



DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

2011 ARTICLE IV CONSULTATION

February 2012

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2011 Article IV consultation with São Tomé and Príncipe, the following documents have been released and are included in this package:

- **Staff Report** for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on September 8, 2011, with the officials of São Tomé and Príncipe on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 30, 2011. 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.
- **Informational Annex** prepared by the IMF.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Public Information Notice (PIN)** summarizing the views of the Executive Board as expressed during its January 23, 2012 discussion of the staff report that concluded the Article IV consultation.
- **Statement by the Executive Director** for São Tomé and Príncipe.

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

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DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

December 30, 2011

KEY ISSUES

A gradual recovery is underway. Real GDP growth is recovering from a marked slowdown in 2009. The slowdown reflected the impact of the global crisis as FDI inflows slowed because a number of planned large projects were postponed on account of funding difficulties. The recovery—led by activities in the construction, agriculture and tourism sectors—is subject to downside risks stemming from the financial and economic difficulties in Europe. A protracted recession in Europe (especially Portugal) would likely dampen aid, FDI, and remittances to São Tomé & Príncipe, with adverse consequences for growth.

Achieving macroeconomic stability remains a challenge. Recent increases in world food and fuel prices rekindled inflation pressures and have left inflation at double digit levels. The current outlook for nonfood commodity prices suggests that the inflation pressures should recede. The authorities tightened fiscal policy in 2010 and 2011. Further consolidation is needed to dampen domestic demand pressures in order to safeguard international reserves and protect the exchange rate peg. The government's medium-term fiscal objective is to stabilize the domestic primary deficit at a level that can be financed by non-debt creating means.

Possible repercussions from developments in Europe pose risks to financial stability. The central bank has made good progress in strengthening the regulation and supervision of banks. However, given a highly dollarized banking system, the peg to the euro, and the country's vulnerability to developments in Europe, the authorities must remain vigilant to the likely impact of a growth slowdown or changes in the euro-dollar exchange rate on banks' balance sheets.

São Tomé & Príncipe remains at high risk of debt distress notwithstanding the substantial debt relief it has received. A narrow export base, a high dependence on imports and a heavy reliance on external financing render it highly vulnerable to external shocks. The outlook improves with the onset of oil production in 2015. In view of uncertainty about oil production the DSA includes a non-oil scenario under which additional fiscal adjustment and lower external borrowing will be required to achieve a sustainable debt-GDP path.

The authorities have made substantial strides in improving the investment climate. The World Bank's 2012 Doing Business Survey lists São Tomé & Príncipe among the top four reformers world-wide in the last year. Further measures are needed to improve basic infrastructure and to assure more reliable energy supply.

Approved By
**Sharmini Coorey and
 Dhaneshwar Ghura**

Discussions were held in São Tomé during August 26–September 8, 2011 and in Washington during September 21–23, 2011. The team comprised Messrs. Tsidi Tsikata (head), Wendell Daal, Justin Matz, and Jamal Omar (all AFR). The mission met Prime Minister Patrice Trovoada, Minister Américo d’Oliveira dos Ramos (Finance and International Cooperation), Minister Agostinho dos Santos Fernandes (Planning and Development), Minister Carlos Vila Nova (Public Works and Natural Resources), Central Bank Governor Maria do Carmo Silveira, members of the National Assembly, and representatives of the business community, labor and São Tomé and Príncipe’s development partners.

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CONTEXT: GRADUAL RECOVERY, INFLATION PRESSURES, AND HIGH RISK OF DEBT DISTRESS

1. After a marked slowdown in 2009, a gradual recovery in growth is underway in São Tomé and Príncipe. From the early 2000s, the prospect of finding oil attracted foreign direct investment (FDI) and boosted growth. After averaging an annual rate of over 6 percent during 2005–08, real GDP growth slowed to 4 percent in 2009, reflecting the impact of the global crisis on externally-financed investment projects (Figure 1). Envisaged large-scale projects such as a deep water port and a hotel were postponed because of funding difficulties. However, other projects are proceeding, including rehabilitation works at the port and airport (with funding from Angola). The recovery is led by the construction, tourism, and agriculture sectors.

