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Democratic Republic of São Tomé and Príncipe: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; and Press Release on the Executive Board Consideration

In the context of the second review under the three-year arrangement under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on June 3, 2006, with the officials of the Democratic Republic 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 July 17, 2006. 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; and

- a Press Release summarizing the views of the Executive Board consideration of the staff report that completed the review.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the Democratic Republic of São Tomé and Príncipe*
Memorandum of Economic and Financial Policies by the authorities of the Democratic Republic of São Tomé and Príncipe *
*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the African Department
(In consultation with other departments)

Approved by Jean A. P. Clément and Scott Brown

July 17, 2006

- Discussions on the second review of the PRGF arrangement were held in São Tomé May 20–June 3, 2006. The staff team comprised Messrs. Pastor (head), Ronci, Segura, and Klueh (all AFR). Mr. Nguema Affane, advisor to the Executive Director representing São Tomé and Príncipe, joined the mission for the first week of discussions. The mission also overlapped with a World Bank Group mission preparing an Integrated Fiduciary Assessment.

- The mission met with the Deputy Prime Minister and Minister of Planning and Finance, the Acting Governor of the Central Bank of São Tomé and Príncipe (BCSTP), other senior government officials, the President of the National Assembly, representatives of the Economic Commission at the National Assembly (in charge of petroleum issues), the Auditor General's Office, representatives of the donor community, and private businesses.

- On August 1, 2005, the Executive Board approved a three-year PRGF arrangement for São Tomé and Príncipe of SDR 2.96 million (40 percent of quota). So far, SDR 0.846 million has been disbursed.

- The new minority government, in place since April 2006, has expressed a strong commitment to implementing the Fund-supported program and to reaching the HIPC completion point as early as possible in 2006. Presidential elections will be conducted on July 30, and regional and local elections on August 27, 2006.

- All quantitative performance criteria were met through December 2005, although one structural benchmark is being implemented with a delay. In the attached letter of intent (LOI) dated July 14, 2006 (Attachment I), the authorities request the completion of the second review and the disbursement of the third loan under the PRGF, which would amount to SDR 0.423 million, 5.7 percent of quota. The memorandum of economic and financial policies (MEFP) attached to the LOI reviews economic policy implementation in 2005 and 2006, and sets out policies and performance criteria through December 2006.

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EXECUTIVE SUMMARY

- **In 2005, the overall macroeconomic performance was broadly satisfactory, notwithstanding an increase in inflation.** Real GDP growth is estimated to have reached 3.8 percent, led by brisk activity in construction and services. However, inflation rose to 17 percent in response to rising energy prices and the pass-through of the depreciation of the dobra in late 2005. The external current account deficit widened as oil imports rose, but international reserves remained at comfortable levels, largely reflecting receipt in July of the oil signature bonus on Block 1.

- **Performance under the program through December 2005 was also broadly satisfactory.** All performance criteria were met. Structural reforms advanced and delays in preparing feasibility studies for restructuring the airport and seaport authorities (a structural benchmark for end-December 2005) are being addressed.

- **In the first four months of 2006, economic activity remained buoyant, but inflation continued to accelerate**. Strong economic growth mirrored the launch of large hotel construction projects and growth in oil-related services. The acceleration of inflation reflected lagged effects from the dobra depreciation in 2005, temporary shortages of food staples, and a fiscal stance that was more expansionary than expected.

- **The revised program for 2006 assumes delays in the arrival of some oil signature bonuses and includes a tightening of the fiscal stance and a more active monetary policy to correct fiscal slippages and address inflation**. The domestic primary deficit will decrease to 15.5 percent of GDP in 2006. Monetary policy will be more active with a judicious use of indirect monetary instruments to mop up excess liquidity, while keeping its reference rate positive in real terms. Gross international reserves are expected to remain above 4 months of imports of goods and nonfactor services. Due to delays in transfer of oil signature bonuses, it appears likely that monetary PCs for end-June will not have been observed. Preliminary data show that the fiscal slippages of the first four months, resulting in part from higher energy prices and election-related spending, could compromise the end-June performance criterion for domestic primary spending. However, due to corrective measures taken since then, the limit on the domestic primary deficit is likely to have been met by end-June, and expenditure slippages are being reversed.

- **Regarding the domestic fuel pricing policy, the oil importing company (ENCO) is now allowed to change fuel prices without government approval.** On June 2, 2006, domestic fuel prices were raised by 28 percent to pass through the cumulative increase in world oil prices since July 2005.

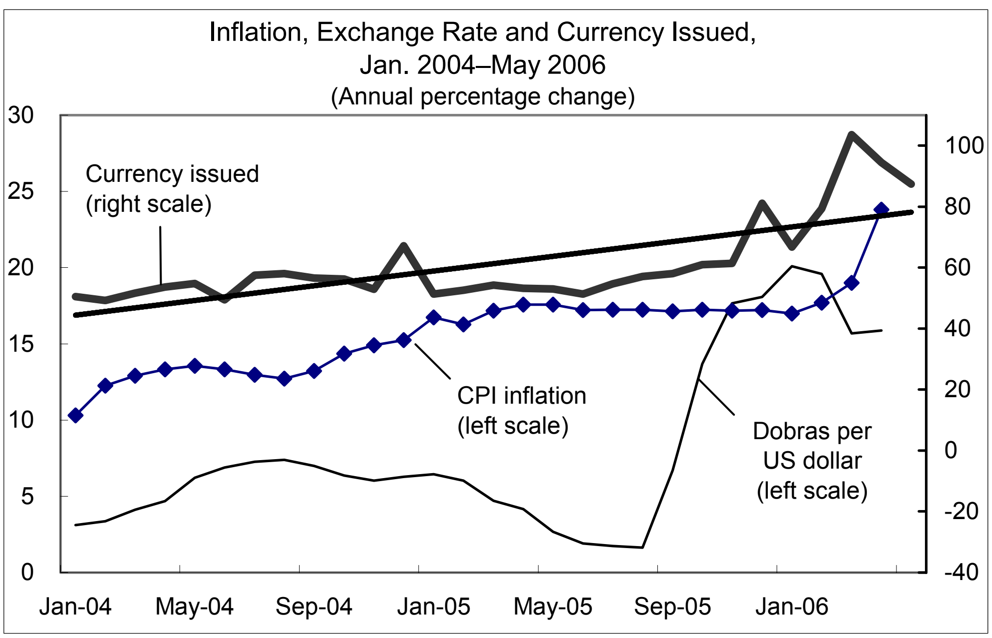
- **Despite some delays, progress with structural reform continued in 2006 and all HIPC completion point triggers are likely to be completed over the next two months**.

- **The program is subject to risks related to the possibility of a further rise in oil prices or a relaxation of fiscal policy during the forthcoming election period**. Credibility could be damaged if the authorities fail to demonstrate their readiness to follow through with the investigations of alleged irregularities in the licensing for oil Blocks 2–6.

I. Recent Developments and Performance

1. **Democratic legislative elections took place on March 26, 2006**. The incumbent government party (MLSTP) was replaced by a coalition that supports President de Menezes (MDFM-PCD). The latter formed a minority government whose four-year program was approved by the National Assembly on June 1. The new government has emphasized its intention to: (i) maintain macroeconomic stability, (ii) fulfill the trigger points to reach the HIPC completion point that will in turn free resources for pro-poor spending, and (iii) work toward an effective management of prospective oil revenues. The opposition has expressed its support for the government's agenda. Presidential elections are scheduled for July 30, to be followed by regional and local elections on August 27, 2006.

2. **Economic performance in 2005 was broadly satisfactory, although inflation accelerated** (Table 1). Real GDP increased by 3.8 percent with the launch of large private hotel construction projects and a strong growth in oil-related services (MEFP, para. 2). The annual inflation rate increased from 15.2 percent in 2004 to 17.2 percent in 2005. The acceleration reflected mainly the spike in domestic fuel prices and electricity tariffs and the pass-through of the dobra depreciation late in 2005 (MEFP, para. 3). The real effective exchange rate appreciation which occurred during the first three quarters of 2005 was reversed in the last quarter of 2005 (Figure 1).



3. **The external current account deficit increased in 2005 as a result of a larger than expected trade deficit.** While cocoa exports remained stagnant, commodity imports

rose significantly due to a sharp increase in the country's oil bill. However, net capital inflows were higher than expected, including the transfer into the budget from the US$49.2 million oil signature bonus receipt on Block 1 of the Joint Development Zone (JDZ) in July. Also, foreign direct investment was higher than envisaged due to the initiation of several hotel construction projects and the launching of drilling operations by Chevron-Texaco in Block 1, which marked a milestone in the development of the domestic oil sector. As a result, net international reserves (NIR) were higher than programmed, with the import coverage of reserves reaching 4.4 months of non-oil imports of goods and nonfactor services. External arrears were eliminated in the context of a new multilateral debt rescheduling on Cologne terms reached with Paris Club creditors in September 2005.

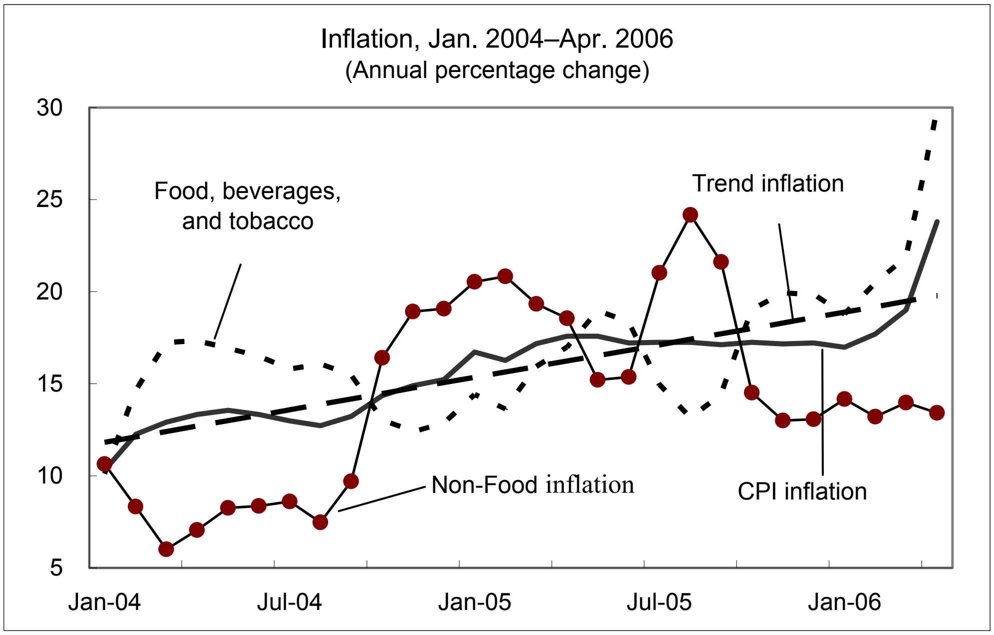
4. **All quantitative performance criteria for December 2005 were met** (MEFP, paras. 4 and 5, and Table I.1):

- On the fiscal front, the domestic primary deficit was smaller than programmed, declining by more than 4 percentage points to 16.3 percent of GDP in 2005. Revenue was slightly below target because of delays in payment of fees for fishing licenses granted to the European Union. However, domestic nonpriority expenditure was lower than envisaged. In addition, all domestic payment arrears incurred in 2005 were eliminated in the first two weeks of 2006.

- On the monetary front, net credit to the government from the banking system (NCG) and the central bank's net domestic assets (NDA) were lower than programmed. The NIR target was exceeded by US$6 million.

5. **Structural reforms advanced in 2005 and delays in preparing feasibility studies for restructuring the airport and seaport authorities (a structural benchmark for December 2005) are being addressed** (MEFP, para. 6). Also, the authorities have asked for Fund technical assistance on the draft legislation criminalizing money laundering and the financing of terrorism (AML/CFT) before it is submitted to the National Assembly (a structural benchmark for September 2005). As noted in the context of the first program review, the government intends to submit the AML/CFT legislation to the National Assembly by end-December 2006, once all related pieces of legislation are in place.[1]

[1] See IMF Country Report No. 06/349, Appendix I, Attachment I, para. 3.



6. **In the first four months of 2006, inflation rose further, to 23.8 percent; the fiscal stance was relaxed as the March parliamentary elections approached, and monetary policy remained relatively passive** (Tables 2–3; MEFP, paras. 9–13). The acceleration of inflation reflected a lagged effect of the dobra depreciation in late 2005, temporary shortages of food staples, both imported and locally produced, and a more expansionary fiscal stance than initially expected.[2] Fiscal slippages resulted from a combination of lagging tax receipts, including delays in the annual transfer of oil resources to the budget, and expenditure overruns due in part to higher energy costs, following the adjustment of gasoline and electricity tariffs, and election-related spending. As discussed below, corrective measures implemented during the second quarter have reversed these slippages. The higher domestic primary deficit was financed through an expansion of net domestic credit from the central bank and borrowing from Angola.[3] At the same time, the central bank's sterilization efforts were too timid to cope with large private capital inflows associated with the legislative elections that put further inflationary pressures on the economy, increased the commercial

[2] In the first quarter of 2006, US dollar imports of food and staples fell by 32 percent compared with the same period in 2005; the US dollar import value was at a 6-year low, with inventories reportedly very low.

[3] The US$4 million loan from Angola (received in February 2006) financed both (i) a US$2 million social inclusion project to compensate workers that were laid off when public agricultural enterprises were privatized in the 1990s and (ii) the treasury cash flow problems that appeared in the first quarter of the year. The social inclusion project is included in the 2006 budget under foreign-financed projects. On June 29, 2006 the portion of the loan financing the cash flow problem was paid back in full. The terms on the project portion of the loan are still under discussion; the Sãotomean authorities are hopeful that Angola will agree to grant concessional terms. Pending resolution, the loan has been classified as nonconcessional medium- and long-term debt, and it falls within the ceilings on nonconcessional debt agreed under the program (see Table 8 in IMF Country Report No. 06/349).

banks' net foreign asset position, and weakened their demand for dollars at the central bank's auction. A more active monetary stance was adopted with delay in the second quarter. On May 19, 2006, the central bank raised its reference interest rate from 18.2 to 24 percent and bank reserve requirements from 24 to 24.5 percent.[4] In March, the central bank started to conduct regular single-price (Dutch) foreign exchange auctions, which have recently been strongly oversubscribed. By April 30, 2006, gross international reserves stood above 4 months of non-oil imports of goods and nonfactor services; broadly in line with the program.

7. **Monetary and credit aggregates continued to grow rapidly in early 2006, in part reflecting structural changes in the domestic economy** (Tables 4–5 and Box 1). To a considerable extent, the growth of monetary aggregates has reflected an increase in the demand for money related to the development of the nascent oil sector. In addition, the issuance of bank operating licenses to a number of new commercial banks has resulted in large increases in banks' reserve holdings with the central bank. In this context, the monetary authorities have gradually shifted their attention to currency issued as their major guidepost for gauging excess liquidity, to complement the monetary measures of May 19, 2006. Also, based on recommendations from a recent MFD technical assistance mission, they are implementing a new liquidity management program. Coordination of fiscal and monetary policies has been stepped up, and the central bank is now prepared to issue certificates of deposits (CDs).

8. **On the structural front, reforms have advanced in 2006 despite implementation delays in a number of areas, and all HIPC completion point triggers are likely to be completed over the next two months** (MEFP, paras. 15 and 34). Ongoing structural reforms include enhanced monitoring powers for the Inspectorate General of Finance, the installation of prepaid electricity metering systems to improve the financial position of the water and electricity company (EMAE), and the submission to the National Assembly of new customs legislation. The establishment of arbitration tribunals to handle business and contract matters is the only HIPC trigger that remains to be completed.

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[4] Monetary data through end-March 2006 indicate that the increase in reserve requirements has become binding for most banks, especially for the leading commercial bank.

Box 1. Financial Deepening in São Tomé and Príncipe

During the last two years monetary and credit aggregates have grown significantly due to a sharp increase in aggregate expenditure and private sector activity related to the development of the oil sector, as well as an increase in the number of domestic money banks (from 2 in 2003 to 6 in 2006) that has been instrumental in supporting an increase in the ratio of financial assets to GDP.

These structural changes have been incorporated in the monetary program. This is illustrated by a decline in the velocity of broad money and steep increases in the ratio of credit to the economy to GDP. At the same time, after increasing in 2004, the money multiplier has declined due to an increase in bank excess reserves held by the new banks with the BCSTP.

The stance of monetary policy—as gauged by the ratio of currency issued to bank deposits (C/D)—has remained rather tight since 2005. However, the central bank's reference interest rate became marginally negative in early 2006, prior to the May 2006 increase. Currency issued as a ratio to GDP has been broadly constant since 2003.

Monetary Indicators: 2003–06

	2003	2004	2005	Program 2006
Velocity of Money	2.3	2.2	2.1	2.0
Credit/GDP ratio	0.15	0.28	0.34	0.33
Money multiplier	1.7	2.5	2.1	2.0
C/D	0.26	0.25	0.20	0.19
R/D	0.47	0.25	0.38	0.39

NB: C is currency issued; D is banking sector' deposit liabilities; R is banks' deposits with the central bank.

The accumulation of excess reserves has mirrored lagging efforts by the new banks to develop their lending portfolios, while reserve holdings by the leading domestic bank have been binding. The BCSTP is monitoring excess reserves through reinforced bank prudential regulation practices established in consultation with MFD. To date, there are no indications of a prospective decline in excess reserves in the course of 2006–07.

9. **São Tomé and Príncipe is current on its external obligations with multilateral and Paris Club creditors** (Tables 6–7 and MEFP, para. 14). Relations with Paris Club creditors were normalized after debt was rescheduled on Cologne terms. The debt unit at the Ministry of Planning and Finance is currently collecting information from bilateral creditors to reconcile debt records ahead of an update of the debt sustainability analysis (DSA) when São Tomé and Príncipe hopes to reach the HIPC completion point in the coming months. Also, as part of the government's efforts to improve debt management, the Commonwealth Secretariat debt recording system (CS-DRMS) is being installed with financial support from the World Bank.

10. **Production Sharing Contracts (PSCs) for oil Blocks 2, 3, and 4 were signed in mid-March 2006, although negotiations for PSCs for Blocks 5 and 6 lingered**.

Preferential rights that were granted to one company in 2003 have led to delays in forming operating consortiums for these two blocks. Final decision by the Joint Development Agency (JDA) regarding the applicability of these rights is expected in the coming months.

II. Report on Policy Discussions

11. **The discussions focused on macroeconomic policies and objectives for 2006:** (i) the 2006 macroeconomic framework, (ii) a tighter fiscal stance and a more active monetary policy to address fiscal slippages and the acceleration of inflation, (iii) pricing of domestic petroleum products to secure the pass-through of international oil prices to domestic consumers, (iv) measures to ensure good governance, in particular with respect to the use of oil resources, and (v) the implications of HIPC completion point for the poverty-alleviation goals in the government's Poverty Reduction and Strategy Paper (PRSP).

A. Macroeconomic Framework for 2006

12. **The 2006 macroeconomic framework has been revised to recognize expected delays in the receipt of some oil signature bonuses, that have led to deviations between actual and programmed monetary performance criteria (Box 2)**. In particular, the framework now assumes that the oil signature bonuses for Blocks 2–4 will arrive in the third quarter of 2006[5] and those for Blocks 5–6 will arrive only in 2007, rather than in the first half of 2006 as originally expected. These inflows would have allowed for a sizeable increase in gross international reserves and government deposits, net of repayment of a US$15 million debt to Nigeria dating from 2002–04. Against this background, the revised program includes adjustors to address deviations between actual and programmed oil signature bonuses receipts.

13. **The BCSTP has been implementing the monetary program agreed in the context of the first program review** (IMF Country Report No. 06/349). Nevertheless, for end-June 2006, delays in the receipt of oil signature bonuses will result in a breach of the performance criteria for (i) the ceiling on net domestic assets of the central bank, (ii) the ceiling on net domestic financing of the government, and (iii) the floor of net international reserves of the central bank. Preliminary data indicate that, without the delay in the signature bonuses, São Tomé and Príncipe would have met these performance criteria; as explained in Box 2, these delays have no impact on the fiscal stance or the money supply.

14. **Preliminary data indicate that the fiscal slippages of the first four months, stemming in part from higher energy prices and election-related spending, could lead to nonobservance of the end-June performance criterion for domestic primary spending**. However, the limit on the domestic primary deficit for end-June 2006 is expected to be observed on account of higher than programmed revenues, largely reflecting corrective

[5] Oil companies have already paid the signature bonuses to the JDA. Transfer of the Sãotomean share of these bonuses is awaiting authorization from the Joint Development Zone's Ministerial Committee (JMC), which is scheduled to meet in São Tomé during the first half of July 2006.

measures adopted during the second quarter. The staff believes that the significant fiscal adjustment put in place for the rest of the year should ensure meeting the fiscal targets set under the revised macroeconomic framework.

Box 2. Oil Signature Bonuses and Program Targets

During the last twelve months, there have been protracted negotiations surrounding the signing of production sharing contracts (PSCs) between the JDA and the prospective operators for blocks 2–6 in the Joint Development Zone (JDZ). This has delayed the receipt of oil signature bonuses, resulting in lower balances in the government National Oil Account (NOA) than expected. Consequently, there were deviations with respect to the program's targets for net international reserves and net domestic assets of the BCSTP, as well as net domestic financing of the government.

Programming issues and options ahead

As regards the monetary program, the impact of these deviations are only of an accounting nature, given that the program excludes the NOA in assessing the country's import coverage of reserves. Also, in line with the Oil Revenue Management Law (ORML), the monetary program keeps the US dollar value of the NOA unchanged throughout the year after accounting for a one-off transfer of oil resources into the budget. For 2006, this transfer into the budget took place in late May, using the signature bonuses received in July 2005. In the fiscal program, the deviations do not affect the stance of policy as lower oil signature bonus receipts are reflected in lower deposit accumulation in the NOA, rather than changes in expenditure.

Going forward, the revised program includes adjustors for the floor of net international reserves and the ceilings for net domestic assets of the BCSTP and domestic financing of the government, on account of any deviations in the actual US dollar value of the signature bonuses receipts from the amounts programmed.

15. **Prospects for the rest of 2006 are for a strong economic growth and a gradual deceleration of inflation, brought about through a tight fiscal stance and a more active monetary policy.** Real GDP is expected to grow by 5.5 percent, sustained by oil exploration in the JDZ and continued buoyant construction activity, though the impact of these activities will widen the external current account deficit.[6] The monetary program's overriding objective will be a deceleration of inflation supported by active use of indirect monetary instruments to mop up excess liquidity. If necessary, sales will be stepped up of both central bank certificates of deposit and foreign exchange, given the comfortable level of gross international reserves. Fiscal policy will support the inflation target through revenue mobilization and strict controls on nonpriority expenditures. Gross international reserves are expected to remain at a comfortable level (above 4 months of imports of goods and nonfactor services in 2006). The authorities have re-stated their commitment to maintain a tight fiscal

[6] Chevron-Texaco completed first exploratory drillings in Block 1 of the JDZ in March 2006. While there are indications of a substantial oil-bearing structure, its commercial viability will not be known until the operator conducts further tests.

and monetary stance, despite pressures to relax policies on the eve of elections. The medium-term program retains an ambitious fiscal adjustment, while targeting a stronger gross international reserve position than the one included in the previous staff report (IMF Country Report No. 06/349).[7]

São Tomé and Príncipe: Key Macroeconomic Indicators, 2004–10

	2004	2005	2006 Prog.	2007	2008 Proj.	2009	2010
Real GDP (annual percentage change)	3.8	3.8	5.5	5.5	6.5	7.0	7.5
Consumer Price Index (end-of-period; annual percentage change)	15.2	17.2	22.0	13.3	9.5	7.0	6.0
Domestic primary fiscal balance (percent of GDP) [1]	-20.6	-16.3	-15.5	-13.0	-10.6	-9.1	-7.6
External current account balance (percent of GDP)							
Including official transfers	-23.1	-29.5	-63.2	-61.2	-59.3	-56.5	-57.1
Excluding official transfers	-58.8	-61.5	-93.9	-88.0	-85.9	-82.4	-82.2
NPV of external debt (in percent of exports of goods and services) [2]	498	509	321	308	290	283	271
Gross international reserves [3]	3.4	4.4	4.2	4.2	4.3	4.3	4.3

Sources: Sãotomean authorities, and Fund Staff estimates and projections.

