with the ERHC, awarding a substantial share of São Tomé and Príncipe's possible oil revenue to the company.** The authorities agreed with the staff that oil sector negotiations in 2001 had lacked transparency and that the ERHC settlement diverted São Tomé and Príncipe's potential oil revenue, raising serious governance problems. Subsequently, in early December 2001, the authorities requested assistance from the World Bank in the area of oil sector policy, including a cost-benefit analysis of the contract signed with the ERHC and a detailed study of the negotiation procedures for government contracts signed in 2001 in the oil sector.

III. Report on the Discussions and the Staff-Monitored Program

16. Against the backdrop of fiscal and structural slippages, as well as the rise of new governance problems regarding oil sector management, the policy discussions centered on the measures and policies needed to reverse the slippages, re-establish the credibility of economic policy implementation, and keep São Tomé and Príncipe on a path of sustained growth and macroeconomic stability. In this context, and with a view to ensuring that São Tomé and Príncipe could soon reach the completion point under the enhanced HIPC Initiative, the authorities reiterated their commitment to the medium-term policies spelled out in their interim PRSP. They also indicated their intention to minimize the deviations from the goals of the initial PRGF-supported program and concurred with the staff that strong policy performance under a staff-monitored program would be needed before discussions on a new PRGF-supported program could begin.

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[16] The three contracts are for (i) the rehabilitation of an 18-kilometer road (Neves-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.

[17] The treaty was ratified by the parliament of São Tomé and Príncipe in July 2001.

17. **São Tomé and Príncipe's medium- and long-term prospects are critically dependent on the expected development of offshore oil resources, including in the joint development zone with Nigeria.** In the medium-term macroeconomic framework prepared by the staff, an oil field is projected to come onstream in 2006, with investments in exploration increasing from 10 percent of projected GDP in 2003 to 46 percent of GDP by 2005. Investments for development, construction, and equipment of the oil field, which are tentatively expected for the period 2005-06, could reach about 380 percent of the projected GDP for each of these years. Under these assumptions, real GDP growth is projected to remain strong at 5 percent during 2002–05. In 2006, real GDP would more than double, with the projected coming onstream of the oil field, and non-oil GDP would grow by 10 percent (Table 11). Licensing rounds for oil exploration acreage are likely to result in sizable oil-related signature bonuses for the government, in addition to possible compensation payments from Nigeria in accordance with the joint development zone treaty. This revenue would be reflected in the buildup of substantial foreign assets. Assuming that a new PRGF-supported program could be adopted by mid-2002 and that oil-related bonuses could become available during 2002-04, financing requirements would be fully covered during the projection period, and external debt would remain sustainable. In the long run, the real effective appreciation of the currency that could result from the development of the oil sector would reduce the competitiveness of the rest of the economy and hamper São Tomé and Príncipe's diversification efforts.

18. Given the country's heavy reliance on foreign assistance and the relative uncertainty surrounding the development of oil resources, the alternative scenario exploring the downside risks assumes a lowering of external grants of 25 percent, starting in 2003, and prolonged delays in licensing rounds for oil exploration. Under this alternative scenario, real GDP growth could drop to 4 percent in 2003 and 2 percent thereafter. Similarly, the fiscal position would deteriorate to an unsustainable position, as would the balance of payments, with large, uncovered financing gaps. Whether or not this negative scenario comes about, the authorities will need to continue their efforts to diversify the economy, including the development of noncocoa agricultural exports and tourism, and guard against external shocks through prudent macroeconomic policies and the strengthening of international reserves.

19. **The authorities agreed to implement a six-month staff-monitored program** in the context of a policy framework for 2002. Their revised macroeconomic objectives are (i) a reduction of inflation to 7 percent in 2002, on an end-of-year basis, from 9 percent in 2001; and (ii) a narrowing of the external current account deficit (including official transfers) to less than 1 percent of GDP in 2002 from 11 percent of GDP in 2001, reflecting the projected mobilization of nonproject grants and oil-related signature bonuses during the second half of the year, as well as continued interim assistance under the HIPC Initiative. Real GDP growth is projected to reach 5 percent in 2002, compared with 4 percent in 2001. To reach the staff-monitored program's objectives, the government will pursue prudent fiscal, monetary, and foreign exchange policies, ensure transparency in oil operations, and implement a number of structural reforms.

A. Fiscal Policy

20. **The authorities indicated that their fiscal program for 2002 called for a significant correction of the slippages incurred in 2001 through continued strong revenue mobilization efforts and a containment of primary expenditures**, while increasing budgetary outlays for education and health. They aim at reducing the overall fiscal deficit (on a commitment basis, including official grants) to 5 percent of GDP in 2002, from 15 percent of GDP in 2001, and the primary budget deficit (including HIPC Initiative-financed social spending) to 3 percent of GDP from 7 percent of GDP in 2001. Excluding HIPC Initiative-financed social spending, the primary budget balance is projected to turn around from a deficit of more than 3 percent of GDP in 2001 to a surplus of about 2 percent of GDP in 2002. Assuming that these targets could be achieved and that a new PRGF arrangement could be approved by the second half of the year—which would allow continuing interim assistance under the enhanced HIPC Initiative—the authorities would aim at avoiding an accumulation of external and domestic payments arrears during 2002, as indicated in the letter of intent (MEFP, para. 10).[18]

21. **The staff urged the authorities to consolidate all government financial operations, including HIPC Initiative-financed social spending, into a single budget in 2002**. It stressed that all government projects should be included in the budget and the public investment program (PIP). The authorities indicated their intention to submit to parliament, by end-April 2002, a draft budget for 2002 that would be in line with the objectives spelled out above (this is a structural benchmark under the staff-monitored program) (MEFP, para. 10). They also agreed to prepare the social spending program to be funded in 2002 out of the resources freed under the enhanced HIPC Initiative, in consultation with Fund and World Bank staffs.[19]

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[18] All external payments arrears were regularized at the May 2000 Paris Club debt rescheduling, assuming comparable treatment by non-Paris Club bilateral creditors. However, the Paris Club rescheduling has become inoperative, pending the approval of a new PRGF arrangement.

[19] The resources freed up under the enhanced HIPC Initiative will be used to finance poverty-reducing expenditures, especially in the health and education sectors. To ensure control and monitoring of the use of resources, the government has opened a special account at the central bank, where the HIPC Initiative resources are deposited. A committee was set up in January 2001 to monitor and control expenditures financed out of the account. These expenditures and the special account will be subject to annual independent external audits, starting in March 2002.

22. In addition, under the policy framework for 2002, a single oil-related signature bonus of US$5 million is projected to be disbursed during the fourth quarter of 2002. However, in spite of the considerable uncertainty surrounding oil sector discussions, the authorities indicated that the proceeds of oil-related compensation from Nigeria (see para. 14 above), the bonuses from the oil-licensing rounds, and external financial assistance could be much larger than currently projected. They have been planning to use the proceeds to increase spending, as some pressing needs—mainly for infrastructure improvement, equipment in schools, health districts, and public administration—could not be accommodated in the government budget for 2002. The staff agreed that fiscal targets should be flexible and could be adjusted, depending on the availability of resources to the country. However, it expressed concern over the authorities' plan and recommended caution, noting that the mobilization of the unprogrammed signature bonus in February 2001 (see para. 9 above) had helped finance extrabudgetary spending overruns, which, in turn, had caused the large fiscal slippages that threw the PRGF-supported program off track. On the staff's suggestion, the authorities agreed to keep as government deposits in the central bank any additional oil revenue, signature bonuses, or nonproject grants until a spending program could be discussed with the staffs of the Fund and the World Bank and a revised government budget submitted to parliament.

23. **Government revenue is projected to increase by 15 percent in 2002 to the equivalent of 22.5 percent of GDP.** In line with the recommendations of a study on streamlining the domestic indirect taxation system (completed at end-December 2000), the authorities will simplify the general sales tax in late April 2002 and extend it (at a single rate of 2 percent) to domestic goods and services (such as hotels, restaurants, telecommunications, water and electricity, and maintenance and repair services) (MEFP, para. 11). In addition, following discussions initiated by the government in February 2001, all enterprises previously benefiting from legal exemptions have now been subjected to the minimum 5 percent customs tariff, with the exception of the national telecommunications company of São Tomé and Príncipe (CST). Finally, the government will continue to strengthen the tax inspection and audit departments of the tax and customs administrations to further broaden the tax base; it will also apply the automatic mechanism by which retail prices of petroleum products are adjusted to reflect import prices and distribution costs.

24. **Domestically financed primary expenditure (including HIPC Initiative-related social spending) is projected at 25.5 percent of GDP in 2002, compared with 29.6 percent of GDP in 2001** (MEFP, para. 12). The cuts are being made in domestically financed investment, which more than tripled in 2001. The implementation of the civil service reform and downsizing program at end-2001 will allow a general salary increase of 10 percent, starting on January 1, 2002 (MEFP, para. 13), while maintaining the wage bill within a limit of 8 percent of GDP in 2002 (compared with 8.5 percent of GDP in 2001). The authorities explained that, under heightened social pressure, and in view of the low nominal civil service salaries in São Tomé and Príncipe, compared with neighboring countries, they

had to grant the two one-off bonuses in 2001, as well as the salary increases of 2001 and 2002, to avoid social unrest and to attract qualified personnel.[20]

25. The authorities indicated that additional salary increases would be needed in the future. To grant these increases in an orderly manner, they will conduct studies on the civil service statutes and salary scale by end-March 2002, with a view to introducing during the second half of 2002 new categories in the civil service statutes, as well as a new, uniform, and simplified wage grid and a compensation and promotion system based on performance appraisals. The staff stressed that the authorities should strictly limit future wage increases in order to preserve competitiveness over the medium term. It explained that the tradables sector would be adversely affected by the real exchange rate appreciation that was likely to result from the expected large inflow of external grants and oil-related bonuses, and the continued expansion in government spending, including the wage bill. The authorities responded that they were committed to tightening control over spending, including investments and the wage bill, while providing adequately for the priority social sectors of education and health.

26. **Spending priority will continue to be given to social sectors, and, in that context, resources freed up by the interim assistance under the enhanced HIPC Initiative will allow an increase in education and health sector spending.** Spending on education is projected to increase to 9.6 percent of GDP in 2002, (from 5 percent of GDP in 2000); in the health sector, government spending will increase to 9.1 percent of GDP (from 2.4 percent of GDP in 2000).[21] Sectoral development strategies were prepared with donor support and adopted by the government in October 1999 for agriculture and in June 2000 for health. Those for education, infrastructure maintenance, and tourism, which are at an advanced stage of preparation, will be adopted by end-March 2002. By the same date, the government will also conclude consultations with the World Bank staff on a public expenditure review focusing on costing health and education strategies in the context of a new World Bank-financed social development project.

27. **In addition, the government reiterated its commitment to improve planning and control over the public investment program (95 percent of which is foreign financed).** It will adopt, in consultation with the World Bank staff, a three-year PIP for 2002–04, consistent with the interim PRSP, by end-March 2002. By giving priority to the human resource development and infrastructure maintenance sectors, the PIP should be a major contributor to poverty reduction efforts. In addition, the PIP should help to enhance national

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[20] The average annual salary in the civil service is projected to increase from Db 4.4 million, or US$560, in 2000 to Db 6.7 million, or US$766, in 2002. In comparison, the average annual civil service salary was equivalent to US$2,600 in Cameroon in 1999.

[21] There was a substantial fall in the ratio of social spending to GDP in 2000, owing partly to the closing of a Portuguese-financed health project for the general hospital.

control over project selection by allowing the government to present its priorities to donors in a coherent way. To ensure a timely dialogue with the international community and to enhance project monitoring, the government will continue to hold quarterly steering meetings on the PIP, with the participation of São Tomé and Príncipe's main donors.

28. The government will also carry out, by end-April 2002, with donor assistance, a study on the procedures for public investment. By end-June, it will publish the report on the audit of three large government contracts and bids, for which the terms of reference were finalized in December 2001. The audit and study will help streamline the procurement system, develop a mechanism to control and monitor the execution of foreign-financed investment, and place all project implementation accounts under the financial control of the treasury (MEFP, para. 15).

B. Monetary and Exchange Rate Policy

29. **With the continued implementation of the central bank's prudent monetary policy, broad money is projected to increase by 12 percent in 2002, in line with nominal GDP growth.** Reflecting the mobilization of projected World Bank and African Development Bank (AfDB) nonproject financing, continued interim assistance under the enhanced HIPC Initiative, and an expected payment of oil-related bonuses, net bank credit to the government is targeted to fall substantially, allowing for a significant increase in credit to the private sector in real terms. The central bank will keep its reference interest rate positive in real terms and introduce open market operations by end-June 2002. On this basis, central bank gross international reserves are projected to increase to more than the equivalent of six months of imports in 2002.

30. **The central bank will continue to strengthen bank supervision in order to ensure that private banks comply with prudential norms.** The authorities will closely monitor the recapitalization and restructuring of the Banco Comercial do Equador (BCE) by Angolan investors.[22] In November 2001, private investors from Angola agreed to recapitalize and take over the management of the BCE. The bank has been experiencing difficulties and has not been observing the prudential and solvency ratios since mid-1999.[23] The authorities agreed

[22] The BCE is the second of the two commercial banks of São Tomé and Príncipe, with a little more than one half of bank credit distributed in the country and about 40 percent of deposits at end-2000.

[23] The BCE reported a loss of about 50 percent of its capital at end-December 2000 and is now insolvent, owing to large underprovisioning of its loan portfolio. It has breached the prudential norms on credit concentration and related lending, and is deeply illiquid, as reflected in persistent shortfalls in its required reserves at the central bank. The central bank took the BCE under administration in early May 2001 before suspending its banking license

(continued...)

that the bank should be liquidated if the recapitalization and restructuring did not materialize, and that neither the treasury nor the central bank should be financially involved in the restructuring or liquidation operations. With technical assistance from the Fund, the central bank will also strengthen internal operations control. It will have its accounts for 2001 audited by an internationally reputable accounting firm and will publish the audit report and the certified accounts by end-April 2002. The central bank remains committed to performing and publishing annual external audits.

31. **The authorities will continue to pursue implementation of their flexible exchange rate regime.**[24] The central bank indicated that the market-based policy had served the country well and that, since 1997, exchange rate fluctuations had generally reflected São Tomé and Príncipe's economic situation, terms of trade movements, and capital flows. However, in 2000–01, the central bank deviated on a number of occasions from the current rule for computing the daily official exchange rate. On the staff suggestion, it agreed not to interfere administratively in commercial banks' exchange operations and to adhere to the flexible exchange rate regime during the period of the program, thereby allowing for a continued containment of the spread between the official rate and the parallel rate below 1 percent. In view of the absence of restrictions on the making of payments and transfers for current account transactions, the authorities reiterated their readiness to accept the obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement. The staff indicated that it will conduct a review of São Tomé and Príncipe's exchange system with a view to identifying the steps to be taken by the authorities before accepting the obligations of Article VIII. For the medium term, and in view of the introduction of the euro notes on January 1, 2002, the authorities would like to explore alternative exchange rate arrangements, with assistance from the Fund, including accession to a monetary union with a currency pegged to the euro. The staff cautioned against a fixed peg for the dobra, as such a peg would not be credible in view of the uncertainties surrounding São Tomé and Príncipe's economy. With this caveat, the staff indicated its support for the authorities' review of possible exchange rate arrangements.

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in June 2001. An MAE technical assistance mission that visited São Tomé and Príncipe in June 2001 assisted the authorities in their handling of the banking crisis.

[24] Since December 1994, the official exchange rate of the local currency (the dobra) to the U.S. dollar has been calculated as the simple average of the rates of commercial banks, exchange bureaus, and the parallel market. The exchange and payments system is free of restrictions on current account transactions.

C. Governance Issues

32. **The government has indicated its determination to promote transparency, accountability and good governance, and to fight fraud and corruption.** In the **oil sector**, the authorities have undertaken to improve transparency in all future operations. By end-March 2002, they will review the conclusions of the cost-benefit analysis of the ERHC contract and the detailed study of the procedures for negotiation of contracts in the petroleum sector. If needed, they will also reopen discussions on the EHRC contract. The review of the staff-monitored program will assess the handling of these two studies, as well as the actual disbursement and use of bonuses paid by oil companies in 2001. The government will also issue the implementing decrees and regulations of the oil sector law by end-March 2002, request technical assistance from the Fund staff in the area of petroleum sector taxation and from the World Bank in the area of oil resource and contract management.

33. **Regarding other governance issues,** the authorities indicated that the treasury bond fraud attempt uncovered in February 1999 is awaiting a Supreme Court ruling. The handling of this case will be reassessed at the time of the review of the staff-monitored program. With respect to the judiciary, the government intends to strengthen and modernize the courts and tribunals, to train magistrates, and to prepare criminal, civil, and business laws and codes by end-2002, with assistance from Portugal. Subsequently, it will make the Auditor General's Office operational and help establish an arbitration court for commercial disputes. Independent external audits of the central bank, public enterprises, and government operations, as well as generalized trade and price liberalization, will help enhance transparency and accountability during the program period.

D. Structural Reforms

34. **The authorities indicated their commitment to implementing structural reforms under the proposed staff-monitored program,** with assistance from the World Bank and the United Nations Development Program (UNDP). The following structural benchmarks were agreed: (i) an increase in water and electricity rates by 16 percent on average to cover costs, by end-March 2002; (ii) the submission to the National Assembly of a draft government budget for 2002 in line with the program, by end-April 2002; (iii) the publication of the report on an external independent audit of three large government contracts and bids from the period 1998–2000, by end-June 2002; (iv) the continued application of the mechanism by which retail prices of petroleum products are adjusted to reflect import prices and distribution costs; and (v) the submission of monthly monetary statistics within four weeks following the end of each month (see Box 3 and MEFP, Table 2).

35. **Other structural reforms will be carried out by the authorities, with assistance from the World Bank, to enhance the role of the private sector in the economic development of the country**. Following the elimination of nontariff external trade barriers, the reduction in import tariffs, and the elimination of export taxes,[25] the government will submit to parliament before end-March 2002 a draft law for a major revision of the investment code, with a view to eliminating preferential tax regimes, with the exception of the free trade zone. The authorities will also review the report provided by the Foreign Investment Advisory Service (FIAS) of the World Bank Group, which was completed in April 2001, with a view to adopting by end-March 2002 an action plan aimed at improving incentives for investment, including a strengthening of the regulatory framework and the judiciary. By the same date, the government intends to finalize its telecommunications sector policy, with assistance from the World Bank, adopt a legal and regulatory framework for the sector, establish a regulatory authority, and renegotiate the concession given to the national telecommunications company (CST), with a view to opening the sector to competition.

36. **Regarding public enterprises, the government will continue its reform and privatization program in 2002, with assistance from the World Bank.** For the water and electricity utility company (EMAE), the new management appointed in August 2001 will implement the financial restructuring plan adopted in December 2000, including the introduction of an appropriate accounting and budget system, a strengthening of revenue collection procedures, and the formulation of a medium-term strategy and investment plan. The authorities will submit the company's accounts for the years 1995-98 to independent external auditors before end-February 2002. The accounts of the petroleum distribution company (ENCO) have been certified by external auditors through 1999.

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[25] In August 1999, São Tomé and Príncipe removed all nontariff import barriers and liberalized external current account transactions. In February 2000, it eliminated all export taxes and implemented a new customs tariff with three rates (5 percent, 10 percent, and 20 percent) and no zero-rate band. With these reforms, the unweighted average customs tariff rate was lowered to 12 percent in 2000 (from 27 percent in 1999) and the index of trade policy restrictiveness compiled by Fund staff was reduced to 5 in 1999 and 3 in 2000 (from 10 in 1998).

E. Poverty and Social Issues, and HIPC Initiative-Related Spending

37. **The full PRSP was initially intended to be completed by end-December 2001.**[26] **The authorities are aiming to prepare a poverty reduction strategy by end-June 2002 with donor support and in consultation with civil society, in order to supplement and update the interim PRSP dated April 6, 2000.** The authorities will prepare a progress report on the implementation of the interim PRSP by end-June 2002 if there is a further delay in the completion of the full PRSP. This strategy should include measures to raise school enrollment and literacy rates, and improve primary health care. With the establishment of an interministerial committee to formulate the poverty reduction strategy in November 2000 and that of the committee to monitor HIPC Initiative-related spending in January 2001 (with the participation of civil society and foreign donors), the government made significant progress during 2001 in increasing social spending. The government budget for 2002 will include larger budget appropriations (including on account of the enhanced HIPC Initiative-related spending plan) for the education and health sectors. In addition, the results of the household survey, which was launched in October 2000 with assistance from the AfDB and the UNDP, were made available at end-May 2001, and a social database is scheduled to be developed at the National Institute for Statistics by end-March 2002 (with support from the World Bank and the UNDP), together with the social and poverty indicators. These results will help to ensure effective monitoring of the progress made in reaching the social and poverty reduction objectives, although no poverty and social impact analysis has been undertaken, so far, in São Tomé and Príncipe. The authorities have indicated their intention to conduct such analyses, particularly in view of their plans to use potential oil revenue to reduce poverty (MEFP, para. 22).