2. Recent increases in world food and fuel prices have rekindled domestic inflation pressures. Inflation has declined substantially since 2008, but remains at double-digit levels (Figure 1). A tightening of fiscal and monetary policies in 2008 followed by a decline in world food and oil prices helped lower year-on-year inflation from a peak of 37 percent in July 2008 to 11.5 percent in June 2010. This downward trend was reversed in the second half of 2010 by a combination of drought, spending by political parties ahead of elections and an upturn in international food prices. Adjustment in the domestic retail prices of petroleum products in March 2011 kept upward pressure on prices.¹

¹ Prices of gasoline, diesel, and kerosene were increased by 18 percent, 19 percent, and 33 percent, (continued)

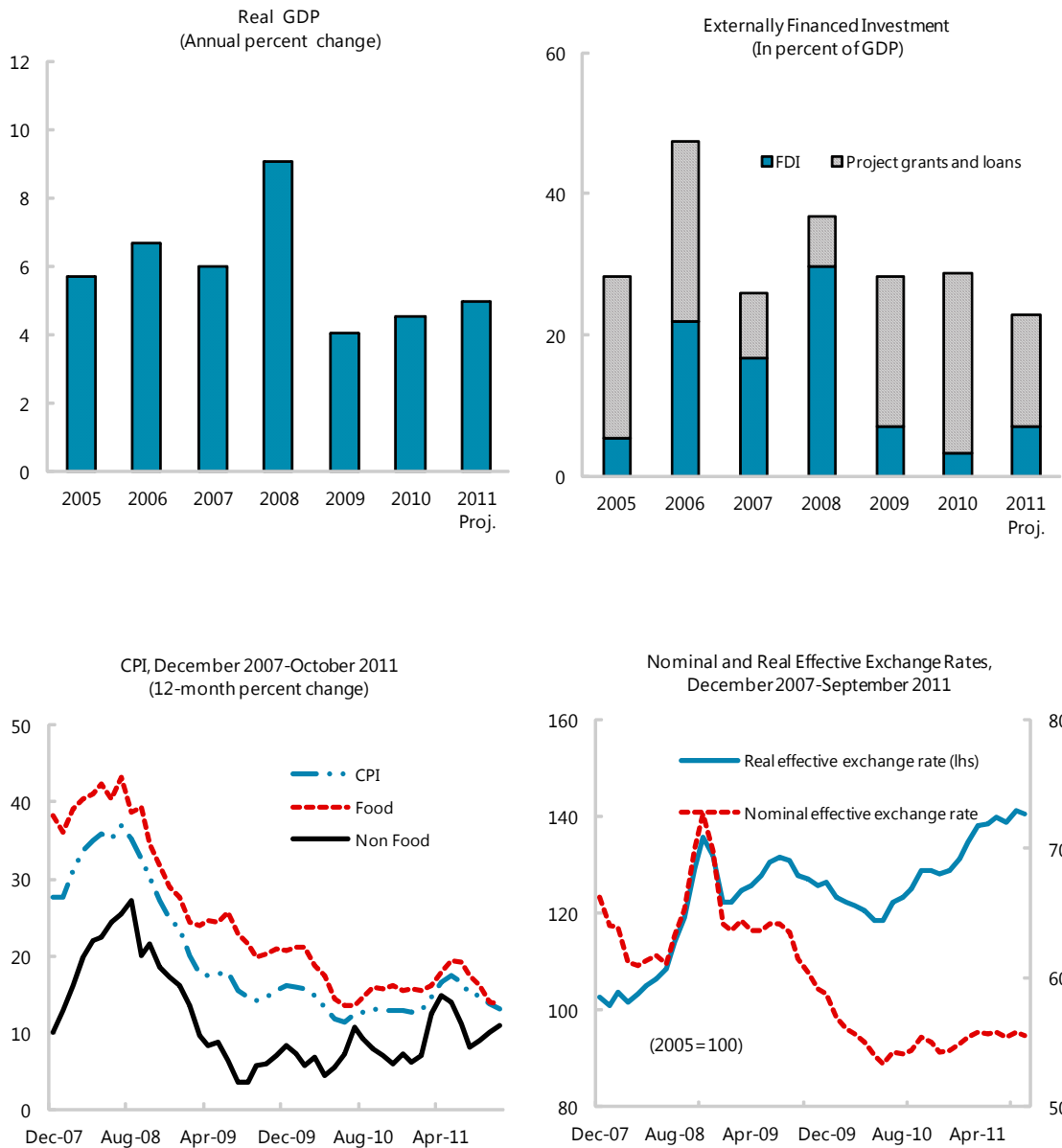
Year-on-year inflation reached 17 percent in July before retreating to 13.2 percent in October.

3. The authorities adopted a fixed exchange rate regime—a conventional peg to the euro—in January 2010 with the aim of anchoring inflation expectations and boosting investment and growth. An agreement with Portugal that provides for a credit line (if needed) and São Tomé & Príncipe’s ECF-supported program have provided a framework for implementing policies to maintain the credibility of the peg.