[1] Including HIPC Initiative related spending.

[2] Assumes completion point under the Enhanced HIPC Initiative in the second half of 2006.

[3] In months of following year's non-oil imports of goods and nonfactor services.

16. **Continued implementation of the government's PRSP will be guided by the Priority Actions Plan (PAP) for 2006–08 discussed with donors at a roundtable meeting in Brussels in December 2005**. The PAP prioritized specific projects, with a total cost of US$170 million, within the PRSP's analytical pillars: reform of public institutions, accelerated and redistributive growth, diversification of income opportunities for the poor, and development of human resources. The social projects will be financed through foreign aid and debt relief.

B. Fiscal Policy

17. **Fiscal policy will be geared to further reduce the domestic primary deficit by about one percent of GDP to 15.5 percent of GDP in 2006** (MEFP, paras. 17–20). The fiscal consolidation will require a strengthening of tax collections to more than offset an expected increase in domestic primary spending. Several measures will be implemented: (i) an increase in excise duties on services from 5 to 7 percent; (ii) reference import prices set in Euros to protect customs receipts against the depreciation of the dobra; and (iii) a plan to collect arrears on both direct and indirect taxes. As for spending, because the government bill will be higher for electricity, gasoline consumption, and elections-related spending (totaling

[7] Medium-term fiscal projections assume that a 10 percent increase in the international price of crude oil increases the country's annual oil import bill by US$1.5 million, raises oil related taxes by 0.8 percent of GDP and the inflation rate by about 1 percentage point. For 2007, the projections assume a slight decline in oil prices and some erosion in direct taxes due to the entry into effect of the proposed reform of individual and corporate taxation (MEFP, para. 19).

2.3 percent of GDP), cuts will be made in nonessential spending. The Ministry of Planning and Finance recently issued ordinances requiring that all nonessential expenditure be approved beforehand by the Budget Directorate. The government's wage bill share of GDP will remain the same as in 2005. For the second half of 2006, the recent fiscal package would yield savings equivalent to 2 percent of GDP (Box 3).

Box 3. Impact of Fiscal Measures, June–December 2006

(Percent of GDP)

	At current policies	Impact of measures	Program
Government domestic revenue	**30.0**	**1.1**	**31.1**
Of which:			
Increase in excise duties		0.5	
Adjustment in reference import prices		0.4	
Collection of arrears		0.2	
Domestic primary expenditure	**47.5**	**-0.9**	**46.6**
Of which:			
Cuts in non-essential spending		-0.9	
Domestic primary deficit	**-17.5**	**2.0**	**-15.5**

Source: IMF staff estimates.

18. **The fiscal program is designed to protect pro-poor spending** (MEFP, para. 20). Consistent with the PRSP, the fiscal program envisages an increase in spending on pro-poor areas such as health, education, and physical infrastructure to around 28.4 percent of GDP. These operations will mainly be financed through HIPC debt relief and official transfers to cover specific investment outlays.

19. **The 2006 fiscal program includes the strengthening of the public expenditure management systems.** A fully integrated, computerized budget and public expenditure management system (SIGFE) is now being implemented with the support of the World Bank. The SIGFE will make it possible to monitor budget execution by all units within the central government. It will also provide policymakers with timely data on pro-poor spending. Implementation of the SIGFE is a structural performance criterion for end-December 2006.

C. Monetary and Exchange Rate Policies

20. **The monetary program aims at reducing 12-month inflation from 23.8 percent in April to 22 percent through December 2006, despite increases of fuel and electricity prices** (MEFP, paras. 21–24). The BCSTP's active monetary policy will consist of a judicious mix of foreign exchange sales and issuance of central bank certificates of deposit to mop up excess liquidity while keeping the reference interest rate positive in real terms. In addition, a new informal working group will coordinate fiscal and monetary policy and

forecast the economy's weekly liquidity situation. The working group will provide information for the new liquidity monitoring framework, which is expected to significantly improve the central bank's abilities to intervene in the money market.

21. **The program assumes a broadly stable velocity of circulation of money.** Consistent with the government's inflation target, monetary policy will be tightened. Given the fiscal stance, this would allow for an appropriate increase of credit to the private sector.

22. **The managed floating exchange rate system has served well São Tomé and Príncipe so far, cushioning against the volatility of external inflows and exogenous shocks** (MEFP, para. 25). In addition, the single-price (Dutch) foreign exchange auction system adopted in March 2006 has strengthened the price-discovering mechanism of the exchange rate.

23. **As the oil sector develops, structural changes in the banking system call for a continuous strengthening of banking supervision** (MEFP, para. 26). With the entry of four new banks since 2003, the number of banks has increased to six in a relatively small economy. Current prudential indicators already suggest some cash-flow and profitability problems, with one of the new banks being undercapitalized. Recent improvements in on- and off-site supervision will have to be complemented with institutional arrangements that ensure prompt corrective action, with the help of Fund technical assistance. A number of measures are being implemented in cooperation with MFD. This includes (i) a strengthening of the central bank's supervisory capacity regarding the licensing of new banks, (ii) the development of a complete set of on-site and off site prudential regulation indicators, and (iii) the assessment of banks' foreign exchange positions and operating risks. Also, a regular reporting system for prudential indicators to the Fund has now been established.

D. External Sector Policies

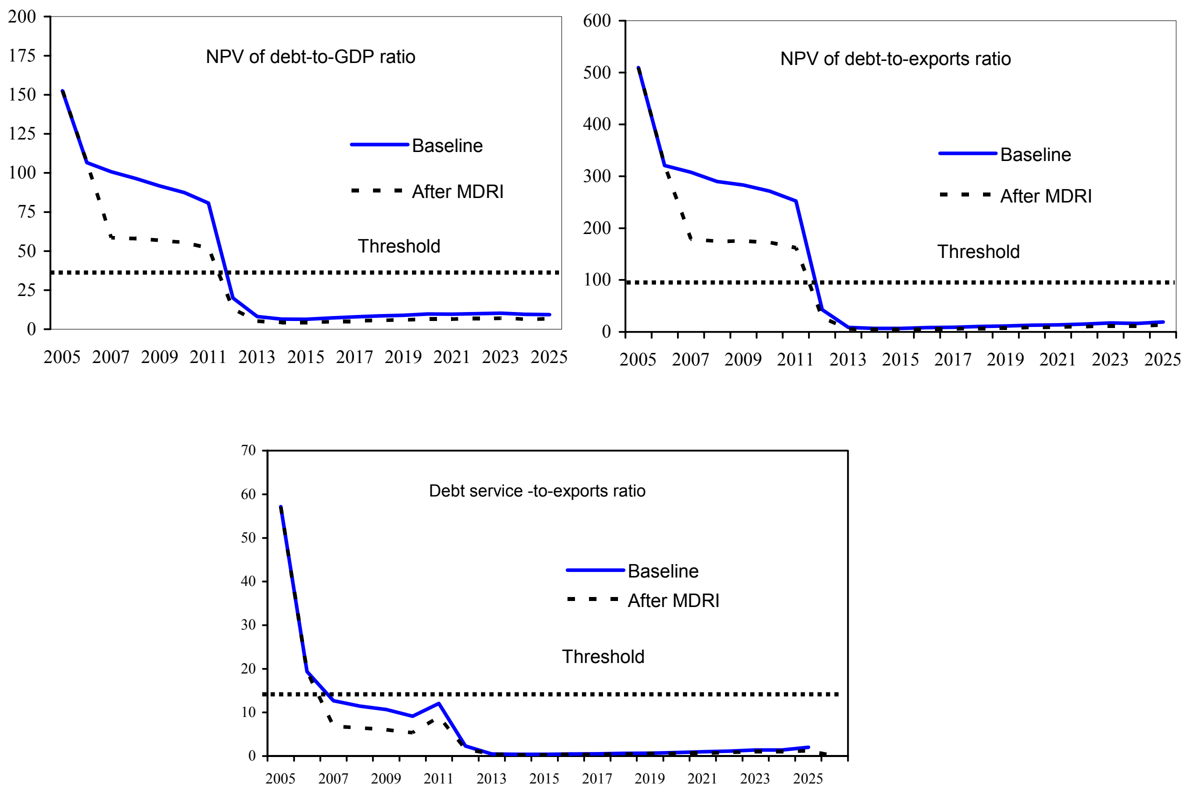
24. **In 2006, the authorities are implementing the recommendations of the recent Diagnostic Trade Integration Study (DTIS) for São Tomé and Príncipe** (MEFP, para. 27), so as to foster export-oriented activities by the poor by, e.g., rehabilitating access roads to rural communities and reducing trading costs by simplifying customs procedures.

25. **The authorities have expressed their strong commitment to accepting the obligations of Fund Article VIII, Sections 2(a), 3, and 4, in coming months** (MEFP, para. 29). The BCSTP has proposed a timetable to eliminate exchange restrictions and multiple currency practices, which were in place before the current PRGF arrangement was approved in August 2005. The BCSTP has already eliminated some multiple currency practices by reducing the spread between the central bank's buying and selling rates from 3 to 2 percent and setting a single-price foreign exchange auction. The earmarking of foreign exchange for particular importers has been eliminated.

26. **São Tomé and Príncipe's public debt will remain high over the medium term**. Even after the country reaches the HIPC completion point, the NPV of debt-to-export ratio is

projected to decrease from 509 percent in 2005 to only 271 percent in 2010.[8] However, preliminary staff calculations suggest that the country would benefit significantly from a reduced debt service under the MDRI, freeing resources for pro-poor spending. The staff intends to update the debt sustainability analysis at the time of the HIPC completion point. The authorities have reaffirmed their intention to continue to seek foreign aid in the form of grants and concessional loans (MEFP, para. 28).

External Debt Indicators, 2005–25 [1]
(Percent)



Source: Staff projections.
[1] Baseline assumes HIPC completion point in the fourth quarter of 2006.

E. Structural Policies and Governance

27. **A more transparent and market-oriented fuel pricing policy was implemented in late-May 2006. The oil-importing company (ENCO) can now change fuel prices without government approval** (MEFP, paras. 30 and 31). On June 2, 2006, it raised domestic fuel prices by 28 percent to pass through the cumulative increase in international oil prices since

[8] See Joint IMF-World Bank Debt Sustainability Analysis (IMF Country Report No. 06/349, Appendix V).

July 2005. During the next review mission, the government plans to discuss with the Fund possible measures to ameliorate the social impact on the poor of further fuel price increases.

28. **The program for the rest of 2006 includes a number of structural policies geared to support fiscal consolidation and foster private sector development (Box 4)**.

Box 4. Structural Policies for 2006

Coverage under PRGF arrangement (MEFP, paras. 15 and 32)

- **Strengthening the tax revenue base**—Submit to the National Assembly a new customs law, a new customs organic law, and a new general code on customs infractions.
- **Governance and public expenditure management**—Amend laws defining internal and administrative regulations governing the Inspectorate General of Finance. Establish the Petroleum Oversight Commission and the Public Registration and Information Office to audit and monitor oil revenue flows and disseminate oil-related information. Publish the implementation handbook for the Oil Revenue Management Law.
- **State enterprise finances**—Install EMAE's prepaid electricity metering systems in designated urban locations. Complete feasibility studies for the restructuring of the airport and seaport authorities.

29. **On governance, the authorities are investigating alleged irregularities in the licensing round for JDZ Blocks 2–6** (MEFP, para. 32). The government is strengthening its cooperation with the Economic Commission at the National Assembly, which is in charge of petroleum issues, in order to expedite submission to the plenary of draft legislation establishing the Petroleum Oversight Commission and the Public Registration and Information Office to audit and oversee oil revenue flows and disseminate oil-related information. Once appointed, the Petroleum Oversight Commission could also be instrumental in following up, with the Attorney General's Office, on the alleged irregularities in the recent licensing round.

30. **A project for the construction of a new central bank building costing US$8 million (equivalent to one third of the country's gross international reserves) has been suspended**. The members of the central bank board have been dismissed, including the governor and the deputy-governor. An independent commission has been set up to assess the contract's terms. In taking this action, the new government has stated its readiness to address any governance issues at stake. The government appointed a new central bank board on July 5, 2006. The new central bank governor has reaffirmed his commitment to price stabilization.

31. **The BCSTP is addressing the remaining weaknesses identified in the Fund's safeguard assessment in March 2004** (MEFP, para. 33).

F. HIPC Completion Point and MDRI

32. **São Tomé and Príncipe is on track to reach the HIPC completion point** (MEFP, para. 34 and Table 12). IMF and World Bank staffs have found that over the last few years the country has made significant progress in (i) installing institutional mechanisms to ensure efficient and transparent use of HIPC interim debt relief, (ii) increasing transparency and accountability in the management of public resources, and (iii) implementing measures in the health and education sectors that are required by the HIPC decision point document and which are consistent with the Millennium Development Goals (MDGs). With regard to health, a major achievement has been a sharp decline in malaria infection cases since 2003, thanks to a fumigation project financed by a development partner. The only pending HIPC completion trigger is the appointment of tribunals to arbitrate business disputes, and that is expected for the third quarter of 2006.

33. **MDRI resources following the HIPC completion point would result in annual average savings on debt service of about 2 percent of GDP for 2006–08.** MDRI resources would be allocated according to the Priority Actions Plan for 2006–08 (MEFP, para. 35).

III. Program Monitoring and Risks

34. **Discussions for the third review of the PRGF arrangement are expected to take place later this year.** Completion of the review is conditional on observance of the end-June 2006 quantitative performance criteria (LOI para. 2 and MEFP, Tables I.1 and I.2). In the event of a confirmation of indications that some of these PCs have not been observed, it will be important to secure that recent corrective measures have had the expected effects.

35. **The macroeconomic outlook and the program are subject to risks.** First, the process of fiscal consolidation may be weakened in the wake of presidential and regional elections scheduled for the coming months. Second, a further rise in international oil prices would weaken the external position and put upward pressure on domestic fuel prices and overall inflation, which would hit hard the poorest sections of the population, exacerbate social tensions, and weaken the support for the program. Third, over the medium term, the development of the domestic oil sector should help address the country's narrow export base and its vulnerability to terms of trade shocks. However, steadfast development of the oil sector and reinforced policy credibility requires that the authorities demonstrate their readiness to follow suit with ongoing investigations about alleged irregularities in the licensing round for Blocks 2–6.

IV. Staff Appraisal

36. **In 2005, overall macroeconomic performance remained satisfactory despite exogenous shocks.** Real GDP growth is expected to have picked up, led by brisk activity in construction and services. However, inflation accelerated in response to higher fuel prices and electricity tariffs, and the pass-through of the depreciation of the dobra in late 2005. Higher oil imports widened the current account deficit, which was financed by a large capital account inflow from the oil signature bonus on Block 1 in July 2005. By end-December

2005, the import coverage of reserves stood at 4.4 months of non-oil imports of goods and nonfactor services. The outlook for 2006 is a continuation of strong growth, a containment of the inflationary pressures registered during the first four months of the year, and the maintenance of a comfortable external position.

37. **Overall program performance in 2005 was broadly satisfactory**. All quantitative performance criteria were met. Structural reforms advanced and delays in preparing the feasibility studies for restructuring the airport and seaport authorities (a structural benchmark for end-December 2005) are being addressed.

38. **The deterioration of the fiscal stance in the run up to the March parliamentary elections, combined with a relatively passive monetary policy, heightened the authorities' challenges in achieving price stabilization**. However, the government's readiness to address the deterioration of the fiscal position and the pursuit of a more active monetary policy augur well for the future.

39. **In the staff's view, the revenue measures envisaged for the second half of 2006, coupled with the full-year effect of the tax measures implemented in 2005, will more than offset the overrun in domestic primary spending.** The increase in domestic spending reflects a higher government expenditure for electricity and gasoline, following price corrections, as well as elections related spending, and will be partially offset by cuts in nonessential spending. Also, the staff supports the government's intention to keep the wage bill as a share of GDP unchanged.

40. **The staff welcomes the program's objective to protect pro-poor spending**. The fiscal spending envelope is consistent with the PRSP's development objectives; health, education and physical infrastructure remain the core sectors of pro-poor spending.

41. **Monetary policy will become more active to address the acceleration of inflation in the first four months of 2006**. The monetary program assumes a judicious mix of foreign exchange sales and issuance of central bank certificates of deposit to mop up excess liquidity, while keeping the central bank's reference interest rate above the inflation rate. An enhanced coordination of fiscal and monetary policies through the establishment of a working group will be critical in forecasting the economy's liquidity and sterilization needs on a weekly basis. The relative tightening of monetary policy should also support fiscal policy in attaining price stability.

42. **São Tomé and Príncipe's managed floating exchange rate system has helped cushion the economy against exogenous shocks**. The staff commends the BCSTP for establishing the single-price (Dutch) foreign exchange auction system to strengthen the price discovering mechanism of the existing managed float rate.

43. **The authorities' stated intention to accept the obligations of Article VIII, Sections 2(a), 3, and 4, of the Fund's Articles of Agreement is welcome.** The authorities have already taken action to eliminate some multiple currency practices and set a schedule to phase out remaining restrictions on making payments transfers for current international transactions, within the economy's limited availability of foreign exchange.

44. **The authorities' intention to reinforce banking supervision is commendable.** Strict enforcement of prudential regulation benchmarks is critical for securing financial stability, especially where there are numerous new banks.

45. **The authorities' efforts to accelerate structural reform and achieve full transparency in oil revenue management are welcome.** The more transparent and market-oriented fuel pricing mechanism is a step forward. Other key measures for 2006 will be to implement the fully integrated, computerized budget and public expenditure management system to support a better budgetary execution and tracking of spending, and to complete the feasibility studies for the restructuring of the airport and seaport authorities. Setting up the Petroleum Oversight Commission and the Public Registration and Information Office would also be important milestones toward oil resource transparency.

46. **Timely implementation, as the authorities intend, of the recommendations of the recent DTIS for São Tomé and Príncipe should foster economic activity and help address poverty**.

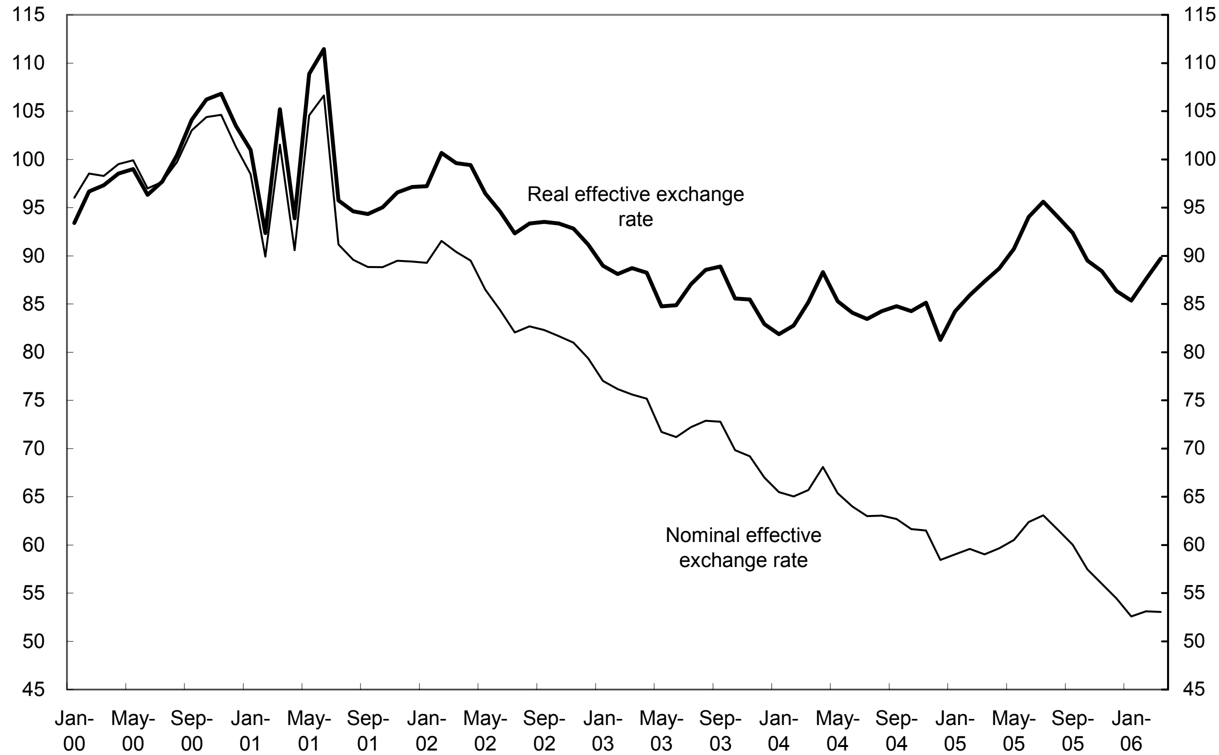
47. **The authorities have made strong efforts to implement all the HIPC completion triggers in the social and governance areas**. Reaching the HIPC completion point would liberate substantial government resources for pro-poor spending. In the meantime, a major achievement to date has been the sharp decline in malaria infection cases since 2003. A further major achievement will be the tribunals for arbitrating business disputes expected to begin work in the third quarter of 2006.

48. **The major risks to the program are a relaxation of the fiscal stance during the presidential and regional election period ahead and a continuing rise in international oil prices.** Also, inaction by the authorities in following up on allegations of irregularities in the bidding process of Blocks 2–6 could undermine credibility, thus hindering the development of the oil sector.

49. **The staff recommends completion of the second review of the PRGF arrangement**. All the end-December 2005 performance criteria under the current PRGF arrangement were met.

50. The staff welcomes the authorities' intention to make public the staff report, the letter of intent, and the MEFP.

Figure 1. São Tomé and Príncipe: Effective Exchange Rates, January 2000–March 2006 [1]
(Index; 2000 = 100)



Source: Information Notice System.

[1] An increase in the index corresponds to an appreciation of the effective exchange rate.