F. External Sector Policies

38. São Tomé and Príncipe has fully liberalized its external trade and its exchange and payments system since 1999. The country's debt burden remains unsustainable (see Tables 9-10) and the authorities should continue to rely on grants and highly concessional external loans (with a grant element of at least 50 percent). The May 2000 rescheduling of the Paris Club debt on Naples terms has become inoperative, pending the approval of a new PRGF arrangement. The financing requirements for 2002, after private capital inflows, are

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[26] Preparation of the full PRSP has been slower-than-projected, mainly because of limited administrative capacity, which has delayed the completion of key sectoral strategies, including that for education. In addition, the start of the household survey suffered from delays in making the AfDB financing effective. Finally, consultations with local communities and with civil society, which resumed in April 2001 on the formulation of the full PRSP (MEFP, para. 24), were interrupted again in the midst of preparations for the July presidential elections.

expected to be partially covered by concessional assistance from multilateral and bilateral creditors and donors, including the World Bank and the AfDB. There would remain a residual financing gap in 2002. This gap could be covered under the assumption that a new PRGF arrangement would be approved during the second half of the year, that Paris Club rescheduling would resume, and that interim assistance from multilateral creditors under the enhanced HIPC Initiative would not be discontinued.

G. Statistical Issues

39. Progress has been made in recent years in the areas of monetary, fiscal, and price statistics, following the provision of technical assistance by the Fund and bilateral donors. São Tomé and Príncipe now regularly provides the core minimum data to the Fund for the purposes of surveillance and program monitoring. However, weaknesses remain in the statistical apparatus, including deficiencies in the compilation of real sector and balance of payments statistics. The authorities will continue to ensure that monthly monetary survey, fiscal, and price data are available within four weeks after the end of the month concerned.

H. Program Monitoring and Review

40. **The authorities have requested the staff to monitor the six-month economic program described in the MEFP attached to the letter of intent (Appendix I, Attachment I).** The **three prior actions** agreed upon and subsequently taken to ensure the success of the staff-monitored program, are the following: (i) the adoption of a mechanism by which water and electricity rates are adjusted to reflect production and distribution costs; (ii) the implementation of the civil service reform and downsizing program; and (iii) the adoption of the terms of reference for the independent exernal audit of three large government contracts and bids from the period 1998–2000.

41. **To monitor progress in program implementation, the government has established quantitative benchmarks for end-March and end-June 2002 (MEFP, Table 1), as well as structural benchmarks (MEFP, Table 2).** The government will also communicate to the Fund the data and information listed in Table 3 of the MEFP on a monthly basis, as well as any information that the Fund may request to monitor progress in the implementation of economic and financial policies and the measures required to achieve the program objectives. The review of policy performance under the staff-monitored program is scheduled to be conducted with the staff in April 2002.

IV. Staff Appraisal

42. **During 2001, the PRGF-supported program went off track, with large fiscal spending overruns, the emergence of governance issues related to petroleum sector contracts, and delays in the implementation of several structural measures.** Nevertheless, economic activity continued to recover, and, by end-2001, inflation had stabilized at the end-2000 level. Improvements in tax collection and customs reform led to a large increase in government revenue.

43. **The new authorities agreed to implement strong corrective measures during a six-month program,** ending in June 2002, that would be monitored by the staff, within a policy framework covering 2002. They have expressed their commitment to the economic reforms laid out in their interim PRSP of April 6, 2000. **It is crucial for the authorities to pursue vigorously the implementation of the staff-monitored program, in order to reestablish a track record of good policy implementation**, which will, in turn, pave the way for discussions on a new PRGF arrangement. Achieving an adequate policy performance will require continued determination on the part of the authorities to carry out the measures agreed in the letter of intent.

44. **The authorities and civil society at large perceive the need to firmly implement vigorous macroeconomic and structural policies to improve prospects for growth and reduce poverty**. They have reiterated their commitment to resume implementation of a new PRGF-supported program, with a view to reaching the completion point under the enhanced HIPC Initiative and alleviating the country's unsustainable external debt burden. In addition, the authorities are committed to taking the necessary steps to ensure an orderly and transparent use of potential oil revenue.

45. **The staff recognizes that there are substantial risks to the successful implementation of the SMP.** First, São Tomé and Príncipe's economic, financial, and social situation remains fragile and difficult. The country, one of the smallest and poorest in the world, continues to depend heavily on external assistance and the monoculture of cocoa. As a result, the economy remains very vulnerable to changes in the availability of foreign aid and terms of trade fluctuations. Second, political instability and the prospects of a legislative election in March and of a subsequent government reshuffle have increased the difficulties encountered in the implementation of socially challenging reforms. Third, the very limited administrative capacity in the country could hamper program implementation. Finally, the onset of disbursements of sizable oil-related compensation payments and bonuses could weaken the authorities' resolve to maintain prudent macroeconomic policies.

46. **The staff notes that the authorities' limited administrative capacity could also constrain the efficient use of the interim HIPC Initiative assistance for poverty reduction purposes**. The staff underscores the importance of ring-fencing HIPC Initiative resources in the special treasury account opened at the central bank and the need to establish control and monitoring mechanisms to ensure an efficient and transparent use of these and

other budgetary resources. The staff urges the authorities to make good use of the technical assistance they are receiving from the World Bank, the European Union, and France in the area of public resource management. The authorities should adhere to the priorities and policies outlined in the interim PRSP and stand ready to take any additional measures that may be required by changing circumstances, such as terms of trade shocks.

47. **The central bank remains committed to maintaining the flexible exchange rate policy and to refraining from interfering in the commercial banks' exchange operations.** The central bank will continue to compute the official rate as an average of the rates of the parallel, exchange bureau, and commercial bank markets. Following a review of the exchange system, the staff will urge the authorities to accept the obligations of Article VIII as soon as possible.

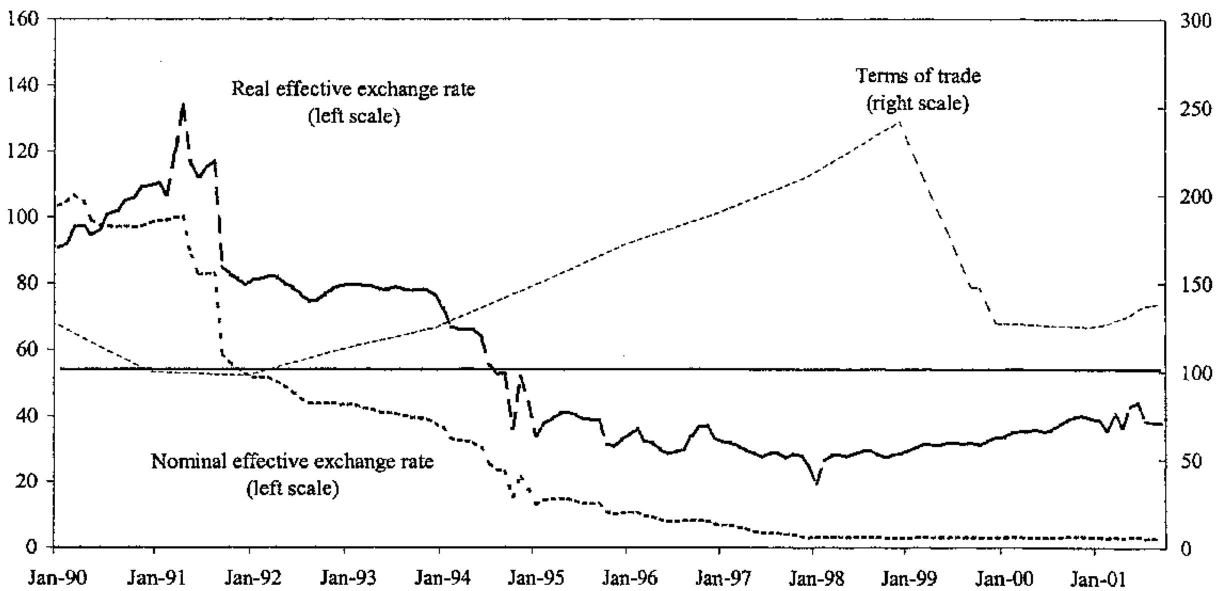
48. **It is crucial that the central bank closely monitor bank lending activities and portfolio performance.** Regarding the insolvent BCE, the central bank should support an orderly recapitalization and takeover by a financial institution of good standing. In case suitable interest is not forthcoming, neither the central bank nor the public treasury should become financially exposed beyond their current deposits in the liquidation of the bank.

49. **The staff-monitored program is intended to correct the slippages incurred in 2001 and reestablish a track record of policy implementation. The staff recommends that, if implementation of the staff-monitored program is successful, discussions be started on a medium-term program that could be supported under the PRGF arrangement.** The authorities' commitment to further reform will be evidenced by (i) strict adherence to the fiscal policy stance agreed for 2002 under the proposed staff-monitored program; (ii) observance of agreed structural benchmarks; and (iii) the actions taken following the results of a critical review of the contract signed with the ERHC and of the procedures followed in the negotiations of oil sector contracts in 2001.

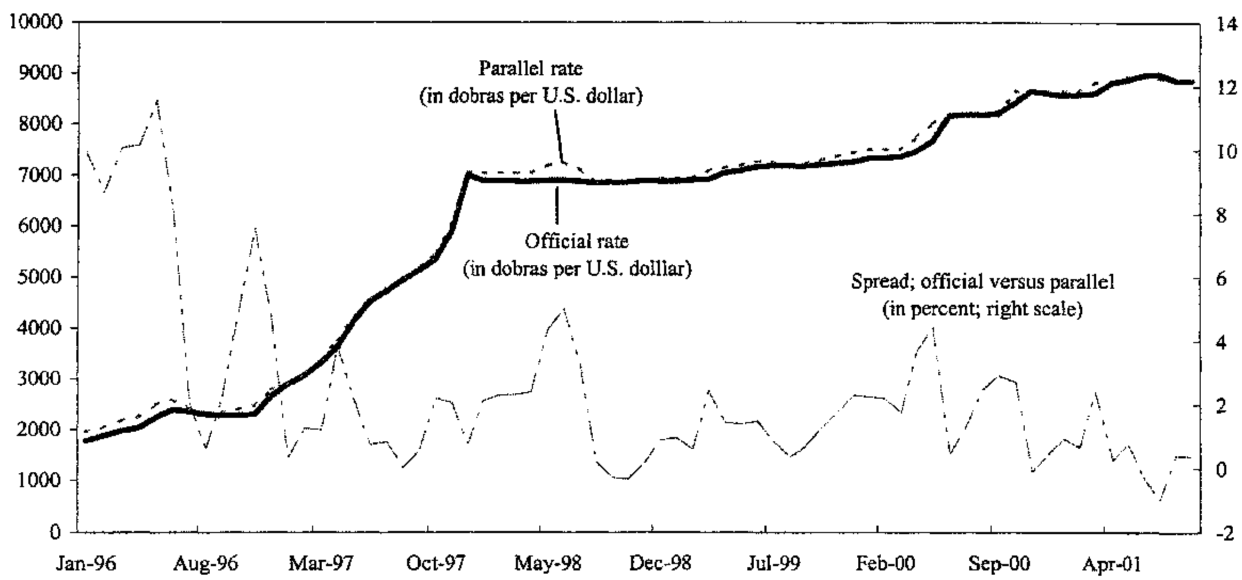
50. It is recommended that the next Article IV consultation with São Tomé and Príncipe be held on the standard 12-month cycle.

Figure 1. São Tomé and Príncipe: Exchange Rates and Terms of Trade

Effective Exchange Rate and Terms of Trade, January 1990-September 2001
(Index, 1990=100)



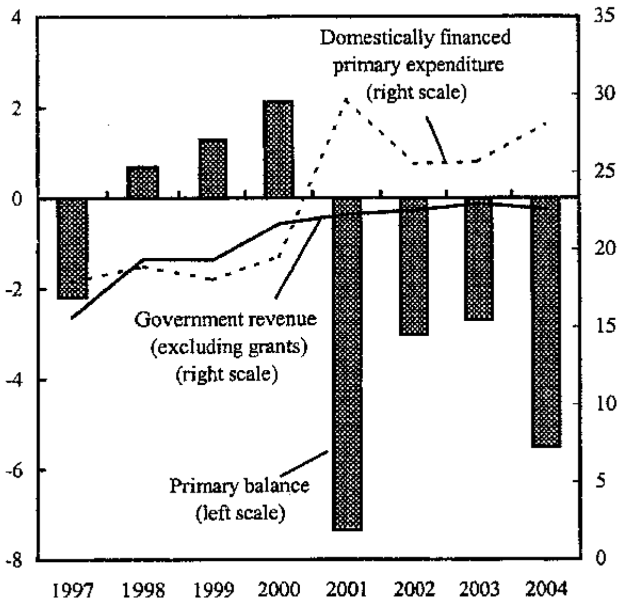
Average Exchange Rates, January 1996-September 2001



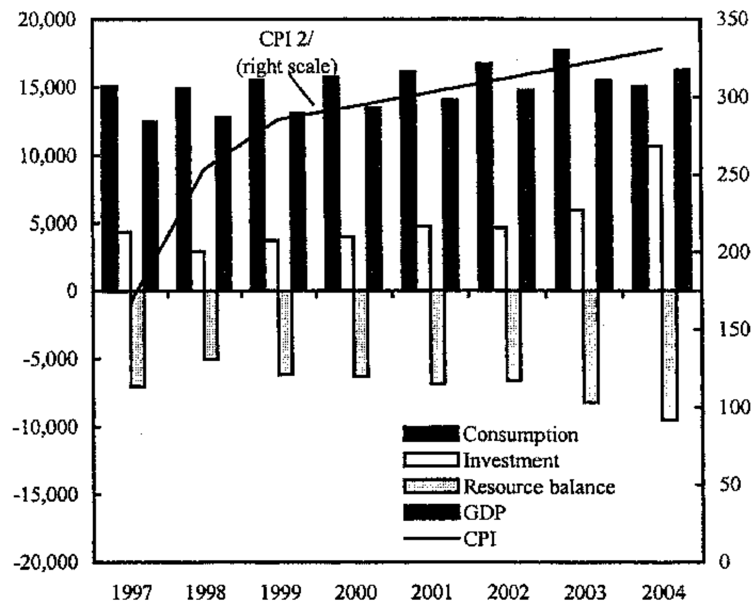
Sources: São Tomé and Príncipe authorities; IMF, World Economic Outlook database; and staff estimates.

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

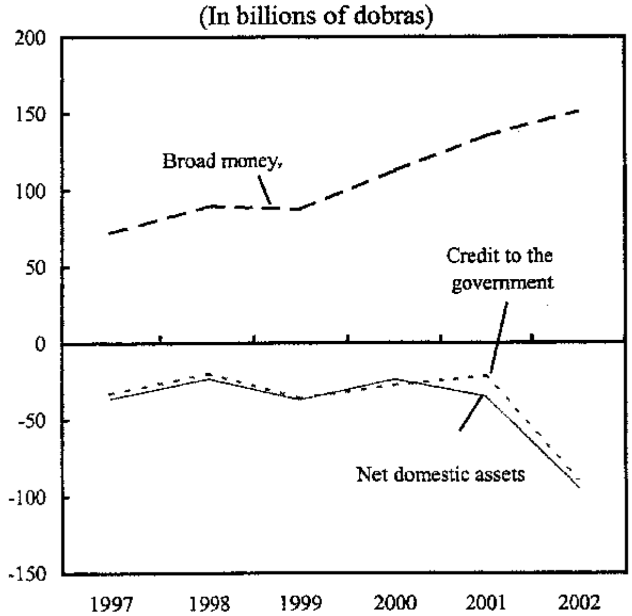
Government Revenue and Primary Expenditure, 1997-2004
(In percent of GDP) 1/



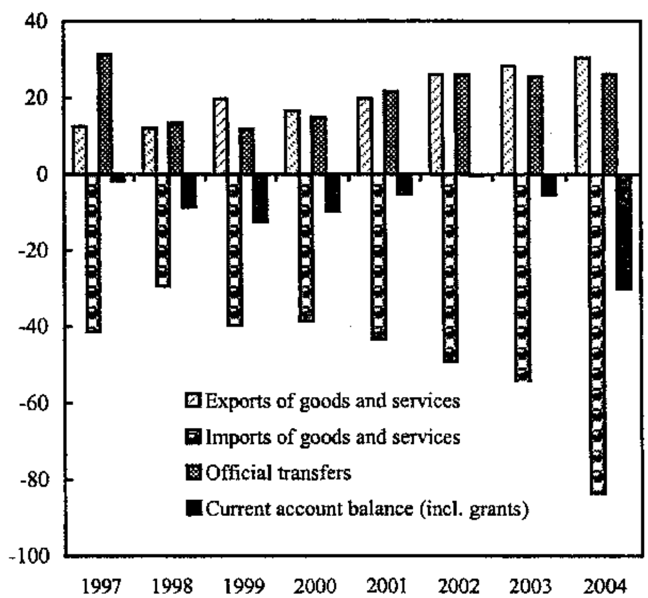
Gross Domestic Product and Consumer Price Index (CPI), 1997-2004 (At 1991 prices, in millions of dobras, unless otherwise specified)



Broad Money and Credit to the Government, 1997-2002
(In billions of dobras)



External Balance, 1997-2004
(In millions of U.S. dollars)



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, 1999-2004

	1999	2000		2001		2002		2003	2004
	Est.	Prog.	Est.	Prog.	Est.	Prog.	SMP	Proj.	
				(In units indicated)					
Production									
Cocoa export volume (in thousands of metric tons)	3.3	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	1.0	0.9	1.1	1.1	1.2	1.1	1.2	1.3
Gross domestic product (in billions of dobras)	334.1	369.5	369.5	408.2	422.0	455.0	482.1	533.9	581.1
At constant prices (percentage change)	2.5	3.0	3.0	4.0	4.0	5.0	5.0	5.0	5.0
Gross domestic product deflator (percentage change)	16.0	7.4	7.4	6.3	9.8	6.2	8.8	5.5	3.7
Consumer prices (percentage change; end of period)	12.6	9.0	9.6	5.0	9.0	3.0	7.0	5.0	3.0
Consumer prices (percentage change; average)	16.3	10.7	11.0	6.9	9.3	4.0	8.0	4.0	5.0
				(Annual percentage change, unless otherwise specified)					
External sector									
Exports, f.o.b.	-17.3	11.2	-18.7	33.2	21.0	16.6	4.9	9.1	5.8
Imports, c.i.f.	30.3	-1.7	1.4	18.8	5.1	7.9	12.7	15.6	35.1
Exchange rate (in dobras per U.S. dollar; period average)	7,093	...	7,909	...	...	...	...	...	...
Exchange rate (in dobras per U.S. dollar; end of period)	7,250	...	8,568	...	...	...	...	...	...
Real effective exchange rate	12.8	...	16.7	...	...	...	...	...	...
Terms of trade	-50.0	-1.5	-1.5	6.1	10.8	11.6	7.5	2.6	6.5
Money and credit (end of period)									
Net domestic assets 1/	-15.3	-23.6	15.0	-9.5	-9.8	...	-44.3	...	...
Credit to government (net) 1/	-17.8	-19.5	9.7	-12.9	5.1	...	-49.9	...	...
Credit to the economy 1/	7.5	2.3	1.4	3.2	1.4	...	4.1	...	...
Broad money	-2.8	16.8	28.8	10.7	19.8	...	12.3	...	...
Velocity (ratio of GDP to average broad money)	3.8	3.9	3.7	3.7	3.5	...	3.5	...	...
Central bank discount rate (in percent; end of period)	17.0	17.0	17.0	...	...	...	...	...	...
Commercial bank lending rate (in percent; end of period)	38.0 to 44.0	...	34.0 to 39.0	...	34.0 to 39.0	...	...	...	...
Commercial bank deposit rate (in percent; end of period)	24.0 to 28.0	...	14.0 to 16.0	...	14.0 to 16.0	...	...	...	...
				(In percent of GDP, unless otherwise specified)					
National accounts									
Consumption	109.3	105.1	103.6	105.9	98.4	105.3	98.0	93.1	93.5
Gross investment	40.0	39.3	43.5	44.1	49.9	45.1	45.3	53.4	88.7
Public investment	26.0	22.8	26.0	24.1	33.0	24.1	28.4	28.1	28.8
Private investment	14.0	16.5	17.5	20.0	16.9	21.0	16.9	25.3	59.9
Of which: oil sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.6	46.5
Gross domestic savings	-9.3	-5.1	-3.6	-5.9	1.6	-4.8	2.0	6.9	6.5
Public savings	-11.9	-10.3	-8.4	-9.8	-11.0	-9.4	-13.1	-8.7	-10.6
Private savings	2.6	5.2	4.8	3.9	12.6	4.6	15.0	15.5	17.1
Gross national savings	13.8	14.5	23.0	22.4	39.3	22.7	44.9	44.7	42.2
Government budget									
Total revenue and grants	43.9	43.8	49.6	53.6	61.4	52.9	68.0	63.4	62.4
Of which: grants	24.6	23.0	28.0	31.9	39.2	30.9	45.5	40.4	39.8
Total expenditure	69.8	62.0	66.1	66.7	76.4	68.4	71.5	66.4	68.2
Of which: noninterest current expenditure	15.8	16.8	17.6	16.6	19.9	20.9	18.3	17.3	17.0
Overall balance (commitment basis)	-25.9	-18.2	-16.5	-13.0	-15.0	-15.5	-3.6	-3.0	-5.9
Primary balance (commitment basis; incl. HIPC Initiative spending) 2/	1.3	2.1	2.1	0.8	-7.4	-1.3	-3.0	-2.7	-5.5
Primary balance (commitment basis; excl. HIPC Initiative spending) 2/	1.3	2.1	2.1	2.7	-3.4	3.4	1.7	3.3	3.2
External sector									
Current account balance (excluding official transfers)	-51.1	-49.4	-52.4	-56.5	-54.6	-55.8	-49.1	-51.7	-87.1
Current account balance (including official transfers)	-26.2	-24.8	-20.5	-21.8	-10.6	-22.4	-0.4	-8.7	-46.5
Net present value of total external debt outstanding 3/ 4/	404.3	306.3	306.3	...	262.0	...	252.7	56.8	57.5
Net present value of total debt 3/ 4/ 5/	1,394.6	920.8	920.8	...	708.2	...	646.4	132.8	125.5
Net present value of total debt 3/ 4/ 6/	2,151.9	1,353.2	1,353.2	...	1,023.6	...	973.8	218.8	221.5
				(In millions of U.S. dollars, unless otherwise specified)					
External sector									
Export earnings	3.9	4.4	3.2	5.8	3.9	6.8	4.0	4.4	4.7
Of which: cocoa	2.9	3.3	2.9	4.0	3.4	4.6	3.6	3.9	4.1
Overall balance	-2.7	0.0	-2.5	-2.4	1.7	-7.0	4.6	1.0	-0.9
Outstanding public external debt (before debt relief)	294.0	...	283.4	...	286.7	...	283.0	285.3	283.0
Of which: arrears	74.0	...	0.0	...	...	...	...	...	...
Gross foreign reserves (in months of following year's imports of goods and services)	3.1	4.2	3.6	4.8	3.9	5.3	6.1	6.8	6.7
External debt service									
Before debt relief 5/	49.8	33.6	36.2	30.6	31.4	38.9	33.4	30.7	28.5
Actual debt service paid 5/	23.8	...	26.1	...	10.8	...	...	...	...