4. São Tomé & Príncipe remains at high risk of debt distress, although it has received substantial debt relief. São Tomé & Príncipe reached the HIPC completion point in March 2007 and benefitted from HIPC and MDRI relief, which reduced the country’s external debt by 70 percent. However, the debt burden remains heavy especially in relation to exports. A narrow export base and a high dependence on imports render the country vulnerable to external shocks. External sustainability requires restraints on external borrowing and reforms to expand exports and boost growth.

respectively. The new prices still fall short of the tax-inclusive break-even prices by 20 percent for gasoline, 12 percent for diesel, and 40 percent for kerosene.

Figure 1. São Tomé and Príncipe: Recent Macroeconomic Developments



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

5. The authorities expect oil production to start in 2015 in the Joint Development Zone (JDZ) shared with Nigeria (Box 1). Production is expected in Block 1 of the JDZ which was recently acquired

by the French company Total which is extracting oil from an adjacent field located in Nigerian territory. Activity in São Tomé & Príncipe’s Exclusive Economic Zone (EEZ) is at an earlier stage of development. Thus far, the

country has received signature bonuses amounting to US\$49 million (43 percent of GDP) in 2005 and US\$29 million (20 percent of

GDP) in 2007, and expects to receive a further US\$26 million (about 9 percent of GDP) in 2012.

Box 1. Prospecting for Oil: Legal Framework and Activities to Date

For the purposes of oil and gas exploration, the authorities have divided the country (including its international waters) into two zones: a Joint Development Zone (JDZ) covering a maritime area claimed by São Tomé & Príncipe and Nigeria, and an Exclusive Economic Zone (EEZ) controlled entirely by São Tomé & Príncipe. An agreement signed in 2001 between the two countries established the JDZ and provides for the joint exploration for hydrocarbons and for their development, with the countries sharing the associated costs and revenues; Nigeria has a 60 percent share and São Tomé & Príncipe 40 percent.

The Fundamental Law on Petroleum Operations (2009) is the principal legislation that guides the granting of licenses for the exploration and extraction of oil in São Tomé & Príncipe. Another key piece of legislation is the Oil Revenue Law (2004) which guides the management of oil revenues. It established the National Oil Account (NOA) into which all oil-related revenues (including signature bonuses) should be deposited. It also sets limits on how much can be withdrawn from the NOA each year to fund the government budget.

Until oil production starts, annual withdrawals from the NOA for the budget are limited to 20 percent of the balance at the end of the preceding year. Once oil production starts, the bulk of current revenues are to be transferred into a sub-account of the NOA—the Permanent Fund of São Tomé & Príncipe. Resources in the Permanent Fund are to be invested with a view to generating a permanent income stream for the NOA.

Thus far, there have been two licensing rounds of blocks in the JDZ and one round in the EEZ. Nine blocks were offered in the JDZ out of which six have been allocated to successful bidders, and product sharing contracts have been agreed with respect to five. In the EEZ, pre-emption awards of four blocks were made to two companies ahead of the launch of the first licensing round in 2010. Seven blocks were offered for bids in the EEZ of which one has been allocated to the sole successful bidder.

6. A new Prime Minister and a new President took office in 2010 and 2011, respectively. A new government led by Prime Minister Patrice Trovoada was sworn into office in August 2010, following parliamentary elections in which his party, which had been in opposition before the elections, won 26 out of the 55 seats. Mr. Manuel Pinto da Costa, the first President after independence (he ruled from 1975 to 1991), won the Presidential

election and was inaugurated in September 2011.

7. Implementation of the main recommendations of the last Article IV consultation has been uneven (Box 2).

Executive Directors underscored the need for fiscal adjustment to lower inflation and restore financial stability, and they called for reforms to improve the investment climate in order to achieve sustained private-sector led growth.

Box 2. São Tomé and Príncipe: Main Recommendations of the 2008 Article IV Consultation

Advice	Status
Reduce the fiscal deficit as a share of GDP	Results have been mixed. The domestic primary deficit increased in 2009 before resuming a downward path in 2010 and 2011.
Improve central bank liquidity management	The BCSTP (central bank) does not yet have market-based instruments for liquidity management. Before adopting the exchange rate peg (January 2010), it actively used foreign exchange operations to contain growth in base money. With technical assistance from the Fund, the BCSTP has established a liquidity management framework and has begun to monitor liquidity conditions in the banking system. The authorities are considering a proposal for introducing either treasury or central bank bills as a liquidity management instrument.
Strengthen public debt management	The government has submitted a draft bill to the National Assembly that clarifies institutional responsibilities for public debt management.
Improve the investment climate	Significant progress has been made, including establishment of a “one-stop shop” to assist investors and the elimination of a raft of licensing and minimum capital requirements for starting a wide range of businesses.