Table 1. São Tomé and Príncipe: Selected Economic Indicators, 2004-10

	2004	2005		2006		2007	2008	2009	2010
		CR/05/323	Actual	CR/06/349	Prog.	Proj.			
	(Annual percentage changes, unless otherwise specified)								
National income and prices									
GDP at constant prices	3.8	3.2	3.8	4.5	5.5	5.5	6.5	7.0	7.5
Consumer prices (percentage change; end of period)	15.2	15.0	17.2	13.0	22.0	13.3	9.5	7.0	6.0
Consumer prices (percentage change; average)	12.8	15.1	16.3	14.8	19.8	17.2	11.3	8.2	6.5
External trade									
Exports, f.o.b.	-45.5	6.0	-6.4	5.3	-4.6	3.7	5.0	4.0	9.0
Of which : cocoa	-47.2	7.9	-7.4	2.1	-6.2	3.2	1.3	0.6	0.0
Imports, c.i.f.	7.1	4.6	15.7	4.5	42.7	6.8	6.8	8.6	9.4
Exchange rate (in dobras per U.S. dollar; end of period)	10,104	11,396	11,930	...	...	...	...	...	...
Real effective exchange rate (depreciation -)	-2.0	…	10.4	…	…	…	…	…	…
Terms of trade	-28.0	0.2	-9.6	-4.0	-5.1	0.7	1.8	0.7	-0.2
Money and credit (end of period)									
Net foreign assets [1, 2]	-9.8	8.7	177.8	107.7	94.5	52.0	4.8	9.6	15.4
Net domestic assets [1, 2]	17.1	3.6	-131.1	-91.6	-74.9	-32.9	13.2	5.2	-3.2
Of which: credit to government (net) [1, 2]	6.0	1.8	-97.0	-96.6	-61.5	-13.7	14.7	10.6	8.2
credit to the economy [1]	34.4	11.3	25.5	13.1	12.6	11.6	10.8	9.4	8.5
Broad money	7.4	12.3	45.9	16.1	19.6	19.1	18.1	14.8	12.1
Velocity (ratio of non-oil GDP to average broad money)	2.2	2.4	2.1	2.2	2.0	…	…	…	…
Central bank reference interest rate (in percent; end of period) [3]	14.5	…	18.2	…	24.0	…	…	…	…
Commercial bank lending rate (in percent; end of period)	30.0	…	32.5	…	…	…	…	…	…
Commercial bank deposit rate (in percent; end of period)	10.3	…	12.8	…	…	…	…	…	…
	(Percent of GDP, unless otherwise specified)								
National accounts									
Consumption	122.0	122.0	124.9	117.2	124.9	117.6	116.3	114.3	113.5
Gross investment	35.2	37.3	34.5	42.2	67.6	69.7	70.2	69.9	71.0
Public investment	20.1	16.4	13.7	17.5	16.3	16.3	15.8	15.5	15.3
Private investment [4]	15.1	21.0	20.8	24.7	51.3	53.4	54.4	54.5	55.7
Of which: non-oil sector (in percent of non-oil GDP)	15.1	15.1	15.1	15.1	25.6	29.5	30.0	30.0	31.0
Gross domestic savings [5]	13.7	10.6	7.0	14.2	12.3	14.8	14.9	15.6	15.1
Public savings [5]	6.8	13.4	13.1	15.5	14.9	14.8	15.6	16.1	16.6
Government finance									
Total revenue, grants and oil signature bonus [6]	60.6	127.9	129.9	139.4	104.1	308.7	58.1	57.1	56.2
Of which : tax revenue	23.4	24.1	24.0	26.7	27.1	26.5	26.3	26.4	26.6
grants [6]	32.2	28.2	27.3	29.0	31.8	241.9	25.2	24.6	23.8
oil proceeds (signature bonuses and interest) [7]	0.0	71.0	74.9	78.2	40.1	34.6	1.1	0.9	0.6
Total expenditure and net lending	87.2	76.5	70.6	79.7	77.9	73.2	68.5	66.2	63.9
Of which: noninterest current expenditure	41.7	37.8	37.5	38.3	39.1	35.6	33.7	32.2	30.5
capital and HIPC expenditures	42.1	29.3	28.6	36.6	34.1	33.8	32.8	32.2	31.9
Domestic primary balance (commitment basis; incl. HIPC Initiative spending) [8]	-20.6	-17.5	-16.3	-15.2	-15.5	-13.0	-10.6	-9.1	-7.6
Overall balance (commitment basis; including grants) [6]	-26.6	51.4	59.3	59.6	26.2	235.5	-10.4	-9.1	-7.7
Overall balance (cash basis; including grants) [6]	-20.1	27.7	41.4	54.0	22.0	235.5	-10.4	-9.1	-7.7
External sector									
Current account balance (including official transfers) [4]	-23.1	-28.2	-29.5	-28.4	-63.2	-61.2	-59.3	-56.5	-57.1
Current account balance (excluding official transfers) [4]	-58.8	-60.3	-61.5	-59.8	-93.9	-88.0	-85.9	-82.4	-82.2
Net present value of total external debt [9]	498	465	509	315	321	194	181	180	180
Net present value of total external debt [10]	258	620	278	180	167	107	111	112	113
Scheduled external debt service after MDRI [11]	52.5	56.7	57.9	54.4	70.2	715.7	21.8	20.6	18.8
External debt service after HIPC and MDRI relief [12]	11.5	...	14.8	19.1	19.4	7.4	6.7	6.2	5.6
Export earnings (in millions of U.S. dollars)	3.6	5.9	3.4	4.0	3.2	3.3	3.5	3.6	4.0
Overall balance (in millions of U.S. dollars)	-9.8	19.2	25.9	21.1	7.9	-2.1	-26.7	-25.6	-27.6
Gross foreign reserves (in months of following year's non-oil imports of goods and nonfactor services) [13]	3.4	3.4	4.4	3.5	4.2	4.2	4.3	4.3	4.3
National Oil Account (in millions of U.S. dollars) [14]	…	23.1	23.4	47.6	37.1	39.6	32.7	26.9	22.2

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

[1] In percent of broad money at beginning of period.
[2] For 2005–07 includes government deposits in the National Oil Account at the BCSTP from actual and prospective oil signature bonuses. CR/05/323 excluded those deposits.
[3] For 2006, corresponds to end-May.
[4] For 2006, the difference between CR/06/349 and current program projections is due to higher investment-related imports of goods and services resulting from the drilling operations of Block 1 and private sector foreign investment in the tourist sector.
[5] Government revenue includes HIPC debt relief.
[6] Assumes that the completion point under the enhanced HIPC Initiative is in 2006. For 2007, includes IDA's and AfDF's MDRI relief as a stock of debt reduction.
[7] Oil Signature Bonuses for Blocks 5 and 6 in JDZ, totaling US$26.1 million, originally assumed for 2006, are now projected for 2007.
[8] Excluding oil revenue, grants, interest earned and scheduled interest payments, foreign-financed scholarships, and foreign-financed capital outlays. For 2004, it also excludes transfers to the JDA, which were repaid in 2005 with proceeds from the oil signature bonus from Block 1.
[9] In percent of exports of goods and nonfactor services. Assumes HIPC completion point in 2006 and includes MDRI debt relief.
[10] In percent of government revenue including grants and excluding grants and oil signature bonuses. Assumes HIPC completion point in 2006 and includes MDRI debt relief.
[11] In percent of current year exports of goods and nonfactor services. For 2006-07, MDRI results in an increase in scheduled debt service that is financed by grants.
[12] Assumes HIPC completion point in 2006.
[13] Excluding the National Oil Account and guarantee deposits placed at the central bank by financial institutions pending operating licenses.
[14] Includes projected interest income.

Table 2. São Tomé and Príncipe: Financial Operations of the Central Government, 2004–10

	2004	2005		2006								2007	2008	2009	2010
		Jan–Dec		Jan–Mar		Jan–Jun		Jan–Sep		Jan–Dec		Proj.			
		CR/05/323	Actual	CR/06/349	Prel.	CR/06/349	Est.	CR/06/349	Prog.	CR/06/349	Prog.				
	(Billions of dobras)														
Total revenue and grants	**381.2**	**952.8**	**973.3**	**265.6**	**53.6**	**926.1**	**257.3**	**1,070.3**	**771.5**	**1,239.5**	**964.7**	**3,472.5**	**772.1**	**878.5**	**987.0**
Non-oil revenue	178.7	213.8	207.4	53.9	42.8	124.7	144.5	199.4	215.4	285.6	298.0	361.8	421.7	487.1	557.2
Tax revenue	147.3	179.4	180.0	46.1	35.8	106.9	107.2	165.6	173.6	237.6	250.8	297.6	349.0	406.6	467.5
Of which: fuel taxes	29.8	...	38.2	14.0	...	28.0	31.9	42.0	44.2	56.0	64.2	...	...	...	...
Nontax revenue	31.3	34.4	27.4	7.8	7.0	17.9	37.3	33.8	41.8	48.1	47.1	64.2	72.7	80.4	89.7
Grants [1, 2]	202.6	210.1	204.4	37.7	10.8	111.2	112.8	177.9	186.7	258.1	294.9	2,721.1	335.2	378.2	418.4
Of which: MDRI debt relief [2]	0.0	...	0.0	...	0.0	...	0.0	...	0.0	...	31.7	2,431.2	0.0	0.0	0.0
Oil signature bonuses (including interest income) [3]	...	528.9	561.5	173.9	0.0	690.1	0.0	692.9	369.4	695.7	371.8	389.6	15.2	13.2	11.4
Unidentified revenue measures	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	**548.6**	**570.2**	**528.7**	**127.2**	**118.8**	**340.0**	**369.2**	**519.1**	**543.1**	**709.0**	**722.1**	**823.6**	**909.9**	**1,018.1**	**1,121.6**
Current expenditure	292.5	318.3	314.4	72.1	92.1	190.4	216.1	287.9	312.1	383.9	406.5	443.7	474.3	522.5	561.1
Personnel costs	75.7	103.3	103.2	28.4	28.3	56.8	64.2	89.5	97.2	122.1	127.5	153.0	175.8	197.3	217.4
Of which: Financed by HIPC relief	...	6.7	...	0.0	...	0.0	0.0	17.1	0.0	30.9	24.0	35.0	35.0	35.0	35.0
Goods and services	95.8	58.3	66.2	11.8	27.2	24.9	44.0	49.3	61.3	71.3	81.9	91.8	99.0	108.1	114.8
Interest on external debt due	30.1	34.0	32.3	9.7	9.8	19.5	20.7	30.8	31.1	41.0	41.4	40.9	23.8	24.5	23.2
Interest on internal debt due	0.0	2.5	1.5	0.6	0.6	1.3	1.3	1.9	1.9	2.5	2.5	2.5	2.5	2.5	2.5
Transfers	65.9	92.6	83.2	15.1	14.6	71.0	64.5	83.9	85.6	106.4	106.6	115.5	128.8	139.8	149.3
Other	25.0	27.7	28.1	6.4	11.5	17.0	21.5	32.5	35.1	40.6	46.6	40.1	44.4	50.3	53.9
Capital expenditure	234.9	218.2	186.4	50.1	24.8	131.2	139.4	199.4	200.4	267.3	260.6	283.1	336.9	392.0	449.1
Financed by the treasury	50.5	28.9	20.7	2.4	0.8	9.1	9.1	16.2	16.2	23.0	24.2	30.4	38.1	50.8	67.8
Financed by external sources [4]	184.4	189.3	165.7	47.7	24.0	122.2	130.4	183.3	184.3	244.3	236.4	252.7	298.8	341.2	381.3
HIPC Initiative-related social expenditure	30.1	33.7	27.9	5.0	1.9	18.4	9.0	31.7	30.6	57.8	55.0	96.8	98.7	103.6	111.3
Net lending	-9.0	0.0	0.0	0.0	0.0	0.0	4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (commitment basis)	**-167.3**	**382.7**	**444.6**	**138.4**	**-65.2**	**586.1**	**-111.9**	**551.2**	**228.3**	**530.5**	**242.6**	**2,648.8**	**-137.8**	**-139.6**	**-134.6**
Change in arrears (net; reduction -)	41.0	-176.0	-134.2	2.3	-1.5	-50.6	-9.6	-50.6	-8.4	-50.6	-38.8	0.0	0.0	0.0	0.0
External arrears [5]	13.8	-78.3	-52.2	2.3	1.0	-50.6	2.1	-50.6	3.3	-50.6	-27.1	0.0	0.0	0.0	0.0
Domestic arrears	27.2	-97.7	-81.9	0.0	-2.5	0.0	-11.7	0.0	-11.7	0.0	-11.7	0.0	0.0	0.0	0.0
Of which: Joint Development Agency	26.0	-96.5	-92.4	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)	**-126.3**	**206.7**	**310.4**	**140.6**	**-66.7**	**535.5**	**-121.5**	**500.6**	**220.0**	**479.9**	**203.8**	**2,648.8**	**-137.8**	**-139.6**	**-134.6**
Financing	**126.3**	**-206.7**	**-310.4**	**-140.6**	**66.7**	**-535.5**	**121.5**	**-500.6**	**-220.0**	**-479.9**	**-203.8**	**-2,648.8**	**137.8**	**139.6**	**134.6**
External (net)	64.4	-43.8	-80.8	-17.9	17.8	-228.4	-20.4	-231.0	-43.2	-236.7	-53.4	-2,667.0	-13.8	-18.5	-18.0
Disbursements (projects)	38.4	40.4	13.8	12.3	23.8	24.6	40.7	36.9	48.4	49.2	56.0	27.5	30.0	31.8	33.1
Program financing (loans)	50.3	21.6	0.0	0.0	24.2	7.8	0.0	23.1	0.0	36.5	12.7	21.5	31.2	33.0	34.4
Short-term loans (net) [6]	48.9	-10.4	0.0	0.0	0.0	-200.4	0.0	-200.4	0.0	-200.4	0.0	-214.5	0.0	0.0	0.0
Scheduled amortization (medium and long-term) [7]	-73.2	-95.4	-94.6	-30.2	-30.2	-60.4	-61.1	-90.6	-91.6	-122.0	-122.1	-2,501.4	-75.0	-83.3	-85.5
Domestic (net) [8]	27.0	5.2	-8.6	-53.9	38.8	-40.8	-71.8	-16.0	-45.1	-6.5	-43.9	-22.0	-19.9	-19.4	-14.3
Oil reserve fund flows (net) [9]	0.0	-245.0	-263.2	-80.9	0.0	-307.1	192.8	-309.8	-171.8	-312.6	-174.2	-37.4	108.4	94.7	81.3
Change in arrears (principal) [5]	34.9	-145.6	-101.9	7.3	3.3	-105.4	6.9	-105.4	10.8	-105.4	-59.1	0.0	0.0	0.0	0.0
Paris Club rescheduling and debt relief [10]	0.0	222.4	144.1	4.8	6.9	146.2	14.0	161.7	29.4	181.3	126.8	30.2	15.2	16.1	13.5
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	47.5	48.0	66.8	72.1
Memorandum items:															
Domestic primary balance (commitment basis) [11]	-129.3	-130.6	-121.9	-15.2	-41.6	-72.4	-72.4	-103.7	-110.6	-135.6	-143.8	-165.7	-163.1	-162.8	-157.4
Overall balance (commitment basis, excluding oil signature bonuses) [2]	-167.3	-146.2	-117.0	-35.5	-65.2	-104.1	-111.9	-141.7	-141.1	-165.3	-129.2	2,259.3	-153.0	-152.8	-146.0
Domestic primary spending	294.3	329.4	319.7	65.1	81.1	189.1	206.5	291.1	315.6	401.2	431.4	507.5	563.0	626.8	690.5
Multilateral debt relief (HIPC comp. point and MDRI in flows)	...	...	...	...	...	...	...	...	...	...	51.4	80.4	95.5	97.9	102.7
Of which: MDRI in flows	...	...	...	...	...	...	...	...	...	...	3.7	22.7	26.8	24.6	23.8

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

1 The projections assume that São Tomé and Príncipe reaches HIPC completion point in the second half of 2006.

2 Includes MDRI relief as a stock of debt reduction, in the last quarter of 2006 for the Fund, and in the first quarter of 2007 for IDA and AfDF.

3 Oil signature bonuses for Blocks 5 and 6 in JDZ, totaling US$26.1 million, originally assumed for 2006, are now projected for 2007.

4 For 2006, includes US$2 million of the social inclusion project to compensate laid-off workers from the privatization of public agricultural enterprises during the 1990s.

5 For 2006 refers to a temporary accumulation of technical arrears with non-Paris Club creditors, expected to be settled during the year once ongoing reconciliation of debts is concluded.

6 Repayment of three US$5 million loans disbursed by Nigeria in 2002–04 is assumed for 2007, upon arrival of oil signature bonuses for Blocks 6 and 7 in JDZ.

7 For 2007, includes IDA's and AfDF's MDRI relief as a stock of debt reduction.

8 For 2006, includes Fund MDRI relief as a stock of debt reduction.

9 For 2005–07, net amount is negative due to transfer of oil bonuses, net of drawings, to the National Oil Account. In 2008–2010 positive amount corresponds to drawings from the National Oil Account as indicated in the Oil Revenue Management Law.

10 For 2005, reflects impact of Paris Club rescheduling in the last quarter of 2005. In 2006 assumes settlement with non-Paris Club creditors.

11 Excluding oil revenue, grants, interest earned and scheduled interest payments, and foreign-financed scholarships and capital outlays. For 2004, it also excludes transfers to the JDA, which repaid with proceeds from the oil signature bonus of Block 1.

Table 3. São Tomé and Príncipe: Financial Operations of the Central Government, 2004–10

	2004	2005		2006								2007	2008	2009	2010
		Jan–Dec		Jan–Mar		Jan–Jun		Jan–Sep		Jan–Dec		Proj.			
		CR/05/323	Actual	CR/06/349	Prel.	CR/06/349	Est.	CR/06/349	Prog.	CR/06/349	Prog.				
	(Percentage of GDP)														
Total revenue and grants	**60.6**	**127.9**	**129.9**	**29.9**	**5.8**	**104.1**	**27.8**	**120.3**	**83.3**	**139.4**	**104.1**	**308.7**	**58.1**	**57.1**	**56.2**
Non-oil revenue	28.4	28.7	27.7	6.1	4.6	14.0	15.6	22.4	23.2	32.1	32.2	32.2	31.7	31.7	31.7
Tax revenue	23.4	24.1	24.0	5.2	3.9	12.0	11.6	18.6	18.7	26.7	27.1	26.5	26.3	26.4	26.6
Of which: fuel taxes	4.7	...	5.1	1.6	...	3.1	3.4	4.7	4.8	6.3	6.9	...	...	...	...
Nontax revenue	5.0	4.6	3.7	0.9	0.8	2.0	4.0	3.8	4.5	5.4	5.1	5.7	5.5	5.2	5.1
Grants [1, 2]	32.2	28.2	27.3	4.2	1.2	12.5	12.2	20.0	20.2	29.0	31.8	241.9	25.2	24.6	23.8
Of which: MDRI debt relief [2]	0.0	...	0.0	...	0.0	...	0.0	...	0.0	...	3.4	216.1	0.0	0.0	0.0
Oil signature bonuses (including interest income) [3]	...	71.0	74.9	19.6	0.0	77.6	0.0	77.9	39.9	78.2	40.1	34.6	1.1	0.9	0.6
Unidentified revenue measures	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	**87.2**	**76.5**	**70.6**	**14.3**	**12.8**	**38.2**	**39.8**	**58.4**	**58.6**	**79.7**	**77.9**	**73.2**	**68.5**	**66.2**	**63.9**
Current expenditure	46.5	42.7	42.0	8.1	9.9	21.4	23.3	32.4	33.7	43.2	43.9	39.4	35.7	34.0	32.0
Personnel costs	12.0	13.9	13.8	3.2	3.1	6.4	6.9	10.1	10.5	13.7	13.8	13.6	13.2	12.8	12.4
Of which: Financed by HIPC relief	...	0.9	...	0.0	...	0.0	0.0	1.9	0.0	3.5	2.6	3.1	2.6	2.3	2.0
Goods and services	15.2	7.8	8.8	1.3	2.9	2.8	4.7	5.5	6.6	8.0	8.8	8.2	7.5	7.0	6.5
Interest on external debt due	4.8	4.6	4.3	1.1	1.1	2.2	2.2	3.5	3.4	4.6	4.5	3.6	1.8	1.6	1.3
Interest on internal debt due	0.0	0.3	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.1
Transfers	10.5	12.4	11.1	1.7	1.6	8.0	7.0	9.4	9.2	12.0	11.5	10.3	9.7	9.1	8.5
Other	4.0	3.7	3.8	0.7	1.2	1.9	2.3	3.7	3.8	4.6	5.0	3.6	3.3	3.3	3.1
Capital expenditure	37.3	29.3	24.9	5.6	2.7	14.8	15.1	22.4	21.6	30.1	28.1	25.2	25.4	25.5	25.6
Financed by the treasury	8.0	3.9	2.8	0.3	0.1	1.0	1.0	1.8	1.7	2.6	2.6	2.7	2.9	3.3	3.9
Financed by external sources [4]	29.3	25.4	22.1	5.4	2.6	13.7	14.1	20.6	19.9	27.5	25.5	22.5	22.5	22.2	21.7
HIPC Initiative-related social expenditure	4.8	4.5	3.7	0.6	0.2	2.1	1.0	3.6	3.3	6.5	5.9	8.6	7.4	6.7	6.3
Net lending	-1.4	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (commitment basis)	**-26.6**	**51.4**	**59.3**	**15.6**	**-7.0**	**65.9**	**-12.1**	**62.0**	**24.6**	**59.6**	**26.2**	**235.5**	**-10.4**	**-9.1**	**-7.7**
Change in arrears (net; reduction -)	6.5	-23.6	-17.9	0.3	-0.2	-5.7	-1.0	-5.7	-0.9	-5.7	-4.2	0.0	0.0	0.0	0.0
External arrears [5]	2.2	-10.5	-7.0	0.3	0.1	-5.7	0.2	-5.7	0.4	-5.7	-2.9	0.0	0.0	0.0	0.0
Domestic arrears	4.3	-13.1	-10.9	0.0	-0.3	0.0	-1.3	0.0	-1.3	0.0	-1.3	0.0	0.0	0.0	0.0
Of which: Joint Development Agency	4.1	-13.0	-12.3	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)	**-20.1**	**27.7**	**41.4**	**15.8**	**-7.2**	**60.2**	**-13.1**	**56.3**	**23.7**	**54.0**	**22.0**	**235.5**	**-10.4**	**-9.1**	**-7.7**
Financing	**20.1**	**-27.7**	**-41.4**	**-15.8**	**7.2**	**-60.2**	**13.1**	**-56.3**	**-23.7**	**-54.0**	**-22.0**	**-235.5**	**10.4**	**9.1**	**7.7**
External (net)	10.2	-5.9	-10.8	-2.0	1.9	-25.7	-2.2	-26.0	-4.7	-26.6	-5.8	-237.1	-1.0	-1.2	-1.0
Disbursements (projects)	6.1	5.4	1.8	1.4	2.6	2.8	4.4	4.1	5.2	5.5	6.0	2.4	2.3	2.1	1.9
Program financing (loans)	8.0	2.9	0.0	0.0	2.6	0.9	0.0	2.6	0.0	4.1	1.4	1.9	2.3	2.1	2.0
Short-term loans (net) [6]	7.8	-1.4	0.0	0.0	0.0	-22.5	0.0	-22.5	0.0	-22.5	0.0	-19.1	0.0	0.0	0.0
Scheduled amortization (medium and long-term) [7]	-11.6	-12.8	-12.6	-3.4	-3.3	-6.8	-6.6	-10.2	-9.9	-13.7	-13.2	-222.4	-5.6	-5.4	-4.9
Domestic (net) [8]	4.3	0.7	-1.1	-6.1	4.2	-4.6	-7.7	-1.8	-4.9	-0.7	-4.7	-2.0	-1.5	-1.3	-0.8
Oil reserve fund flows (net) [9]	0.0	-32.9	-35.1	-9.1	0.0	-34.5	20.8	-34.8	-18.5	-35.2	-18.8	-3.3	8.2	6.2	4.6
Change in arrears (principal) [5]	5.6	-19.5	-13.6	0.8	0.4	-11.8	0.7	-11.8	1.2	-11.8	-6.4	0.0	0.0	0.0	0.0
Paris Club rescheduling [10]	0.0	29.9	19.2	0.5	0.7	16.4	1.5	18.2	3.2	20.4	13.7	2.7	1.1	1.0	0.8
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.2	3.6	4.3	4.1
Memorandum items:															
Pro-poor expenditure (in millions of U.S. dollars)	14.3	20.3	18.0	...	...	...	...	...	...	...	20.8	...	...	...	...
Pro-poor expenditure (in percent of GDP)	22.2	29.3	25.7	...	...	...	...	...	...	...	28.4	...	...	...	...
Domestic primary balance (commitment basis) [11]	-20.6	-17.5	-16.3	-1.7	-4.5	-8.1	-7.8	-11.7	-11.9	-15.2	-15.5	-13.0	-10.6	-9.1	-7.6
Overall balance (commitment basis, excluding oil signature bonuses) [2]	-26.6	-19.6	-15.6	-4.0	-7.0	-11.7	-12.1	-15.9	-15.2	-18.6	-13.9	200.8	-11.5	-9.9	-8.3
Domestic primary spending	46.8	44.2	42.7	7.3	8.8	21.3	22.3	32.7	34.1	45.1	46.6	45.1	42.4	40.7	39.3
Multilateral debt relief (HIPC comp. point and MDRI in flows)	...	...	...	...	...	...	...	...	...	...	5.6	7.1	7.2	6.4	5.9
Of which: MDRI in flows	...	...	...	...	...	...	...	...	...	...	0.4	2.0	2.0	1.6	1.4

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

1 The projections assume that São Tomé and Príncipe reaches HIPC completion point in the second half of 2006.

2 Includes MDRI relief as a stock of debt reduction, in the last quarter of 2006 for the Fund, and in the first quarter of 2007 for IDA and AfDF.