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

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

Table 2. São Tomé and Príncipe: Balance of Payments, 1999-2004

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

	1999	2000		2001		2002		2003	2004
		Prog.	Est.	Prog.	Est.	Prog.	SMP	Proj.	
Trade balance	-18.0	-17.2	-19.1	-19.8	-19.5	-20.9	-22.3	-26.0	-36.5
Exports, f.o.b.	3.9	4.4	3.2	5.8	3.9	6.8	4.0	4.4	4.7
Cocoa	2.9	3.3	2.9	4.0	3.4	4.6	3.6	3.9	4.1
Other	1.0	1.1	0.3	1.8	0.4	2.2	0.5	0.5	0.5
Imports, f.o.b.	-21.9	-21.6	-22.3	-25.6	-23.4	-27.6	-26.4	-30.5	-41.2
Food	-4.8	-4.3	-4.5	-5.1	-4.8	-5.4	-6.5	-6.2	-6.4
Investment goods	-10.8	-9.3	-11.8	-12.3	-12.8	-13.2	-13.5	-14.3	-15.4
Petroleum-related investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-3.4	-11.0
Petroleum products	-3.8	-6.2	-4.0	-6.2	-3.6	-5.8	-3.4	-3.6	-4.0
Other	-2.6	-1.7	-1.9	-2.0	-2.2	-3.2	-3.0	-3.0	-4.3
Services and income (net)	-6.7	-6.3	-5.9	-7.6	-7.8	-9.2	-4.6	-5.2	-20.3
Exports of services	15.7	13.4	13.3	14.4	15.8	15.4	21.8	23.8	25.8
Travel and tourism	9.2	9.9	8.7	10.6	9.3	11.4	11.9	13.4	15.1
Concessions and royalties	3.2	...	1.0	...	2.3	...	5.3	5.3	5.3
Other services	3.4	3.6	3.6	3.8	4.2	4.0	4.6	5.0	5.3
Imports of services	-17.7	-16.8	-16.3	-18.2	-20.0	-21.0	-22.7	-25.4	-42.3
Freight and insurance	-4.4	-4.3	-4.9	-5.0	-4.6	-6.4	-5.9	-6.4	-8.6
Technical assistance	-7.4	-6.4	-6.0	-7.4	-10.5	-8.1	-11.6	-10.8	-11.6
Petroleum-related services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-3.0	-16.5
Other	-5.8	-6.1	-5.3	-5.8	-4.9	-6.5	-5.2	-5.2	-5.6
Interest due	-4.7	-3.0	-3.0	-3.7	-3.7	-3.7	-3.7	-3.7	-3.8
Private transfers (net)	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Current account, excluding official transfers	-24.1	-22.9	-24.5	-26.8	-26.8	-29.5	-26.3	-30.7	-56.2
Official transfers (net)	11.8	11.4	14.9	16.5	21.6	17.7	26.1	25.5	26.2
Public investment projects	9.3	8.7	12.0	12.2	14.2	13.8	17.1	18.6	20.2
Aid in kind	2.4	1.6	1.9	1.5	0.8	1.5	2.1	1.5	1.5
HIPC Initiative-related grants	...	...	...	...	2.9	...	4.2	3.9	3.9
European Union budget support	0.0	0.0	0.0	1.4	1.4	1.1	1.0	0.0	0.0
Other	0.2	1.0	1.0	1.4	2.4	1.3	1.7	1.5	0.5
Current account, including official transfers	-12.2	-11.5	-9.6	-10.3	-5.2	-11.8	-0.2	-5.2	-30.0
Medium- and long-term capital (net)	9.6	11.5	7.1	7.9	6.9	4.8	4.8	6.2	29.2
Project loans	9.6	8.1	6.6	4.8	4.8	3.8	3.8	1.8	1.8
Nonproject loans	0.0	3.0	0.0	3.3	3.0	3.3	4.3	2.3	0.0
Direct foreign investment	3.0	3.7	3.8	4.3	3.5	4.0	3.0	8.5	33.7
Of which: petroleum related	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.7	30.0
Amortization	-3.1	-3.3	-3.3	-4.4	-4.4	-6.2	-6.2	-6.4	-6.4
Short-term capital and errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-2.6	0.0	-2.5	-2.4	1.7	-7.0	4.6	1.0	-0.9
Financing	2.7	0.1	2.4	-18.3	-1.7	-0.2	-4.6	-1.0	0.9
Change in reserves (increase -)	-1.2	-4.5	-2.0	-4.3	-2.9	-2.8	-9.0	-7.0	-4.1
Medium- and long-term arrears (net; decrease -)	-3.5	-32.5	-32.5	0.0	0.0	0.0	0.0	0.0	0.0
Short-term arrears (net; decrease -)	0.0	-22.3	-22.3	-16.6	-16.6	0.0	0.0	0.0	0.0
Poverty Reduction and Growth Facility (net)	-0.1	2.6	2.5	2.6	0.0	2.6	1.3	2.6	1.3
Other	-0.3	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	7.8	57.1	57.1	0.0	17.8	0.0	3.1	3.3	3.7
Of which: HIPC Initiative	...	...	...	...	0.0	...	0.8	0.8	0.8
Financing gap	0.0	0.0	0.0	20.7	0.0	7.2	0.0	0.0	0.0
Memorandum items:									
Exchange rate (in dobras per U.S. dollar, average)	7,093	...	7,909	...	...	...	...	...	...
GDP (in billions of dobras)	255.5	369.5	369.5	408.2	422.0	455.0	482.1	533.9	581.1
Debt-service ratio (before debt relief) 1/ 2/	49.8	24.2	36.2	31.1	31.4	38.9	33.4	30.7	28.5
Debt-service ratio (after debt relief, including HIPC Initiative assistance) 1/ 2/	45.5	24.2	26.1	10.9	10.8	6.1	5.3	5.1	3.2
Debt service actually paid 1/ 3/	23.8	24.2	26.1	10.9	10.8	6.1	5.3	5.1	3.2
Current account, excluding official transfers (in percent of GDP)	-66.8	-49.4	-52.4	-56.5	-54.6	-55.8	-49.1	-51.7	-87.1
Current account, including official transfers (in percent of GDP)	-26.2	-24.8	-20.5	-21.8	-10.6	-22.4	-0.4	-8.7	-46.5
Gross reserves (in millions of U.S. dollars)	10.9	15.4	12.9	19.7	15.8	22.5	24.8	31.8	35.9
Gross reserves (in months of following year's imports)	3.3	4.2	3.6	4.8	3.9	5.3	6.1	6.8	6.7

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

1/ In percent of exports of goods and services.
2/ Includes amortization to the IMF; excludes arrears.
3/ Includes obligations to the IMF and net changes in arrears.

Table 3. São Tomé and Príncipe: Quantitative Performance Criteria and Benchmarks Under the 2000-01 Program

(In billions of dobras, unless otherwise specified)

	2000 end-December						2001 end-June							2001 end-September						
	Prog.	Excess or shortfall in program assistance	Excess or shortfall in fishing royalties	Adj. prog.	Actual	Met (M) or not met (N)	Prog.	Excess or shortfall in program assistance	Excess or shortfall in oil concession receipts	Excess or shortfall in fishing royalties	Adj. prog.	Actual	Met (M) or not met (N)	Prog.	Excess or shortfall in program assistance	Excess or shortfall in oil concession receipts	Excess or shortfall in fishing royalties	Adj. prog.	Actual	Met (M) or not met (N)
I. Quantitative benchmarks and performance criteria 1/																				
1. Floor on primary balance of the central government's financial operations, excluding foreign-financed investments (cumulative from beginning of year) 2/	7.7	0.0	-0.4	7.4	7.8	N	0.9	0.0	0.0	-1.7	-0.8	-4.2	N	6.4	0.0	0.0	-3.2	4.2	-17.5	N
2. Ceiling on changes in net bank credit to the central government (cumulative from beginning of year) 3/	-17.0	20.0	0.0	3.0	8.4	N	0.8	-13.0	-17.2	0.0	-29.4	-27.5	N	-8.6	-1.2	-17.2	0.0	-27.0	-10.7	N
3. Ceiling on changes in net domestic assets of the central bank (cumulative from beginning of year) 3/	-17.3	20.0	0.0	2.7	3.9	N	0.9	-13.0	-17.2	0.0	-29.3	-29.3	M	-8.6	-1.2	-17.2	0.0	-27.0	-13.5	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) 2/	3.6	2.4	0.0	1.2	3.8	M	-0.2	1.5	1.9	0.0	3.2	4.0	M	3.6	0.1	2.0	0.0	5.7	3.5	N
5. Ceiling on central government's outstanding external payments arrears (in millions of U.S. dollars) 4/	0.0	0.0	0.0	0.0	0.0	M	0.0	0.0	0.0	0.0	0.0	0.0	M	0.0	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) 5/ 6/ 7/	0.0	0.0	0.0	0.0	0.0	M	0.0	0.0	0.0	0.0	0.0	0.0	M	0.0	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) 6/ 7/	0.0	0.0	0.0	0.0	0.0	M	0.0	0.0	0.0	0.0	0.0	0.0	M	0.0	0.0	0.0	0.0	0.0	0.0	M
II. Quantitative indicators																				
1. Floor on total central government revenue (cumulative from beginning of year) 3/	76.8	0.0	-0.4	76.5	187.2	N	37.8	0.0	0.0	0.0	37.8	44.8	M	62.7	0.0	0.0	0.0	62.7	70.0	M
2. Ceiling on primary spending of the central government, excluding foreign-financed investments (cumulative from beginning of year) 2/	69.1	0.0	0.0	69.1	0.0	M	36.9	0.0	0.0	0.0	36.9	49.0	N	56.3	0.0	0.0	0.0	56.3	87.5	N
Memorandum items:																				
Oil concession rights proceeds	0.0	...	...	0.0	0.0		0.0	...	17.2	...	17.2	17.2		0.0	...	17.2	...	17.2	17.2	
Program financing	25.8	-25.8	...	5.8	0.0		14.0	13.0	...	...	13.0	27.0		25.8	1.2	...	...	1.2	27.0	
Fishing royalties (cumulative from beginning of year)	5.8	...	-0.4	5.4	5.4		1.9	...	...	-1.7	0.2	0.2		4.9	...	...	-2.2	2.7	2.7	
Exchange rate (in dobras per U.S. dollar; period average)	...	...	...	...	8,337		...	...	...	...	...	8,909		...	...	...	...	...	8,805	

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

1/ Performance criteria for end-June 2000 and end-December 2000.
2/ Based on a definition of expenditure excluding all interest payments and foreign-financed investment.
3/ 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 and receipts of fishing royalties. The adjustment for shortfalls is capped at Db 20 billion at end-December 2000, Db 6 billion at end-March 2001, and Db 10 billion at end-June 2001 for program financing
4/ Nonaccumulation of nonreschedulable new external payments arrears is a continuous performance criterion.
5/ With a grant element of less than 50 percent.
6/ 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.
7/ 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 Performance Criteria and Benchmarks Under the 2000–01 Program

Measures	Timetable	Status
1. Submission to the National Assembly of a draft budget law for 2001 in accordance with the program.[1/]	End-December 2000	Not observed; implemented in April 2001
2. Establishment of a single computerized system for civil service management and payroll.	End-December 2000	Not observed; implemented at end-December 2001
3. Adoption of an automatic mechanism by which adjustments in water and electricity rates reflect changes in production and distribution costs.[1/]	End-December 2000	Not observed; implemented at end-December 2001
4. Adoption of a three-year public investment program for 2001–03 in accordance with the program.	End-February 2001	Not observed; implemented in May 2001
5. Publication of the report on the audit by an external independent firm of three large contracts and tenders for investment projects from the period 1998–2000.	End-March 2001	Not observed; adoption of terms of reference at end-December 2001
6. Implementation of the mechanism by which adjustments in the retail prices of petroleum products reflect changes in import prices and distribution costs.	Continuous	Observed
7. Submission of monthly monetary data within six weeks of the end of each month.	Continuous	Observed

1/ Performance criterion.

Table 5. São Tomé and Príncipe: Financial Operations of the Central Government, 1999-2004

	1999	2000		2001						2002			2003	2004
		Prog.	Est.	Jan.-Jun.		Jan.-Sep.		Jan.-Dec.		Jan.-Mar.	Jan.-Jun.	Jan.-Dec.	Proj.	
				Prog.	Est.	Proj.	Est.	Prog.	Est.	SMP				
	(In billions of dobras)													
Total revenue and grants	146.8	161.8	183.4	61.9	83.3	168.0	151.0	218.9	259.2	47.0	94.8	327.7	338.5	362.4
Total revenue	64.6	76.8	79.9	37.8	44.8	79.4	70.0	88.8	93.9	21.9	47.4	108.4	122.5	131.3
Tax revenue	54.1	58.5	59.4	27.6	35.4	56.7	56.0	67.5	75.1	17.1	38.3	88.7	96.4	105.5
Consumption taxes	14.6	15.4	20.0	7.2	12.0	19.3	20.1	17.5	26.2	5.5	13.0	31.2	34.6	37.6
Import taxes	18.3	21.7	17.9	9.6	8.2	15.2	13.1	26.4	20.1	4.5	8.6	23.4	24.1	26.8
Export taxes	1.8	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit taxes	7.1	7.0	6.7	3.8	5.2	6.8	7.6	7.9	9.4	2.2	5.7	11.2	12.4	13.5
Personal income taxes	4.8	9.4	10.0	3.9	7.8	11.1	11.4	10.1	14.1	3.2	6.7	16.7	18.5	20.1
Other taxes	7.5	4.9	4.6	3.1	2.1	4.3	3.8	5.5	5.3	1.7	4.3	6.2	6.9	7.5
Nontax revenue	10.6	18.3	20.5	10.2	9.4	22.7	14.0	21.3	18.8	4.8	9.1	19.7	26.1	25.8
Of which : transfers from enterprises	4.8	5.6	5.4	2.4	6.1	7.1	7.1	6.2	8.2	2.0	5.0	9.8	10.8	12.0
fishing royalties	0.9	5.8	8.1	1.9	0.2	-1.2	2.7	6.0	2.7	0.0	0.0	2.7	3.1	3.1
Grants	82.2	84.9	103.5	24.1	38.5	88.6	81.0	130.1	165.3	25.0	47.5	219.4	215.9	231.1
Of which : nonproject grants	14.7	13.1	15.1	6.5	5.2	18.1	11.9	25.3	18.4	5.4	16.9	27.6	13.5	13.5
HIPC Initiative-related grants	...	...	...	8.5	5.4	12.0	12.4	...	24.7	8.2	10.2	37.8	35.3	35.9
Total expenditure and net lending	233.2	229.1	244.4	80.2	101.4	204.2	185.9	272.1	322.6	56.3	102.9	349.9	354.7	396.4
Current expenditure	90.9	86.8	89.7	46.7	48.8	86.7	79.4	100.4	116.7	29.4	57.9	122.6	126.2	133.7
Of which . noninterest current expenditure	52.9	62.1	65.2	32.0	39.1	63.3	61.3	67.8	84.0	20.4	40.1	88.4	92.2	98.8
Personnel costs	25.2	28.9	28.8	15.4	17.6	27.0	26.7	30.8	36.0	10.5	19.4	38.8	40.0	42.4
Goods and services	12.7	13.1	15.3	8.0	6.5	11.5	11.3	15.3	16.2	5.6	9.1	20.7	21.9	23.9
Interest on external debt due	36.9	23.5	23.4	14.7	9.8	23.1	17.6	31.5	31.6	9.0	17.7	33.1	32.9	33.8
Interest on internal debt due	1.1	1.1	1.1	0.0	0.0	0.4	0.4	1.1	1.1	0.0	0.2	1.1	1.1	1.1
Transfers	6.1	7.4	7.3	2.8	8.3	11.5	10.5	8.2	14.2	0.9	4.0	9.3	9.9	10.7
Other	7.6	11.8	11.5	4.8	6.4	12.4	11.4	12.3	16.0	3.1	7.0	17.8	18.8	20.5
Of which : defense	1.1	1.8	1.1	...	0.3	...	0.6	...	...	...	...	...	...	...
Redeployment fund	1.2	1.0	2.3	1.1	0.3	0.9	1.4	1.1	1.6	0.3	0.6	1.8	1.6	1.3
Capital expenditure	141.4	142.9	155.3	24.4	51.1	97.1	99.7	155.7	187.6	17.1	29.5	199.7	196.5	212.2
Financed by the treasury	7.4	7.0	6.9	3.8	8.5	18.9	19.3	9.8	24.4	3.1	4.7	12.0	12.8	13.9
Financed by external sources	134.1	135.9	148.4	20.6	42.6	78.2	80.4	145.9	163.2	14.0	24.8	187.7	183.7	198.3
HIPC-financed social expenditure	...	...	...	1.1	1.4	12.4	6.8	7.9	16.5	4.9	10.6	22.6	31.9	50.5
Public service restructuring 1/	...	...	...	8.0	0.0	8.0	0.0	8.0	1.7	5.0	5.0	5.0	...	...
Net lending 2/	0.9	-0.6	-0.6	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)	-86.5	-67.4	-61.1	-18.3	-18.2	-36.2	-34.9	-53.2	-63.4	-9.4	-8.1	-22.2	-16.2	-34.0
Change in arrears (net; reduction -)	24.7	-87.2	-86.7	-28.6	-28.6	-28.6	-28.6	-28.6	-28.6	0.0	0.0	0.0	0.0	0.0
External arrears (net; reduction -)	24.7	-87.2	-86.7	-28.6	-28.6	-28.6	-28.6	-28.6	-28.6	0.0	0.0	0.0	0.0	0.0
Domestic arrears (net; reduction -)	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
Overall fiscal balance (cash basis)	-61.8	-154.6	-147.8	-46.9	-46.7	-64.8	-63.4	-81.8	-92.0	-9.4	-8.1	-22.2	-16.2	-34.0
Financing	61.8	154.6	147.8	46.9	46.7	64.8	63.4	-96.2	92.0	9.4	8.1	22.2	16.2	34.0
External (net)	56.3	169.2	139.3	46.3	57.0	55.4	56.9	-83.2	69.0	9.5	1.0	44.3	9.6	12.6
Exceptional grants (oil related)	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disbursements (projects)	75.4	64.1	60.1	3.0	14.8	19.7	23.6	41.1	41.1	2.5	4.5	33.8	16.5	16.5
Program financing (loans)	0.0	25.8	0.0	14.0	25.8	27.0	25.8	28.0	27.0	0.0	0.0	38.3	20.3	20.3
Amortization (net)	-72.8	-374.9	-372.0	-132.0	-131.6	-140.8	-140.6	-152.3	-152.3	-15.1	-25.8	-55.4	-57.2	-57.8
Scheduled	-24.8	-25.9	-25.7	-17.7	-17.3	-26.5	-26.3	-37.9	-37.9	-15.1	-25.8	-55.4	-57.2	-57.8
Net change in arrears (reduction -)	-48.0	-349.0	-346.3	-114.3	-114.3	-114.3	-114.3	-114.3	-114.3	0.0	0.0	0.0	0.0	0.0
Debt relief 3/	53.7	454.2	451.2	161.3	148.1	149.6	148.1	0.0	153.2	22.0	22.4	27.7	30.0	33.5
Domestic (net)	5.5	-14.6	8.4	0.5	-10.3	9.4	6.5	-13.0	22.9	-0.1	7.1	-22.2	6.6	21.5
Bank net credit	-16.0	-17.0	8.4	0.5	-27.5	-7.8	-10.7	-13.0	5.7	-0.1	7.1	-67.2	-38.4	-23.5
Of which: HIPC Initiative account	...	...	...	-7.4	-4.0	-3.0	-5.6	-23.8	-8.2	-4.9	-1.5	-22.5	-10.7	0.0
Oil concession rights proceeds	21.5	2.4	0.0	0.0	17.2	17.2	17.2	0.0	17.2	0.0	0.0	45.0	45.0	45.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	178.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:														
Domestically financed primary expenditure 4/ 5/	60.3	69.1	72.1	36.9	49.0	94.6	87.5	85.5	125.0	28.4	55.3	122.9	136.9	163.2
Primary balance (commitment basis, incl. HIPC Initiative-related spending) 4/	4.3	7.7	7.8	0.9	-4.2	-15.2	-17.5	3.3	-31.0	-6.5	-7.9	-14.6	-14.4	-32.0
Primary balance (commitment basis, excl. HIPC Initiative-related spending) 4/	4.3	...	7.8	2.0	-2.8	-2.8	-10.7	11.2	-14.5	-1.6	2.7	8.0	17.5	18.5
Quasi-fiscal balance of the central bank	0.3	...	...	...	...	...	...	...	...	...	...	...	...	...
External debt-service cash payments	31.3	31.5	30.8	14.0	16.5	30.9	26.4	34.4	34.4	2.1	21.1	60.8	60.1	58.0
	(In percent of GDP, unless otherwise indicated)													
Total revenue	19.3	20.8	21.6	...	...	...	...	21.7	22.3	...	...	22.5	22.9	22.6
Of which: tax revenue	16.2	15.8	16.1	...	...	...	...	16.5	17.8	...	...	18.4	18.1	18.2
Total expenditure and net lending	69.8	62.0	66.1	...	...	...	...	66.6	76.4	...	...	71.5	66.4	68.2
Of which: education	...	8.5	5.0	...	...	...	...	8.5	9.5	...	...	9.6	9.7	10.7
health	...	9.0	2.4	...	...	...	...	9.0	9.0	...	...	9.1	9.3	10.3
defense	0.9	...	...	...	...	...	...	...	...	...	...	...	...	...
Current expenditure	27.2	23.5	24.3	...	...	...	...	24.6	27.7	...	...	25.4	23.6	23.0
Of which: personnel costs	7.5	7.8	7.8	...	...	...	...	7.5	8.5	...	...	8.0	7.5	7.3
Capital expenditure	42.3	38.7	42.0	...	...	...	...	38.1	44.5	...	...	41.4	36.8	36.5
Domestically financed primary expenditure 4/ 5/	18.0	18.7	19.5	...	...	...	...	20.9	29.6	...	...	25.5	25.6	28.1
Of which: current expenditure	15.8	16.8	17.6	...	...	...	...	16.6	19.9	...	...	18.3	17.3	17.0
Primary balance 4/	1.3	2.1	2.1	...	...	...	...	0.8	-7.4	...	...	-3.0	-2.7	-5.5
Primary balance (excluding HIPC Initiative-financed exp.) 4/	1.3	2.1	2.1	...	...	...	...	2.7	-3.4	...	...	1.7	3.3	3.2
Quasi-fiscal balance of the central bank	0.1	0.0	0.0	...	...	...	...	0.0	0.0	...	...	0.0	0.0	0.0
Overall balance (commitment basis, including grants) 5/	-25.9	-18.2	-16.5	...	...	...	...	-13.0	-15.0	...	...	-3.6	-3.0	-5.9
Overall balance (commitment basis, excluding grants) 5/	-50.5	-41.2	-44.5	...	...	...	...	-44.9	-54.2	...	...	-49.1	-43.5	-45.6
Gross domestic product (in billions of dobras)	334.1	369.5	369.5	...	...	...	...	408.2	422.0	...	...	482.1	533.9	581.1

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

1/ Severance packages totaling Db 6.7 billion are being financed by a Structural Adjustment Facility grant from the European Union.