8. Performance under the ECF-supported program has been mixed. The Executive Board approved a new three-year ECF arrangement with São Tomé & Príncipe in March 2009. The first review was completed in February 2010. Completion of subsequent reviews has been held up by a combination of slippages against program targets (late-2009 and early 2010) and delay in completing a new National Poverty Reduction Strategy (NPRS). There has been significant progress in implementing structural reforms under the program, although many measures took longer to implement than programmed such as the establishment of a credit reference bureau. Reforms have also strengthened public financial management (especially accounting and treasury functions) and banking

supervision capacity in the central bank. However, adoption of an automatic adjustment mechanism for prices of petroleum products has not yet been implemented because of the authorities’ concern about potential adverse social effects from removing the implicit subsidies on these products. The authorities expect to complete the new NPRS in early 2012.

9. Staff’s updated medium-term macroeconomic outlook indicates lower growth, wider current account deficits and a more gradual disinflation path than presented in the last staff report (text table). The pace of the recovery in growth and the evolution of the current account deficit reflect the revised outlook for externally

financed public and private investments, including expected disbursements from official concessional loans from Angola, Portugal, Nigeria, and Equatorial Guinea. FDI-financed projects include construction of a fuel terminal, and rehabilitation of the port and airport. The outlook for inflation reflects a projected decline in nonfuel commodity prices over the

medium term. The pace of the recovery is subject to downside risks stemming from the ongoing financial difficulties in Europe. A protracted recession in Europe (especially in Portugal) will likely dampen growth in São Tomé & Príncipe through the aid, FDI, tourism and remittances channels.

Sao Tome and Principe - Selected Economic Indicators, 2010-16

	Actual	EBS/10/22				Revised Outlook					
	2010	2010	2011	2012	2013	2011	2012	2013	2014	2015	2016
Real GDP growth (percent)	4.5	6.0	6.5	6.5	6.5	4.9	5.5	6.0	6.0	24.4	4.6
Inflation (end period, percent)	12.9	9.0	6.0	5.0	5.0	12.0	6.0	4.0	3.0	3.0	3.0
Domestic primary balance (percent of GDP)	-4.1	-4.7	-3.8	-3.2	-2.7	-3.5	-3.3	-3.2	-3.1	-5.9	-5.9
Current account deficit, including grants (percent of GDP)	-30.6	-31.5	-33.0	-32.6	-33.3	-30.0	-27.8	-28.0	-27.5	-24.6	-28.6
Usable gross international reserves (US\$ million)	37.9	42.1	69.8	71.1	77.3	34.6	34.8	43.7	49.9	69.8	92.6
in months of imports	4.5	5.4	6.5	6.0	6.0	4.4	4.2	4.5	4.9	5.5	5.5

Sources: Authorities and Staff estimates.

FISCAL CONSOLIDATION AND MACROECONOMIC STABILITY

10. With the adoption of a fixed exchange rate regime, fiscal policy has become the authorities' principal instrument for achieving sustainable macroeconomic balances. After a slippage in 2009, fiscal performance improved in 2010 and 2011 (Figure 2). Following a sharp widening in 2009—mainly due to an increase in Treasury-financed capital expenditure—the domestic primary deficit narrowed in 2010 on account of increased revenues. Tax revenues rose by 2 percentage points of GDP, thanks mainly to the payment of fuel tax arrears by the fuel importing company (ENCO). On the spending side, the government contained domestic primary expenditure by curtailing spending on Treasury-financed development projects and on goods and services. In 2011, the domestic primary deficit is estimated to have narrowed

further on account of continued expenditure restraint.

11. The overall budget deficit has fluctuated widely, reflecting volatility in project grants. Over the last three years, facing shortfalls in project grants, the authorities resorted to external concessional loans to finance part of the public investment program.

12. Recent reforms have sought to boost tax revenues. Specific measures included a more progressive personal income tax structure (2009), a simplification of the corporate tax from multiple rates with a top marginal rate of 45 percent to a single rate of 25 percent (2010), withholding of taxes on service providers (2009), and strengthening tax administration (e.g., increased audits and stepped up collection of tax arrears). The

authorities argued that the recent changes in direct taxes and their efforts to strengthen revenue administration should be given more time before their impact is assessed. At the same time they indicated their determination to continue strengthening revenue administration in both the tax and customs departments.

**São Tomé and Príncipe: Tax Revenue Ratios
(percent of GDP)**

	2008	2009	2010	2011
Total tax revenue	15.2	14.5	16.6	15.9
Direct taxes	4.0	4.5	4.1	4.8
Indirect taxes	11.2	10.0	12.5	11.1
<i>of which: fuel taxes</i>	3.6	1.3	3.7	2.3
Adjusted tax revenue 1/	15.2	15.8	15.5	15.9
<i>of which: indirect taxes</i>	11.2	11.3	11.3	11.1

1/ Indirect taxes are adjusted to allocate fuel taxes in 2009 and 2010 to year in which they were due.