3 Oil signature bonuses for Blocks 5 and 6 in JDZ, totaling US$26.1 million, originally assumed for 2006, are now projected for 2007.

4 For 2006, includes US$2 million of the social inclusion project to compensate laid-off workers from the privatization of public agricultural enterprises during the 1990s.

5 For 2006 refers to a temporary accumulation of technical arrears with non-Paris Club creditors, expected to be settled during the year once ongoing reconciliation of debts is concluded.

6 Repayment of three US$5 million loans disbursed by Nigeria in 200–04 is assumed for 2007, upon arrival of oil signature bonuses for Blocks 6 and 7 in JDZ.

7 For 2007, includes IDA's and AfDF's MDRI relief as a stock of debt reduction.

8 For 2006, includes Fund MDRI relief as a stock of debt reduction.

9 For 2005–07, net amount is negative due to transfer of oil bonuses, net of drawings, to the National Oil Account. In 2008–2010 positive amount corresponds to drawings from the National Oil Account as indicated in the Oil Revenue Management Law.

10 For 2005, reflects impact of Paris Club rescheduling in the last quarter of 2005. In 2006 assumes settlement with non-Paris Club creditors.

11 Excluding oil revenue, grants, interest earned and scheduled interest payments, and foreign-financed scholarships and capital outlays. For 2004, it also excludes transfers to the JDA, which repaid with proceeds from the oil signature bonus of Block 1.

Table 4. São Tomé and Príncipe: Monetary Survey, 2004–06

	2004	2005			2006							
		Dec.			Mar.		Jun.		Sep.		Dec.	
		CR/05/323	Actual	Actual [1] excluding NOA	CR/06/349	Prel.	CR/06/349	Est.	CR/06/349	Prog.	CR/06/349	Prog.
	(Billions of dobras; end of period)											
Net foreign assets [2]	**297.7**	**323.4**	**824.9**	**548.8**	**822.3**	**857.9**	**1,076.5**	**798.4**	**1,075.1**	**1,167.9**	**1,072.4**	**1,233.8**
Central bank [2]	189.3	226.8	597.8	321.7	677.9	622.8	928.4	549.1	923.4	894.0	917.0	947.6
Commercial banks	108.5	96.6	227.1	227.1	144.4	235.0	148.1	249.3	151.8	273.9	155.5	286.3
Net domestic assets [2]	**-1.2**	**9.6**	**-392.4**	**-116.3**	**-435.9**	**-296.0**	**-658.7**	**-319.9**	**-654.3**	**-693.9**	**-638.3**	**-716.4**
Net domestic credit [2]	212.6	251.4	-1.9	274.2	-139.8	40.5	-355.8	124.2	-343.7	-202.8	-320.1	-213.8
Net credit to government [2]	35.8	41.0	-254.4	21.7	-396.1	-221.2	-616.7	-152.2	-609.6	-498.1	-617.9	-520.6
Claims	83.6	94.7	87.8	87.8	96.2	113.4	92.8	98.1	94.4	108.8	104.2	88.6
Deposits	-47.8	-53.7	-342.2	-66.1	-492.2	-334.6	-709.5	-250.3	-704.0	-606.9	-722.2	-609.2
Budgetary deposits	-19.2	-29.4	-22.0	-22.0	-17.6	-19.1	-21.4	-47.3	-22.0	-62.3	-28.3	-58.9
Counterpart funds	-18.4	-9.0	-22.6	-22.6	-22.6	-22.6	-22.6	-22.6	-22.6	-22.6	-22.6	-22.6
Foreign currency deposits	-10.3	-15.4	-297.6	-21.5	-452.0	-292.9	-665.4	-180.3	-659.4	-522.0	-671.2	-527.7
Credit to the economy	176.8	210.4	252.5	252.5	256.2	261.6	260.8	276.4	265.9	295.3	297.9	306.8
Other items (net)	-213.8	-241.8	-390.5	-390.5	-296.1	-336.5	-302.8	-444.1	-310.6	-491.1	-318.2	-502.6
Broad money (M3)	**296.5**	**333.0**	**432.6**	**432.6**	**386.4**	**561.9**	**417.8**	**478.5**	**420.9**	**474.0**	**434.1**	**517.4**
Local currency	175.8	187.0	198.6	198.6	210.4	251.0	224.4	213.0	222.2	201.9	229.2	223.1
Money	159.3	168.0	180.4	180.4	193.1	230.0	205.9	191.8	203.7	182.7	210.7	202.9
Currency outside banks	60.0	51.9	72.5	72.5	56.7	92.9	59.5	66.4	57.2	69.7	63.7	83.7
Demand deposits	99.3	116.2	107.8	107.8	136.4	137.0	146.4	125.4	146.5	113.0	147.0	119.3
Time deposits	16.5	19.0	18.2	18.2	17.3	21.1	18.5	21.2	18.5	19.1	18.6	20.2
Foreign currency deposits	120.7	145.9	234.0	234.0	176.0	310.8	193.4	265.5	198.6	272.2	204.9	294.3
	(Changes from the beginning of the year; in billions of dobras)											
Net foreign assets	-27.0	25.7	527.2	95.7	152.5	32.9	406.7	-26.6	405.4	343.0	402.7	408.9
Net domestic assets	47.4	10.8	-388.6	-18.3	-140.1	89.6	-362.9	72.5	-358.5	-301.5	-342.5	-324.1
Net domestic credit	111.5	38.9	-211.9	55.9	-131.9	35.6	-347.9	126.1	-335.8	-200.9	-312.1	-211.9
Net credit to government	16.6	5.2	-287.6	-16.1	-139.5	26.5	-360.1	102.2	-353.0	-243.7	-361.3	-266.2
Credit to the economy	95.0	33.6	75.7	75.7	7.5	9.1	12.1	23.9	17.2	42.8	49.2	54.3
Other items (net)	-64.2	-28.1	-176.7	-176.7	-8.1	54.0	-14.9	-53.7	-22.6	-100.6	-30.3	-112.1
Broad money (M3)	20.3	36.5	136.1	136.1	12.4	129.3	43.9	45.9	46.9	41.5	60.2	84.8
	(Changes in percent of beginning-of-period money stock, unless otherwise specified)											
Net foreign assets	-9.8	8.7	177.8	32.3	40.8	7.6	108.8	-6.1	108.4	79.3	107.7	94.5
Net domestic assets	17.1	3.6	-131.1	-6.2	-37.5	20.7	-97.0	16.8	-95.9	-69.7	-91.6	-74.9
Of which: net credit to government	6.0	1.8	-97.0	-5.4	-37.3	6.1	-96.3	23.6	-94.4	-56.3	-96.6	-61.5
credit to the economy	34.4	11.3	25.5	25.5	2.0	2.1	3.2	5.5	4.6	9.9	13.1	12.6
credit to the economy (percentage change from beginning of the year)	116.1	19.0	42.8	42.8	3.0	3.6	4.9	9.5	6.9	17.0	19.8	21.5
Broad money (M3)	7.4	12.3	45.9	45.9	3.3	29.9	11.7	10.6	12.5	9.6	16.1	19.6
Memorandum items:												
Velocity (ratio of GDP to average broad money)	2.2	2.4	2.1	2.1	...	...	...	...	...	...	2.2	2.0
Money Multiplier (M3/M0)	2.5	2.3	2.1	2.1	2.5	2.1	2.3	2.0	2.3	2.0	2.7	2.0
Base Money (12-month growth rate)	-24.9	28.8	76.6	76.6	14.2	95.6	53.6	103.7	9.3	27.1	6.1	20.4

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

[1] For comparison purposes with the program's monetary numbers (CR/05/323) balance sheet data for end-December 2005 have been adjusted by removing the government's National Oil Account (Conta Nacional de Petroleo, CNP) from the definition of central bank net international reserves and net domestic assets. Originally, the CNP was supposed to be held directly by the government in an account with the Federal Reserve in New York.

[2] Includes MDRI assistance from the Fund as a stock of debt reduction totaling SDR1.6 million assumed for the fourth quarter of 2006.

Table 5. São Tomé and Príncipe: Summary Accounts of the Central Bank, 2004–06

	2004	2005			2006							
		Dec.			Mar.		Jun.		Sep.		Dec.	
		CR/05/323	Actual	Actual [1] excluding NOA	CR/06/349	Prel.	CR/06/349	Est.	CR/06/349	Prog.	CR/06/349	Prog.
	(Billions of dobras, end of period)											
Net foreign assets	**189.3**	**226.8**	**597.8**	**321.5**	**677.9**	**622.8**	**928.4**	**549.1**	**923.4**	**894.0**	**917.0**	**947.6**
Net International Reserves [2, 3, 4]	169.2	203.0	577.0	300.9	656.3	609.6	906.3	505.8	900.7	839.3	893.8	849.0
Gross reserves [2, 3, 4]	197.1	252.0	595.2	319.1	682.8	635.0	929.1	532.8	924.7	883.0	927.0	862.5
Of which: National Oil Account	0.0	0.0	276.1	0.0	361.9	275.6	595.6	102.1	613.3	474.7	631.2	498.5
Of which: guarantee deposits	17.9	34.2	6.5	6.5	6.7	14.0	6.8	14.7	7.0	30.8	7.2	0.0
Short-term liabilities [2]	-27.9	-49.0	-18.2	-18.2	-26.4	-25.4	-22.8	-27.0	-24.0	-43.7	-33.3	-13.4
Other foreign assets	49.5	56.5	58.3	58.3	60.1	57.7	61.7	89.7	63.2	111.2	64.7	134.4
Other liabilities [3]	-29.4	-32.7	-37.4	-37.4	-38.6	-44.5	-39.5	-46.4	-40.5	-56.6	-41.5	-35.8
Net domestic assets [3, 4]	**-70.0**	**-82.9**	**-387.2**	**-111.1**	**-521.2**	**-354.4**	**-744.7**	**-305.5**	**-741.8**	**-662.0**	**-754.4**	**-694.0**
Net domestic credit [3, 4]	54.7	57.5	-234.9	41.2	-376.8	-202.9	-597.5	-133.0	-590.4	-478.9	-598.7	-501.4
Net credit to government [3, 4]	42.6	45.3	-247.9	28.2	-389.0	-214.6	-609.6	-145.6	-602.6	-491.5	-610.9	-514.0
Claims [3]	83.6	94.7	87.8	87.8	96.2	113.4	92.8	98.1	94.4	108.8	104.2	88.6
Of which: use of SDRs/Poverty Reduction and Growth Facility	38.9	58.2	47.8	47.8	56.7	54.8	66.0	57.6	67.6	68.3	77.4	48.1
Deposits [4]	-41.0	-49.4	-335.7	-59.6	-485.2	-328.0	-702.4	-243.7	-697.0	-600.3	-715.1	-602.6
Ordinary	-14.5	-25.1	-15.5	-15.5	-10.6	-12.5	-14.4	-40.7	-15.0	-55.7	-21.2	-52.3
Of which: HIPC Initiative resources	-4.2	-25.0	-3.4	-3.4	-10.6	-1.0	-14.4	-29.1	-15.0	-44.1	-21.2	-40.7
Counterpart funds	-16.2	-9.0	-22.6	-22.6	-22.6	-22.6	-22.6	-22.6	-22.6	-22.6	-22.6	-22.6
Foreign currency [3, 4]	-10.3	-15.4	-297.6	-21.5	-452.0	-292.9	-665.4	-180.3	-659.4	-522.0	-671.2	-527.7
Of which: National Oil Account [4]	0.0	0.0	-276.1	-276.1	-361.9	-275.6	-595.6	-102.1	-613.3	-474.7	-631.2	-498.5
Rediscount to commercial banks	5.2	5.2	5.2	5.2	5.2	3.9	5.2	3.9	5.2	3.9	5.2	3.9
Other claims	6.9	7.0	7.8	7.8	7.0	7.8	7.0	8.7	7.0	8.7	7.0	8.7
Other items (net)	-124.7	-140.3	-152.3	-152.3	-144.4	-151.5	-147.3	-172.5	-151.5	-183.1	-155.7	-192.6
Base money	**119.2**	**143.9**	**210.6**	**210.6**	**156.7**	**268.4**	**183.7**	**243.6**	**181.5**	**232.0**	**162.6**	**253.6**
Currency issued	67.2	56.9	81.1	81.1	66.3	103.6	69.1	77.1	66.8	80.4	73.3	94.3
Bank reserves	52.1	87.1	129.5	129.5	90.4	164.9	114.5	166.5	114.7	151.6	89.3	159.3
Memorandum Items:												
Gross International Reserves (US$ millions) [2, 4]	19.8	22.1	50.7	27.2	55.5	54.6	73.6	43.5	71.5	68.8	69.9	64.3
Of which: excluding National Oil Account and guarantee deposits	18.0	19.1	26.6	26.6	25.5	29.7	25.9	33.9	23.5	29.4	21.8	27.1
Net International Reserves (US$ millions) [4]	17.0	17.9	49.1	25.6	53.3	52.4	71.8	41.3	69.6	65.4	67.4	63.3
Of which: excluding National Oil Account	17.0	17.9	25.6	...	23.9	28.7	24.6	32.9	22.2	28.4	19.8	26.1
Of which: National Oil Account [4]	0.0	23.1	23.5	...	29.4	23.7	47.2	8.3	47.4	37.0	47.6	37.1
Base money (annual percent change)	-24.9	...	76.6	...	14.2	95.6	53.6	103.7	9.3	27.1	6.1	20.4
Currency Issued (annual percent change)	6.4	...	20.8	...	...	91.0	...	50.3	...	38.4	...	16.3

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

[1] For comparison purposes with the program's monetary numbers (CR/05/323) balance sheet data for end-December 2005 have been adjusted by removing the government's National Oil Account (Conta Nacional de Petroleo, CNP) from the definition of central bank net international reserves and net domestic assets. Originally, the CNP was supposed to be held directly by the government in an account with the Federal Reserve in New York.

[2] Includes guarantee deposits by prospective financial institutions pending operating licenses.

[3] Includes prospective disbursements under PRGF arrangement and MDRI assistance from the Fund as a stock of debt reduction totaling SDR1.6 million assumed for the last quarter of 2006.

[4] Oil Signature Bonuses for Blocks 5 and 6 in JDZ, totaling US$26.1 million, originally assumed for 2006, are now projected for 2007.

Table 6. São Tomé and Príncipe: Balance of Payments, 2004–10

	2004	2005		2006 [1]		2007	2008	2009	2010
		CR/05/323	Est.	CR/06/349	Prog.	Proj.			
	(Millions of U.S. dollars, unless otherwise specified)								
Current account balance (excluding official transfers) 1/	**-37.8**	**-43.2**	**-43.2**	**-42.5**	**-68.5**	**-69.3**	**-73.2**	**-76.8**	**-83.9**
Trade balance [1]	-32.4	-32.1	-38.2	-40.0	-56.0	-60.0	-64.2	-69.9	-76.5
Exports, f.o.b. [2]	3.6	5.9	3.4	4.0	3.2	3.3	3.5	3.6	4.0
Of which : cocoa	3.2	5.7	3.0	3.5	3.0	2.9	2.9	3.0	3.0
Imports, f.o.b. [1]	-36.0	-38.0	-41.6	-44.0	-59.2	-63.4	-67.7	-73.6	-80.4
Food	-12.2	-13.4	-14.8	-16.5	-16.4	-17.7	-19.1	-20.9	-22.9
Investment goods [1]	-11.6	-13.6	-12.7	-12.9	-16.1	-16.4	-16.9	-18.3	-20.0
Oil sector-related investment goods [1, 3]	0.0	-6.2	0.0	0.0	-10.4	-10.4	-11.8	-13.2	-14.8
Petroleum products	-7.8	-6.2	-9.8	-10.8	-11.9	-14.3	-14.9	-15.7	-16.7
Other	-4.3	-4.9	-4.3	-3.8	-4.5	-4.6	-5.0	-5.4	-5.9
Services and income (net)	-7.5	-12.6	-6.5	-4.6	-14.0	-10.9	-10.9	-9.3	-10.5
Exports of nonfactor services	16.6	20.0	17.7	20.8	19.3	21.5	25.5	28.0	30.4
Of which : travel and tourism	12.8	13.4	13.6	15.9	14.4	15.3	18.0	19.6	20.5
Imports of nonfactor services	-21.0	-29.7	-21.2	-23.0	-30.8	-30.6	-35.9	-36.6	-40.2
Freight and insurance	-9.0	-7.6	-10.4	-11.0	-12.2	-13.3	-14.1	-15.2	-16.5
Technical assistance	-6.7	-9.8	-5.1	-5.9	-5.6	-5.3	-8.3	-8.6	-8.9
Oil sector-related services [3]	0.0	-2.4	0.0	0.0	-4.4	-4.4	-5.0	-5.6	-6.4
Other	-5.4	-9.9	-5.7	-6.1	-8.5	-7.6	-8.4	-7.2	-8.4
Factor services (net)	-3.1	-2.8	-3.0	-2.4	-2.5	-1.7	-0.6	-0.7	-0.7
Interest due	-3.1	-3.2	-3.2	-3.3	-3.3	-2.9	-1.5	-1.5	-1.4
Permanent oil fund interest earnings	0.0	0.3	0.2	0.9	0.8	1.1	1.0	0.8	0.7
Private transfers (net)	2.1	1.5	1.5	2.1	1.6	1.6	1.9	2.4	3.1
Official transfers (net)	23.0	23.6	22.4	22.3	22.4	21.1	22.6	24.1	25.6
Of which : Public investment projects	14.9	13.9	15.5	15.6	14.2	15.7	17.2	18.7	20.2
Nonproject grants	2.1	1.4	1.6	0.8	1.7	1.5	1.5	1.5	1.5
Food aid	1.3	1.2	1.2	1.1	2.5	2.5	2.5	2.5	2.5
HIPC Initiative-related grants	3.2	5.7	3.2	3.2	3.2	0.0	0.0	0.0	0.0
Nigeria grant [2]	1.4	1.4	0.9	1.6	0.8	1.4	1.4	1.4	1.4
Current account balance, including official transfers	**-14.9**	**-19.5**	**-20.8**	**-20.1**	**-46.1**	**-48.1**	**-50.5**	**-52.6**	**-58.2**
Capital and financial account balance	**9.9**	**38.7**	**53.3**	**41.3**	**57.4**	**43.5**	**38.2**	**42.2**	**53.6**
Capital transfer [4]	. . .	. . .	. . .	. . .	2.3	170.0	0.0	0.0	0.0
Medium- and long-term capital (net)	5.1	53.5	46.6	54.4	51.9	-124.0	23.9	27.1	30.7
Project loans	3.9	3.8	1.3	3.9	4.4	1.9	1.9	1.9	1.9
Program loans	5.1	2.0	0.0	2.9	1.0	1.5	2.0	2.0	2.0
Oil signature bonuses [5]	0.0	49.2	49.2	54.7	28.6	26.1	0.0	0.0	0.0
Direct foreign investment	3.5	8.5	5.5	3.8	26.5	22.6	25.4	28.2	31.6
Other investment	0.0	-1.1	-0.5	-1.3	1.0	-1.2	-0.6	0.0	0.1
Amortization [6]	-7.5	-8.9	-8.9	-9.6	-9.6	-174.9	-4.8	-5.0	-5.0
Short-term capital (incl. errors and omissions)	4.8	-14.7	6.7	-13.1	3.2	-2.5	14.3	15.2	22.9
Of which: Repayment of Nigeria and Angola	0.0	-1.0	0.0	-16.0	0.0	-15.0	0.0	0.0	0.0
Transfers to JDA	…	-12.7	-11.4	-3.1	-3.7	-3.1	-3.3	-3.4	-3.6
Commercial banks	-1.3	-1.0	-8.5	0.0	-2.2	-1.0	0.0	-2.5	-1.0
Overall balance	**-5.0**	**19.2**	**32.5**	**21.1**	**11.3**	**-4.6**	**-12.3**	**-10.4**	**-4.7**

Sources: See Table 6 (concluded).

Table 6. São Tomé and Príncipe: Balance of Payments, 2004–10 (concluded)

	2004	2005		2006 [1]		2007	2008	2009	2010
		CR/05/323	Est.	CR/06/349	Prog.	Proj.			
	(Millions of U.S. dollars, unless otherwise specified)								
Overall balance	**-5.0**	**19.2**	**32.5**	**21.1**	**11.3**	**-4.6**	**-12.3**	**-10.4**	**-4.7**
Financing	5.0	-19.2	-32.5	-21.1	-11.3	4.6	12.3	10.4	4.7
Change in net international reserves (increase -)	0.0	-3.0	-8.7	-0.5	-0.6	-2.5	-2.0	-3.0	-7.5
Use of Fund resources (net) [7]	0.0	1.1	0.5	1.3	-1.0	1.2	0.6	0.0	-0.1
National Oil Account (increase -)	0.0	-22.8	-23.3	-25.0	-13.8	-2.6	7.0	5.7	4.7
Change in medium- and long-term arrears (net; decrease -) [8]	5.0	-15.3	-14.6	-12.5	-6.5	0.0	0.0	0.0	0.0
Debt relief (HIPC bilateral) [9]	0.0	2.6	0.2	4.9	4.6	5.1	3.7	3.6	3.4
Rescheduling arrears	0.0	18.1	13.3	10.6	5.7	0.0	0.0	0.0	0.0
Exceptional financing (Fund MDRI)	…	…	…	…	0.3	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	3.4	3.0	4.0	4.2
Memorandum items:									
Cocoa export volume (thousands of metric tons)	2.50	3.7	2.4	3.1	2.3	2.3	2.3	2.3	2.3
Cocoa export unit value (U.S. dollars per metric ton)	1,256	1,540	1,251	1,124	1,240	1,280	1,296	1,304	1,304
Scheduled external debt service after MDRI [10]	52.5	56.7	57.9	54.4	70.2	715.7	21.8	20.6	18.8
External debt service after HIPC and MDRI debt relief [11] [12]	11.5	...	14.8	19.1	19.4	7.4	6.7	6.2	5.6
Current account balance, including official transfers (percent of GDP) [1]	-23.1	-28.2	-29.5	-28.4	-63.0	-61.2	-59.3	-56.5	-57.1
Current account balance, excluding official transfers (percent of GDP) [1]	-58.8	-60.3	-61.5	-59.8	-93.6	-88.0	-85.9	-82.4	-82.2
Gross reserves (months of following year's non-oil imports of goods and nonfactor services) [13]	3.4	3.4	4.4	3.5	4.2	4.2	4.3	4.3	4.3

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

[1] For 2006, the difference between CR/06/349 and current program projections is due to higher investment-related imports of goods and services resulting from the drilling operations of Block 1 and private sector foreign investment in the tourist sector.