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 Initiative-related social expenditure.

Table 6. São Tomé and Príncipe: Monetary Survey, 1999-2002

	1999	2000		2001								2002			
		Prog.	Est.	Mar.		June		Sep.		Dec.		Mar.	June	Sep.	Dec.
				Prog.	Est.	Prog.	Est.	Proj.	Est.	Prog.	Est.		SMP		
	(In billions of dobras; end of period)														
Net foreign assets	124.3	159.5	136.2	159.2	180.9	162.6	177.5	173.9	176.7	180.1	169.5	166.8	162.8	200.9	243.9
Central bank	79.4	110.1	89.3	106.4	129.5	108.5	125.5	121.6	120.1	123.4	115.1	111.4	106.4	142.5	184.5
Commercial banks	44.8	49.4	46.9	52.9	51.5	54.1	52.0	52.3	56.6	56.7	54.4	55.4	56.4	58.4	59.4
Net domestic assets	-37.0	-57.6	-23.9	-53.5	-63.3	-55.3	-61.7	-49.0	-42.5	-67.3	-35.0	-29.3	-23.6	-56.2	-94.6
Net domestic credit	-12.5	-27.6	-2.2	-23.6	-35.1	-25.4	-29.5	-16.4	-12.4	-37.6	5.1	6.4	14.4	-17.9	-56.5
Net credit to government	-36.0	-53.0	-27.5	-49.8	-63.6	-52.2	-55.0	-43.8	-38.2	-66.2	-21.8	-21.9	-14.8	-48.9	-89.0
Claims	35.1	56.9	54.0	57.2	53.9	68.7	54.6	53.9	55.1	81.0	55.1	55.1	55.1	66.7	66.7
Of which: use of SDR allocation	5.7	28.1	27.7	28.3	27.6	39.9	28.3	27.6	28.7	52.2	28.7	28.7	28.7	40.3	40.3
bank liquidation (net)	-0.6	-1.4	0.0	-0.2	0.0	-0.2	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Deposits	-71.1	-109.9	-81.6	-106.9	-117.5	-120.9	-109.7	-97.7	-93.3	-147.2	-76.9	-76.9	-69.8	-115.6	-155.6
Budgetary deposits	-35.7	-75.0	-44.6	-72.0	-49.6	-85.9	-51.7	-52.2	-50.3	-112.0	-39.7	-39.8	-32.6	-78.4	-118.5
Counterpart funds	-28.3	-27.8	-23.5	-27.8	-23.0	-27.8	-22.8	-23.0	-23.3	-27.8	-23.0	-23.0	-23.0	-23.0	-23.0
Foreign currency deposits	-7.1	-7.1	-13.5	-7.2	-44.9	-7.2	-35.2	-22.6	-19.7	-7.3	-14.1	-14.1	-14.1	-14.1	-14.1
Net claims on other public institutions	-1.3	-1.5	-0.7	-1.5	-0.7	-1.5	-0.7	-0.7	-0.9	-1.5	-0.7	-0.7	-0.7	-0.7	-0.7
Credit to the economy	24.8	26.8	26.0	27.7	29.1	28.2	26.2	28.2	26.7	30.0	27.6	29.0	29.9	31.7	33.1
Other items (net)	-24.5	-30.0	-21.8	-29.9	-28.2	-29.9	-32.2	-32.7	-30.1	-29.7	-40.1	-35.7	-38.1	-38.3	-38.0
Of which: revaluation accounts	-3.3	31.5	-18.5	31.5	-3.2	31.5	-7.3	-25.0	-6.7	31.5	-6.7	-6.7	-6.7	-6.7	-6.7
Other	-21.3	-61.5	-3.2	-61.4	-25.0	-61.4	-24.9	-7.7	-23.3	-61.2	-33.3	-28.9	-31.3	-31.6	-31.3
Broad money (M2)	87.2	101.9	112.3	105.7	117.6	107.3	115.7	126.9	134.2	112.8	134.6	139.3	140.9	146.5	151.1
Local currency	50.0	58.6	65.6	62.2	71.2	63.9	69.8	83.5	79.4	69.4	80.7	85.2	85.1	89.1	93.0
Money	45.5	52.5	58.5	55.7	63.9	57.0	62.1	75.3	71.0	61.4	72.6	76.3	75.9	79.4	83.0
Currency outside banks	20.9	20.5	25.1	20.6	23.5	20.8	25.2	35.2	27.7	21.1	30.6	31.6	32.7	33.8	34.8
Demand deposits	24.6	32.0	33.3	35.1	40.4	36.2	36.9	40.1	43.3	40.3	42.0	44.7	43.2	45.7	48.2
Time deposits	4.5	6.1	7.1	6.5	7.3	6.9	7.7	8.2	8.3	8.0	8.1	8.9	9.3	9.6	10.0
Foreign currency deposits	37.2	43.3	46.7	43.6	46.4	43.4	45.9	43.3	54.9	43.4	53.9	54.1	55.8	57.4	58.1
	(Changes from the beginning of the year in millions of dobras)														
Net foreign assets	11.2	35.2	12.0	-0.3	44.7	3.1	41.2	37.6	40.5	20.7	33.3	30.6	26.5	64.6	107.6
Net domestic assets	-13.7	-20.6	13.1	4.1	-39.4	2.3	-37.8	-25.1	-18.5	-9.7	-11.0	5.7	11.3	-21.2	-59.6
Net domestic credit	-9.4	-15.1	10.3	4.1	-32.9	2.2	-27.3	-14.2	-10.2	-10.0	7.3	1.3	9.3	-23.0	-61.6
Net credit to government	-16.0	-17.0	8.4	3.2	-36.0	0.8	-27.5	-16.3	-10.7	-13.2	5.7	-0.1	7.1	-27.1	-67.2
Credit to the economy	6.7	2.0	1.2	0.9	3.1	1.4	0.1	2.1	0.6	3.2	1.6	1.4	2.3	4.1	5.5
Other items (net)	-4.3	-5.4	2.8	0.1	-6.5	0.1	-10.4	-10.9	-8.3	0.3	-18.3	4.4	2.0	1.8	2.0
Broad money (M2)	-2.5	14.7	25.1	3.9	5.3	5.5	3.4	14.6	21.9	10.9	22.2	4.8	6.3	11.9	16.5
	(Change in percent of beginning-of-period money stock, unless otherwise specified)														
Net foreign assets	12.5	40.4	13.8	-0.2	51.2	3.1	40.5	37.0	36.0	20.3	29.6	22.7	19.7	48.0	80.0
Net domestic assets	-15.3	-23.6	15.0	4.0	-45.2	2.3	-37.1	-24.6	-16.5	-9.5	-9.8	4.3	8.4	-15.7	-44.3
Net credit to government	-17.8	-19.5	9.7	3.1	-41.3	0.8	-27.0	-16.0	-9.5	-12.9	5.1	0.0	5.3	-20.1	-49.9
Counterpart funds	-4.5	0.6	5.5	0.0	0.5	0.0	0.7	0.4	0.2	0.0	0.4	0.0	0.0	0.0	0.0
Credit to the economy	7.5	2.3	1.4	0.9	3.5	1.4	0.1	2.1	0.6	3.2	1.4	1.0	1.7	3.1	4.1
Credit to the economy (annual percentage change)	37.1	8.0	4.9	3.3	17.3	5.3	-2.4	5.1	2.4	12.0	6.0	5.0	8.2	15.0	20.0
Broad money (M2)	-2.8	16.8	28.8	3.8	6.0	5.4	3.3	14.3	19.5	10.7	19.8	3.5	4.7	8.9	12.3
Local currency	2.1	9.8	17.8	3.5	6.4	5.2	11.0	17.6	18.5	10.6	13.4	3.4	3.3	6.2	9.2
Broad money (net of valuation adjustment)	...	9.0	20.5	10.9	13.6	12.3	20.5	21.6	35.7	17.3	25.5	5.6	6.8	11.0	14.5
Foreign currency deposits (net of valuation adjustment)	...	-0.8	2.7	7.1	7.2	6.7	8.8	2.7	16.0	6.0	11.2	2.1	3.4	4.6	5.1
Memorandum items:															
M2/base money multiplier	2.1	1.8	2.0	1.9	1.9	2.0	1.8	1.8	1.8	2.0	1.8	1.8	1.8	1.8	1.8
Velocity (ratio of GDP to average broad money)	3.8	3.9	3.7	...	...	...	...	...	...	4.1	3.5	...	...	...	3.5
Foreign currency deposits (in percent of total deposits)	56.1	53.2	53.6	51.2	49.3	50.2	50.7	47.3	51.5	47.4	51.8	50.2	51.5	51.0	50.0

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

Table 7. São Tomé and Príncipe: Summary Accounts of the Central Bank, 1999-2002 1/

(In billions of dobras; end of period)

	1999	2000		2001								2002			
		Prog.	Est.	Mar.		June		Sep.		Dec.		March	June	Sep.	Dec.
				Prog.	Est.	Prog.	Est.	Proj.	Est.	Prog.	Est.		SMP		
Net foreign assets	79.4	110.1	89.3	106.3	129.5	108.5	125.5	121.6	120.1	123.0	115.1	111.4	106.4	142.5	184.5
Gross official reserves	79.4	132.5	110.7	128.7	150.9	142.3	146.8	143.0	141.8	168.6	136.4	132.7	127.6	175.4	217.4
Liabilities	0.0	-22.4	-21.4	-22.4	-21.4	-33.8	-21.4	-21.4	-21.7	-45.6	-21.2	-21.2	-21.2	-32.9	-32.9
Net domestic assets	-37.2	-54.5	-33.3	-51.2	-68.3	-53.5	-62.6	-51.2	-46.8	-67.3	-38.9	-33.2	-26.0	-60.2	-100.3
Net domestic credit	-35.0	-51.1	-23.8	-47.9	-57.7	-50.3	-52.5	-39.5	-37.4	-64.3	-21.5	-19.9	-12.8	-46.9	-87.0
Net credit to government	-32.6	-49.7	-23.1	-46.5	-59.4	-48.9	-52.6	-39.7	-35.6	-62.8	-19.2	-19.2	-12.1	-46.3	-86.3
Claims	34.5	56.9	54.0	57.2	53.9	68.7	54.6	53.9	55.1	81.0	55.1	55.1	55.1	66.7	66.7
Of which: use of SDRs/Poverty Reduction and Growth Facility	5.7	28.1	27.7	28.3	27.6	39.9	28.3	27.6	28.7	52.2	28.7	28.7	28.7	40.3	40.3
bank liquidation (CNPC)	0.6	-0.7	0.0	0.6	0.0	0.6	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0
Deposits	-67.1	-106.6	-77.2	-103.6	-113.3	-117.6	-107.2	-93.5	-90.6	-143.9	-74.2	-74.3	-67.2	-112.9	-153.0
Ordinary	-33.3	-73.1	-44.1	-70.1	-49.3	-84.0	-53.2	-51.9	-51.6	-110.2	-41.0	-41.0	-33.9	-79.7	-119.7
Bank liquidation (CNPC; net of claims)	-0.6	-0.7	1.8	1.8	1.8	-0.7	1.8	1.8	1.8	-0.7	1.8	1.8	1.8	1.8	1.8
Counterpart funds	-26.2	-25.6	-21.3	-25.6	-20.9	-25.6	-20.6	-20.9	-21.1	-25.6	-20.9	-20.9	-20.9	-20.9	-20.9
Foreign currency	-7.1	-7.1	-13.5	-7.2	-44.9	-7.2	-35.2	-22.6	-19.7	-7.3	-14.1	-14.1	-14.1	-14.1	-14.1
Net claims on other public institutions	-1.3	-1.5	-0.7	-1.5	-0.7	-1.5	-0.7	-0.7	-0.9	-1.5	-0.7	-0.7	-0.7	-0.7	-0.7
Certificate of deposit	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.7	0.0	-1.7	0.0	0.0	0.0	0.0
Other items (net)	-2.2	-3.4	-9.5	-3.3	-10.6	-3.2	-10.1	-11.6	-9.4	-3.1	-17.4	-13.3	-13.3	-13.3	-13.3
Revaluation accounts	-3.3	31.5	-18.5	31.5	-3.2	31.5	-7.3	-25.0	-6.7	31.5	-6.7	-6.7	-6.7	-6.7	-6.7
Other	-2.1	-44.6	-39.0	-44.6	-55.6	-44.6	-52.0	-34.8	-53.1	-44.6	-61.1	-57.0	-57.0	-57.0	-57.0
Bilateral payment agreements	3.2	9.8	48.0	9.8	48.2	9.9	49.2	48.2	50.5	10.1	50.5	50.5	50.5	50.5	50.5
Base money	42.2	55.6	56.0	55.1	61.1	55.0	62.8	71.3	73.3	56.1	76.2	78.3	80.4	82.3	84.2
Currency outside banks	20.9	20.4	25.0	20.6	23.4	20.8	25.1	35.1	27.6	21.1	30.5	31.6	32.6	33.7	34.8
Bank reserves 2/	21.3	35.2	31.0	34.5	37.7	34.2	37.7	36.2	45.7	35.0	45.7	46.7	47.7	48.6	49.5
Memorandum item:															
Change in net official reserves (cumulative from beginning of year)	12.8	30.7	9.9	-3.8	40.1	-1.6	36.1	32.3	30.8	12.9	25.8	-3.7	-8.7	27.4	69.4

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, 1999-2002 1/

(In billions of dobras; end of period)

	1999	2000		2001								2002			
		Prog.	Est.	Mar.		June		Sep.		Dec.		Mar.	June	Sep.	Dec.
				Prog.	Est.	Prog.	Est.	Proj.	Est.	Prog.	Est.		SMP		
Net foreign assets	44.8	49.4	46.9	52.9	51.5	54.1	52.0	52.3	56.6	56.7	54.4	55.4	56.4	58.4	59.4
Foreign assets	44.8	49.4	46.9	52.9	51.5	54.1	52.0	52.3	56.6	56.7	54.4	55.4	56.4	58.4	59.4
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	0.0	0.0
Net domestic assets	21.5	32.0	40.3	32.2	42.6	32.4	38.6	40.0	49.9	35.0	49.6	52.3	51.8	54.3	56.8
Reserves	21.3	35.2	31.0	34.5	37.6	34.2	37.7	36.1	45.6	35.0	45.7	46.7	47.7	48.6	49.5
Cash holdings	1.2	2.3	3.4	1.8	4.4	1.8	3.3	3.3	4.8	1.8	4.8	4.8	4.8	4.8	4.8
Dobra deposits in the central bank	19.5	30.3	24.8	30.2	30.1	29.8	30.0	28.4	35.1	30.6	35.1	36.1	37.2	38.0	38.9
Foreign exchange deposits in the central bank	0.6	2.6	2.7	2.6	3.0	2.6	4.4	4.4	5.8	2.7	5.8	5.8	5.8	5.8	5.8
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	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	0.0	0.0
Net domestic credit	22.5	23.5	21.6	24.4	22.6	24.9	23.0	24.9	25.0	26.7	26.6	28.0	28.9	30.8	32.1
Net credit to government	-3.4	-3.3	-4.4	-3.3	-4.2	-3.3	-2.4	-4.2	-2.6	-3.3	-2.6	-2.6	-2.6	-2.6	-2.6
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	0.0	0.0
Deposits	-1.3	-1.2	-2.3	-1.2	-2.1	-1.2	-0.3	-2.1	-0.5	-1.2	-0.5	-0.5	-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	-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	0.0	0.0
Certificate of deposits from the central bank	1.1	0.0	0.0	0.0	0.0	0.0	0.0	1.7	1.7	0.0	1.7	1.7	1.7	1.7	1.7
Credit to the economy	24.8	26.8	26.0	27.7	26.8	28.2	25.4	27.4	25.9	30.0	27.6	28.9	29.8	31.7	33.1
Other items (net)	-22.3	-26.6	-12.2	-26.6	-17.6	-26.6	-22.1	-21.0	-20.7	-26.6	-22.7	-22.4	-24.8	-25.0	-24.8
Deposits	66.3	81.4	87.2	85.1	94.1	86.5	90.6	91.7	106.5	91.7	104.0	107.7	108.2	112.7	116.2
Local currency	29.1	38.1	40.5	41.5	47.7	43.1	44.7	48.3	51.7	48.3	50.1	53.6	52.4	55.3	58.1
Demand deposits	24.0	31.8	33.1	34.9	40.2	36.0	36.7	39.9	43.1	40.1	41.8	44.5	43.0	45.4	47.9
Time deposits	4.5	6.1	7.1	6.5	7.3	6.9	7.7	8.2	8.3	8.0	8.1	8.9	9.3	9.6	10.0
Nonresidents' deposits	0.6	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
Foreign currency	37.2	43.3	46.7	43.6	46.4	43.4	45.9	43.3	54.9	43.4	53.9	54.1	55.8	57.4	58.1
Demand deposits	34.8	38.7	41.9	38.9	42.0	38.9	42.3	39.9	51.4	38.8	50.4	50.6	52.3	53.9	54.6
Time deposits	0.4	1.1	1.3	1.2	1.4	1.0	1.5	1.4	1.8	1.1	1.3	1.3	1.3	1.3	1.3
Nonresidents' deposits	1.9	3.4	3.5	3.5	3.1	3.5	2.1	2.1	1.7	3.6	2.1	2.1	2.1	2.1	2.1
Memorandum item:															
Net position vis-à-vis the central bank	22.4	35.2	31.0	34.5	37.6	34.2	37.7	37.8	47.3	35.0	47.4	48.4	49.4	50.3	51.2

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, 2000-04

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

	2000		2001 1/		2002		2003		2004	
	Total	*Of which:* arrears	Total	*Of which:* arrears	Total	*Of which:* arrears	Total	*Of which:* arrears	Total	*Of which:* arrears
Total outstanding debt 2/	300.1	16.6	303.3	0.0	305.8	0.0	302.0	0.0	299.6	0.0
Medium- and long-term debt 2/	283.4	0.0	286.7	0.0	289.1	0.0	285.3	0.0	283.0	0.0
Multilateral	175.1	0.0	181.0	0.0	186.1	0.0	185.3	0.0	186.0	0.0
IMF	2.5	0.0	2.5	0.0	2.5	0.0	2.5	0.0	2.5	0.0
IDA	62.3	0.0	66.6	0.0	69.3	0.0	71.1	0.0	73.0	0.0
African Development Fund	89.1	0.0	91.1	0.0	92.5	0.0	92.2	0.0	91.7	0.0
Arab Bank for Economic Development in Africa	7.4	0.0	6.7	0.0	7.4	0.0	5.2	0.0	4.4	0.0
Others	13.8	0.0	14.1	0.0	14.3	0.0	14.3	0.0	14.3	0.0
European Investment Bank	3.3	0.0	3.5	0.0	3.7	0.0	3.7	0.0	3.6	0.0
International Fund for Agricultural Development	6.1	0.0	6.4	0.0	6.7	0.0	7.0	0.0	7.2	0.0
Organization of Petroleum Exporting Countries	4.3	0.0	4.1	0.0	3.9	0.0	3.7	0.0	3.5	0.0
Official bilateral	108.3	0.0	105.7	0.0	103.0	0.0	100.0	0.0	97.0	0.0
Paris Club	63.3	0.0	60.8	0.0	58.4	0.0	55.9	0.0	53.4	0.0
Portugal	28.7	0.0	26.8	0.0	24.9	0.0	23.0	0.0	21.2	0.0
Germany	13.3	0.0	13.3	0.0	13.3	0.0	13.3	0.0	13.3	0.0
France	6.4	0.0	6.1	0.0	5.7	0.0	5.3	0.0	5.0	0.0
Spain	3.1	0.0	2.9	0.0	2.8	0.0	2.6	0.0	2.4	0.0
Russia 3/	10.9	0.0	10.9	0.0	10.9	0.0	10.9	0.0	10.9	0.0
Belgium	0.9	0.0	0.9	0.0	0.8	0.0	0.8	0.0	0.7	0.0
Non-Paris Club	45.0	0.0	44.8	0.0	44.7	0.0	44.1	0.0	43.5	0.0
China	16.6	0.0	16.5	0.0	16.3	0.0	15.8	0.0	15.2	0.0
Others	28.3	0.0	28.3	0.0	28.3	0.0	28.3	0.0	28.3	0.0
Angola	22.3	0.0	22.3	0.0	22.3	0.0	22.3	0.0	22.3	0.0
Cape Verde	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Algeria	1.3	0.0	1.3	0.0	1.3	0.0	1.3	0.0	1.3	0.0
Yugoslavia, Fed. Rep. of	4.8	0.0	4.8	0.0	4.8	0.0	4.8	0.0	4.8	0.0
Short-term debt 4/	16.6	16.6	16.6	0.0	16.6	0.0	16.6	0.0	16.6	0.0
Of which: Italy	16.6	16.6	16.6	0.0	16.6	0.0	16.6	0.0	16.6	0.0
Memorandum items:										
Net Present Value (NPV) of total debt (before debt relief)	195.6		200.2		202.4		203.2		204.0	
NPV of total debt (after application of traditional mechanisms of debt rel	122.7		127.2		131.3		134.2		137.1	
NPV of total debt (after enhanced HIPC Initiative debt relief)	142.2		124.4		133.7		32.7		35.4	
NPV of total debt (after HIPC Initiative, in percent of GDP)	306.3		262.0		252.7		56.8		57.5	
NPV of total debt (after HIPC Initiative, in percent of exports of goods a	920.8		708.2		646.4		132.8		125.5	
NPV of total debt (after HIPC Initiative, in percent of government revem	1,353.2		1,023.6		973.8		218.8		221.5	

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

1/ Projected; debt to Paris Club creditors was rescheduled on Naples terms on May 16, 2000.