13. Cross-arrears between the government, the state-owned water and electricity corporation (EMAE) and ENCO remain a problem. During 2009 and 2010, the government cleared its arrears to EMAE. This helped EMAE to reduce its outstanding debt to ENCO for fuel supplies, and enabled ENCO to settle its arrears on fuel taxes to the Treasury. However, in the first half of 2011, regional and local governments accumulated 1.4 percent of GDP in unpaid bills to EMAE in spite of increased provisions for such payments in the 2011 budget. In turn, EMAE's debt to ENCO for unpaid fuel bills amounted to 4.7 percent of GDP at end-June 2011. ENCO also accumulated fuel tax arrears to the state in the first half of 2011 amounting to 0.3 percent of GDP. This is roughly equivalent to ENCO's accumulated net losses arising from the difference between the administered retail

prices of petroleum products and the "real" prices (reflecting import costs, taxes and distribution margins).

14. Staff urged the authorities to ensure that regional and local governments clear their arrears to EMAE in the second half of 2011. Staff suggested that portions of transfers from the central government to municipalities be redirected to settle the outstanding utility bills. Failure to enforce a hard budget constraint on the regional and local authorities will likely lead to lower-than-expected fuel tax revenues and a larger-than-planned domestic primary deficit for 2011. Staff also urged the authorities to make realistic provisions for utility bills in the 2012 budget.

15. Discussion of the 2012 budget was cast in the government's medium-term objective of stabilizing the domestic primary deficit at 2–3 percent of GDP. This level of the deficit can be financed through non-debt-creating means such as withdrawals from the NOA and budget support grants. Over the medium term, the government aims to mobilize enough domestic revenues to at least cover recurrent expenditures.

16. The 2012 budget submitted to the national assembly aims to lower the domestic primary deficit to 3.2 percent of GDP. This would be achieved by sustained efforts to mobilize more domestic revenues by enforcing compliance with the tax laws and improving efficiency in customs and tax administration. The government plans to control spending by keeping the wage bill fixed in real terms and prioritizing spending on other goods and services and on transfers to keep domestic primary expenditures in line with available resources. The government indicated that it would continue PFM reforms,

with emphases on better monitoring and reporting on budget execution and publication of government accounts. The deficit for 2012 is

in line with available non-debt-creating financing, including expected budget support grants from the World Bank and Gabon.

Figure 2. São Tomé and Príncipe: Fiscal Indicators 2005–11



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

17. Staff advised the government to implement measures to make revenues from import duties and fuel taxes more robust. Noting the large role of Ministerial discretion in the granting of exemptions from import duties, staff urged the government to become less generous in granting these exemptions. The authorities said they would undertake a thorough review of exemptions. On fuel taxes, staff noted that more frequent adjustment of retail prices in line with movements in world prices would lower the risk of fuel tax arrears. The government informed staff that it is consulting ENCO with a view to define a plan of action to promote more flexibility in the pricing of petroleum products and thus lower burdensome implicit subsidies.

18. The authorities have adopted a medium-term strategy for making EMAE

commercially viable. The strategy is informed by a study by the World Bank and IFC and has the following key elements: (i) strengthening management (including the option of private sector participation); (ii) enhancing bill collection (e.g., through installation of pre-paid meters); (iii) phased investments in production, transmission and distribution; and (iv) bringing tariffs gradually in line with costs. The authorities stressed that that the investment component is critical for addressing technical inefficiencies that have led to huge losses (equivalent to about 30 percent of power generated) during the generation and transmission process. The cost of implementing the strategy is estimated at about US\$20 million over the medium term.