[2] Nigeria 's commodity oil grant—classified as re-exports in CR/05/323—is now classified under official transfers.

[3] Covers external payments for imports of goods and services by companies during the course of petroleum exploration.

[4] For 2006, assumes delivery of enhanced HIPC Initiative completion point by multilaterals and MDRI debt relief by the Fund. For 2007, assumes MDRI debt relief by IDA and AfDF as stock of debt reduction.

[5] Oil Signature Bonuses for Blocks 5 and 6 in JDZ, totaling US$26.1 million, originally assumed for 2006, are now projected for 2007.

[6] For 2006, assumes delivery of enhanced HIPC Initiative completion point by multilaterals. For 2007, assumes MDRI debt relief by IDA and AfDF as stock of debt reduction.

[7] For 2006, assumes MDRI assistance from the Fund as a stock of debt reduction totaling SDR1.6 million.

[8] In 2005 includes the new Paris Club rescheduling agreement,and in 2006 assumes settlement with non-Paris Club creditors.

[9] São Tomé and Príncipe is assumed to reach HIPC completion point in the fourth quarter of 2006.

[10] In percent of current year exports of goods and nonfactor services. For 2006-07, MDRI results in an increase in scheduled debt service that is financed by grants.

[11] Includes obligations to the IMF.

[12] Assumes HIPC completion point in 2006.

[13] Excluding the National Oil Account and guarantee deposits placed at the central bank by financial institutions pending operating licenses.

Table 7. São Tomé and Príncipe: External Financing Requirements and Sources, 2005–08

(Millions of U.S. dollars)

	2005	2006	2007	2008
	Prel.	Prog.	Proj.	
1. Gross financing requirements	**-63.8**	**-57.5**	**-227.8**	**-40.9**
Current account, excluding current official transfers	-43.2	-68.5	-69.3	-73.2
Exports, f.o.b.	3.4	3.2	3.3	3.5
Imports, f.o.b.	-41.6	-59.2	-63.4	-67.7
Services and income (net)	-6.5	-14.0	-10.9	-10.9
Private transfers	1.5	1.6	1.6	1.9
Financial account	2.7	18.2	-156.0	34.3
Scheduled amortization [1]	-8.9	-9.6	-174.9	-4.8
IMF repayments [2]	-0.1	-2.9	0.0	0.0
Other capital (net)	11.7	30.7	18.9	39.1
Change in external reserves (increase -)	-8.7	-0.6	-2.5	-2.0
Change in arrears (net)	-14.6	-6.5	0.0	0.0
2. Available Funding	**63.8**	**57.5**	**227.8**	**40.9**
Oil Fund (net)	25.9	14.8	23.5	7.0
Oil signature bonuses	49.2	28.6	26.1	0.0
Saving (accumulation of oil reserve fund -)	-23.3	-13.8	-2.6	7.0
Expected disbursements	23.7	30.1	194.6	26.6
Multilateral HIPC interim assistance [3]	3.2	3.2	0.0	0.0
Capital transfers [4]	. . .	2.3	170.0	0.0
Grants [5]	19.3	19.2	21.1	22.6
Concessional loans	1.3	5.4	3.4	3.9
Project loans	1.3	4.4	1.9	1.9
Program loans	0.0	1.0	1.5	2.0
IMF [6]	0.6	1.8	1.2	0.6
Financing gap	13.5	10.6	8.5	6.8
HIPC debt relief (bilateral creditors) [2, 5]	0.2	4.6	5.1	3.7
Reschedulable arrears (bilateral creditors) [7]	13.3	5.7	0.0	0.0
Exceptional financing (Fund MDRI)	. . .	0.3	0.0	0.0
Residual financing gap (actual debt service)	0.0	0.0	3.4	3.0

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

[1] For 2006, assumes delivery of enhanced HIPC Initiative completion point by multilaterals. For 2007, assumes MDRI debt relief by IDA and AfDF as stock of debt reduction.

[2] For 2006, assumes MDRI assistance from the Fund as a stock of debt reduction.

[3] Assumes HIPC completion point in fourth quarter of 2006, with delivery of MDRI assistance by early-2007.

[4] Assumes delivery of enhanced HIPC Initiative completion point by multilaterals and MDRI delivery by the Fund in fourth quarter of 2006, and MDRI debt relief by IDA and AfDF as stock of debt operation in 2007.

[5] Includes Nigeria's grant.

[6] Includes projected disbursements under new PRGF.

[7] In 2005 includes the new Paris Club rescheduling agreement, and in 2006 assumes settlement of arrears with non-Paris Club creditors.

Table 8. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2005–06

(Billions of dobras, unless otherwise specified)

	2005				2006									
	end-Dec.				end-March		end-June				end-Sept.		end-Dec.	
	Perf. criteria CR/05/373	Perf. Criteria [11] with adjusters	Actual [12]	Actual [13] excluding NOA	Ind.Target CR/06/349	Est.	Perf. criteria CR/06/349	Perf. Criteria [11] with adjusters	**Memo item:** Perf. Criteria excluding oil bonuses [14]	Est.	Ind.Target CR/06/349	Ind.Target Rev. Prog.	Ind.Target CR/06/349	Perf. Criteria Rev. Prog.
1. Floor on domestic primary balance (as defined in the TMU; cumulative from beginning of year)	-130.6	-130.6	-121.9	-121.9	-15.2	-41.6	-72.4	-72.4	-72.4	-72.4	-103.7	-110.6	-135.6	-143.8
2. Ceiling on domestic primary spending (cumulative from beginning of the year) [1]	329.4	329.4	319.7	319.7	65.1	81.1	189.1	189.1	189.1	206.5	291.1	315.6	401.2	431.4
3. Ceiling on changes in net domestic financing of the government (cumulative from beginning of year, beginning of year, billions of dobras at program exchange rate) [2, 3, 4]	0.8	-11.3	-255.6	-18.1	-109.8	29.6	-277.9	-448.5	104.0	88.9	-260.5	-182.0	-261.9	-182.7
4. Ceiling on changes in net domestic assets of the central bank (cumulative from beginning of year, billions of dobras at program exchange rate) [2, 3, 4]	9.9	-2.2	-234.6	2.9	-109.8	25.5	-275.9	-446.5	106.0	86.0	-256.5	-180.3	-255.9	-175.2
5. Floor on changes in the net international reserves of the central bank (cummulative from beginning of the year, millions of U.S. dollars) [4, 5]	0.9	2.1	32.2	8.7	11.1	3.3	29.9	46.2	-8.5	-7.9	27.7	16.3	25.5	14.2
6. Ceiling on central government's outstanding external payment arrears (stock, millions of U.S. dollars) [6]	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
7. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the central government or the BCSTP (stock, millions of euros) [7, 8]	1.7	1.7	0.0	0.0	1.7	3.1	1.7	1.7	1.7	1.6	1.7	1.6	1.7	1.6
8. Ceiling on the outstanding stock of external debt with original maturity of less than one year owed or guaranteed by the central government or the BCSTP (stock, millions of U.S. dollars) [9]	15.0	15.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Memorandum items:														
Base Money (ceiling, billions of dobras)	...	...	...	...	185.0	268.4	195.0	...	...	247.3	205.0	...	215.0	...
Currency Issued (ceiling, billions of dobras)					...	...	...	...	...	...	...	80.4	...	94.3
Oil signature bonuses (millions of U.S. dollars, cumulative from beginning of year)	49.2	49.2	49.2	49.2	13.7	0.0	54.7	0.0	0.0	0.0	54.7	28.6	54.7	28.6
Official external program support as defined in the TMU (billions of dobras at program exchange rate) [10]	21.6	21.6	15.2	15.2	0.0	22.2	6.1	6.1	6.1	2.0	18.2	7.1	28.3	27.3

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

[1] Equal to government domestic expenditure, as defined in the TMU, excluding all interest payments.

[2] The ceiling will be adjusted downward (upward) by the cumulative negative (positive) deviations in external debt service and the cumulative positive (negative) deviation of actual from projected disbursements of external program support and oil signature bonuses. The downward adjustment of higher than programmed external program support will not take place to the extent that the additional support is used to accommodate higher capital outlays of the government, up to US$1 million.

[3] The ceiling will be adjusted downwards by the amount of accumulated domestic arrears.

[4] For 2005, excludes the National Oil Account, consistent with the assumption under CR/05/373 that such resources would be deposited in a correspondent bank and would not be reflected in Central Bank accounts. For 2006, includes the National Oil Account within the balance sheet of the Central Bank, consistent with CR/06/349.

[5] The floor on net international reserves will be adjusted upwards (downwards) by the cumulative negative (positive) deviation in external debt service and the cumulative positive (negative) deviation of actual from projected disbursements of external program support and receipts from oil signature bonuses. The upward adjustment of higher than programmed external program support will not take place to the extent that the additional support is used to accommodate higher capital outlays of the government, up to US$1 million.

[6] This is a continuous performance criterion.

[7] This performance criterion applies not only to debt as defined in point No. 9 of the *Guidelines on Performance Criteria with Respect to Foreign Debt* adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received.

[8] With a grant element of less than 50 percent. Includes a US$2 million loan received from Angola to finance a social inclusion project.

[9] Debt is defined as in point 9 of the *Guidelines on Performance Criteria with Respect to Foreign Debt* adopted on August 24, 2000. Excludes three US$ 5 million loans disbursed by Nigerian 2002-2004, to be repaid from signature bonuses in Blocks 5 and 6.

[10] In fiscal tables, valued at projected nominal exchange rates.

[11] Using adjusters for shortfalls in program support and foreign debt service.

[12] Used for the purpose of assessing performance under the program.

[13] For comparison purposes against original program assumptions, monetary numbers (CR/05/373, Tables 4 and 5, and Appendix IV, Table I.1), for end-December 2005 have been adjusted in Tables 4, 5, 8 and Appendix I, Table I.1, attached, by removing the balances in the government's National Oil Account (NOA) from the definition of central bank net international reserves and net domestic assets. Originally, the NOA was supposed to be held directly by the government in an account with the Federal Reserve, not with the central bank, as indicated in Footnote 8 of CR/05/373.

[14] For comparison purposes against original program assumptions, modified to exclude delayed oil signature bonuses (not an adjuster under CR/06/349).

Table 9. São Tomé and Príncipe: Millennium Development Goals

	1990	1994	1997	2000	2003	2004
Goal 1. Eradicate extreme poverty and hunger						
Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day.						
1. Population below US$ 1 a day (percent)	..	..	..	..	..	..
2. Poverty gap ratio at US$ 1 a day (percent)	..	..	..	..	..	..
3. Share of income or consumption held by poorest 20 percent (percent)	..	..	..	..	..	..
Target 2: Halve, between 1990 and 2015, the proportion of people suffering hunger						
4. Prevalence of child malnutrition (percent of children under 5)	..	..	..	12.9	..	..
5. Population below minimum level of dietary energy consumption (percent)	..	..	..	..	..	..
Goal 2. Achieve universal primary education						
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling						
6. Net primary enrollment ratio (percent of relevant age group)	..	..	85.5	97.1	..	..
7. Percentage of cohort reaching grade 5	..	..	..	61.5	..	..
8. Youth literacy rate (percent age 15–24)	..	..	..	..	..	..
Goal 3. Promote gender equality and empower women						
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015						
9. Ratio of girls to boys in primary and secondary education (percent)	..	..	..	92.1	..	..
10. Ratio of young literate females to males (percent ages 15-24)	..	..	..	..	..	..
11. Share of women employed in the nonagricultural sector (percent)	..	..	..	..	..	..
12. Proportion of seats held by women in the national parliament (percent)	12.0	..	7.0	9.0	9.0	9.0
Goal 4. Reduce child mortality						
Target 5: reduce by two-thirds between 1990 and 2015, the under-five mortality rate						
13. Under-five mortality rate (per 1,000)	118.0	118.0	..	118.0	118.0	118.0
14. Infant mortality rate (per 1,000 live births)	75.0	75.0	..	75.0	75.0	75.0
15. Immunization against measles (percent of children under 12-months)	71.0	65.0	60.0	69.0	87.0	87.0
Goal 5. Improve maternal health						
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.						
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	..	..	..
17. Proportion of births attended by skilled health personnel	..	..	..	58.5	..	79.8
Goal 6. Combat HIV/AIDS, malaria and other diseases						
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS						
18. HIV prevalence among females (percent ages 15–24)	..	..	..	..	..	1.3
19. Contraceptive prevalence rate (percent of women ages 15–49)	..	..	..	29.0	..	..
20. Number of children orphaned by HIV/AIDS	..	..	..	..	..	..
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases						
21. Prevalence of death associated with malaria	..	..	..	..	..	..
22. Share of population in malaria risk areas using effective prevention and treatment	..	..	..	80.0	..	..
23. Incidence of tuberculosis (per 100,000 people)	136.1	126.6	120.0	113.7	107.8	107.8
24. Tuberculosis cases detected under DOTS (percent)	..	..	..	..	..	..

Sources: See Table 9 (concluded).

Table 9. São Tomé and Príncipe: Millennium Development Goals (concluded)

	1990	1994	1997	2000	2003	2004
Goal 7. Ensure environmental sustainability						
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources						
25. Forest area (percent of total land area)	28.1	..	..	28.1	..	..
26. Nationally protected areas (percent of total land area)	..	..	..	..	..	..
27. GDP per unit of energy use (PPP $ per kg oil equivalent)	..	..	..	..	..	..
28. CO2 emissions (metric tons per capita)	0.6	0.6	0.6	0.6	..	..
29. Proportion of population using solid fuels	..	..	..	..	..	..
Target 10: Halve by 2015 proportion of people without access to safe drinking water						
30. Access to improved water source (percent of population)	..	..	..	..	79.0	..
Target 11: Achieve by 2020 significant improvement for at least 100 million slum dwellers [1]						
31. Access to improved sanitation (percent of population)	..	..	..	..	24.0	..
32. Access to secure tenure (percent of population)	..	..	..	..	..	..
Goal 8. Develop a Global Partnership for Development						
Target 16: Develop and implement strategies for productive work for youth.						
45. Unemployment rate of population ages 15–24 (total)						
Female	..	..	..	..	..	..
Male	..	..	..	..	..	..
Target 17: Provide access to affordable essential drugs						
46. Proportion of population access with access to affordable essential drugs	..	..	..	..	..	..
Target 18: Make available new technologies, especially information and communications						
47. Fixed line and mobile telephones (per 1,000 people)	19.2	19.8	31.2	31.0	77.6	77.6
48. Personal computers (per 1,000 people)	..	..	..	..	..	..

Source: World Development Indicators database, April 2006.

[1] Targets 33–44 are excluded because they can not be measured on a country specific basis. These are related to official development assistance, market access, and the HIPC initiative.

Table 10. São Tomé and Príncipe: Schedule of Disbursements Under the Proposed PRGF Arrangement, 2005–08

SDR Millions	Percent of Quota	Date available	Disbursement conditions
0.423	5.7	Aug. 2005	Board approval of arrangement
0.423	5.7	Feb. 2006	Observance of Performance Criteria for end-September 2005 and completion of review
0.423	5.7	Aug. 2006	Observance of Performance Criteria for end-December 2005 and completion of review
0.423	5.7	Dec. 2006	Observance of Performance Criteria for end-June 2006 and completion of review
0.423	5.7	May 2007	Observance of Performance Criteria for end-December 2006 and completion of review
0.423	5.7	Nov. 2007	Observance of Performance Criteria for end-June 2007 and completion of review
0.422	5.7	May 2008	Observance of Performance Criteria for end-December 2007 and completion of review

Source: IMF.

Table 11. São Tomé and Príncipe: Indicators of Fund Credit, 2006–10

(Millions of SDRs, unless otherwise indicated)

	2006	2007	2008	2009	2010
	Projections				
Fund credit outstanding [1]					
Millions of SDRs	3.12	3.58	3.63	3.25	2.96
Millions of U.S. dollars	4.60	5.36	5.45	4.90	4.47
Percent of quota	42.16	48.38	49.05	43.92	40.00
Fund obligations					
Fund total charges and interest	0.03	0.03	0.02	0.02	0.02
Existing drawings	0.03	0.02	0.01	0.01	0.01
Prospective drawings	0.00	0.01	0.01	0.01	0.01
Fund total repayment/repurchases	0.38	0.38	0.38	0.38	0.29
Existing drawings	0.38	0.38	0.38	0.38	0.29
Prospective drawings	0.00	0.00	0.00	0.00	0.00
Fund credit in percent of					
Export of goods and nonfactor services	20.47	21.57	18.78	15.48	13.01
Gross official reserves	16.97	18.09	17.24	14.14	10.62
Memorandum items:					
Export of goods and nonfactor services (In millions of US dollars)	22.49	24.84	29.03	31.64	34.37
Gross official reserves (millions of US dollars)	27.12	29.62	31.62	34.62	42.12

Sources: Fund staff estimates and projections.

[1] Includes the prospective disbursements under the Poverty Reduction and Growth Facility arrangement for a total of SDR2.96 million (40 percent of quota).

Table 12. São Tomé and Príncipe: Implementation Status of HIPC Floating Completion Point Triggers [1]
(As of end-June 2006)

Trigger Measure	Implementation Status
Prepare a full PRSP through a participatory process	Done. Joint Staff Advisory Note (CR/05/336) was issued in March 2005.
Prepare first annual PRSP progress report	Joint Staff Advisory Note expected to be circulated to the IMF and World Bank Executive Boards in the third quarter of 2006.
Maintain macroeconomic stability, as evidenced by satisfactory PRGF program implementation	Second review under the PRGF-arrangement confirms that macroeconomic framework is on track.
Assess costing of sectoral strategies for health and education	Done. Costed health and education sectoral strategies were provided to the IMF staff during second review mission.
Implement control and monitoring mechanisms to ensure efficient and transparent use of HIPC interim debt relief	On track. A special Treasury account has been established with the central bank. 2001-02 annual reports and audits on the use of HIPC resources have been prepared; posting on the Directorate of Poverty's website still pending. Audits for 2003-05 are ongoing.
Place the programming and execution of foreign-financed capital expenditure under the control of the Ministry of Planning and Finance	Done. All project loans are included/programmed in the budget and accounted for in the Public Investment Program, although some project loans are executed independently. The government has requested all development partners to support efforts to bring/compile all external assistance into the central government budget.
Adopt capacity building program to manage oil resources	Done. Oil Revenue Management Law (ORML) was approved in December 2004, and World Bank's technical support on institution building is ongoing.
Establish petroleum revenue oversight and control committee	Done. The National Committee on Petroleum (NCP) was established in the first half of 2004 to supervise the development and strategy of the sector. The ORML provides a new oversight committee structure, allowing for the auditing and supervision of petroleum receipts and expenditures. The regulations related to the ORML are currently at the National Assembly.
Make operational Auditor General's Office (AGO)	Done.
Make operational tribunals of arbitration in business and contract matters	Pending. Expected for second half of 2006.
Build and equip at least 40 new classrooms in primary schools and 15 classrooms in secondary schools. Also, recruit and train 120 primary school teachers	Done. As of end-June 2006, the government had built the primary and secondary school classrooms agreed to as a HIPC completion trigger point. Between the year 2000/01 and 2005/06, 171 teachers were recruited, while 75 teachers are in on the job training (the on the job training started 2 years ago).
Build and equip at least 8 primary health care centers and increase the immunization rate of children to 85 percent	Done. 7 health care centers / posts were built and equipped during 1999-2005. Another three posts were under construction as of late January 2006. Vaccination of the children for major childhood diseases (DPT3, Polio, BCG, and measles) has met or surpassed the HIPC completion triggers.
Reduce the child (under 5) morbidity rate caused by malaria to 60 per 10,000	Done. The anti-malarial campaign launched in 2003 in Príncipe (education, fumigation, bed nets) and extended in 2004 to the island of São Tomé reduced sharply malaria child morbidity to 60 per 10,000.

Source: Sãotomean authorities.

[1] See Floating Completion Point Triggers (Decision Point Document, www.imf.org, of December 5, 2000, page 29).

APPENDIX I

São Tomé, July 14, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

1. On behalf of the government of São Tomé and Príncipe, we hereby transmit an attached memorandum of economic and financial policies (MEFP) that sets out the objectives and policies that the government intends to pursue for the remainder of 2006, consistent with the government's Poverty Reduction Strategy (*Estratégia Nacional para Redução da Pobreza*; PRSP) and its underlying medium-term economic framework. We understand that São Tomé and Príncipe could reach HIPC Completion point if it successfully completes the second review under the Poverty Reduction and Growth Facility (PRGF) arrangement and meets all completion point triggers laid out in the HIPC decision point document.

2. The government of São Tomé and Príncipe has made substantial progress in advancing the fiscal consolidation process that started in 2005, while prioritizing social spending, as well as in developing indirect monetary instruments to support an active anti-inflationary monetary policy stance. Looking forward, the policies set out in the attached MEFP, aim at correcting the fiscal slippages that appeared in the first quarter of 2006 and solidifying the fiscal consolidation process in the period ahead. The performance criteria and benchmarks and quarterly indicative targets through end-2006, are set out in Tables I.1 and I.2 of the MEFP. In addition, our government requests that the third review under the PRGF arrangement be completed no later than end-December 2006.

3. In support of our objectives and policies, the government of São Tomé and Príncipe hereby requests the completion of the second review and the disbursement of the second loan under the PRGF in an amount equivalent to SDR 0.423 million (5.7 percent of quota).

4. The government of São Tomé and Príncipe will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

5. The government of São Tomé and Príncipe believes that the policies and measures set forth in the MEFP are adequate to achieve the objectives of the 2006 program supported by the PRGF arrangement, but will take further measures to that end if deemed necessary. During the implementation of the arrangement, the government of São Tomé and Príncipe will consult with the Managing Director on the adoption of any measures that may be appropriate, at the initiative of the government or whenever the Managing Director requests such a consultation.

6. The government intends to make the contents of this letter and those of the attached MEFP and technical memorandum of understanding (TMU), as well as the staff report on the second review under the PRGF arrangement, available to the public and authorizes the IMF to arrange for them to be posted on the IMF website, subsequent to Board completion of the second review.

7. We can assure you, Mr. Managing Director, that the government of São Tomé and Príncipe is determined to fully implement the program supported by the PRGF arrangement and meet all completion point triggers laid out in the HIPC decision point document.