2/ Including the IMF.

3/ Arrears to Russia were reduced by 70 percent before Paris Club rescheduling on Naples terms in 2000.

4/ All short-term debt is debt in dispute with Italy.

Table 10. São Tomé and Príncipe: Public External Debt Service, 2000-04
(In millions of U.S. dollars, unless otherwise indicated)

	2000			2001			2002			2003			2004		
	Principal	Interest	Debt service	Principal	Interest	Debt service	Principal	Interest	Debt service	Principal	Interest	Debt service	Principal	Interest	Debt service
Total debt service	3.3	3.0	6.3	4.4	3.7	8.1	6.2	3.7	9.9	6.4	3.7	10.0	6.4	3.8	10.2
Medium- and long-term debt service	3.3	3.0	6.3	4.4	3.7	8.1	6.2	3.7	9.9	6.4	3.7	10.0	6.4	3.8	10.2
Multilateral	2.4	1.3	3.6	3.0	1.3	4.3	3.5	1.2	4.7	3.3	1.2	4.5	3.3	1.3	4.6
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	0.0	0.0	0.0
IDA	0.5	0.5	1.0	0.7	0.5	1.1	1.1	0.4	1.5	1.1	0.4	1.5	1.1	0.5	1.5
African Development Fund	0.8	0.7	1.4	1.0	0.7	1.6	1.1	0.6	1.7	1.1	0.6	1.7	1.1	0.6	1.7
Arab Bank for Economic Development in Africa	0.6	0.0	0.6	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	0.5	0.1	0.6	0.6	0.2	0.8	0.6	0.1	0.7	0.4	0.1	0.5	0.4	0.1	0.5
European Investment Bank	0.2	0.0	0.2	0.2	0.1	0.3	0.2	0.0	0.2	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	0.1	0.1	0.2	0.2	0.1	0.2
Organization of Petroleum Exporting Countries	0.1	0.1	0.2	0.2	0.1	0.3	0.2	0.1	0.3	0.2	0.0	0.3	0.2	0.0	0.3
Official bilateral	1.0	1.7	2.7	1.4	2.4	3.8	2.7	2.5	5.1	3.1	2.5	5.5	3.1	2.6	5.6
Paris Club	0.6	1.3	1.9	1.0	1.6	2.5	2.5	1.6	4.0	2.5	1.5	4.0	2.5	1.6	4.1
Portugal	0.0	0.9	0.9	0.0	0.9	0.9	1.9	0.8	2.7	1.9	0.8	2.7	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	0.0	0.0
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	0.3	0.2	0.1	0.2	0.2	0.1	0.2	0.2	0.0	0.2	0.2	0.0	0.2
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
2000 Rescheduling	0.0	0.2	0.2	0.4	0.5	0.9	0.0	0.5	0.6	0.0	0.6	0.6	0.0	0.7	0.7
Non-Paris Club	0.4	0.4	0.8	0.4	0.8	1.3	0.2	0.9	1.1	0.6	0.9	1.5	0.6	1.0	1.5
China	0.1	0.0	0.1	0.1	0.0	0.1	0.2	0.0	0.2	0.6	0.0	0.6	0.6	0.0	0.6
Others	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	0.0	0.0
Cape Verde	0.2	0.0	0.2	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	0.0	0.0
2000 Rescheduling	0.0	0.3	0.3	0.3	0.7	1.0	0.0	0.7	0.7	0.0	0.7	0.7	0.0	0.7	0.7
New borrowing	0.0	0.1	0.1	0.0	0.2	0.2	0.0	0.2	0.2	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: 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

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

Table 11. São Tomé and Príncipe: Medium-Term Scenarios, Selected Economic Indicators, 1999-2010

	1999	2000		2001		2002		2003	2004	2005	2006	2007	2008	2009	2010
	Est.	Prog.	Est.	Prog.	Est.	Prog.	SMP				Proj.				
						(In units indicated)									
Baseline scenario															
Production															
Oil production (in barrels per day)	...	...	...	...	...	...	...	...	...	...	10,000	30,000	30,000	48,000	48,000
Oil price (U.S. dollars per barrel)	18.1	...	28.2	...	24.2	...	18.5	19.0	19.0	19.0	19.0	19.0	20.0	20.0	20.0
Gross domestic product (in billions of dobras)	334.1	369.5	369.5	408.2	422.0	455.0	482.1	533.9	581.1	629.1	1,212.0	2,495.2	2,684.9	3,863.5	3,979.8
At constant prices (percentage change)	2.5	3.0	3.0	4.0	4.0	5.0	5.0	5.0	5.0	5.0	104.0	80.5	6.5	40.6	1.8
Gross domestic product (non-oil; in billions of dobras)	334.1	369.5	369.5	408.2	422.0	455.0	482.1	533.9	581.1	629.1	653.6	819.8	911.0	1,025.3	1,141.6
At constant prices (percentage change)	2.5	3.0	3.0	4.0	4.0	5.0	5.0	5.0	5.0	5.0	10.0	10.0	10.0	10.0	10.0
Gross domestic product deflator (percentage change)	16.0	7.4	7.4	6.3	9.8	6.2	8.8	5.5	3.7	3.1	-5.6	14.0	1.0	2.3	1.2
Consumer prices (percentage change; end of period)	12.6	9.0	9.6	5.0	9.0	3.0	7.0	5.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
						(In percent of non-oil GDP, unless otherwise specified)									
National accounts															
Consumption	109.3	104.9	103.6	105.9	98.4	105.3	98.0	93.1	93.5	91.6	97.5	99.4	103.5	113.7	114.1
Gross investment	40.0	39.3	43.5	44.1	49.9	45.1	45.3	53.4	88.7	416.0	402.6	149.9	297.4	119.8	173.4
Public investment	26.0	22.8	26.0	24.1	33.0	24.1	28.4	28.1	28.8	27.1	27.6	23.1	18.4	18.5	17.6
Private investment	14.0	16.5	17.5	20.0	16.9	21.0	16.9	25.3	59.9	388.9	375.0	126.8	279.0	101.3	155.8
Of which: oil sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.6	46.5	371.9	358.0	109.8	259.0	84.3	138.8
Gross domestic savings	-9.3	-5.1	-3.6	-5.9	1.6	-4.8	2.0	6.9	6.5	8.4	87.9	204.9	191.2	263.1	234.5
Public savings	-11.9	-10.3	-8.4	-9.8	-11.0	-9.4	-13.1	-8.7	-10.6	-12.4	-14.8	-15.5	-20.3	-20.6	-20.0
Private savings	2.6	5.2	4.8	3.9	12.6	4.6	15.0	15.5	17.1	20.8	102.7	220.4	211.6	283.7	254.5
Gross national savings	13.8	14.5	23.0	22.4	39.3	22.7	44.9	44.7	42.2	46.1	123.4	234.0	219.4	289.8	260.9
Government budget															
Total revenue and grants (in percent of GDP, including oil)	43.9	43.8	49.6	53.6	61.4	52.9	68.0	63.4	62.4	64.2	42.1	29.5	30.6	32.6	32.0
Total non-oil revenue and grants	43.9	43.8	49.6	53.6	61.4	52.9	68.0	63.4	62.4	64.2	61.5	50.6	46.0	43.1	39.1
Of which : grants	24.6	23.0	28.0	31.9	39.2	30.9	45.5	40.4	39.8	41.4	39.7	32.2	29.2	26.3	22.3
Total expenditure	69.8	62.0	66.1	66.7	76.4	68.4	71.5	66.4	68.2	68.0	70.2	62.8	66.8	67.7	64.6
Of which : noninterest current expenditure	15.8	16.8	17.6	16.6	19.9	20.9	18.3	17.3	17.0	17.1	18.4	19.4	25.7	27.0	26.3
Overall balance (commitment basis)	-25.9	-18.2	-16.5	-13.0	-15.0	-15.5	-3.6	-3.0	-5.9	-3.8	8.0	26.9	23.4	55.3	47.0
Primary balance (commitment basis; incl. HIPC Initiative spending) 1/	1.3	2.1	2.1	0.8	-7.4	-1.3	-3.0	-2.7	-5.5	-5.0	-8.0	-12.0	-21.0	-24.8	-25.9
Overall balance (commitment basis; in percent of GDP, including oil)	-25.9	-18.2	-16.5	-13.0	-15.0	-15.5	-4.6	-3.0	-5.9	-3.8	4.3	8.8	7.9	14.7	13.5
External sector															
Current account balance (excluding official transfers)	-58.0	-49.4	-52.4	-56.5	-54.6	-55.8	-49.1	-51.7	-87.1	-412.0	-387.1	-111.9	-258.3	-53.9	-115.2
Current account balance (including official transfers)	-26.2	-24.8	-20.5	-21.8	-10.6	-22.4	-0.4	-8.7	-46.5	-369.9	-347.5	-79.7	-229.1	-27.6	-92.9
Net present value of total external debt outstanding 2/ 3/	404.3	306.3	306.3	...	262.0	...	252.7	56.8	57.5	58.0	62.4	64.0	64.0	63.7	63.6
Net present value of total debt 2/ 3/	1,394.6	920.8	920.8	...	708.2	...	646.4	132.8	125.5	118.0	119.4	125.9	135.2	144.7	141.6
Net present value of total debt 2/ 3/ 4/	2,151.9	1,353.2	1,353.2	...	1,023.6	...	973.8	218.8	221.5	225.2	239.1	240.3	237.1	237.8	239.3
Lower external resources scenario						(In units indicated)									
Production															
Gross domestic product (in billions of dobras)	334.1	369.5	369.5	408.2	422.0	455.0	482.1	526.8	555.7	585.9	611.6	644.0	670.3	699.4	729.2
At constant prices (percentage change)	2.5	3.0	3.0	4.0	4.0	5.0	5.0	4.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Gross domestic product deflator (percentage change)	16.0	7.4	7.4	6.3	9.8	6.2	8.8	5.1	3.4	3.4	2.3	3.2	2.1	2.3	2.2
Consumer prices (percentage change; end of period)	12.6	9.0	9.6	5.0	9.0	3.0	7.0	5.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
						(In percent of GDP, unless otherwise specified)									
Government budget															
Total revenue and grants	43.9	43.8	49.6	53.6	61.4	52.9	68.0	47.6	46.3	46.5	45.3	44.4	43.9	42.8	41.9
Of which : grants	24.6	23.0	28.0	31.9	39.2	30.9	45.5	25.8	24.5	24.7	23.8	22.9	22.4	21.3	20.4
Total expenditure	69.8	62.0	66.1	66.7	76.4	68.4	71.5	54.4	55.8	54.2	52.9	51.2	50.1	49.0	48.0
Of which : noninterest current expenditure	15.8	16.8	17.6	16.6	19.9	20.9	18.3	17.3	17.0	17.1	17.0	17.0	17.1	17.2	17.4
Overall balance (commitment basis)	-25.9	-18.2	-16.5	-13.0	-15.0	-15.5	-3.6	-6.8	-9.5	-7.7	-7.6	-6.8	-6.2	-6.1	-6.0
Primary balance (commitment basis; incl. HIPC Initiative spending) 1/	1.3	2.1	2.1	0.8	-7.4	-1.3	-3.0	-3.9	-6.6	-6.5	-6.7	-6.3	-6.0	-5.8	-5.7
Overall balance (commitment basis; in percent of GDP, including oil)	-25.9	-18.2	-16.5	-13.0	-15.0	-15.5	-4.6	-6.8	-9.5	-7.7	-7.6	-6.8	-6.2	-6.1	-6.0
Financing gap (-=surplus)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.4	3.7	4.0	5.6	5.6	6.9	7.8	6.9
External sector															
Current account balance (excluding official transfers)	-58.0	-49.4	-52.4	-56.5	-54.6	-55.8	-49.1	-45.3	-46.3	-26.7	-25.7	-23.3	-23.0	-22.9	-21.3
Current account balance (including official transfers)	-26.2	-24.8	-20.5	-21.8	-10.6	-22.4	-0.4	-18.1	-20.4	-0.8	-1.4	-0.4	-0.6	-1.6	-0.9

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

1/ Excluding interest obligations, grants, and foreign-financed capital outlays.
2/ Includes arrears to Italy on a loan that remains in dispute.
3/ Assumes the completion point under the enhanced HIPC Initiative is reached in 2003.
4/ In percent of exports of goods and services.

Table 12. 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	2024	Average per Year 20011-16	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	240,000	50,000	...	...
Price (U.S. dollar per barrel)	19	19	19	20	20	20	20	20	20	26	20	22	...	...
Gross export revenue	0.0	173.4	520.1	547.5	876.0	876.0	1,752.0	1,752.0	219.0	93.9	1,752.0	374.1	16,497.8	5,611.5
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	157.7	31.0	1,497.2	528.2
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	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	10.0	1.3	355.5	181.2
Total joint development zone (JDZ) revenue														
Royalty (10-15 percent of gross prod. value)	0.0	17.3	52.0	59.9	103.7	103.7	235.1	235.1	21.9	9.4	235.1	43.4	2,094.3	703.0
Bonuses	4.0	12.5	11.9	0.0	1.0	0.0	1.0	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	23.4	24.4	46.3	46.3	151.7	679.0	0.0	0.0	435.9	95.2	3,517.5	937.3
Income tax (40 percent of net taxable inc.)	0.0	0.0	0.3	22.1	67.9	59.5	222.1	320.3	44.6	19.6	277.9	74.3	2,411.3	684.5
Total revenue	4.0	29.8	87.6	106.4	218.9	209.5	609.9	1,234.4	66.5	29.0	949.2	212.9	8,054.5	2,346.0
Total revenue (in percent of gross export revenue)	...	17.2	16.8	19.4	25.0	23.9	34.8	70.5	30.4	30.8	54.2	56.9	48.8	41.8
Nigeria share														
Royalty	0.0	8.8	26.5	31.0	54.3	54.3	125.3	125.3	11.2	4.8	125.3	22.7	1,108.1	371.3
Bonuses	2.3	7.2	6.8	0.0	0.6	0.0	0.6	0.0	0.0	0.0	0.2	0.0	18.0	12.2
Profit oil	0.0	0.0	14.0	14.6	27.8	27.8	91.0	407.4	0.0	0.0	261.6	57.1	2,110.5	562.4
Income tax	0.0	0.0	0.2	13.3	40.7	35.7	133.3	192.2	26.8	11.7	166.7	44.6	1,446.8	410.7
Nigeria government revenue	2.3	16.0	47.6	58.9	123.4	117.8	350.1	724.9	37.9	16.5	553.7	124.4	4,683.4	1,356.6
Nigeria share (in percent of total JDZ revenue)	57.5	53.7	54.3	55.4	56.4	56.2	57.4	58.7	57.0	57.1	58.3	58.4	58.1	57.8
São Tomé and Príncipe share														
Royalty	0.0	5.9	17.7	20.7	36.2	36.2	83.5	83.5	7.4	3.2	83.5	15.1	738.8	247.5
Bonuses	1.5	4.7	4.5	0.0	0.4	0.0	0.4	0.0	0.0	0.0	0.1	0.0	11.8	8.0
Profit oil	0.0	0.0	8.4	8.8	16.7	16.7	54.6	244.4	0.0	0.0	156.9	34.3	1,266.3	337.4
Income tax	0.0	0.0	0.1	8.9	27.1	23.8	88.8	128.1	17.8	7.8	111.1	29.7	964.5	273.8
São Tomé and Príncipe government revenue	1.5	10.6	30.7	38.3	80.4	76.7	227.3	456.1	25.3	11.0	351.7	79.1	2,981.3	866.7
São Tomé and Príncipe share (in percent of total JDZ revenue)	37.5	35.5	35.0	36.0	36.7	36.6	37.3	36.9	38.0	38.1	37.1	37.2	37.0	36.9
Environmental Remediation Holding Company (ERHC) share														
Royalty (1.5 percent of gross prod. value)	0.0	2.6	7.8	8.2	13.1	13.1	26.3	26.3	3.3	1.4	26.3	5.6	247.5	84.2
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	1.6	1.1
Profit oil (10 percent of São Tomé and Príncipe share)	0.0	0.0	0.9	1.0	1.9	1.9	6.1	27.2	0.0	0.0	17.4	3.8	140.7	37.5
ERHC revenue	0.2	3.2	9.3	9.2	15.0	15.0	32.4	53.4	3.3	1.4	43.7	9.4	389.7	122.7
ERHC share (in percent of total JDZ revenue)	5.0	10.8	10.7	8.6	6.9	7.2	5.3	4.3	4.9	4.9	4.6	4.4	4.8	5.2
ERHC share (in percent of São Tomé and Príncipe gov. revenu	13.3	30.5	30.4	24.0	18.7	19.5	14.3	11.7	13.0	12.8	12.4	11.9	13.1	14.2

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

São Tomé, January 9, 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. The implementation of the program supported by the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF) was marked, during the first three quarters of 2001, by important fiscal and structural slippages, as well as by the rise of governance problems regarding oil sector management. The quantitative performance criteria on the primary fiscal surplus for end-December 2000 and end-June 2001 were not observed, as well as several structural performance critera and benchmarks, notably those regarding the adoption of a rate-adjustment mechanism for water and electricity, the publication of an independent external audit report on the government's large contracts, and the establishment of a single computerized file for civil service and payroll management.

2. To reverse the observed slippages, resolve governance problems, and reestablish the credibility of economic policy implementation, the new government adopted a six-month staff-monitored program, which it is determined to implement in the context of a macroeconomic framework covering 2002. The attached memorandum of economic and financial policies (Attachment I) takes stock of program implementation during 2000 and the first three quarters of 2001; it also describes the prior corrective measures implemented during the fourth quarter of 2001, as well as those planned for the first half of 2002. The government will communicate to the Fund staff any information that the staff may request to monitor progress in the implementation of the economic and financial policies and measures required to achieve the objectives of the staff-monitored program. A technical memorandum of understanding describing the staff-monitored program's quantitative benchmarks is also attached (Attachment II).

3. The government is convinced that the policies described in the attached memorandum of economic and financial policies will enable it to achieve the objectives of its program, but it is ready to take any additional measures that may be necessary toward this end. During the period of the staff-monitored program, the authorities will consult the Managing Director on any measures that may be appropriate for adoption, either at their own initiative or at the

request of the Managing Director. In any event, the authorities of São Tomé and Príncipe will review the staff-monitored program with the Fund staff no later than end-April 2002. On that occasion, they would like to begin discussions with the Fund on a medium-term program that could be supported under the Poverty Reduction and Growth Facility (PRGF).