ENHANCING MONETARY MANAGEMENT AND FINANCIAL STABILITY

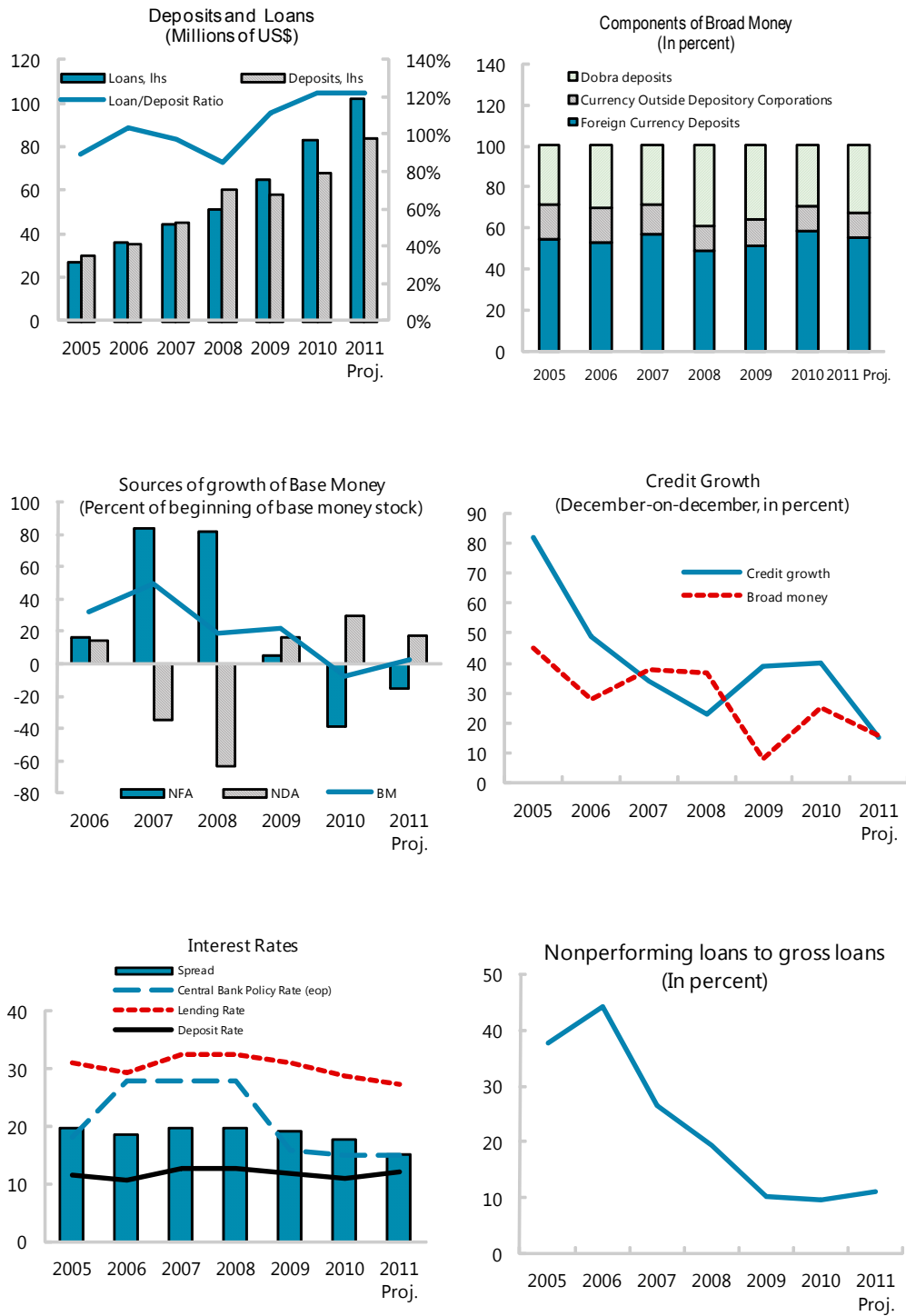
19. Against a backdrop of limited scope for monetary policy and rapid credit growth, the authorities are taking steps to strengthen monetary management and the supervision of banks. With technical assistance from the Fund, the central bank has adopted a liquidity management framework to improve its monitoring and forecasting of liquidity conditions. The BCSTP is also closely monitoring financial soundness indicators to better supervise banks.

20. São Tomé & Príncipe's financial system is underdeveloped and highly

dollarized.² It is dominated by the banking system, which comprises the central bank, one large commercial bank, and six small banks. Foreign currency deposits make up 60 percent of the broad money stock while about 70 percent of loans extended by the commercial banks to the private sector are denominated in foreign currencies (Figure 3).

² The dominant foreign currencies in use are the US dollar and the euro.

Figure 3. São Tomé and Príncipe: Money and Credit Developments



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

21. The central bank is taking measures to de-dollarize the financial system. The BCSTP has phased out its role in clearing foreign currency checks, and changed the regulations regarding commercial banks' reserve requirements. Effective March 2010, the BCSTP required commercial banks to hold all reserve requirements in dobra, including those related to foreign currency deposits. In response to difficulties most banks had in meeting the new requirement, the BCSTP lowered the reserve requirements from 24.5 percent to 18 percent for dobra deposits and to 21 percent for foreign currency deposits. Banks are also now allowed to hold reserve requirements in foreign currency for up to 10 percent of foreign currency deposits.