Yours truly,

/s/

Mrs. Maria dos Santos Tebús Torres
Deputy Prime Minister and Minister of Planning and Finance

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

APPENDIX I
ATTACHMENT I

SÃO TOMÉ AND PRÍNCIPE:
MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

July 2006

I. INTRODUCTION

1. **This Memorandum of Economic and Financial Policies (MEFP) supplements that of February 2006, as well as the letter of intent dated February 9, 2006.** It describes: (i) performance under the PRGF arrangement through December 2005, (ii) economic and political developments in the first half of 2006, and (iii) the government's economic program for the remainder of this year. The thrust of the policies embodied in this memorandum is consistent with the medium-term strategy underpinning the three-year PRGF arrangement that was approved by the IMF Executive Board on August 1, 2005. The satisfactory performance under the PRGF-supported program in 2005, combined with the plans and policies set forth in this memorandum for the remainder of 2006, should help São Tomé and Príncipe attain the medium-term objectives set out in our PRSP and reach the completion point for the Heavily Indebted Poor Countries (HIPC) initiative. Our government is committed to sustaining the pace of economic growth, reversing the rising inflation that started in late 2005, and making further inroads on poverty.

II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

Performance During 2005

2. **In 2005, real GDP registered 3.8 percent growth, significantly higher than had been projected.** The pace reflected brisk economic activity in the construction and services sectors. According to the National Institute of Statistics, residential and commercial building on the island of São Tomé increased notably over previous years. Several large-scale tourism projects were initiated. Also, a significant expansion in banking and insurance activities is underway, prompted by prospects of an expanding domestic oil economy.

3. **The inflation rate of 17.2 percent at the end of 2005 exceeded the target of 15.2 percent as international oil prices rose and conditions in the foreign exchange market changed.** Our government's assessment is that at least two percentage points of the inflation estimate in 2005 reflected both the first-round effects from passing rising international oil prices through to domestic consumers and the impact of large hikes in electricity tariff rates that were implemented in October 2005 to cover the increasing costs of producing thermal electricity. Prices for imported foods and other staples, which have a significant weight in the consumer price index (CPI), also rose substantially after the depreciation of the dobra in the last quarter of 2005. The depreciation of the dobra occurred in the context of technical changes to the central bank's foreign exchange auction made to better reflect supply and demand for dollars.

4. **During 2005, all fiscal quantitative performance criteria under the PRGF arrangement were met.** The domestic primary deficit as a measure of fiscal stance declined from 20.6 percent of GDP in 2004 to 16.3 percent in 2005. Consistent with our anti-inflationary policy objective, the deficit was tighter than planned because budgetary execution was very cautious. Tax revenue was in line with the program, although overall government receipts fell short of projections due to delays in the receipt of fees from fishing licenses granted to the European Union pending completion of a new fisheries agreement for 2007-09. Primary spending was lower than projected because capital spending financed by the Treasury was contained, and cuts in current transfers more than offset overruns in goods and services. The latter largely reflected hikes in the government's bill for transportation, water, and electricity, which rose in tandem with the pass-through of international oil prices and the increase in electricity rates in 2005. Nevertheless, other goods and services items, such as outlays for communications and missions abroad, showed significant consolidation.

5. **All monetary performance criteria for 2005 were met**. The central bank's net international reserves at year end exceeded the program's target by US$6 million, even after excluding the National Oil Account (NOA), which was not originally considered in determining the NIR performance criteria. Net credit to the government from the banking system was below the program's ceiling due to a tighter than envisioned fiscal stance. The central bank's net domestic assets (NDA) also stood within program's limits by year end 2005, although, net of the NOA, the NDA would have marginally exceeded the target due to higher than envisioned expansion in "other items net".

6. **Structural reforms remained on track in 2005, though there have been some delays:**

- The terms of reference for a study on land tenure have been prepared (structural benchmark for December 2005) by a working group of experts from the Ministries of Infrastructure and Public Works. The study will seek to identify measures to: (i) assess the economic effects of a lack of complete property rights for landholders, (ii) strengthen institutional land management capacity, and (iii) establish best practices in crop rotation, including introduction of new crops, efficient marketing practices, and training for specific rural communities. The government has requested financing and technical advice from the World Bank's Global Environment Fund to firm up the scope of the project and launch the necessary studies if possible during the second half of 2006.

- Feasibility studies for the restructuring of the airport (ENASA) and the seaport (ENAPORT) authority (a structural benchmark for December 2005) are not yet completed, despite government efforts. Replies to a public call for applicants to conduct the studies were unsuccessful. Our government is now evaluating a list of consultants provided by the World Bank, who are currently expected to begin working on this subject matter in late-July 2006. We expect the studies to be completed no later than end-September 2006 (structural benchmark).

- The submission to the National Assembly of proposed legislation criminalizing money laundering and financing of terrorism (a structural benchmark for September 2005) has been delayed, although we expect progress in this area over the coming months. A working group of experts from the Ministry of Justice and the BCSTP has drafted an antimoney-laundering law; the central bank recently sent this draft to the Fund's Legal (LEG) and Monetary Financial Systems (MFD) departments to initiate an exchange of ideas on its technical and administrative implementation. The central bank is thus taking a proactive policy stance in this important policy area. As noted in the context of the first review under the program, the law will be submitted to the National Assembly by end-December 2006, after it has been discussed by the Council of Ministers.

Performance in the First Half of 2006

7. **Political developments during 2006 have tested the fundamentals of our country's democracy and brought to the fore the urgent need to address poverty.** Three elections—legislative, regional and local government, and presidential elections—are conducted in the first seven months of the fiscal year. The legislative elections that took place on March 26, 2006, were aligned with international norms and commended by international observers. The Presidential elections scheduled for July 30, and the regional and autarchic elections scheduled for August 27 will further cement the democratic credentials of our country.

8. **It appears from preliminary information that economic growth continues to be robust in 2006 and may accelerate substantially because of the bold initiation of large private construction projects on the islands of both São Tomé and Príncipe and the sustained growth in services connected with the development of the oil sector.** With regard to the latter, exploratory drillings in Block 1 of the Joint Development Zone (JDZ), conducted by Chevron-Texaco, were completed in March 2006. While there are indications of substantial oil, its commercial viability will not be known until the operator has completed further analysis and made public its evaluation. Drillings in blocks 2, 3, and 4 may start next year; the Joint Development Agency (JDA) and the winning oil consortiums signed production-sharing contracts (PSCs) in March 2006, and oil signature bonuses have been paid.

9. **In spite of robust growth, price stabilization faced serious challenges in the first half of 2006.** The 12-month inflation rate climbed from 17 percent at year end 2005 to 23.8 percent by April 2006. Our view is that the acceleration of inflation in 2006 reflects: (i) the pass-through of the large depreciation of the dobra in the last quarter of 2005, (ii) shortages of food staples, both imported and locally produced, and (iii) a higher-than-programmed expansion in central bank credit to the government that boosted base money growth. Our assessment is that at least 4 percentage points of the inflation rate at the end of April reflect supply breakdowns that led to sharp transitory price increases for items such as sugar, flour, oil, beans, powdered milk, and meats, which are heavily weighted in the CPI. This analysis is corroborated by a 32 percent decline in US dollar imports of foods and staples in the first quarter of 2006 compared with the same quarter last year.

10. **The domestic primary deficit in the first four months of the year was larger than envisioned under the program due to lagging tax receipts and some expenditure overruns.** Despite significant increases in oil taxes and excise duties on services, total government revenue lagged behind targets because tax arrears grew. The main unpaid liabilities were for profit taxes and for consumption taxes on fuel products payable by the oil-importing company (ENCO), which was awaiting an increase in domestic fuel prices to address its weak financial position. Through mid-June, a large part of these arrears had already been paid. Expenditure overruns occurred in a number of areas:

- The wage bill of the Ministry of Defense was higher than expected due to a one-off payment of wage bonuses totaling dobras 5.1 billion that has been pending since 2003.

- The government's electricity bill rose sharply because budgetary units paid a cumulative 54 percent increase in electricity costs to the water and electricity company (EMAE) between late October 2005 and January 2006. The further 40 percent increase in rates activated at the end of March will amplify this spending category for the rest of the year. The increase in electricity costs to the public sector, which was accompanied by a simultaneous increase in charges to the private sector, has been a fundamental policy change. The increase has led to (i) a better financial position for EMAE because utility prices now cover costs of production and operating margins, (ii) better resource allocation for the economy as a whole, and (iii) the prospect of profit transfers from EMAE to the budget in 2007 as higher receipts exceed operating costs.

- The cost of holding legislative elections in March was higher than expected, as donor support for this spending category was lower than expected. The US$1 million appropriation in the 2006 budget for all three elections has been largely exhausted. The program had assumed a more even distribution of these outlays throughout the year.

- The government made a short-term net loan to rice importers in the amount of dobras 4.6 billion to partially address supply breakdowns of this imported food staple. The loan is currently being repaid. Full repayment is expected by the end of September 2006 at the latest.

11. **From January through April 2006, the higher fiscal deficit was financed by net credit from the central bank and foreign borrowing, partly due to a significant delay in the annual transfer of resources from the National Oil Account to the budget.** Central bank credit to the government increased by 21 percent between December 2005 and April 2006 against a programmed 4 percent decline. At the same time, a loan from Angola amounting to US$4 million (5.7 percent of GDP) helped finance a social inclusion project that had been incorporated into the 2006 budget to compensate workers laid off when public agricultural enterprises were privatized in the 1990s. A number of international and local NGOs coached workers in identifying investment projects for which disbursements could be used effectively. The government borrowed because of strong social pressures to move the

project forward and the fact that it faced a treasury cash flow problem because the transfer of National Oil Account resources had been delayed. Lower-than-expected foreign aid in the first four months of 2006 further heightened pressures on the government cash flow position. Domestic arrears of dobras 28.9 billion, accumulated mostly in March and April, were cancelled soon after the transfer from the National Oil Account reached the budget in late May.

12. **Monetary and credit aggregates continued to grow rapidly in the first four months of 2006, although the structural changes in the domestic banking system may have altered their information content**. The 12-month growth rate of base money was 91 percent at the end of April 2006. Concurrently, broad money grew by 91 percent and banking sector credit to the economy grew by 41 percent through March. Commercial bank reserves with the central bank have been artificially high so far in 2006 because of guarantee deposits held with the monetary authority pending its granting of bank operating licenses. Also, the increase in banks' reserves with the central bank mirrored large foreign currency-denominated bank deposits of non-residents that were not moved into the domestic economy but rather held offshore by local banks. The growth of credit aggregates has also been affected by cross-border lending, which has posed new challenges to monetary policy and banking regulation.

13. **Our government's view is that the acceleration of inflation and the rapid growth of monetary and credit aggregates—even after correcting for structural breaks in the financial sector—warrants an active monetary policy to mop up any excess liquidity.** We have therefore implemented a number of policies:

- The central bank's reference interest rate was increased from 18.2 percent to 24 percent on May 19, 2006. This is consistent with the government's commitment under the Fund program to keep this interest rate above the inflation rate.

- On May 19, 2006, reserve requirements for banks were increased from 24 to 24.5 percent. This increase should help to slow down the growth of credit to the economy, especially for banks with limited reserve holdings at the central bank.

- As MFD recommended, a single-price (Dutch) foreign exchange auction has been implemented. Auctions are currently being held every week to address the economy's demand for dollars, absorb liquidity, and support the price-discovering process.

- The central bank is taking further steps toward issuing certificates of deposit (CDs). The introduction of CDs, combined with active sales of foreign exchange, will allow the central bank to simultaneously (i) sterilize the liquidity impact of the fiscal deficit and other sources of base money expansion and (ii) provide foreign exchange to the economy while keeping international reserves at an adequate level.

14. **São Tomé and Príncipe is current in servicing its external obligations with multilateral and Paris Club creditors.** Relations with Paris Club creditors have been normalized since the September 2005 rescheduling agreement on Cologne terms. At the same time, the debt unit at the Ministry of Planning and Finance is currently collecting information

from most bilateral creditors to reconcile debt records ahead of an update of the HIPC debt sustainability analysis (DSA), with the aim that São Tomé and Príncipe will reach the HIPC completion point over the coming months. Also, as part our efforts to improve debt management, the government is now installing, with financial support from the World Bank, the Commonwealth Secretariat debt recording system (CS-DRMS).

15. **Among the structural reforms advanced in the first half of 2006:**

- A draft amendment of the laws defining internal control and administrative regulations governing the Inspectorate General of Finance (IGF) was approved and submitted by the previous government to the Office of the President of the Republic for promulgation in February 2006. Taking into account recommendations received from the President's Office, our government intends to resubmit these draft laws no later than the end of July 2006 for proclamation by the President of the Republic (a structural benchmark for March 2006).

- A database to record and monitor follow-up actions on infractions and irregularities identified by the IGF in each inspected sector within its jurisprudence has been successfully established (a structural benchmark for June 2006). The databank has information dating back to 2003 on some 25 operating sectors by budgetary unit.

- EMAE's installation of prepaid electricity metering systems in designated urban locations (a structural benchmark for April 2006) is expected to be completed in September 2006. Though the metering systems are already being installed, they cannot be activated until the Contadora hydroelectric power plant comes on stream to provide the necessary electricity tension for operating them.

- The submission to the National Assembly of proposals to revise the Customs Law, the customs' organic law (*Estatuto das Alfandigas*) and the General Code on Customs Infractions (*Regime Geral das Infracós Aduaneiras*), with to a view to update accounting practices and customs procedures, and modernize the customs system (a structural benchmark for end-June 2006) is expected for the third quarter of 2006.

III. Economic Policies for the rest of 2006

16. Our government is committed to continuing macroeconomic stabilization and structural reform as the main channels for sustaining economic growth and making further progress in reducing poverty. To this end, we plan to:

- Continue with the fiscal consolidation that started in 2005, while protecting priority expenditures consistent with the government's Poverty Reduction and Strategy Paper (PRSP).

- Pursue an active monetary policy to achieve the targeted reduction of inflation.

- Establish a mechanism to guarantee the pass-through of international oil prices to domestic consumers.

- Improve governance and transparency practices in the management of oil resources.
- Advance preparations for reaching the HIPC completion point in 2006, including the implementation completion point triggers.

A. Fiscal Policy

17. **The fiscal stance during the second half of 2006 will support disinflation by mobilizing revenue and strictly controlling expenditures, while protecting pro-poor outlays**. The 2006 program targets a domestic primary deficit of 15.5 percent of GDP. Government revenues (excluding grants and oil signature bonuses) are projected to increase from 27.7 percent of GDP in 2005 to 32.2 percent in 2006. A very strict expenditure policy in the second half of the year should provide savings to accommodate much higher domestic primary spending (2.3 percent of GDP) for spending on electricity and gasoline and financing the 2006 elections. The wage bill as a share of GDP is projected to remain constant.

18. **A number of policy measures will support the program's fiscal targets in the second half of 2006**. On the revenue side, the measures will (i) consolidate tax measures introduced in 2005, (ii) marginally increase excise duties, in the absence of a general sales tax, (iii) pass through to domestic consumers rises in international oil prices, and (iv) expedite the settlement of corporate and individual tax arrears. On the expenditure side, the objective will be to secure an austere spending path for nonpriority spending.

Revenue Measures

19. **Among the revenue measures already taken or contemplated for the second half of 2006**:

- The reference prices used to assess excise duties on a core group of nonfood imports have been set in euros to protect collections against the impact of the depreciation of the dobra; the exchange rate used to convert these reference prices into dobras will be updated weekly. Collections from this measure are expected to yield an estimated dobras 3.3 billion during the second half of this year, equivalent to 0.4 percent of GDP.
- The excise tax on the provision of services, excluding water and electricity, will be increased from 5 percent to 7 percent in July 2006. This measure is expected to yield an estimated 5 billion dobras for the rest of the year, equivalent to 0.5 percent of GDP.
- In keeping with the government's policy to keep retail fuel prices in line with world market prices, on June 2, 2006, the retail price of gasoline was increased by 28 percent and of gas oil by 27.3 percent. The price of kerosene was also increased by 8 percent. These measures complement a 40 percent increase in wholesale prices of gas oil sold by ENCO to EMAE, which were implemented in mid-April 2006. The new fuel prices should restore ENCO's financial sustainability and prevent oil tax arrears in the future.

- We have taken action to expedite the settlement of tax arrears on corporate and individual income taxes while tackling tax evasion. In particular, the Tax Directorate is implementing a resolution (*despacho)* from the Ministry of Planning and Finance to collect arrears dating from 2003. We expect this measure to yield about dobras 0.6 billion through end-September 2006 and dobras 1.2 billion by the end of the year (equivalent to 0.1 percent of GDP).

- Our government has drafted an action plan to improve collections and address the mounting arrears on excise taxes on domestically produced beer that accumulated in the last quarter of 2005. Successful implementation of this plan should yield additional revenue of dobras 1 billion for the rest of the year, equivalent to 0.1 percent of GDP.

- In the third quarter of 2006, the government will resubmit to the National Assembly a thorough tax reform package, including new codes on personal income and corporate taxation, a new tax procedural code, new guidelines on urban property taxation, and new legislation on inheritance taxes. The previous government submitted this tax reform package for National Assembly consideration in 2005, but practices in São Tomé and Príncipe require that the new government resubmit it. A new investment code will also be resubmitted to the National Assembly in the third quarter of 2006. The new investment code will provide equal treatment for domestic and foreign investors operating in São Tomé and Príncipe and, together with the new corporate income tax code, will rationalize preferential tax regimes. A summary description of the draft codes was included in the MEFP of June 2005 that underpinned the government's request for a three-year PRGF arrangement.

Expenditure Measures

20. **We have undertaken policy commitments and implemented measures to correct the expenditure over-runs registered in the first four months of this year**. The policy objective has been to keep domestic primary expenditure to levels consistent with the policy understandings reached in the first review of the Fund program while allowing for partial accommodation of the higher costs of electricity and gasoline and the 2006 elections. Specific expenditure policies:

- The 2006 wage bill will stay constant as a share of GDP compared with 2005 (13.8 percent of GDP), despite growing social pressures stemming from the increase in prices of domestic fuel and utilities.

- With regard to nonwage expenditure, the Budget Directorate issued an ordinance on May 19, 2006, establishing that, effective immediately, all expenditure by budgetary units—except for appropriations consistent with the 2006 budget for wages, fuel, food, medicine, basic office supplies, and telecommunications—require prior authorization by the budget director. Subsequent ordinances limited the number of public employee missions abroad to the essential and established strict controls on calling cards for mobile phones used by civil servants.

- The net lending to rice importers during the first quarter of 2006 will be repaid by the end of September 2006. No new net lending will take place in the second half of 2006. Pro-poor spending will remain a government's priority throughout 2006.

- Pro-poor spending increased substantially in 2005, reaching 25.7 percent of GDP, despite an overall drop in capital expenditure with respect to the previous year and to the original program projections. Consistent with the priorities set forth in the PRSP, the health and education sectors explained almost all the pro-poor current spending, the latter which explained 36.5 percent of the total. Pro-poor capital expenditures concentrated in health and infrastructure (roads), with 29 percent each. For 2006, the program envisages a further increase in pro-poor spending, to 28.4 percent of GDP, explained by higher HIPC spending and a rebound in capital expenditures financed by external sources. Health, education and infrastructure, are expected to remain the priority sectors.

B. Monetary and Exchange Rate Policy

21. **To reduce 12-month inflation from 23.8 percent at the end of April to 22 percent by the end of 2006, despite rising fuel and electricity prices, the BCSTP will pursue an active monetary policy,** including a judicious mix of foreign exchange sales and issuance of central bank certificates of deposit to mop up liquidity while keeping the central bank's reference interest rate above the inflation rate. Strict compliance with reserve requirement ratios will also support disinflation.

22. **Coordination of fiscal and monetary policy has been stepped up through the establishment of a working group to forecast the sources of expansion and contraction of base money on a weekly basis.** In this regard, the short-term liquidity management framework devised in consultation with MFD in early-April 2006 has been made operational. The framework has helped the central bank in assessing its current and prospective sterilization needs on a regular basis. Weekly reporting to the Fund in this area has further strengthened the central bank's analysis in this area.

23. **The monetary program will guard against any increases in base money arising from central bank efforts to stabilize the economy**. The central bank's operating surplus in 2005, which was supported by effective reserve management and an increase in profits on the sales of foreign exchange (*ganhos cambiais*) throughout the year, is likely to decline as the dobra depreciation decelerates in the second half of 2006. The central bank will therefore closely monitor its operating balance with a view to (i) preventing year-end operating losses and (ii) identifying potential sources of financing in case operating losses become unsustainable.

24. **The monetary program is consistent with a comfortable central bank international reserve position and a stable velocity of money.** The program limits the change in net domestic assets of the central bank at dobras -175.2 billion (at program exchange rates; see Table I.1) by December 31, 2006, while the floor in NIR gains will be set at US$14.2 million. This floor should allow 2006 gross NIR to remain above 4 months of imports of goods and services. A stable velocity of money is consistent with broad money

growth projected at 19.6 percent. This, in turn, is consistent with a 21.5 percent in private sector credit growth.

25. **The BCSTP remains committed to continuing the managed float exchange rate regime**, which has allowed the monetary authorities to address the volatility of external inflows and cushion exogenous shocks. Central bank sales of foreign currency will be conducted using the single-price exchange rate auction system that has been in place since March 2006. The scope and timing of foreign exchange auctions will be consistent with the NIR targets under the program.

26. **The BCSTP will continue to implement MFD's technical assistance recommendations on banking supervision, development of interbank money markets, and foreign exchange auctions**. In particular, the BCSTP is strengthening its capacity to supervise licensing of new banks, devise on-site and off-site prudential regulation indicators, and assess foreign exchange positions and operating risks of banks. Our government is of the view that an efficient and sound domestic banking system is essential to sustaining economic growth. While new banks are likely to register limited profitability in their first years of operation, the BCSTP will closely monitor developments to assess whether there is any need for bank recapitalizations. A regular system for reporting prudential regulation indicators to the Fund has now been established.

C. External Sector Policies and Debt Management

27. **During the rest of 2006, we will continue to assess major trade policy issues by participating in the Integrated Framework Process and implementing the 2005 Diagnostic Trade Integration Study (DTIS) for São Tomé and Príncipe**. The thrust of the policies will be to facilitate and expand export-oriented production by the poor, improve the business environment, improve infrastructure and public services, and reduce trading costs.

28. **With regard to debt management, the government is mindful of the need to secure concessional external budget financing to avoid exacerbating the already high external indebtedness**. We will also continue to seek financial support from development partners.

29. **Our government is committed to accepting obligations under Article VIII, Sections 2(a), 3, and 4, of the Fund's Articles of Agreement.** The BCSTP is working closely with the Fund's Legal (LEG) and MFD departments to review the relevant laws and regulations. In December 2005, a mission from LEG and MFD visited São Tomé to review the exchange system and on March 31, 2006, submitted its final report to the BCSTP for consideration. We have recently submitted to LEG an action plan to lift any remaining exchange restrictions and multiple currency practices to pave the way for São Tomé and Príncipe to accept its Article VIII obligations. We hope to reach understanding with the Fund on a timetable for this in the coming months.