Sincerely yours,

/s/
Maria dos Santos Tebús Torres
Minister of Planning and Finance

Attachments: Memorandum of economic and financial policies for 2002
Technical memorandum of understanding

SÃO TOMÉ AND PRÍNCIPE

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2002

January 9, 2002

I. INTRODUCTION

1. The authorities of São Tomé and Príncipe embarked on a program of economic reforms for the period 2000-02, in support of which the International Monetary Fund (IMF), on April 28, 2000, approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in a total amount equivalent to SDR 6.657 million (90 percent of quota). This program was also supported by bilateral and multilateral donors, and São Tomé and Príncipe reached its decision point under the enhanced Initiative for Heavily Indebted Poor Countries (enhanced HIPC Initiative) on December 20, 2000. However, program implementation during the first three quarters of 2001 was marked by important fiscal and structural slippages, as well as by the rise of new governance problems regarding oil sector management.

2. The new government of presidential initiative implemented several measures to reverse the observed slippages, and is determined to take several other actions in 2002 to consolidate the fiscal position, resolve governance problems, and reestablish the credibility of economic policy implementation.

II. PROGRAM IMPLEMENTATION DURING 2000 AND THE FIRST NINE MONTHS OF 2001

3. Economic activity continued to recover during 2000 and the first nine months of 2001, owing to an increase in food production, construction, and tourism; real GDP growth is estimated at 3 percent in 2000 and 4 percent in 2001, in line with initial program projections. Despite the sharp upsurge in the prices of petroleum products, inflation declined from the 12.6 percent recorded at end-December 1999 to 9.6 percent at end-December 2000 (on a year-on-year basis) and stabilized at this level during 2001. Also, the dobra depreciated against the U.S. dollar by 17 percent in 2000, and by 5 percent in 2001; the external current account deficit (including official transfers) reached 21 percent of GDP in 2000, compared with an initial projection of 25 percent of GDP, and may have narrowed further to 11 percent of GDP in 2001, reflecting the interim enhanced HIPC Initiative assistance and the signature bonus paid by the Norwegian company, Petroleum Geo-Services (PGS), for the oil exploration and production option agreement.

4. In the fiscal area, the nonobservance of the performance criteria and benchmarks on the primary budget surplus for end-December 2000, end-March, end-June, and end-September 2001 was explained by expenditure overruns, which were themselves attributed to

(a) the lengthy negotiations with Nigeria on maritime border issues and the financing of sizable extrabudgetary expenditures, mainly for the commission in charge of petroleum issues; (b) higher costs for the consumption of petroleum products, water and electricity (owing to price increases); (c) an exceptional advance to the water and electricity utility (EMAE) to alleviate the financial difficulties it has encountered because of its failure to adjust tariffs to cover higher fuel costs; (d) a larger wage bill (because of delays in implementing the civil service staff reduction program); and (e) the financing of the presidential election.

5. In the petroleum sector, the government concluded negotiations with Nigeria on the implementation of a joint development zone in February 2001. At the same time, it also signed an agreement for seismic services and an option agreement for petroleum exploration and production with the company PGS. In March, the PGS paid a signature bonus of US$2 million, which allowed the government to finance the extrabudgetary expenditures mentioned in paragraph 4 above. Finally, in May 2001, the government signed a contract with a U.S.-Nigerian company (Environmental Remediation Holdings Company—ERHC) giving the company, inter alia, overriding royalties on petroleum produced in the joint development zone, as well as a percentage of signature bonuses and São Tomé and Príncipe's share of production. The new authorities acknowledge that this contract could divert the government's potential petroleum revenue, and that oil contract negotiations had lacked transparency, thus raising serious governance issues.

6. To correct the fiscal slippage registered in 2000 and the first three quarters of 2001, the government continued to strengthen the administration and collection of tax and customs revenue and to strictly control government expenditure commitments (including the wage bill) during the fourth quarter of 2001. In early December 2001, it requested assistance from the World Bank in the oil sector, including the launching of a cost-benefit analysis of the contract signed with the ERHC in May 2001, as well as a detailed study of the negotiation procedures for government contracts signed in 2001 in the oil sector. At end-December, the government adopted an automatic mechanism for the adjustment of water and electricity prices to production and distribution costs (which it intends to implement during the first quarter of 2002). It also adopted the terms of reference for the consultation of firms of international reputation that are interested in carrying out an external independent audit of three government contracts and tenders of over US$500,000.[1] In addition, the government implemented the civil service reform and retrenchment program, with a view to containing the wage bill, and it established the single computerized system of civil service and payroll management. It also prepared the terms of reference for two studies on, respectively, new civil service statutes and the introduction of a new wage scale. The government finally adopted new tax measures (see para. 11 below).

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

7. Monetary developments included increases in the money supply of 29 percent in 2000 and 20 percent in 2001, and a rise in credit to the private sector of 5 percent in 2000 and 6 percent in 2001. The central bank maintained required reserves at 22 percent and its reference interest rate at 17 percent, while the commercial banks in September 2000 reduced their deposit rates by 10 points to about 14 percent and their lending rates by 5 points to about 34 percent. With the easing of the inflation rate to 10 percent at end-December 2000, the central bank lowered its reference interest rate by 1.5 percentage points to 15.5 percent on February 5, 2001. Net bank credit to the government increased in 2000 by 10 percent of the beginning-of-the-year stock of money, largely reflecting the failure to mobilize the first tranche of the World Bank public resource management credit, which was not approved by end-December 2000 as expected. Despite the disbursement of this tranche and the payment of oil bonuses, net credit to the government rose again by 5 percent of the beginning-of-the-year stock of money in 2001, while the banking system's net foreign assests rose by 30 percent.

8. The financial situation of one of the two private banks (Banco Comercial do Equador—BCE) deteriorated considerably in 2001. The bank has not respected prudential and liquidity ratios since mid-1999, with growing liquidity problems, a concentration of its credit in a small number of enterprises, and an excessive level of credit linked to stockholders. At the beginning of May 2001, the central bank took over the administration of the BCE, but this intervention was suspended by a decision by the Supreme Court on May 17. Nevertheless, the BCE has since only opened its doors sporadically, as it is insolvent and can no longer carry out its clients' operations. On May 18, 2001, the central bank introduced bankruptcy proceedings against the BCE in court, and at the end of June the central bank suspended the BCE's banking license.

III. SIX-MONTH STAFF-MONITORED PROGRAM AND MACROECONOMIC FRAMEWORK FOR 2002

9. The main macroeconomic objectives of the government in the context of the staff-monitored program and the framework of economic policies for 2002 are as follows: (a) to reduce the rate of inflation to 7 percent; and (b) to limit the external current account deficit (including official transfers) to 0.4 percent of GDP. The improvement in the current account balance reflects the continued mobilization of interim enhanced HIPC Initiative assistance. Real GDP growth is projected to be 5 percent in 2002. To reach these objectives and especially to further reduce inflation, the government will pursue prudent fiscal, monetary, and exchange policies. It will also implement a set of structural reforms.

A. Fiscal Policy

10. In the fiscal area, the objectives are to narrow the government's financial operations deficit (on a commitment basis and including grants) from 15 percent of GDP in 2001 to 5 percent of GDP in 2002, and to turn around the primary budget balance (excluding foreign-financed investment and expenditure financed by the resources freed by the enhanced HIPC-Initiative assistance) from a deficit of 3.4 percent of GDP in 2001 to a surplus of 1.7 percent

of GDP in 2002. Including the expenditure program funded with resources from the enhanced HIPC Initiative, which will be prepared in consultation with IMF and World Bank staff by end-April 2002, the primary budget deficit should amount to 3.0 percent of GDP in 2002 (compared with a deficit of 7.4 percent of GDP in 2001). By end-April 2002, the government will submit to the National Assembly a draft budget for 2002 consistent with the objectives mentioned above and in line with the other fiscal data described in paras. 10-14. The budget is based on a continued broadening of the tax base and control over the growth of expenditure. All external payment arrears were settled in May 2000 with the Paris Club's rescheduling. Domestic payment arrears were also settled. The government will not accumulate any new domestic or external payment arrears during the period of the staff-monitored program.

11. Government revenue is projected to increase by 15 percent in 2002 (to Db 108 billion in 2002, or 22.5 percent of GDP). In line with the recommendations of a study on streamlining the domestic indirect taxation system, which was completed at end-December 2000, the authorities will simplify the general sales tax and extend it (at the single rate of 2 percent) to domestic goods and services (such as hotels, restaurants, telecommu-nications, water and electricity, and maintenance and repair services) starting at end-April 2002. In February 2001, the government initiated discussions with investors benefiting from legal exemptions, with a view to subjecting all imports to the 5 percent customs tariff. The government will continue to strengthen the tax inspection and audit departments of the tax directorate and the customs administration, and will apply the automatic adjustment mechanism to the retail prices of petroleum products, in order to reflect import prices and distribution costs.

12. Primary expenditure will be contained within 25 percent of GDP in 2002, compared with 30 percent of GDP in 2001. The wage bill will be capped at 8 percent of GDP in 2002 (compared with 8.5 percent of GDP in 2001), given the implementation of the civil service reform and retrenchment program at end-2001. The reduction in civil service staffing stemming from the implementation of the administrative reform program is estimated at about 320 employees. In addition, 158 employees were retrenched from EMAE in December 2001 as part of the restructuring of the utility company. The severance benefits to be paid in connection with the civil service downsizing program and EMAE's personnel retrenchment are estimated at Db 6.7 billion (or US$0.7 million). Out of these benefits, which are being financed under the European Union structural adjustment facility, Db 1.7 billion were paid at end-December 2001. The remainder will be paid during the first quarter of 2002.

13. The government granted an exceptional bonus equivalent to an extra month's salary to all civil servants in December 2001, as well as a general salary increase of 13.5 percent starting April 1, 2002. In light of the reduction in civil service staffing, these wage adjustments will limit wage bill growth to 8 percent in 2002, compared with growth in nominal GDP of 14 percent and an increase in government revenue of 15 percent. The studies on the civil service statutes and the salary scale will be completed by end-March

2002, and the government will introduce the new civil service statutes and the new uniform and simplified wage grid, as well as a compensation and promotion system based on performance appraisals, during the second half of 2002.

14. The government will ensure that spending on education is increased to 16 percent of primary budget expenditure in 2002 (9.6 percent of GDP), and that spending on health care is stabilized at 14 percent of primary expenditure (or 9.1 percent of GDP). The government prepared its sectoral development strategies for agriculture (October 1999) and health (June 2000) with assistance from donors. By end-March 2002, it will also finalize its sectoral strategies for education, infrastructure maintenance, and tourism, and adopt, in consultation with the World Bank, a three-year public investment program (PIP) for 2002–04 that will give priority to human resource development and the infrastructure maintenance sectors. The government will also consult with the World Bank, by end-March 2002, regarding a social development project and a public expenditure review that will evaluate the costs of sectoral strategies in education and health.

15. In general, the government will continue holding quarterly meetings on monitoring public investment, with the participation of the main donors in São Tomé and Príncipe, to improve the selection and monitoring of PIP projects. It will also conduct and publish a detailed study of public investment expenditure execution procedures by end-April 2002. It will publish by end-June 2002 the report on the external independent audit by an internationally recognized firm of three government contracts and tenders of over US$500,000 from the period 1998–2000, with a view to improving government procurement; it will prepare a mechanism to control and monitor the execution of foreign-financed investment projects; and it will place all project accounts under the central financial control of the treasury.

B. Monetary and Exchange Rate Policy

16. The central bank will pursue a prudent monetary policy aimed at reducing inflation to 7 percent by December 2002 (year-on-year basis). The resumption of disbursements of nonproject external assistance, the granting of additional debt relief, including interim assistance under the enhanced HIPC Initiative, and the primary budget surplus should make it possible to reduce net bank credit to the government by 50 percent of the beginning-of-year money stock during 2002. Credit to the private sector should increase by 20 percent and broad money by 12 percent (less than the nominal GDP growth). Gross international reserves of the central bank should increase to US$25 million, or six months of imports, by end-2002.

17. The monetary authorities will keep the central bank's reference interest rate above the observed inflation rate during the program period. By end-March 2002, the government will adopt a decree law authorizing the central bank to issue monetary regulation bills that banks and other economic agents will be able to acquire and sell at freely negotiated interest rates. The authorities will organize a money market beginning at end-June 2002.

18. The central bank will continue to strengthen bank supervision and will survey 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 observe closely the ongoing efforts to reestablish the normal functioning of the BCE through a restructuring and recapitalization by foreign private investors interested in taking a stake in the bank. Failing this, the central bank will organize the liquidation of the BCE by end-April 2002 without further financial support from the central bank or the treasury. The central bank has also decided to strengthen its inspection services and establish effective internal control over its operations, with technical assistance from the Fund. In April 2001, the central bank published for the second consecutive year and posted on its website a report on the audit conducted by an independent, internationally recognized firm, certifying its 2000 accounts. The bank has decided to have its accounts certified every year by external auditors.

19. Regarding the exchange rate, the authorities will make every effort to ensure that their flexible exchange regime, based on signals from the market, operates effectively, thereby allowing them to reduce the gap between the official exchange rate and the parallel market rate to a very low level. In these conditions, the central bank will not attempt to influence the commercial bank rate and will limit its intervention on the exchange markets strictly to reaching its international reserves objective. The gap between the official rate and the parallel market rate continued to remain below 1 percent during the period from July 2000 to September 2001. Also, the central bank will prepare a foreign exchange auction mechanism that will include banks and exchange bureaus, with assistance from the Fund. Finally, the government will take all necessary steps to accept the obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement as soon as possible.

C. Structural and Sectoral Policies

20. Regarding structural measures, the government will raise water and electricity tariffs by an average of 16 percent by end-March 2002 to eliminate the operational deficit of EMAE. During the program period, it will apply the new mechanism for adjusting water and electricity rates to reflect production and distribution costs, which it adopted in December 2001. Having already liberalized trade and reduced the customs tariff, the government intends to submit to parliament, before end-March 2002, a new law revising fundamentally the investment code, specifically by eliminating all preferential tax regimes, with the exception of the regime applicable to the free trade area. By the same date, the government will complete its statement on telecommunications sector policy, with assistance from the World Bank; it will also approve a legal and regulatory framework for the sector, introduce a regulatory authority, and renegotiate the concession agreement with the Telecommunications Company of São Tomé and Príncipe (CST), with a view to eventually opening the sector to competition. Concerning the business climate, the government will examine the report of the Foreign Investment Advisory Committee (FIAS), part of the World Bank Group, with the goal of developing, by end-March 2002, an action plan to strengthen incentives for private sector activity and investment, particularly by strengthening the legal, regulatory, and judicial systems.

21. With regard to public enterprises, the government will pursue implementation of its reform and privatization program during 2002. In December 2000, the government decided to privatize EMAE and adopted a financial restructuring plan for the company, including the downsizing of the company's personnel (see para. 12 above), the introduction of an appropriate accounting and budgeting system, and the strengthening of revenue collection procedures, as well as a medium-term investment program and strategy. The authorities will begin consultations before end-February 2002 with a view to engaging independent external auditors to audit the accounts of EMAE for the period from 1995 to 1998. The accounts of the petroleum products distribution company (ENCO) up to 1999 have been certified by independent auditors.

22. Regarding the outlook for petroleum exploration, the government will continue to ensure transparency in conducting future operations. It will review the conclusions of the cost-benefit analysis of the contract signed with the ERHC in May 2001, as well as those of the detailed study of the procedures for negotiation of contracts in the petroleum sector, before the end of March 2002; it will ensure greater transparency in the handling of oil operations; and, if needed, it will reopen discussions on the contract signed with the ERHC. The government will also issue the implementing decrees and regulations of the oil sector law by end-March 2002 and request technical assistance from the Fund staff in the area of petroleum sector taxation and from the World Bank in the area of oil resource and contract management. With the support of this technical assistance, the government will implement and make operational by end-June 2002 an administrative unit responsible for the management of petroleum resources; it will also submit a bill to the national assembly that will organize the management of petroleum resources and institute a reserve fund for future generations, as well as a petroleum fund for social development and poverty reduction. The review of the staff-monitored program will examine the cost-benefit analysis and the study on negotiation procedures mentioned above, as well as the actual collection and use of the bonuses paid by oil companies in 2001.

23. With respect to other governance issues, the government will combat and take strong action against any acts of fraud and corruption that come to its attention. As for the attempted treasury bill fraud uncovered by the authorities in February 1999, the government has dismissed and taken legal action against the parties involved; the matter is still under judicial review and pending trial. The review of the staff-monitored program will include, inter alia, an assessment of the handling of this case of fraud. In the judicial arena, the government intends to strengthen and modernize the courts and tribunals, to train magistrates, and to prepare criminal, civil, and business laws and codes by end-2002, with assistance from Portugal. In the long term, it will activate the Auditor General's office and set up an arbitration court for commercial disputes.

24. With the support of the donor community, and in consultation with civil society, the government will, by end-June 2002, prepare a poverty reduction strategy to supplement and update the interim report of April 6, 2000. This strategy is expected to include measures designed, inter alia, to further increase school attendance and literacy rates and improve

primary health care. In November 2000, the government established an interministerial committee to monitor its poverty reduction strategy, headed by the Prime Minister and including representatives of civil society, as well as an administrative budget for preparing the poverty reduction strategy paper (PRSP). This strategy should mobilize larger budget appropriations to benefit the education and health sectors. To ensure effective monitoring of the progress in reaching social and poverty reduction objectives, the results of the survey on household living conditions, financed by the African Development Bank (AfDB) and the United Nations Development Program (UNDP), were produced in May 2001, and by end-March 2002 guidelines will be adopted, with the support of the World Bank and UNDP, for the development of a social database, as well as a system of indicators, within the National Statistics Institute. The authorities also reinitiated consultations with decentralized communities in April 2001 on the interim PRSP, as well as on the preparation of the poverty reduction strategy with the participation of civil society. More recently, in October 2001, the authorities created three committees: a committee for consultation among the state, civil society, and private sector, a committee for consultation between the state and donors, and a committee for the preparation of the PRSP, including a permanent secretariat for coordination.

25. The resources freed under the enhanced HIPC Initiative will be used to fund expenditures on poverty reduction, 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 subaccount in the treasurer's department of the central bank to lodge interim assistance under the enhanced HIPC Initiative. Furthermore, a monitoring and control committee responsible for ensuring 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-March 2002 an independent external audit of expenditures during 2001 that were financed by the special HIPC Initiative subaccount of the treasury in the central bank.

26. The government will intensify efforts to improve the quality and timely production of statistical data, it will provide the Fund with the basic data required in connection with Article IV consultations, and it will strengthen program control and monitoring. As indicated above, it conducted 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. The authorities will continue to ensure that the monthly monetary survey is available within four weeks after the end of the month in question.

D. External Sector, Debt Sustainability, and Financing Assurances

27. 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 imposing restrictions on current transactions.

28. Overall, the external current account deficit (excluding official transfers) is projected at US$25.7 million in 2002, or 48 percent of GDP (as against 56 percent in 2001). 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$9.0 million), the gross external financing requirement for 2002 rises to US$40.9 million.[2] This financing requirement will be partially covered with grants and concessional project loans (US$20.9 million), food aid and other grants (US$3.2 million), flows of private capital (US$3.0 million), the second tranche of the public resource management credit tranche from the World Bank (US$2.5 million), the first tranche of the structural adjustment credit from the AfDB (US$1.8 million) and the structural adjustment grant from the European Union (US$1.0 million). There will remain a residual financing gap of US$8.5 million that the authorities wish to close by the use of Fund resources (US$1.3 million), the rescheduling of the bilateral debt service (US$3.1 million), and interim assistance from multilateral creditors under the enhanced HIPC Initiative (US$4.2 million), assuming the approval of a new Fund arrangement under the PRGF in 2002. The authorities will complete all bilateral agreements under the Paris Club's May 2000 rescheduling before the end of February and seek comparable treatment from other bilateral creditors.

29. 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, excluding Fund resources) 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 a view to normalizing its relations with its major external creditors and donors, São Tomé and Príncipe will remain current on its debt-service obligations during the program period. The government recognizes that the nonaccumulation of new external payments arrears is a continuous benchmark.

IV. Program Monitoring

30. To ensure the success of the staff-monitored program, the government has taken the following prior actions: (a) the adoption of a mechanism by which water and electricity rates are adjusted to reflect production and distribution costs; (b) the implementation of the civil reform and retrenchment program; and (c) the adoption of the terms of reference for the independent exernal audit of three large government contracts and tenders for the period 1998-2000.

31. To monitor the progress of program implementation, the government has established monthly quantitative benchmarks for the period January-June 2002 (Table 1), as well as structural benchmarks (Table 2). The government will also communicate to the Fund on a monthly basis the data and information listed in the attached Table 3, as well as any

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[2] São Tomé and Príncipe has no outstanding external payments arrears.

information that the Fund may request to monitor progress on the implementation of economic and financial policies and the measures required to achieve the program objectives. During the program period, the government will neither introduce nor expand 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 not introduce or expand import restrictions for balance of payments reasons.

32. In any event, the authorities of São Tomé and Príncipe will conduct a review of the staff-monitored program with the staff no later than end-April 2002.

33. The Economic Council, chaired by the Prime Minister and including the Minister of Planning and Finance; the Minister of Economy; the Minister of Infrastructure, Natural Resources, and Environment; the Minister of Foreign Affairs and Cooperation; and the Governor of the Central Bank, will continue to coordinate the program.