22. Growth in broad money in the last few years has been driven by credit to the private sector. Credit growth raised the loan/deposit ratio from 70 percent in December 2008 to 120 percent in June 2011. As sources of domestic funding began to dry up, commercial banks started using nonresident foreign currency deposits to fund new loans. There has been a deceleration in credit expansion in 2011 which has translated into slower growth in broad money. The authorities noted that the automatic deposit of salaries of civil servants into bank accounts (from April 2009), increased capital requirements and lower reserve requirements allowed banks to increase their lending. They saw credit growth as a sign of deepening financial intermediation, and noted that banks are reporting a significant decline in nonperforming loans from almost 45 percent of gross loans in 2006 to about 10 percent in mid-2011. However, they concurred with staff on the need to strengthen supervision, including enforcing compliance with the reserve requirements.

23. The pace of disinflation since the introduction of the peg has been slower than expected. The mission found no evidence of second round effects in 2010 and 2011 associated with rising world food and fuel prices. Given São Tomé & Príncipe's heavy reliance on imports—including for food and other consumer goods—staff agreed with the authorities that import costs are a major driver of domestic price developments. The authorities added that limited capacity and frequent breakdowns of machinery at the port have hindered the steady flow of consumer goods imports, resulting in periodic shortages. They noted that given the heavy weight of food in the CPI basket (about 70 percent), increased domestic production of food offered the best hope of curtailing headline inflation in the long run.

24. The BCSTP is taking steps to strengthen the regulation and supervision of banks. Most banks are not making profits, but their shareholders have been willing to cover their losses and augment their capital. The shareholders—mainly from Angola, Nigerian, and Cameroon—appear willing to accept the losses as the cost of maintaining a foothold in São Tomé & Príncipe in anticipation of a coming oil boom. All banks have now complied with new minimum capital requirements introduced in 2010 (Euros 3 million or US\$5 million for commercial banks, and US\$7 million or the Euro equivalent for investment banks). The BCSTP took over management of a commercial bank in 2010 due to the bank's failure to comply with the new minimum capital requirements and weaknesses in its management. The bank was returned to its shareholders after meeting the minimum capital requirement and changing the management. The BCSTP has asked all commercial banks to submit new business

plans for their operations in São Tomé & Príncipe by end-December 2011. The central bank plans to assess how realistic the business plans are. In view of the risks to financial stability posed by rapid credit growth and by the country's vulnerability to economic and financial stress in Europe, staff welcomed the BCSTP's plans to complete on-site inspections of all the existing seven commercial banks by end-2012; so far, it has completed inspections of three banks.

25. São Tomé & Príncipe has been placed on a list of non-cooperating countries by the Financial Action Task Force on Money Laundering (FATF). Although São

Tomé & Príncipe amended its Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) law in 2010 in line with the recommendations of the FATF, and has established a Financial Intelligence Unit to oversee implementation of the law, the FATF decided that São Tomé & Príncipe has not made enough progress in monitoring money laundering activities in the country. The authorities are seeking assistance from various partners to help them get off the list. The Fund has agreed to provide technical assistance in early 2012, subject to the approval of the Steering Committee of the AML/CFT Topical Trust Fund.

TOWARD A SUSTAINABLE EXTERNAL POSITION

A. External Debt Sustainability

26. An updated joint Fund-World Bank DSA indicates that São Tomé & Príncipe remains at high risk of debt distress.

Assistance under the HIPC Initiative and MDRI reduced the burden of the country's external debt substantially. However, a narrow export base, a high dependence on imports, and a heavy reliance on external financing render it highly vulnerable to external shocks. In the baseline scenario, the outlook improves after oil production starts in 2015. Because of uncertainty about oil prospects, the DSA includes an alternative no-oil scenario. Under this scenario, debt levels breach the NPV of debt-to export threshold significantly throughout the projection period. A sizeable additional fiscal adjustment (2 percent of GDP) and lower external borrowing during 2013–15 would be required to achieve a sustainable debt/GDP path. The fiscal adjustment is to be achieved by reducing Treasury-financed capital expenditures in 2013–14 and by expenditure

restraint in 2014–15. This results in slightly lower growth than in the baseline. In order to mitigate the risk of debt distress the staffs recommended that the authorities rely mainly on grants to finance the country's development program, accelerate reforms to improve policy and institutional performance (including debt management), and continue reducing the cost of doing business to enhance the prospects for sustaining high non-oil growth.