D. Domestic Fuel Pricing

30. **The current fuel price-setting mechanism is quite transparent, reflecting ENCO's average oil import costs, the ad valorem surcharges, and the company's profit margins.** Increases in fuel prices in recent years have been triggered by a rise in CIF oil import prices, which automatically increases import costs and ENCO's tax liabilities to the Treasury. The practice has been for the company and the government to jointly decide the timing and the magnitude of price hikes, which sometimes causes temporary cash flow problems for ENCO. These in turn have created recurrent delays with the payment of ENCO's taxes that have complicated the Treasury's cash flow situation, given the relative large share of oil-related taxes in total government receipts.

31. **To avoid misalignments between domestic and international oil prices, as of June 2006 ENCO will no longer need to consult with the government to raise domestic fuel prices.** Instead, domestic prices will be automatically adjusted whenever there is a change in international oil prices. During the next review mission, our government plans to discuss with the Fund possible measures to ameliorate the social impact on the poor of further fuel price increases.

E. Governance and Transparency Issues

32. **Our government is committed to strengthening governance and transparency in our management of prospective oil resources.** Critical areas of reform include:

- Better technical cooperation with the Economic Commission at the National Assembly, which is in charge of petroleum issues; this would expedite submission to the Plenary of draft legislation that would establish the Petroleum Oversight Commission and the Public Registration and Information Office to audit and monitor oil revenue flows and disseminate oil-related information. Establishing the Petroleum Oversight Commission promptly would also be instrumental in following up, in consultation with the Attorney General's Office, on the allegations of a lack of transparency and technical flaws in the licensing of Blocks 2-6.

- Publication by end-September 2006 of the implementation handbook for the Oil Revenue Management Law (ORML), which has been written in cooperation with the World Bank. The handbook identifies actions in a variety of budgetary units that need to be in place to effectively implement the ORML.

33. **For the last nine months, our government has been addressing the structural weaknesses identified in the safeguards assessment of the BCSTP that the Fund's Finance Department conducted in March and April 2004**:

- On December 31, 2005, the BCSTP and the Ministry of Planning and Finance signed a protocol to confirm the outstanding stock of government debt to the BCSTP as of July 31, 2005. Discussions are proceeding to set the interest rate the government is to pay on the debt and the amortization schedule.

- The BCSTP has posted on its website (www.bcstp.st) its complete 2004 audited financial statements, with detailed explanatory notes and the auditor's letter. Publication of the 2005 audited financial statements is expected later this year.

- Investment guidelines for foreign reserves are being drawn up in consultation with international experts. Also, instruments like the swift system and Reuters and Bloomberg terminals are being installed at the central bank, though there are still concerns about the availability of human and physical capital.

F. HIPC Completion Point Triggers

34. **Reaching the HIPC completion point in 2006 is an overriding policy objective for our government.** We believe we have made significant progress in (i) implementing the social measures required, (ii) setting in place institutional mechanisms to ensure efficient and transparent use of HIPC interim debt relief, and (iii) increasing transparency and accountability in the management of public resources,

- The sectoral strategies for education and health have been formulated and costed.

- In the education sector, by mid-year 2006 the government had built the number of primary and secondary school classrooms set as a HIPC completion trigger. Further, between 1999 and 2004, 134 more primary school teachers and 174 kindergarten teachers were hired.

- In the health sector, since 1999 the government has built and equipped 10 health care centers and rehabilitated 2 medical posts. Vaccination against major childhood diseases (DPT3, Polio, BCG, and measles) has either met or surpassed the HIPC completion targets. The antimalarial campaign launched in Príncipe in 2003, which incorporated family education, fumigation, and antimosquito nets and which was extended to São Tomé in 2004, has sharply reduced our country's under-5 morbidity rate caused by malaria.

- A special treasury account was established at the central bank to monitor the use of HIPC interim debt relief. Annual reports and external audits on the use of HIPC relief for 2001-02 were posted on the website of the Poverty Observatory in July 2006. We are now auditing the use of HIPC debt relief during 2003-05.

- The Ministry of Planning and Finance has enhanced its control of the programming and execution of foreign-financed capital expenditure. All expected project loans are in principle included in the fiscal budget and accounted for in the Public Investment Program (PIP). Also, the government has asked its development partners to help us consolidate all foreign aid in the fiscal budget.

- The National Committee on Petroleum (NCP) was formalized as a legal entity early in 2004 to supervise development of and strategy for the sector. The ORML of December 2004 provides for a new oversight committee to audit and supervise petroleum receipts and expenditures. Regulations related to the ORML are currently before the National Assembly.

- The Auditor General's Office (AGO) has been operating since 2003 and is expected to audit the government's full financial accounts starting in 2007.

- The tribunal for arbitration of business and contract matters is expected to become operational in the third quarter of 2006.

G. MDRI Issues

35. **The government is aware that the eventual use of MDRI resources should take duly into account the country's absorptive capacity.** Annual debt service payments could be reduced by about 2 percent of GDP on average during 2006-08, on account of MDRI. MDRI resources could be used to help cover the Priority Actions Program (PAP) for 2006-08, that was discussed at the donors' roundtable in Brussels in early-December 2005. For 2006, the MDRI resources would be deposited with the central bank, while the government prioritizes projects under the PAP. The 2007 budget would incorporate the use of these resources.

H. Program Monitoring

36. **Technical Memorandum of Understanding (TMU)**. The program will be monitored using the definitions, data sources, and frequency of monitoring set out in the accompanying TMU. The government will make available to the Fund all data specified in the TMU, appropriately reconciled and on a timely basis.

37. **Performance criteria**. Table I.1 shows the quantitative indicative targets for end-September 2006 and the performance criteria for end-December 2006. Structural performance criterion and benchmarks for 2006 with corresponding dates are identified in Table I.2. In addition, the government recognizes that avoiding accumulation of external payment arrears (as defined in the TMU) is a continuous performance criterion, as are the injunctions against imposing or intensifying restrictions on current payments, introducing or modifying multiple currency practices, concluding bilateral payments agreements that are inconsistent with Article VIII, or imposing or intensifying import restrictions for balance of payments reasons.

Table I.1. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2005–06

(Billions of dobras, unless otherwise specified)

	2005				2006									
	end-Dec.				end-March		end-June				end-Sept.		end-Dec.	
	Perf. criteria CR/05/373	Perf. Criteria [11] with adjusters	Actual [12]	Actual [13] excluding NOA	Ind.Target CR/05/349	Est.	Perf. criteria CR/05/349	Perf. Criteria [11] with adjusters	**Memo item:** Perf. Criteria excluding oil bonuses [14]	Est.	Ind.Target CR/05/349	Ind.Target Rev. Prog.	Ind.Target CR/05/349	Perf. Criteria Rev. Prog.
1. Floor on domestic primary balance (as defined in the TMU; cumulative from beginning of year)	-130.6	-130.6	-121.9	-121.9	-15.2	-41.6	-72.4	-72.4	-72.4	-72.4	-103.7	-110.6	-135.6	-143.8
2. Ceiling on domestic primary spending (cumulative from beginning of the year) [1]	329.4	329.4	319.7	319.7	65.1	81.1	189.1	189.1	189.1	206.5	291.1	315.6	401.2	431.4
3. Ceiling on changes in net domestic financing of the government (cumulative from beginning of year, beginning of year, billions of dobras at program exchange rate) [2, 3, 4]	0.8	-11.3	-255.6	-18.1	-109.8	29.6	-277.9	-448.5	104.0	88.9	-260.5	-182.0	-261.9	-182.7
4. Ceiling on changes in net domestic assets of the central bank (cumulative from beginning of year, billions of dobras at program exchange rate) [2, 3, 4]	9.9	-2.2	-234.6	2.9	-109.8	25.5	-275.9	-446.5	106.0	86.0	-256.5	-180.3	-255.9	-175.2
5. Floor on changes in the net international reserves of the central bank (cummulative from beginning of the year, millions of U.S. dollars) [4, 5]	0.9	2.1	32.2	8.7	11.1	3.3	29.9	46.2	-8.5	-7.9	27.7	16.3	25.5	14.2
6. Ceiling on central government's outstanding external payment arrears (stock, millions of U.S. dollars) [6]	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
7. Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the central government or the BCSTP (stock, millions of euros) [7, 8]	1.7	1.7	0.0	0.0	1.7	3.1	1.7	1.7	1.7	1.6	1.7	1.6	1.7	1.6
8. Ceiling on the outstanding stock of external debt with original maturity of less than one year owed or guaranteed by the central government or the BCSTP (stock, millions of U.S. dollars) [9]	15.0	15.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Memorandum items:														
Base Money (ceiling, billions of dobras)	...	...	...	...	185.0	268.4	195.0	...	...	247.3	205.0	...	215.0	...
Currency Issued (ceiling, billions of dobras)					...	...	...	...	...	...	...	80.4	...	94.3
Oil signature bonuses (millions of U.S. dollars, cumulative from beginning of year)	49.2	49.2	49.2	49.2	13.7	0.0	54.7	0.0	0.0	0.0	54.7	28.6	54.7	28.6
Official external program support as defined in the TMU (billions of dobras at program exchange rate) [10]	21.6	21.6	15.2	15.2	0.0	22.2	6.1	6.1	6.1	2.0	18.2	7.1	28.3	27.3

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

[1] Equal to government domestic expenditure, as defined in the TMU, excluding all interest payments.

[2] The ceiling will be adjusted downward (upward) by the cumulative negative (positive) deviations in external debt service and the cumulative positive (negative) deviation of actual from projected disbursements of external program support and oil signatur of higher than programmed external program support will not take place to the extent that the additional support is used to accommodate higher capital outlays of the government, up to US$1 million.

[3] The ceiling will be adjusted downwards by the amount of accumulated domestic arrears.

[4] For 2005, excludes the National Oil Account, consistent with the assumption under CR/05/373 that such resources would be deposited in a correspondent bank and would not be reflected in Central Bank accounts. For 2006, includes the National Oil Account Central Bank, consistent with CR/06/349.

[5] The floor on net international reserves will be adjusted upwards (downwards) by the cumulative negative (positive) deviation in external debt service and the cumulative positive (negative) deviation of actual from projected disbursements of external pro bonuses. The upward adjustment of higher than programmed external program support will not take place to the extent that the additional support is used to accommodate higher capital outlays of the government, up to US$1 million.

[6] This is a continuous performance criterion.

[7] This performance criterion applies not only to debt as defined in point No. 9 of the *Guidelines on Performance Criteria with Respect to Foreign Debt* adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not bee

[8] With a grant element of less than 50 percent. Includes a US$2 million loan received from Angola to finance a social inclusion project.

[9] Debt is defined as in point 9 of the *Guidelines on Performance Criteria with Respect to Foreign Debt* adopted on August 24, 2000. Excludes three US$ 5 million loans disbursed by Nigerian 2002-2004, to be repaid from signature bonuses in Blocks 5 and 6.

[10] In fiscal tables, valued at projected nominal exchange rates.

[11] Using adjusters for shortfalls in program support and foreign debt service.

[12] Used for the purpose of assessing performance under the program.

[13] For comparison purposes against original program assumptions, monetary numbers (CR/05/373, Tables 4 and 5, and Appendix IV, Table I.1), for end-December 2005 have been adjusted in Tables 4, 5, 8 and Appendix I, Table I.1, attached, by removing the bal Oil Account (NOA) from the definition of central bank net international reserves and net domestic assets. Originally, the NOA was supposed to be held directly by the government in an account with the Federal Reserve, not with the central bank, as ind

[14] For comparison purposes against original program assumptions, modified to exclude delayed oil signature bonuses (not an adjuster under CR/06/349).

Table I.2. Structural Performance Criterion and Benchmarks Under the 2006 PRGF-Supported Program (March-December 2006)

Action	Comments
Structural Performance Criterion	
By end-December 2006, implement the fully integrated, computerized budget and public expenditure system (SIGFE).	On Track
Structural Benchmarks	
By end-September 2005, submit to the National Assembly legislation criminalizing money laundering and the financing of terrorism.	Delayed to end-December 2006
By end-March 2006, amend the laws defining internal control and administrative regulations governing the Inspectorate General of Finance (IGF), to increase IGF's powers regarding the oversight and auditing of the financial operations of the central government, public enterprises, and local governments.	Delayed to end-July 2006
By end-June 2006, submit to the National Assembly proposals to revise the Customs Law, the Customs' Organic Law (*Estatuto das Alfandigas*) and the General Code on Customs Infractions (*Regime Geral das Infracós Aduaneiras*), to update accounting practices and customs procedures, and modernize the system to increase the efficiency of the overall customs service.	Delayed to third quarter of 2006
By end-April 2006, complete the installation of EMAE's pre-paid electricity metering systems in designated urban locations with a view to address the public utilities' financial weaknesses in the short-run.	Delayed to September 2006
By end-June 2006, establish a database to record and monitor follow-up actions of problems identified by the Inspectorate General of Finance (IGF) in each inspected sector within its jurisprudence, including the applicable sanctions and penalties.	On Track
By end-September 2006, adopt a sectoral strategy to address the development of suitable infrastructure for electricity production, transportation, and distribution, as well as business modalities to secure dynamic private sector participation in the electricity sector.	On Track
By end-December 2005, complete feasibility studies on the restructuring of ENASA and ENAPORT.	Delayed to end-September 2006
By end-December 2006, implement the Commonwealth Secretariat debt recording management system (CS-DRMS) to improve the government's external debt management capacity.	On Track

APPENDIX I
ATTACHMENT II

SÃO TOMÉ AND PRÍNCIPE: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This technical note contains definitions and adjuster mechanisms that are intended to clarify the measurement of items in Table I.1, Quantitative Performance Criteria, PRGF Arrangement, 2005-06, attached to the Memorandum of Economic and Financial Policies. Unless otherwise specified, all quantitative performance criteria and benchmarks will be evaluated in terms of cumulative flows from December 31, 2005.

Provision of Data to the Fund

2. Data with respect to all variables subject to performance criteria and indicative targets will be provided to Fund staff on a monthly basis with a lag of no more than four weeks for data on the net domestic assets and net international reserves of the Central Bank of São Tomé and Príncipe (BCSTP), and eight weeks for other data. The authorities will transmit promptly to Fund staff any data revisions. For variables that are relevant for assessing performance against program objectives but are not specifically defined in this memorandum, the authorities will consult with Fund staff as needed on appropriate measurement and reporting.

Definitions

3. **Government** is defined for the purposes of this memorandum to comprise the central government. The central government includes all governmental departments, offices, establishments, and other bodies which are agencies or instruments of the central authority of São Tomé and Príncipe. The central government does not include the operations of state-owned enterprises.

4. **Government domestic revenue** comprises all tax and non-tax revenue of the government (in domestic and foreign currency), excluding foreign grants, the receipts from the local sale of crude oil received from Nigeria as in-kind grant, and any gross inflows to government on account of oil signature bonus payments. Revenue will be measured on a cash basis as reported in the table of government financial operations prepared by the Directorate of Budget and Directorate of Treasury in the Ministry of Planning and Finance.

5. **Domestic primary expenditure** comprises all government spending assessed on a commitment basis, excluding: (i) foreign-financed capital expenditure, (ii) expenditure under the overseas scholarship program that are externally-financed, and (iii) other foreign-financed current expenditures, for which data are reported by the Directorate of Budget and Directorate of Treasury. Reporting of government domestic expenditure will be based on the state budget execution prepared every month by the Directorate of Budget and Directorate of Treasury in the Ministry of Planning and Finance.

6. Within the above total, **pro-poor expenditure** refers to government outlays that, as it has been agreed with the IMF and World Bank staffs, have a direct effect in reducing poverty. These expenditures, which includes both current and capital outlays, are defined as follows:

a. **Pro-poor current spending**: These cover the following ministries and expenditure categories (by budget code) as described in the matrix below, with items marked with an "x" representing social expenditures by the referred ministries.

Code	Description of current expenditure	MINISTRY OF EDUCATION AND CULTURE	MINISTRY OF HEALTH	MINISTRY OF LABOUR AND SOLIDARITY
01.00.00	Despesa com Pessoal	X	X	
02.01.05	Outros bens duradouros	X	X	
02.02.02	Combustíveis e lubrificantes	X	X	
02.02.04	Alimentação		X	
02.02.05	Medicamentos	X	X	
02.02.06	Roupas e calsados		X	
02.02.09	Outros bens não duradouros		X	
02.03.01.01	Agua e energia	X	X	
02.03.02	Conservação de bens		X	
02.03.06	Comunicações	X	X	
04.01.01	Orçamento do estado		X	
04.02.01	Instituições particulares		X	X
04.03.01	Particulares		X	X
04.04.02	Outras transferências para exterior			X
06.01.00	Ensino e formação	X		
06.04.01	Custos recorrentes de projectos	X	X	
06.04.04.02	Outros Diversos	X	X	

Expenditures on "combustíveis e lubrificantes" (fuels and lubricants) that are effected for administrative purposes are excluded. Likewise, "alimentacão" (food) and "roupas e calsados" (clothing and shoes) supplied to administrative staff are excluded.

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

c. **Reporting Requirements:** Data on execution of pro-poor current and capital spending will be provided on a quarterly basis to the staff by the Directorate of Budget (for current expenditure) and by the Directorate of Planning (for capital expenditure) at the Ministry of Planning and Finance.

7. The **domestic primary balance** is defined as the difference between government domestic revenue and noninterest government domestic expenditure. This balance for the year 2004 was assessed at dobras -128.1 billion, broken down as follows:

Government domestic revenue:	Db 165.0 billion
Less: government primary expenditure, excluding foreign-financed investment,	
foreign-financed scholarships, and transfers to the JDA:	Db 293.1 billion
Equals: Domestic primary balance:	Db -128.1 billion

8. **The program exchange rate** for the purposes of this memorandum will be Db10,104 per US dollar. The exchange rate of the dobra against the euro will be 12,314 and against the SDR will be 15,558.

9. **Net domestic financing of the government** is defined as the change in net credit to government by the banking system—that is, the stock of all outstanding claims on the government held by the BCSTP, less all deposits held by the central government with the BCSTP, plus the stock of all outstanding claims on the government held by deposit money banks (DMBs)[9], less all deposits held by the central government with DMBs--as they are reported monthly by the BCSTP to the IMF. All foreign exchange denominated accounts will be converted to dobras at the program exchange rate. At end-December 2004, outstanding net credit to the government was assessed at dobras 35.8 billion, broken down as follows:

BCSTP credit, including use of IMF resources:	Db 83.6 billion
Less: government deposits with BCSTP:	Db 41.0 billion
Equals: Net credit to government by the BCSTP:	Db 42.6 billion
Plus: DMBs credit:	Db 0.0 billion
Less: government deposits with DMBs (including counterpart funds):	Db 6.9 billion
Equals: Net domestic financing of the government:	Db 35.8 billion

10. **Base money** is defined as the sum of currency issued—which consists of currency outside banks and cash in vaults—and bank reserves. Bank reserves refer to reserves of commercial banks held with the central bank, and include reserves in excess of the legal reserve requirement. At end-December 2004, base money was assessed at dobras 119.2 billion, calculated as follows:

[9] Deposit money banks (DMBs) refers to Other Depository Corporations as stated in the Monetary and Financial Statistics Manual.

Currency issued:			Db 67.2 billion
	Of which:	Cash in vaults:	Db 7.2 billion
		Currency outside banks:	Db 60.0 billion
Plus: Bank reserves:			Db 52.1 billion
Equals: Base money:			Db 119.2 billion

11. **Net international reserves** (NIR) of the BCSTP are defined for program monitoring purposes as short term-term foreign assets of the BCSTP minus short-term external liabilities. All short-term foreign assets that are not fully convertible external assets readily available to and controlled by the BCSTP (i.e., they are pledged or otherwise encumbered external assets, including, but not limited to, the HIPC umbrella SDR account, and assets used as collateral or guarantees for third party liabilities) will be excluded from the definition of NIR. All values are to be converted to U.S. dollars at actual market exchange rates prevailing at the test date. At end-December 2004, NIR was assessed at dobras 169.2 billion, calculated as follows:

Net Foreign Assets:			Db 189.3 billion
Less:	Other foreign assets:		Db 49.5 billion
Plus:	Other liabilities:		Db -29.4 billion
Equals: Net international reserves:			Db 169.2 billion
	Of which:	Gross reserves:	Db 197.1 billion
		Short-term liabilities:	Db - 27.9 billion

12. **Net domestic assets** of the central bank of São Tomé and Príncipe are defined as the difference between base money and net foreign assets of the BCSTP. All foreign denominated accounts will be converted to dobras at the program exchange rate. At end-December 2004, net domestic assets were assessed at dobras -70.0 billion, calculated as follows:

Base money:	Db 119.2 billion
Less: Net foreign assets:	Db 189.3 billion
Equals: Net domestic assets of the BCSTP:	Db -70.0 billion

13. The performance criterion on **short-term external debt** refers to the outstanding stock of external debt with original maturity of one year or less, including overdraft positions and debt owed or guaranteed by the government or the BCSTP.[10] At end-December 2005, the stock of short-term external debt stood at US$16.0 million.[11]

14. The performance criterion on **nonconcessional medium- and long-term external debt** refers to the contracting or guaranteeing of external debt with original maturity of more than one year by the government or the BCSTP.[12] [13] Debt reschedulings and restructurings are excluded from the ceilings set on nonconcessional borrowing. Medium- and Long-term debt will be reported by the Debt Management Unit of the Ministry of Finance and Planning and (as appropriate) by the BCSTP, measured in US dollars at current exchange rates. The government of São Tomé and Príncipe will consult with Fund staff before contracting obligations if it is uncertain as to whether those obligations are included in the performance criterion limits.

15. 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 Debt Management Unit of the Ministry of Planning and Finance and (as appropriate) by the BCSTP, with the exception of arrears pending rescheduling arrangements. Debt would be deemed to be in arrears when it has not been paid by the time it is due, unless the definition of an arrear has been otherwise contractually defined. The performance criterion relating to external arrears does not apply to external arrears pending the conclusion of debt-rescheduling agreements with the Paris Club and Portugal.

16. **Official external program support** is defined as grants and loans provided by foreign official entities that are received by the budget—**excluding project grants and loans**—and other exceptional financing. Amounts assumed in the program consistent with

[10] The term "debt" is defined in accordance with point 9 of the Guidelines on Performance Criteria with respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000).

[11] This amount includes three nonconcessional loans from Nigeria totaling US$15 million, which were previously classified under nonconcessional medium term external debt. These loans have been reclassified as short-term debt, following a joint World Bank-IMF mission DSA mission in April 2006.

[12] This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000 but also to commitments contracted or guaranteed for which value has not been received.

[13] The concessionality of loans is assessed according to the reference interest rate by 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). For currencies with no available reference interest rates, the SDR rate will be used.

this definition are shown in the memorandum item entitled "external program support" of Table I.1.

Adjusters

17. **Deviations in official external program support** from the amounts programmed in Table I.1. will trigger adjusters for domestic financing of the government, net domestic assets of the BCSTP and net international reserves as indicated below. These and other adjusters as set out below will be measured cumulatively from December 31, 2005.

18. **Ceilings on net domestic financing (NDF) of the government and net domestic assets (NDA) of the BCSTP.** Monthly differences between projected and actual receipts of signature bonuses, official external program support and external debt service payments in foreign exchange will be converted to dobras at the actual monthly average exchange rate and cumulated to the test date. The ceilings on NDF and NDA will be reduced by the sum of: (i) excess receipts of oil signature bonuses, (ii) excess official external program support (as defined in paragraph 16 above); and (iii) the shortfall in external debt service payments. Ceilings will be increased by 100 percent of any cumulative shortfall in receipts of oil signature bonuses, official external program support, or excess in external debt service. The downward adjustment to NDF and NDA for higher than programmed official external program support will not take place to the extent that additional external program support is used to accommodate higher capital outlays by the government, up to US$1 million, converted to dobras at actual exchange rates, as indicated in Table I.1.