Attachments

Table 1. São Tomé and Príncipe: Quantitative Benchmarks for the Proposed 2001-02 Staff-Monitored Program

(In billions of dobras, unless otherwise specified)

	2001		2002	
	end-Sep.	end-Dec.	end-Mar.	end-June
	Est.		SMP	
1. Floor on primary balance of the central government's financial operations, excluding foreign-financed investments (cumulative from beginning of year) 1/ 2/	-17.5	-31.0	-6.5	-7.9
2. Ceiling on changes in net bank credit to the central government (cumulative from beginning of year) 1/	-10.7	5.7	-0.1	7.1
3. Ceiling on changes in net domestic assets of the central bank (cumulative from beginning of year) 1/	-13.5	-5.6	0.1	7.3
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/	3.5	2.9	2.4	1.9
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
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
7. Ceiling on change in the central government's stock of outstanding short-term external debt with a maturity of less than one year (cumulative from beginning of year)	0.0	0.0	0.0	0.0
8. Floor on total central government revenue (cumulative from beginning of year) 1/	70.0	93.9	21.9	47.4
9. Ceiling on primary spending of the central government, excluding foreign-financed investments (cumulative from beginning of year) 2/	87.5	125.0	28.4	55.3
Memorandum items:				
Oil concession rights proceeds	17.2	17.2	0.0	0.0
Program financing	27.0	27.0	0.0	0.0
Exchange rate (in dobras per U.S. dollar; period average)	8,805.1	...	...	...

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

1/ 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.
2/ Based on a definition of expenditure excluding all interest payments and foreign-financed investment.
3/ Nonaccumulation of new external payments arrears is a continuous performance criterion.
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 24, 2000.
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, January–June 2002

Measures	Timetable
Prior actions	
1. Adoption of a mechanism for the adjustment of public prices for water and electricity according to the costs of production and distribution, as indicated in paragraph 6.	
2. Implementation of the civil service reform and retrenchment program, as specified in paragraph 6.	
3. Adoption of the terms of reference for the external independent audit of three large government contracts and tenders for the period 1998–2000, as described in paragraph 6.	
Structural benchmarks	
1. Implementation of an upward adjustment in water and electricity tariffs of 16 percent, as indicated in paragraph 20.	End-March 2002
2. Submission to the National Assembly of the draft budget for 2002, as indicated in paragraph 10.	End-April 2002
3. Publication of a report on the external independent audit of three large government contracts and tenders for the period 1998-2000, as described in paragraph 15.	End-June 2002
4. Application of a mechanism for the adjustment of retail petroleum product prices to reflect import prices and distribution costs, as indicated in paragraph 11.	Continuous
5. Submission of monthly monetary data within four weeks of the end of each month, as indicated in paragraph 26.	Continuous

Table 3. São Tomé and Príncipe: Data and Information To Be Provided Monthly for the Monitoring of the Program

Data and Information	Source
1. The monetary survey, the central bank accounts, and the consolidated accounts of commercial banks (including balance sheets—*balancete contabilisticos*).	Central bank
2. Exchange rate and interest rates, including the central bank reference interest rate, bank lending rates, and deposits rates.	Central bank
3. Central government financial operations table, based on government budget execution, including a breakdown of revenue and expenditure.	Ministry of Planning and Finance, Directorates of Budget and Treasury
4. External public debt, stock outstanding, contractual service, and actual payments, broken down by creditor.	Central bank and Directorates of Budget and Treasury
5. Stock of external public debt arrears, including a breakdown into interest and principal, as well as by major creditor.	Central bank and Directorates of Budget and Treasury
6. The amount of new nonconcessional external debt contracted or guaranteed by the government with original maturity of more than one year, as well as any disbursements made in connection with external debt of the government with original maturity of up to and including one year, excluding normal import financing.	Central bank and Directorates of Budget and Treasury
7. Actual disbursements of project and nonproject external assistance, broken down by donor.	Central bank and Directorates of Budget and Treasury
8. Domestic debt and arrears, by major creditor.	Directorates of Budget and Treasury
9. Consumer price index for São Tomé households.	Ministry of Planning and Finance, Directorate of Statistics
10. Status of observance of quantitative and structural benchmarks in accordance with Tables 1 and 2 of the letter of intent.	Central bank and Directorates of Budget and Treasury
11. Status of implementation of the structural measures of the program.	Ministry of Planning and Finance
12. Any changes made in the external trade and payments system.	Ministry of Economy and the central bank
13. Any changes made in the price system and in the prices of petroleum products, water, and electricity.	Ministry of Planning and Finance, and Ministry of Economy
14. Any information on development in external trade.	Ministry of Planning and Finance, Directorates of Customs and Statistics
15. Any information on agricultural production, industrial production, and tourism.	Ministry of Economy

SÃO TOMÉ AND PRÍNCIPE

Technical memorandum of Understanding on the Staff-Monitored Program

January 9, 2002

1. The purpose of this memorandum is to describe the quantitative and structural benchmarks adopted for monitoring execution of the staff-monitored program and to establish the list of data and information to be submitted to Fund staff for program monitoring purposes. This staff-monitored program is outlined in the memorandum on 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. The benchmarks for the staff-monitored program are listed in Tables 1 (quantitative benchmarks) and 2 (structural benchmarks) of the aforementioned MEFP. These definitions may be reexamined in the next review of the staff-monitored program.

A. Quantitative Benchmarks

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

(a) a floor on the primary balance of government financial operations, excluding foreign-financed investments (cumulative from January 1);
(b) a ceiling on changes in net banking system credit to the government (cumulative from January 1);
(c) a ceiling on changes in the net domestic assets of the central bank (cumulative from January 1);
(d) a floor on changes in the net international reserves position of the central bank (cumulative from January 1, in millions of U.S. dollars);
(e) a ceiling on the stock of external payments arrears of the government (in millions of U.S. dollars);
(f) 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);
(g) a ceiling on new external borrowings contracted or guaranteed by the government with a maturity of less than one year (cumulative from January 1, in millions of U.S. dollars);
(h) a floor on total government revenue (cumulative from January1); and
(i) 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 state budget execution statement prepared every month by the Directorate of Budget and Directorate of Treasury in the Ministry of Planning

and Finance. At end-September 2001, this balance was assessed at Db -17.5 billion, broken down as follows:

Primary balance, excluding foreign-financed investment	-17.5
Total revenue	70.0
Less: Primary expenditure, excluding foreign-financed investment	87.5

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-September 2001 was estimated at Db 70.0 billion, broken down as follows:

Total revenue	70.0
Tax revenue (Customs, Tax Directorate)	56.0
Nontax revenue	14.0

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-September 2001, was estimated at Db 87.5 billion, broken down as follows:

Primary government spending, excluding foreign-financed investment	87.5
Current spending (excluding interest payments)	61.3
Personnel expenses	26.7
Goods and services	11.3
Transfers	10.5
Staff redeployment	1.4
Other	11.4
Capital spending financed by the treasury	19.3
Spending financed by HIPC Initiative resources	6.8

6. Changes in net banking system credit to the government are assessed according to the monetary survey prepared by the central bank. At end-September 2001, outstanding net credit to the government was assessed at Db –38.2 billion, broken down as follows:

Net banking system credit to the government	-38.2
Central bank advances, including use of Fund resources	55.1
Commercial bank advances	0.0
Less: deposits to the BCSTP	90.6
Less: deposits in commercial banks	0.5
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-September 2001, the net domestic assets of the central bank were assessed at Db –46.8 billion, broken down as follows:

Net domestic assets of the central bank	-46.8
Base money	73.3
Currency in circulation	27.6
Bank reserves	45.7
Less: net external assets of the central bank	120.1

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 which 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-September 2001, the net international reserves of the central bank were assessed at US$ 13.6 million, broken down as follows:

Net international reserves of the central bank (in millions of U.S. dollars)	13.6
Gross international reserves of the central bank (in billions of dobras)	141.8
Less: external liabilities of the central bank (in billions of dobras)	21.7
Divided by the dollar exchange rate on September 30, 2001 (average rate, in dobras per U.S. dollar)	8,805.1

9. The nonaccumulation of new external payment arrears is a continuous performance criterion. 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 nine months of 2001, the net reduction in external debt service arrears was estimated at US$16.6 million, and at end-September 2001, the stock of external debt arrears was estimated at zero.

10. The relative benchmarks for external debt are: (a) ceilings on new nonconcessional borrowing contracted or guaranteed by the government with an initial maturity of more than one year,[1] and (b) 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 reference interest rate by

[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.

currency 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 Fund resources). By way of example, the reference interest rates at mid-August 2001 were as follows (six-month average):

	(Rate in percent)
U.S. dollar	6.09
Euro	5.73
SDR	5.31

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 as to whether said obligations are included in the performance limits.

11. The automatic benchmark adjustment mechanism mentioned in footnote 1 of Table 1 concerns (a) the floor on the primary balance of government financial operations; (b) the floor on total government revenue; (c) the ceiling on changes in net banking system credit to the government; (d) the ceiling on changes in net domestic assets of the central bank; and (e) 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) government oil revenue, including concession rights and bonuses; and (ii) program assistance, which are shown in a memorandum item at the bottom of Table 1. If a discrepancy is positive (disbursements greater than estimated), the ceilings will be revised downward and the floors revised upward. If a discrepancy is negative (disbursements smaller than estimated), the ceilings will be revised upward and the floor revised downward.

B. Structural Benchmarks

12. The structural benchmarks are as follows:

(a) implementation of an upward adjustment of water and electricity tariffs of 16 percent, as indicated in paragraph 20 of the MEFP;
(b) submission to the National Assembly of a draft budget for 2002, as indicated in paragraph 10 of the MEFP;
(c) publication of a report on the external independent audit report by an internationally recognized firm on three large government contracts and tenders for the period 1998-2000, as described in paragraph 15 of the MEFP.

(d) application of a mechanism for the adjustment of retail prices of petroleum products to reflect import prices and distribution costs, in accordance with paragraph 11 of the MEFP; and

(e) submission of monthly monetary data within four weeks after the end of each month, as indicated in paragraph 26 of the MEFP.

13. It is agreed that the retail prices of petroleum products will be adjusted upon the arrival of each shipment to reflect the import prices and the distribution costs of the petroleum products distribution company (ENCO), using the automatic adjustment mechanism adopted in 1997.

14. Monthly monetary data will be e-mailed to the African Department within four weeks after the end of each month.

C. Program Monitoring

15. Within two weeks after 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 program execution.

16. The technical committee charged with monitoring the program will regularly fax or e-mail the data necessary for program monitoring to the IMF African Department. These data are included in the list in Table 3 of the MEFP dated January 9, 2002.

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

SÃO TOMÉ AND PRÍNCIPE: RELATIONS WITH THE FUND
As of December 31, 2001

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

II. **General Resources Account**:	SDR million	%Quota
Quota	7.40	100.0
Fund holdings of currency	7.40	100.0

III. **SDR Department**:	SDR million	%Allocation
Net cumulative allocation	0.62	100.0
Holdings	0.00	0.20

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	04/28/2003	6.66	1.90
Structural Adjustment Facility (SAF)	06/02/1989	06/01/1992	2.80	0.80

VI. **Projected Obligations to Fund**:

	Overdue	Forthcoming				
	11/30/01	2001	2002	2003	2004	2005
Principal	0.00	0.00	0.00	0.00	0.00	0.10
Charges/interest	0.00	0.01	0.03	0.03	0.03	0.03
Total	0.00	0.01	0.03	0.03	0.03	0.13

VII. **Implementation of HIPC Initiative:**

	Original framework	Enhanced framework	Total
Commitment of HIPC assistance			
Decision point date	N/A	12/20/00	
Assistance committed (NPV terms) [1]			
Total assistance (US$ million)	N/A	97	97
Of which: Fund assistance (SDR million)	N/A	0.00	0.00
Completion point date (expected)	N/A	06/03	
Delivery of Fund assistance (SDR million)			
Amount disbursed	N/A	0.00	0.00
Interim assistance		0.00	0.00
Completion point [2]	N/A	0.00	0.00
Amount applied against member's obligations (cumulative)	N/A	0.00	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. The transitional procedures require a review of only the CBSTP's external audit mechanism. This assessment determines whether the CBSTP publishes annual financial statements that are independently audited in accordance with internationally accepted standards.

[1] Net present value (NPV) terms at the completion point under the original framework, and 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.

The external audit assessment was completed on March 13, 2001. The assessment concluded that CBSTP's external audit mechanism may not be adequate in certain respects, and appropriate recommendations have been made to the authorities, as reported in the current staff report (EBS/02/3, 01/11/02).

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 7,250 per U.S. dollar on December 31, 1999, 8,567.6 on December 29, 2000 and 9,003 on December 31, 2001.

X. **Article IV Consultation**:

The last article IV consultation with São Tomé and Príncipe was concluded by the Executive Board on April 28, 2000. 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** (since 1991):

From January to December 1991, a member of the Monetary and Exchange Affairs Department (MAE) panel was assigned to the national bank to assist with the implementation of the new system of accounts. In 1992, another MAE panel expert provided assistance in the area of banking operations. During 1993, two advisors were assigned to the Central Bank of São Tomé and Príncipe to assist in banking supervision and foreign exchange management. From July 1994 to November 1995, an expert in banking supervision was assigned to the central bank. Another expert was assigned as advisor to the central bank for the period July 1995–December 1996. In March 1997, a diagnostic mission visited São Tomé and Príncipe in order to assess the need for future technical assistance. Starting in January 1998, an advisor has been assigned to the central bank. In March and in June 1999, a MAE mission 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. Finally, 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.

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 his 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 private sector activities. 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 are (a) to support the distribution and leasing of about 20,000 hectares of land from public estates to smallholders and medium-sized private enterprises; (b) to assist financially the laborers leaving the estates; (c) to assist technically and financially the privatization of the cocoa estates; (d) to finance ongoing investments in the cocoa plantations; and (e) 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), which financed a malaria control program (including infrastructure building) and provided essential drugs, education supplies, and textbooks. This project closed in June 2001 and a project completion report is being finalized.

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 Bank Board discussed a Country Assistance Strategy for São Tomé and Príncipe. The fiscal-year (FY) 2000 Business Plan focused on the government's capacity to identify and implement growth strategies, using more effectively the large amounts of aid the country already receives. 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): (a) to sustain strong economic growth to raise income and reduce poverty; and (b) to broaden access to services and improve their quality. IDA also aims to help strengthen public resource management through periodic public finance reviews.

Statement of IDA Credits as of November 30, 2001
(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	2.1
Total:			71.8	7.9
	Of which: repaid		1.0	

[1]Less cancellation.

IFC operations

8. São Tomé and Príncipe is not a member of the IFC.

São Tomé and Príncipe: Statistical Issues

Introduction

1. The March 1998 edition of *International Financial Statistics (IFS)* introduced a page for São Tomé and Príncipe, but substantial deficiencies remain in economic statistics. The authorities prepare data for Fund missions but publish only some statistics on a regular basis.

National accounts

2. Statistics on GDP/GNP are compiled on a yearly basis and provided at the time of the Article IV consultation. In 1995, the official series on GDP since 1990 was revised upward in order to include value added in the construction and financial sectors, and domestic consumption and investment were raised to take account of foreign-financed outlays. In July 1996, the World Bank and French Cooperation provided technical assistance in this area and recommended the following: (a) a simplification and revision of the methodology for surveying the formal sector; (b) the implementation of a survey on the informal sector and nongovernmental organizations (NGOs); and (c) improved communication with customs, so that more detailed and timely statistics on international trade can be obtained. The recent adoption of the following measures should also lead to improvement in GDP statistics: (a) implementation of a homogeneous accounting system by all enterprises; (b) updating of the list of enterprises; and (c) revision of the consumer price index (CPI) methodology. In April 1998, the National Institute of Statistics published revised GDP statistics for 1995–97, based on enterprise surveys carried out during 1995 and 1996 with technical and financial assistance from the United Nations Development Program (UNDP).

Consumer prices

3. The CPI is calculated monthly and reported to the Fund with a lag of one month. In 1995, the UNDP assisted the authorities in conducting a new household survey, which has been used as the basis for the compilation of the official CPI since 1997. The data submitted in the last two years have been more regular and provide a statistical base that constitutes a major improvement over the past.

Government finance statistics

4. Fiscal data are compiled on a monthly basis, with a lag of two weeks to one month. The quality of data on expenditure and revenue has improved significantly. Moreover, since 1996, each category of expenditure has been recorded separately by ministry. However, there is no São Tomé and Príncipe country page in the *Government Finance Statistics (GFS) Yearbook* and a number of problems remain:

- Expenditures on projects financed and directly managed by donors (e.g., medical personnel directly paid overseas) are not adequately monitored by the Directorate of Finance.

- Discrepancies remain between debt-service payments as recorded by the treasury and by the central bank's debt-management office.

Monetary statistics

5. A money and banking statistics mission that visited São Tomé and Príncipe in 1997 found that the authorities had made considerable progress in improving the money and banking statistics in accordance with STA's recommendations. The *IFS* page includes sections on exchange rates and interest rates, international liquidity, monetary accounts for the monetary authorities and the deposit money banks, and the monetary survey. Data on the net foreign assets of the monetary system are still not considered reliable because of a number of factors, including problems in revaluing the central bank's foreign assets and liabilities.

External sector

6. **Exchange rates**. The authorities record data on five exchange rates: the official rate, the *exchange bureau* rate, the Banco Internacional do São Tomé e Príncipe (BISTP) rate, the Banco Comercial do Equador (BCE) rate, and the parallel rate. These rates are reported to the Fund with a lag of one month. The rates are recorded on a daily basis in order to compute the official rate as an average of the market rates for the previous day.

7. **Exports and imports**. Monthly data on the main exports and imports are reported to the Fund irregularly, and occasionally include unit prices and volumes of exports. Progress in data reporting was realized in 1995–97 with the introduction of a computerized customs system (SYDONIA). However, data produced with the new system—which records, according to a standardized code, the value of imports or exports, as well as the taxes paid for each transaction—still contain large reporting errors.

8. **Balance of payments**. In 1995, the central bank began compiling balance of payments statistics and initiated surveys to collect information on services and current and capital transfers. However, transmission of balance of payments data has proved to be irregular. A number of other important problems pertaining to the quality of data remain, including uncertainty about the composition of project grants as recorded by the central bank. The reporting of external debt and private transfers also appears to be weak.

São Tomé and Príncipe: Core Statistical Indicators

(As of November 30, 2001)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service
Date of latest observation	Sep. 2001	Sep. 2001	Sep. 2001	Sep. 2001	Sep. 2001	Sep. 2001	Sep. 2000	Sep. 2001	2000	Sep. 2001	2000	Sep. 2001
Date received	Nov. 2001	Nov. 2001	Nov. 2001	Nov. 2001	Nov. 2001	Nov. 2001	Nov. 2001	Nov. 2001	Nov. 2001	Nov. 2001	Nov. 2001	Nov. 2001
Frequency of data 1/	D	M	M	M	M	M	M	M	A	A	A	Q
Frequency of reporting 1/	V	M	M	M	M	V	M	V	V	M	V	V
Source of update 2/	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting 3/	E/V	E/V	E/V	C/E/V	E/V	E/V	E/V	V	V	E/V	V	V
Confidentiality 4/	C	C	C	C	C	C	C	C	C	C	C	C
Frequency of publication 1/	M	M	M	M	M	M	M	Q	A	A	A	Q

1/ D=daily ; M=monthly ; Q=quarterly ; A=annually ; V=irregularly.
2/ A=direct reporting by the authorities.
3/ C=cable or fax simile ; T=telephone ; E=e-mail ; M=mail ; V=staff visits.
4/ C=publicly released information.