19. **Floor on net international reserves (NIR) of the BCSTP.** Quarterly difference between projected (see Table I.1) and actual receipts of oil signature bonuses, official external program support and external debt service payments will be converted to U.S. dollars at the actual exchange rates prevailing at the test date. The floor on NIR will be raised by the sum of: (i) excess receipts on oil signature bonuses, (ii) excess external program support and (iii) any shortfall in external debt service payments. The upward adjustment to NIR for higher than programmed official external program support will not take place to the extent that additional external program support is used to accommodate higher capital outlays by the government, up to US$1 million, converted to dobras at actual exchange rates, as indicated in Table I.1. The NIR floor will be lowered by 100 percent of any shortfall in receipts of oil signature bonuses, official external program support and excess in external debt service payments.

Data reporting

20. The following information will be provided to the IMF staff for the purpose of monitoring the program. Except for net domestic assets and net international reserves, for which data are to be provided by the BCSTP within four weeks at the end of each month, other monetary data will be furnished within eight weeks after the end of each month for monthly data, within eight weeks after the end of each quarter for quarterly data, and within eight weeks after the end of each year for annual data.

i. Fiscal data

The Directorate of Budget at the Ministry of Planning and Finance will provide to IMF staff:

- Monthly data on central government operations for revenues, expenditure and financing
- Monthly detailed tax and non-tax revenues
- Monthly detailed current and capital expenditure data
- Quarterly data on official external program support (non-project)
- Quarterly data on the execution of the public investment program (PIP) and sources of financing
- Quarterly data on project grant disbursement (HIPC and Non-HIPC)
- Quarterly data on project loans disbursement

ii. Monetary data

The BCSTP will provide the IMF staff:

- Daily data on exchange rates on a weekly basis
- Daily data on interest rates on a weekly basis
- Daily liquidity management table, including base money and currency in circulation, on a weekly basis (see attachment)
- Weekly balance sheet data of BCSTP (in BCSTP and IMF formats)
- Monthly balance sheet data of BCSTP (in BCSTP and IMF formats)
- Monthly balance sheet data of individual deposit money banks (in BCSTP and IMF formats)
- Monthly consolidated balance sheet data of deposit money banks (in BCSTP and IMF formats)
- Monthly monetary survey (in BCSTP and IMF formats)
- Monthly central bank foreign exchange balance (Balança cambial)
- Latest position of NIR and liquid reserves of the BCSTP (last available; monthly)

iii. External debt data

The Debt Management Unit at the Ministry of Planning and Finance will provide the IMF staff:

- Monthly data on amortization of external debt (HIPC and Non-HIPC)
- Monthly data on paid interest on external debt (HIPC and Non-HIPC)
- Monthly data on disbursements external project and BOP support loans

iv. National accounts and trade statistics

The National Institute of Statistics will provide the IMF staff:

- Monthly consumer price index data
- Monthly data on imports as reported by Customs (value and import taxes collected)
  Monthly commodity export values

APPENDIX II

São Tomé and Príncipe
Relations With The Fund
(As of May 31, 2006)

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

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

III. **SDR Department**:	SDR million	Percent Allocation
Net cumulative allocation	0.62	100.00
Holdings	0.35	56.23

IV. **Outstanding Purchases and Loans**:	SDR million	Percent Quota
Poverty Reduction and Growth Facility (PRGF) arrangements	2.65	34.56

V. **Financial Arrangements**:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF	08/01/2005	07/31/2008	2.96	0.85
PRGF	04/28/2000	04/27/2003	6.66	1.90
SAF	06/02/1989	06/01/1992	2.80	0.80

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

	Forthcoming				
	2006	2007	2008	2009	2010
Principal	0.29	0.38	0.38	0.38	0.29
Charges/interest	0.02	0.02	0.01	0.01	0.01
Total	0.30	0.40	0.40	0.39	0.30

VII. **Implementation of HIPC Initiative**:

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

VIII. **Safeguards Assessments**:

Under the Fund's safeguards assessment policy, the Central Bank of São Tomé and Príncipe is subject to a full safeguards assessment with respect to the arrangement approved on August 1, 2005. The assessment, which was completed on August 2, 2004, found vulnerabilities in the area of financial reporting, internal audit and internal control and measures to strengthen the control framework and help safeguard Fund resources were proposed. Recommendations are in the process of implementation.

IX. **Exchange Arrangements**:

São Tomé and Príncipe's exchange rate regime is currently classified by the Fund as managed floating. The official exchange rate is determined on a daily basis as a weighted average of the previous day's selling rates in the commercial banks, and the outcomes of central bank's foreign exchange auctions. The spread between the official and parallel market exchange rates has been less than 1 percent since 1999. The intervention currency for the dobra is the U.S. dollar. The official selling exchange rate was Db.12,691.41 per US dollar on June 27, 2006.

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

X. **Article IV Consultation**:

The last Article IV consultation with São Tomé and Príncipe was concluded by the Executive Board on March 6, 2006.

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

None.

XII. **Technical Assistance**:

June 2006: MFD mission to assess implementation of technical assistance.

April/May 2006: STA mission on monetary and financial statistics.

February 2006: MFD mission on monetary operations and liquidity management.

January 2006: MFD mission on the foreign exchange market.

December 2005: LEG/MFD mission on the exchange system.

August/September 2005: MFD mission on banking supervision and foreign exchange operations

February 2005: STA technical assistance mission on national accounts statistics.

January 2005: MFD mission on monetary operations and liquidity management.

December 2004: STA mission to advice on compilation and reporting of monetary statistics.

October 2004: STA technical assistance mission on government finance statistics.

September 2004: MFD multi-sector mission to develop foreign exchange and interbank money markets.

July-September 2004: MFD expert mission on Banking Supervision.

June 2004: STA technical assistance mission on balance of payments statistics.

July 2004: MFD expert mission on Monetary Operations.

June 2003: STA technical assistance mission on balance of payments statistics.
March and June 2003: STA technical assistance missions on national accounts statistics.

March 2003 and April 2004: Visits by MFD advisors on the conduct of monetary policy and bank supervision.

March 2003: STA technical assistance mission on national accounts statistics.

January 1998-December 2001: MFD advisor on the conduct of monetary policy, banking supervision, and foreign exchange management.

June 2001: MFD mission on handling of banking crisis and foreign exchange market organization.

XIII. **Resident Representative**:

A Fund Resident Representative office has been maintained since November 1999. The current Resident Representative, Mr. Randriamaholy, took up his post in October 2003.

APPENDIX III

SÃO TOMÉ AND PRÍNCIPE
RELATIONS WITH THE WORLD BANK GROUP
(As of June 15, 2006)

IDA operations

1. São Tomé and Príncipe joined the World Bank and IDA in 1977. New lending was suspended between 1992 and 2000 owing to the lack of an appropriate macroeconomic framework.

2. The World Bank FY06–09 country assistance strategy was well received by the Board in June 2005. Its two principal objectives are: (i) to support the implementation of the PRSP and (ii) to provide timely assistance to ensure that the country is sufficiently prepared to maximize the benefits of oil revenues. Given the small size of the program, the CAS remains tightly focused on on-going activities in the oil sector, social sectors, public sector management and assistance with the HIPC Initiative.

3. Despite its small project portfolio, the Bank's program is relatively large for such a small country as there is a broad ESW and AAA program currently covering oil issues, support to PRSP implementation, assistance with achieving HIPC Completion Point and analysis of trade issues through the multi-sectoral Trade Diagnostic Study. The World Bank also supports government reforms by providing advisory services in the petroleum sector, telecommunications and environment. An IDF (Institutional Development Grant) was approved in early 2005 to assist the government in its Judicial reform program. A GEF (Global Environmental Fund) was approved in late 2004 to support the development of a national action plan to adapt to environmental and global warming impacts. A grant was approved in May 2006 to support statistical capacity building.

4. Current IDA commitments for the 2 ongoing projects amount to US$11.5 million with US$8.6 million undisbursed. The Bank supports the health and the education sectors through its Social Sector Project of US$6.5 million (of which US$1.5 million is in the form of an IDA grant) and supports the PRSP, public expenditure management and petroleum sector through its Governance Capacity Building Technical Assistance Project of US$5 million. The two projects are rated marginally satisfactory as the portfolio performance is hampered by weak management and absorptive capacity.

IFC operations

5. São Tomé and Príncipe is not a member of the IFC. FIAS has reviewed the country's tax system and private sector investment.

Contact person

6. Questions may be addressed to Dorsati Madani (telephone 202-473-7925).

Table III.1. Statement of IDA Credits as of June 15, 2006

(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 project	7.5	2.5
3429	2000	Public resource management technical assistance	2.5	0.2
3902	2004	Social sector support project	6.5	3.7
3993	2005	Governance Capacity Building technical assistance	5.0	3.4
Total:			78.4	10.4
	Of which: repaid		4.6	

[1]Less cancellation.

IMF-World Bank collaboration in specific areas

7. The IMF and the World Bank staffs collaborate on (i) macroeconomic discussions with the government, (ii) monitoring the HIPC Initiative completion point triggers, (iii) analysis and reforms in oil revenue management, the setting of a computerized public expenditure management system, and discussions on the government's PRSP, and (iv) other structural reforms, including tax reform. Table III. 2 briefly describes each area and the specific policy advice support provided by the two institutions.

Table III.2. São Tomé and Príncipe: Bank-Fund Collaboration Areas

Area	Description	Specialized Advice/reforms Supported by the Fund	Specialized Advice/reforms Supported by the Bank
HIPC completion point triggers	Regular Bank and Fund missions Elaboration of JSAN on PRSP and on PRSP First Annual Progress Report	Economic program consistent with PRGF arrangement	Reforms in education, health sectors Judicial reform and advice on setting up tribunals of arbitration for business disputes Public finance management reform, transparency of budgetary process via audits and controls Budget tracking in social sectors
Oil revenue management	Regular Bank and Fund missions and Bank technical assistance missions	Advise on the use of oil proceeds consistent with Oil Revenue Management Law (ORML) Follow-up on transparency and governance issues	Advise on the use of the oil proceeds consistent with ORML Technical assistance project to strengthen capacity of the country in addressing analysis, understanding and management of petroleum-related topics, including, but not limited to: Technical assistance to National Agency for Oil (ANP) Technical assistance for strategy on oil sector development Technical assistance on implementation of ORML, including the establishment of oversight and control committees
Public expenditure and external debt management	Bank and Fund technical assistance and other missions	Recommendations for reform of public expenditure management systems	Analysis of the Public Finance Management process via 2 HIPC-AAP (in coordination with the IMF), including recommendations for the reform of the PFM system Development of a fully integrated, computerized budget and public expenditure management system, implementation of Commonwealth Secretariat's debt recording management system and procurement reforms

Area	Description	Specialized Advice/reforms Supported by the Fund	Specialized Advice/reforms Supported by the Bank
Other structural reforms	Bank and Fund technical assistance and supervision missions	Banking sector supervision, foreign exchange auction management, liquidity management, central bank's safeguards assessment Technical assistance on tax reform including new codes of personal and corporate income taxation, tax procedural code and investment code	Social sector support policies and capacity building Feasibility studies on the restructuring of ENASA and ENAPORT Diagnostic and Trade Integration Study (DTIS) Simplification of business registration procedures

APPENDIX IV

São Tomé and Príncipe
Relations with the African Development Bank Group
(As of June 20, 2006)

1. São Tomé and Príncipe became member of the African Development Bank Group in 1976. To date, the Bank Group has financed twenty-four (24) operations in the country. The net commitments amount to UA 87.56 million[14], comprising UA 86.56 million of African Development Fund (ADF) [15] and Technical Assistance Facility (TAF) resources and UA 1.00 million of Nigerian Trust Fund (NTF) resources. The beneficiary sectors of AfDB Group financing are: transport (26 percent), multisector [16] (22 percent), agriculture (22 percent), social sector (18 percent), and public utilities (12 percent). These operations have contributed to building and rehabilitating the key basic economic and social infrastructures (roads, airport, electricity, water, schools, health centers), as well as the strengthening of economic and institutional capacities of the country. The AfDB has a national program office in São Tomé and Príncipe since 1999.

2. The AfDB's active portfolio is composed of three projects, with an overall disbursement rate of 51 percent (as of June 2006). The three projects, in accordance with the PRSP's objectives, have focused on the main factors affecting poverty in the country: institutional and human capacity building, access to water and sanitation, and health, specifically, anti-malaria campaigns. The water supply, sanitation and control of water-borne diseases project aims at improving health conditions through an integrated approach, while the poverty reduction project contributes to improve the livelihood of the vulnerable population through targeted actions such as studies and analysis of poverty profile, census and surveys, statistics capacity building, micro-infrastructures, and micro-credit. The human resource development project will tackle cross-sectoral capacity building problems by providing for training in the areas of literacy, information, community organization, as well as specialized vocational training, which is suitable for specific demand, particularly in the oil and tourist sectors.

3. The AfDB Group assistance strategy for the 2005–09 period (CSP 2005–09) rests on two key pillars: poverty reduction in rural area and promotion of governance in public finance management. The indicative country allocation on ADF-X resources (2005–07) is UA 5.3 million in the form of grants. The first pillar will contribute to promoting and diversifying the economic base of the country, especially the agricultural and rural sector, and reinforce the operations in the social sectors. Under this pillar, the livestock development

[14] Exchange rate for June 2006 is UA 1 = US$1.49418

[15] ADF is the concessional window (or grant for ADF-X for high debt countries)—same conditions as IDA—of the African Development Bank Group.

[16] Institutional support and structural adjustment programs.

support project-phase II, of UA 4 millions, was approved in May 2006. The second pillar will focus on supporting macroeconomic reforms and governance, which will help improve public finance management and institutional capacity building to prepare the country for the forthcoming oil era. Given the considerable needs for institutional capacity building, the AfDB will finance strategic economic and sector studies, such as the Country Governance Profile, the Joint study with the World Bank on the integrated fiduciary assessment (PER/CFAA/CPAR), the transport sector study, and the insular costs study. Furthermore, the AfDB will finance regional capacity building initiatives, within CEMAC, ECCAS, the African Portuguese-speaking countries and the small insular countries.

4. In addition, the AfDB will continue providing the country with financial assistance through the enhanced HIPC initiative. Within this framework, the AfDB approved in April 2001, a debt relief of US$34.20 million at end-1999 NPV terms. Due to the delay in the HIPC process, as the completion point is expected to be reached in 2006, the AfDB approved in June 2005 the extension of the interim debt relief period through end-2006.

Table IV.1 Ongoing projects as of June 20, 2006

(In millions of UA) 1/

Title of Projects	Window	Commitment	Disbursement Rate
Poverty reduction	ADF	1.48	94 percent
	TAF	0.40	
Drinking water supply, sanitation and control of water-borne diseases	ADF	3.20	81 percent
	TAF	1.00	
Support for human resource development	ADF	3.50	1 percent
	ADF grant	0.50	
Total		*10.08*	*51 percent*

1/ Exchange rate for June 2006 is UA 1 = US$1.49418

APPENDIX V

SÃO TOMÉ AND PRÍNCIPE
STATISTICAL ISSUES

Introduction

1. Although economic data are generally adequate for surveillance, São Tomé and Príncipe's statistical system suffers from serious financial, human and technological resource constraints, which have slowed down efforts to strengthen the system.

2. São Tomé and Príncipe began reporting monetary and balance of payments statistics in the IMF's *International Financial Statistics (IFS)* in March 1998 and has participated in the Fund's General Data Dissemination System (GDDS) since April 20, 2004. The metadata and plans for improvement have not been updated since the posting of the original metadata on the DSBB. The country has benefited from technical assistance (TA) provided by the Statistics Department (STA). Most of the assistance provided during 2003-06 was undertaken under the GDDS project for Lusophone Africa.

National accounts

3. From late 1990s, the quality of the national accounts began to deteriorate mainly due to a decline in the availability of source data and dwindling resources allocated to statistical work. Since 1998, only preliminary flash estimates of GDP at current and constant prices have been compiled using industry coefficients and growth rate estimates.

4. Since 2003, the Fund, among others, has provided TA in the context of the GDDS Lusophone Project. Accordingly, the National Institute of Statistics (INE) has focused its efforts mainly to improve source data. The INE has approved classification systems for the compilation of national accounts that are broadly consistent with internationally accepted classifications, and efforts are underway to compile national account aggregates with an improved methodology. An important goal of this project is to elaborate a new GDP series in broad conformity with the *1993 SNA*, and to assist in compiling a quarterly production index. However, the progress achieved in strengthening the INE's statistical capacity has been slow mainly because of insufficient qualified staff and financial resources.

5. The CPI is calculated monthly and reported to AFR with a lag of one month. Since 1997, the CPI weights have been based on a household survey conducted over three months in 1995, and a further, more comprehensive survey, is now required. Price surveys only cover the capital, although the authorities intend to develop regional price series.

6. In 2003, the authorities completed, with assistance from the World Bank, the first comprehensive survey of unemployment, which provides a detailed breakdown by age, gender and geographic location.

Government finance statistics

7. A summary of fiscal data is compiled on a monthly basis, and reported to AFR with a lag of about a month. The main areas that need to be strengthened in the data reported are: (i) the monitoring of expenditures on projects financed by donors by the Ministry of Planning and Finance (MOF) and (ii) the below-the-line financing items. All project loans financed by donors are programmed in the budget, but some are executed independently. The government has requested all development partners to assist in bringing all external assistance into the budgetary system recording framework. Recording of financing items is expected to improve as debt data management capacity is strengthened.

8. In the context of the GDDS Lusophone Project, a government finance statistics (GFS) TA mission was undertaken in October 2004. Its main objective was to assist the MOF in compiling and disseminating GFS for the general government in accordance with the IMF's *Government Finance Statistics Manual 2001(GFSM 2001)*.

9. The mission prepared tables that would bridge the national budget classifications, as well as those tables recommended in the *GFSM 2001*. These bridge tables are to be used to compile GFS for reporting to STA and AFR, as well as for policy work within the MOF. Given the importance of the oil-related revenues, the mission also reviewed the classification of the oil revenues regulated under the Oil Revenue Management Law, and made recommendations on the classification of these transactions. The mission's report contains an action plan for implementing recommendations agreed with MOF officials.

10. Currently, no GFS are reported to STA for publication in the *Government Finance Statistics Yearbook* (*GFSY*) and *IFS*.

Monetary statistics

11. STA missions provided technical assistance on monetary statistics in December 2004 and, more recently, in April/May 2006. The accuracy of the monetary data has improved and the lags with which data are being reported by the Central Bank of São Tomé and Principe (BCSTP) to the Fund have been reduced to two months.

12. The missions found that the BCSTP monthly trial balance sheets were adequate to compile monetary statistics in line with the *Monetary and Financial Statistics Manual (MFSM).* Although the accounting treatment of revaluation adjustments (holding gains) falls short of recommended practices, data are available for the correct reclassification of these adjustments. The plan of accounts of the other depository corporations (ODC) is not adequate to derive monetary statistics in a manner consistent with the *MFSM*, particularly with regard to the sectorization of the institutional units.

13. The mission of late April 2006 noted progress in implementing the previous mission's recommendations, and assisted in the derivation of the standardized forms for reporting monetary statistics to STA (SRFs) for the central bank, the ODC , and the monetary aggregates. The mission also initiated an integrated monetary database to meet the data needs

of the BCSTP, STA, and AFR. In light of the recent staff turnover, the mission provided substantial on-the-job-training to compilers.

External sector

14. The authorities compile the rates of the official exchange bureaus, commercial banks, and the parallel market. The BCSTP's official exchange rate (i.e., a weighted average of the exchange rate at the central bank's auction and the commercial banks' selling rates) is available on the internet with a one-day lag.

15. Concerning merchandise trade, there are significant weaknesses in the collection of source data. Some transactions, including certain imports related to investment, are not fully captured in the balance of payments (BoP). Monthly data on the main exports and imports are reported to AFR regularly, but unit prices and volumes of exports are only occasionally included.

16. BoP statistics are compiled by the BCSTP. Annual data up to and including 2002 were reported to STA and published in the *IFS*, albeit with long lags and subject to substantial revisions. No data have been reported to STA since then.

17. In the context of the GDDS Lusophone project, STA launched a TA program to improve BoP compilation and dissemination. The project targeted a substantial improvement in the source data, including the response rate to the surveys, and in the methodology for compiling the BoP consistent with the *Fifth Edition of the Balance of Payments Manual*. The first mission, in June 2003, reviewed the shortcomings of reported current and financial account transactions, and concluded that weaknesses were mainly due to the undercoverage of several important sectors, including foreign direct investment and commercial banks' reports on international transactions.

18. The follow-up mission undertaken in early June 2004 found that despite the effort to implement the previous mission's recommendations, several measures, in particular those related to improving source data, were only partially implemented or, in some cases, not implemented at all. As a result, inconsistencies in the classification of BoP operations still persisted and the disaggregated BoP components continued to be largely estimated. Resource constraints, particularly with regard to qualified staff, contribute to the lack of improvement in the response rate to surveys. The mission recommended improving the coordination and data sharing among data producing agencies, intensifying contacts with survey respondents, and using alternative sources in order to substantially improve source data.

19. The authorities have built on previous efforts to strengthen debt data management. A new unit was created in late 2003 within the MOF, incorporating staff from the debt department of the BCSTP. The authorities are reconciling debt records with creditors, and putting into operation the Commonwealth Secretariat debt recording and management system (CS-DRMS) with financial support from the World Bank. Training of Ministry of Finance staff has been carried out, a new server was bought and software installed, and currently debt records are being input in the new system.

Table V. 1. São Tomé and Príncipe: Common Indicators Required for Surveillance

(As of May 31, 2006)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	May 2006	June 2006	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities [1]	May 2006	June 2006	M	M	M
Reserve/Base Money	May 2006	June 2006	M	M	M
Broad Money	March 2005	June 2006	M	M	M
Central Bank Balance Sheet	May 2006	June 2006	M	M	M
Consolidated Balance Sheet of the Banking System	March 2005	June 2006	M	M	M
Interest Rates [2]	March 2006	June 2006	M	M	M
Consumer Price Index	April 2006	May 2006	M	M	M
Revenue, Expenditure, Balance and Composition of Financing [3] – General Government [4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing [3]– Central Government	April 2006	May 2006	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt [5]	Dec. 2005	Jan 2006	A	I	A
External Current Account Balance	Dec. 2005	April 2006	A	I	A
Exports and Imports of Goods and Services	March 2006	May 2006	A	I	A
GDP/GNP	2004	May 2005	A	I	A
Gross External Debt	Dec. 2005	Jan 2006	Q	Q	I

[1]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under São Tomé and Príncipe's Three-Year PRGF Arrangement and Approves US$600,000 Disbursement

The Executive Board of the International Monetary Fund (IMF) completed on August 2 the second review of São Tomé and Príncipe's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review, which was undertaken on a lapse of time basis,[17] enabled the release of an amount equivalent to SDR 0.4 million (about US$600,000), bringing total disbursements under the arrangement to SDR 1.27 million (about US$1.9 million).

The Executive Board approved the three-year arrangement on August 1, 2005 (see Press Release No. 05/187), for a total amount of SDR 2.96 million (about US$4.4 million) to support the government's economic program for 2005–2007.

[17] The Executive Board takes decisions under its lapse of time procedure when the Board agrees that a proposal can be considered without convening formal discussions.