São Tomé and Príncipe: Basic Data

Area, population, and GDP per capita	
Area (square kilometers)	1,001
Population (2000)	
Total	141,700
Annual growth rate (in percent)	2.5
GDP per capita (in U.S. dollars; 2000)	304

	1994	1995	1996	1997	1998	1999	2000
				(In units indicated)			
Production and prices							
GDP at market prices (in billions of dobras)	36.3	64.6	98.9	200.0	281.0	334.1	369.5
Cocoa production (in metric tons)	3,392	3,845	3,500	3,138	3,928	4,000	3,800
Cocoa exports (in metric tons)	3,716	3,400	3,170	2,840	3,800	3,898	3,768
Consumer price index (annual average; 1996=100)	53.0	72.7	100.0	168.2	253.1	285.2	320.1
				(In billions of dobras)			
Government fiscal operations							
Revenue and grants	11.2	25.8	36.5	86.8	81.7	146.8	183.4
Current expenditure	11.3	15.5	26.8	55.7	80.7	90.9	89.7
Of which: interest obligations	4.0	7.8	9.9	22.5	34.8	38.0	24.5
Capital expenditure	15.5	34.6	41.6	84.5	87.3	141.4	155.3
Net lending	0.0	-0.1	0.0	0.0	-0.5	0.9	-0.6
Overall fiscal balance (commitment basis)	-15.6	-24.2	-31.8	-53.4	-85.8	-86.5	-61.1
Net change in arrears (decrease -)	4.0	5.4	4.9	21.0	21.1	24.7	-86.7
Overall fiscal balance (cash basis)	-11.6	-18.8	-26.9	-32.4	-64.7	-61.8	-147.8
Financing	11.6	18.8	26.9	32.4	64.7	61.8	147.8
Net foreign financing	8.0	18.6	16.0	53.4	14.9	56.3	139.3
Net domestic financing	3.6	0.1	11.0	-20.9	49.8	5.5	8.4
Monetary survey (end of period) 1/							
Net foreign assets	5.6	12.9	23.5	108.2	113.1	124.3	136.2
Net domestic assets	9.2	10.1	15.8	-36.1	-23.3	-37.0	-23.9
Net domestic credit	12.3	11.4	17.7	-25.7	-3.1	-12.5	-2.2
Claims on the government (net)	6.8	7.8	18.6	-12.5	4.3	-37.3	-28.2
Credit to the economy	14.6	14.5	8.8	7.4	18.1	24.8	26.0
Of which: public enterprises	...	...	...	...	-1.2	-1.3	-0.7
Other items (net)	-3.1	-1.3	-1.9	-10.4	-20.3	-24.5	-21.8
Money and quasi money	14.7	23.0	39.2	72.1	89.7	87.2	112.3
				(In millions of U.S. dollars)			
Balance of payments							
Exports, f.o.b.	5.9	5.1	4.9	5.3	4.7	3.9	3.2
Of which: cocoa	5.0	4.7	4.8	4.6	4.6	2.9	2.9
Imports, f.o.b.	-24.3	-23.4	-19.8	-19.2	-16.8	-21.9	-22.3
Trade balance	-18.5	-18.3	-14.9	-13.9	-12.1	-18.0	-19.1
Services and income (net)	-16.3	-23.3	-21.2	-19.8	-10.3	-6.8	-5.9
Transfers (net)	18.1	23.2	22.1	32.1	13.8	12.4	15.4
Current account deficit, excluding official transfers	-31.3	-41.1	-35.6	-32.9	-21.8	-24.1	-24.5
Current account deficit, including official transfers	-16.6	-18.4	-14.0	-1.6	-8.5	-12.2	-9.6
Medium- and long-term capital (net)	7.0	10.8	11.8	2.7	5.5	9.6	7.1
Short-term capital and errors and omissions	1.9	0.2	-2.6	0.0	-3.2	0.0	0.0
Overall balance	-7.7	-7.4	-4.8	1.1	-6.3	-2.6	-2.5
Financing	7.7	7.4	4.8	-1.1	6.3	2.7	2.4
Change in net foreign assets (increase -)	-2.1	-0.4	0.1	-7.4	2.7	-1.2	-2.0
Change in arrears (reduction -)	-2.0	-21.9	5.0	6.5	3.7	-3.5	-54.8
Structural Adjustment Facility (net)	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	2.5
Debt relief	11.9	29.9	0.0	0.0	0.0	7.8	57.1

São Tomé and Príncipe: Basic Data (concluded)

	1994	1995	1996	1997	1998	1999	2000
	(In millions of U.S. dollars, unless otherwise specified)						
Gross foreign reserves							
End of period	4.8	5.1	5.0	12.4	9.7	10.9	12.9
In months of following year's imports, c.i.f.	1.3	1.5	1.5	5.1	2.9	3.3	3.6
External public debt							
Medium- and long-term debt (disbursed and outstanding)	214.1	226.8	234.0	235.5	239.8	294.0	283.4
Debt-service ratio before debt relief (as percent of exports of goods and services)	101.0	110.3	73.5	71.8	83.1	49.8	33.6
Effective exchange rate indices (trade weighted; end of period; 1992=100)							
Nominal	40.2	24.3	16.4	6.9	6.7	6.4	6.6
Real	56.2	39.9	42.4	31.8	35.9	39.9	46.6
Social indicators							
Life expectancy at birth (in years; 1995)			64				
Population (in thousands; 2000)			141,700				
Rural			77,652				
Urban			64,048				
Women			71,700				
Men			70,000				
Crude birth rate (per thousand, 1997)			33.8				
Crude death rate (per thousand, 1997)			8.5				
Infant mortality rate (under 1, per thousand; 1998)			64.0				
Infant mortality rate (under 5, per thousand; 1998)			123.0				
Population per physician (1995)			3,272				
Gross primary school enrollment ratio (in percent of school-age population; 1998)			71.8				
Literacy rate for ages 15 and above (in percent; 1998)			78.0				

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

1/ Owing to corrections and improvements to the accounts of the central bank, there is a break in the series starting in 1995.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 02/17
FOR IMMEDIATE RELEASE
February 28, 2002

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2001 Article IV Consultation with São Tomé and Príncipe

On January 30, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with São Tomé and Príncipe.[1]

Background

During the fourth quarter of 2000 and the first three quarters of 2001, fiscal slippages, delays in structural reforms, and governance problems took São Tomé and Príncipe's PRGF-supported program off track. Key quantitative performance criteria and benchmarks on government financial operations were not observed at end-December 2000 or end-December 2001. Despite strong revenue mobilization, spending overruns, partly financed out of an unprogrammed signing bonus related to an oil exploration option contract, resulted in a primary budget deficit of 3 percent of GDP in 2001, compared with a targeted surplus of 2.7 percent of GDP under the program. Although monetary policy remained tight in 2000-01, the budget deficit caused net bank credit to the government to exceed its quantitative performance criteria in December 2000 and June 2001. Also, none of the structural performance criteria and benchmarks were observed, with the exception of the benchmarks on retail prices of petroleum products and the submission to the Fund of monthly monetary data. In addition, the negotiation of oil sector contracts in 2001 lacked transparency, including a

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the January 30, 2002 Executive Board discussion based on the staff report.

contract with the Environmental Remediation Holding Company (ERHC) in May 2001 that awarded a substantial share of potential oil revenue to the private company.

The authorities have requested the staff to monitor an economic program covering the six months ending on June 30, 2002. The staff-monitored program (SMP) is intended to correct the slippages incurred in 2001 and reestablish a good track record of policy implementation. To make up for the delays in the implementation of structural measures, the authorities have implemented three prior actions for the SMP: (1) the adoption of a rate adjustment mechanism for water and electricity; (2) the implementation of the civil service reform and downsizing program; and (3) the adoption of terms of reference for an audit of three large government contracts and bids. In addition, the authorities requested assistance from the World Bank in the area of oil sector policy, including a cost-benefit analysis of their settlement with the ERHC and a study on the negotiation procedures for government contracts signed in 2001 in the oil sector.

Under the SMP, the authorities' macroeconomic objectives are to reduce end-of-year inflation to 7 percent in 2002, and to narrow the external current account deficit (including official transfers) to less than 1 percent of GDP in 2002. Real GDP growth is projected to reach 5 percent in 2002. In the fiscal area, the program aims at turning around the primary budget balance (excluding HIPC Initiative-financed social spending) from a deficit in 2001 to a small surplus in 2002, while safeguarding spending on health and education. Monetary policy will remain tight, with broad money projected to increase by 12 percent in 2002, consistent with projected nominal GDP growth. Net bank credit to the government is targeted for a substantial reduction.

Key structural reforms proposed under the SMP include (1) the submission to the National Assembly of a draft government budget for 2002; (2) the publication of an audit report on three large government contracts and bids; and (3) the application of mechanisms by which retail prices of petroleum products and water and electricity rates are adjusted to reflect changes in costs.

Executive Board Assessment

Executive Directors regretted that during 2001, the PRGF-supported program went off track, with large government spending overruns, the emergence of governance issues related to oil-sector contracts, and delays in the implementation of several structural measures. Nevertheless, economic activity continued to recover thanks to a strong pickup in food crop production, construction, trade, and tourism; inflation stabilized; and improvements in tax collection and customs reform led to a large increase in government revenue.

Directors welcomed the authorities' commitment to implementing strong corrective measures during a six-month staff-monitored program, and urged them to implement the program vigorously, in order to correct the slippages which occurred in 2001, and reestablish a track record of good policy implementation. More generally, it will be crucial to work with renewed commitment toward the sustained implementation of the economic reforms laid out in their interim PRSP, to achieve lasting poverty reduction and reduce the substantial risks that São Tomé and Príncipe faces, in view of its fragile economic and social situation, its heavy reliance on external assistance, and the monoculture of cocoa, and its limited administrative capacity.

Against this background, Directors urged the authorities to maintain their resolve to strengthen fiscal discipline, particularly in view of the possible onset of disbursements of sizable oil-related compensation payments. The commitment to continued strong revenue mobilization efforts and to expenditure restraint, while increasing outlays for education and health, is welcome, but Directors noted that achieving the fiscal targets will require a prudent management of any oil-related revenue, as well as continued wage moderation following the recent civil service reform.

Directors expressed concern about administrative capacity constraints on the efficient use of the interim HIPC Initiative assistance for poverty reduction purposes. They underscored the need to establish control and monitoring mechanisms of public spending, with a view to ensuring an efficient and transparent use of HIPC assistance and other budgetary resources. They also urged the authorities to make good use of the technical assistance they are receiving from the World Bank, the European Union, and France in the area of public resource management.

Directors welcomed the central bank's commitment to maintain a prudent monetary policy and a flexible exchange rate regime and to refrain from interfering in the commercial banks' exchange operations. They urged the central bank to closely monitor bank lending activities and portfolio performance, and to work toward an orderly recapitalization and takeover by a financial institution of good standing of the insolvent Banco Comercial do Equador (BCE). The authorities were also urged to step up legal efforts aimed at combating terrorist financing.

Subject to successful implementation of the staff-monitored program, Directors noted that the authorities' renewed commitment to undertaking vigorous macroeconomic and structural policies is an encouraging basis to start early discussions on a medium-term program that could be supported under the PRGF arrangement, with a view to reaching the HIPC completion point. Directors highlighted, in particular, the importance of ensuring an orderly and transparent use of potential oil revenue, and, in this connection, they urged the authorities to take adequate actions following the results of a critical review of the contract signed with the Environmental Remediation Holdings Company (ERHC) and of the procedures followed in the negotiation of oil-sector contracts in 2001. The authorities should also ensure cost coverage of water and electricity tariffs and of the prices of petroleum products. More broadly, Directors looked forward to a consistent implementation of reforms aimed at economic diversification and at enhancing the role of the private sector in the economic development of São Tomé and Príncipe.

Directors noted that São Tomé and Príncipe now regularly provides the core minimum data to the Fund for the purposes of surveillance and program monitoring. They encouraged the authorities to address remaining weaknesses in the compilation of real sector and balance of payments statistics, with the help of technical assistance.

Directors encouraged the authorities to cooperate closely with Bank and Fund staff in the months ahead in maximizing the prospects for an early resumption of the PRGF-supported program and for access to interim assistance under the enhanced HIPC Initiative. In view of the country's limited administrative capacity, this collaborative effort should aim, in particular, at minimizing the risks of slippages in policy implementation by taking timely and proactive measures if needed.

Public Information Notices (PINs) are issued (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2001 Article IV Consultation with São Tomé and Príncipe is also available.

São Tomé and Príncipe: Selected Economic Indicators

	1999	2000	2001 Proj.
Domestic economy			
Gross domestic product (in billions of dobras)	334.1	369.5	422.0
At constant prices (percentage change)	2.5	3.0	4.0
Consumer prices (percentage change; average)	16.3	11.0	9.3
	(In percent of GDP, unless otherwise specified)		
Financial variables			
Consumption	109.3	103.6	99.9
Gross investment	40.0	43.5	49.9
Gross domestic savings	-9.3	-3.6	0.1
Gross national savings	13.8	23.0	39.3
Overall balance (commitment basis)	-25.9	-16.5	-15.0
Primary balance (commitment basis; incl. HIPC Initiative spending) 1/	1.3	2.1	-7.4
Primary balance (commitment basis; excl. HIPC Initiative spending) 1/	1.3	2.1	-3.4
External economy			
Current account balance (excluding official transfers)	-51.1	-52.4	-56.1
Current account balance (including official transfers)	-26.2	-20.5	-10.6
Net present value of total external debt outstanding 2/ 3/	404.3	306.3	262.0
Net present value of total debt 2/ 3/ 4/	1,394.6	920.8	708.2
Net present value of total debt 2/ 3/ 5/	2,151.9	1,353.2	1,023.6
	(In millions of U.S. dollars, unless otherwise specified)		
External economy			
Export earnings	3.9	3.2	3.9
Of which: cocoa	2.9	2.9	3.4
Overall balance	-2.7	-2.5	1.7
Outstanding medium- and long-term debt	294.0	283.4	286.7
Of which: arrears	74.0	0.0	...
Gross foreign reserves (in months of following year's imports of goods and services)	3.1	3.5	3.9
External debt service (before debt relief) 4/	49.8	36.2	31.4
External debt service (actual debt service paid) 4/	23.8	26.1	10.8

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

1/ Excluding interest obligations, grants, and foreign-financed capital outlays.
2/ Includes arrears to Italy on a loan that remains in dispute.
3/ Assumes the completion point under the enhanced HIPC Initiative is reached in 2003.
4/ In percent of exports of goods and services.
5/ In percent of government revenue.

Statement by Alexandre Barro Chambrier, Executive Director for São Tomé and Príncipe
January 30, 2002

Background and Recent Developments

In 1998, following several years of macroeconomic imbalances, Sao Tome & Principe, with Fund assistance, put in place an ambitious program of economic and structural adjustment. The program which placed strong emphasis on fiscal consolidation and which also included a broad agenda of structural reforms, led to a significant turn around in the economic and financial situation. Real GDP growth which had averaged 1.2 percent in 1996-97, doubled to 2.5 percent in 1998-99, and inflation which had reached 80 percent at end-97 was reduced drastically to 13 percent by December 1999. The primary budget deficit had shifted to a surplus, and the current account deficit had been reduced. Progress on the structural front was also noteworthy. Among others, price controls were eliminated, the exchange and trade system liberalized, a privatization program and the reform of the civil service were initiated. Important steps were also taken as regards governance, as legal actions were taken against officials responsible for fraudulent operations.

Building on this progress, the authorities strengthened their reform program for which they received Fund support under the PRGF in early 2000. Good progress was achieved in the first ten months of 2000, and at the time of the completion of the first review, in December 2000, the Board decided that Sao Tome & Principe had reached the decision point under the enhanced HIPC Initiative. Economic activity continued to recover, and it is estimated that real GDP grew by 3 percent in 2000, and by 4 percent in 2001. Despite the sharp increase in the prices of petroleum products and the depreciation of the dobra, inflation remained on a downward trend and was below 10 percent in 2001. The current account position also improved, reflecting assistance from the interim HIPC Initiative, and revenue related to oil exploration. Developments in the fiscal area was, however, less favorable, and there were delays in the implementation of several structural measures.

In the fiscal area, while the authorities missed the performance criteria and benchmarks at end-2000 and during 2001, it is to be noted that revenue in 2000 and 2001 were higher than programmed, reflecting to a large extent the strengthening of tax and customs administration, as well as revenue from fishing royalties in December 2000. Although government expenditure was strictly controlled, a number of factors, in 2001, some of which unexpected led to expenditure overruns and contributed to the program going off-track: Maritime border negotiations with Nigeria took longer than expected and led to sizable extra budgetary expenditure related to lawyer and consultant fees, among others; higher costs for the consumption of petroleum products, due to upward price adjustments; advances to the water and electricity utility company as rate increases were delayed; the larger wage bill (following months of strikes of health and education workers), and the bonuses to the civil service(wages are still quite low compared to other countries in the region); and, the financing of the presidential election. As a result the primary budget balance turned into a deficit of more than 3 percent of GDP in 2001, instead of recording a surplus of 2.7 percent of GDP. As regards HIPC Initiative-related expenditure, progress has been better than expected as spending is estimated to have amounted to about 4 percent of GDP in 2001.

Monetary policy remained generally prudent in 2001, although credit to the government was on the high side. In February 2001, following the decrease in inflationary pressure, the central bank lowered its reference interest rate by 1.5 percentage points. Responding to this action, credit to the private sector saw a modest increase. The financial situation of one of the two private banks deteriorated considerably in 2001. In May the central bank introduced bankruptcy proceedings against the bank, and in June its banking license was suspended. Under the transitional procedures governing safeguards assessments, the central bank's accounts for 1999 and 2000 have been certified by an independent international accounting firm, as noted by the staff. The authorities have also taken account of staff's recommendations and will act accordingly.

With regard to petroleum exploration, several contractual arrangements were concluded in 200. More importantly, a settlement was reached with the Environmental Remediation Holding Company (ERHC), through international arbitration, regarding royalties and other fees, and this should pave the way for more exploration contracts to be signed. Box 1 also gives an indication of the expected oil output, costs and revenues, as well as the government's share of the revenue expected from the exploitation of the oil fields to start in 2006.

Staff-Monitored Program and Macroeconomic Framework for 2002

In assessing Sao Tome & Principe's recent performance, it is worth recognizing the progress made since 1998, and also the conditions under which these efforts are being undertaken. Sao Tome & Principe, which is made up of 2 main islands, has a population of about 140 thousand, and a per capita GDP of about U.S.$300. Its administrative capacity is very limited, and it has few qualified personnel. Moreover, it is still in the process of building democratic institutions, and the decision-making process is still centralized. Despite these constraints, the authorities have shown a strong determination to improve the economic and financial situation of the country. While economic and financial performance have been uneven, it is not so much for a lack of commitment but more due to the lack of proper institutions and capacity. Thus, following the transparent and internationally-recognized free presidential election in July, the new government that has come into office has renewed its commitment to the adjustment program and to the medium-term policies described in the Interim-PRSP. In this regard a number of important measures have already been taken. The authorities concur with the staff that the medium- and long-term prospects will be critically dependent on development in the offshore oil sector, and on the policies that are put in place. They also share the staff's views regarding the need for transparency in the oil sector. This commitment to reform is also shared by the population which views it as critical to keep the country on a path of sustained growth and macroeconomic stability.

It is in this context, that the new government has agreed with the staff on a Staff-Monitored Program which will focus on measures that will help to reverse the slippages. The policy measures envisaged under the SMP are expected to contribute to the achievement of the following objectives in 2002, notably, real GDP growth of 5 percent, a reduction in inflation to 7 percent in 2002, on an end-of-year basis, a narrowing of the external current account deficit (including official transfers) to less than 1 percent of GDP, mainly due to projected mobilization of nonproject grants and oil-related signature bonuses, as well as assistance under the HIPC Initiative.

Soon after taking office the authorities have moved quickly to take a number of critical measures deemed critical to the success of the program. Thus, following a World Bank financed study on utility pricing, the government has adopted an automatic mechanism to adjust prices for water and electricity to production and distribution costs. The new system will be implemented in the first quarter of 2002. The new organizational and staffing plans which have resulted in the downsizing of the civil service by 320 employees have been implemented. Moreover, the government has established a single computerized system of civil service and payroll management and prepared the terms of reference for two studies related to civil service reform. On governance issues, the authorities have asked World Bank's assistance in the oil sector, including the launching of a cost-benefit analysis of previously signed contract, as well as a detailed study of the negotiation procedures for government contracts signed in 2001. The government has also adopted the terms of reference for the consultation of firms of international reputation to carry out audits of large government contracts and investment projects. Some of these measures which have already been implemented were conditions under the new SMP.

In the fiscal area, the objective is to lower the government's financial operations deficit (on a commitment basis and including grants) from 15 percent of GDP in 2001 to 5 percent in 2002, and to turn around the primary budget balance from a deficit of 3.4 percent of GDP to a surplus of 1.7 percent of GDP. This will be achieved through strong revenue mobilization efforts and a containment of expenditures. Government revenue is projected to increase to about 22.5 percent of GDP in 2001, on the basis of the simplification of the general sales tax and its extension to domestic goods and services. In addition, all enterprises that benefited from exemptions will now be subjected to a minimum of 5 percent customs tariff, except for the national telecommunications company. The automatic price mechanism for petroleum products will be implemented and the efforts to strengthen tax and customs administrations and to broaden the tax base will be pursued.

Government expenditure is projected to decrease to 25.5 percent of GDP in 2002, compared to 29.6 percent in 2001. This performance will result from cuts in investment which showed a large increase in 2001, and the implementation of the civil service reform and downsizing. While the Budget allows for a 10 percent general salary increase in 2002, the wage bill will actually decline to 8 percent of GDP compared to 8.5 percent of GDP in 2001. The authorities will maintain the priority given to the social sectors, and resources freed up under the interim HIPC Initiative will be used to increase education and health spending. Efforts aimed at improving fiscal discipline will be pursued.

Monetary and credit policies will be implemented in accordance with the program and will remain prudent. In this context the program envisages a reduction in net credit to the government and an increase in net credit to the private sector. It is the intention of the authorities to introduce open market operations in 2002, and to continue the efforts to strengthen bank supervision. With Fund assistance, the central bank will strengthen its internal operations control, and will have its accounts audited by an internationally reputable accounting firm, and publish the report and the certified accounts by end-April 2002. On exchange rate policy, while the authorities will continue to pursue a flexible exchange rate policy, they have also indicated their interest in exploring alternative exchange rate arrangements, with Fund assistance, including accession to a monetary union with a currency pegged to the euro.

Structural reforms will continue to be an important part of the adjustment efforts, and in this context, besides the measures outlined above, a number of additional measures are envisaged in 2002. These include the increase in the water and electricity rates; submission of the draft budget for 2002, in line with the program; publication of the audits of the government contracts; and implementation of the petroleum price mechanism. A number of measures aimed at improving governance will be taken, and the authorities will take steps to strengthen and modernize the courts and tribunals and to improve the functioning of the judiciary system, in general. The authorities will also revise the investment code, and intend to adopt the Foreign Investment Advisory Service prepared by the World Bank. A new telecommunications policy which is aimed at opening the sector to competition will be adopted this year. The government will continue its reform and privatization program in the public enterprise sector, as described in its memorandum.

The government is working on the preparation of the full PRSP, with a large participatory process, and expect to have it ready by mid-2002. However, should there be delays in this schedule, it intends to submit an interim report. The full PRSP will address the issues that have been raised by the Board and staff of the Fund and World Bank. Improving education and health care will receive priority.

In conclusion, while it is true that there have been slippages in the implementation of the program, it should also be recognized that the momentum of adjustment was never lost. The authorities, especially after the presidential election, have taken a number of strong measures which bode well for the continuation of the program. I would like to reiterate the strong commitment of the authorities to the adjustment process, and of their determination to ensure that future resources from oil will be used in an efficient and transparent manner. The authorities are thankful to the staff for their continued advice and guidance, which have been helpful to bring the program back on track. My authorities hope that the SMP will be of a short duration, and that it will be possible to return to the PRGF soon.