27. The authorities were in broad agreement with the assumptions and recommendations of the DSA. They reiterated their commitment to rely mostly on grants to finance the public investment program (PIP). However, they stressed that supporting growth and diversification required mobilizing sufficient resources to implement the PIP, and that to the extent that grant financing is insufficient, some borrowing may be inevitable. They indicated that any

borrowing would be on highly concessional terms, with a grant element of at least

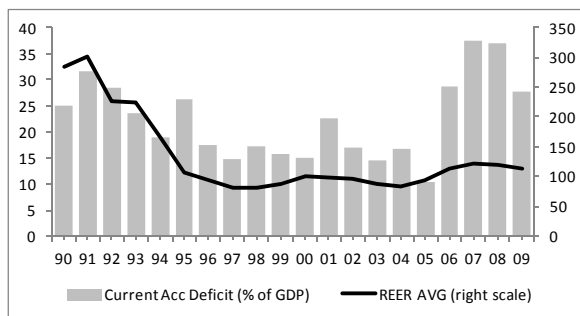
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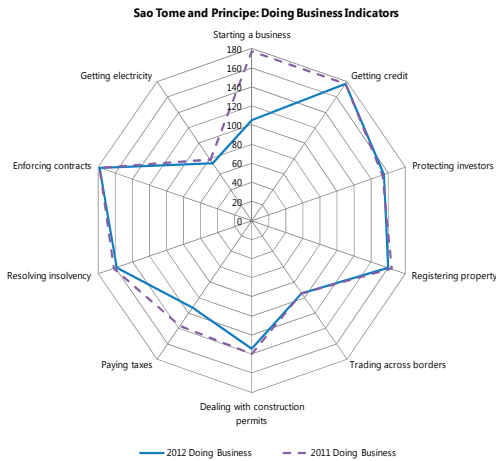
B. Exchange Rate Assessment and International Competitiveness

28. Without oil, São Tomé & Príncipe's current account is unsustainable and staff assesses the real exchange rate to be somewhat overvalued. In the last few years, FDI, oil signature bonuses, and concessional loans have helped finance a large increase in the current account deficit. These inflows have financed higher imports of both investment and consumer goods. Some FDI has helped boost cocoa output and exports, but from a very small base. The evolution of the real exchange rate over the last two decades shows a sharp real depreciation in the first half of the 1990s followed by mild fluctuations without a clear trend, offering no clear indication of a competitiveness problem associated with the real exchange rate. CGER-type estimates of real exchange rate misalignment produce results that range from 37 percent overvaluation to 20 percent undervaluation (Appendix I). On balance, while quantitative estimates are inconclusive, continuing high inflation in São Tomé & Príncipe compared to the euro area will lead to over-valuation of the real exchange rate and loss of international competitiveness,

29. The authorities have made substantial improvements in the investment climate. The World Bank's 2012 Doing Business Survey (published in October 2011) ranked São Tomé & Príncipe among the top reformers in the past year. The areas that improved the most were "starting a business" and "paying taxes" in which São Tomé & Príncipe moved up the rankings by 73 and 24 places, respectively. São Tomé & Príncipe's overall ranking improved from 174 to 163 out of 183 countries. The authorities made starting a business easier by establishing a one-stop-shop for investors and eliminating a raft of licensing and minimum capital requirements for starting a wide range of businesses. Other specific measures included reducing the time required to process building permit applications and lowering property transfer taxes. The authorities highlighted the above improvements in the discussions, but also recognized that there is room to further improve the investment climate, including upgrading the country's physical infrastructure (e.g., port, airport, roads) and reforming the energy sector.

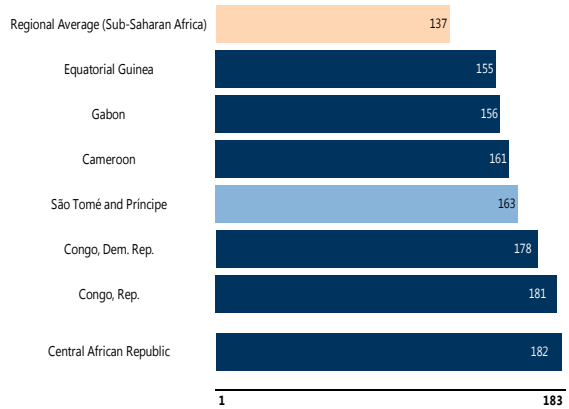
São Tomé & Príncipe: Assessment of REER, 1990-2010





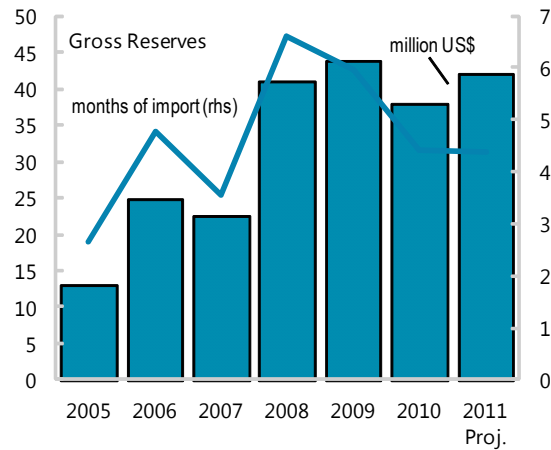
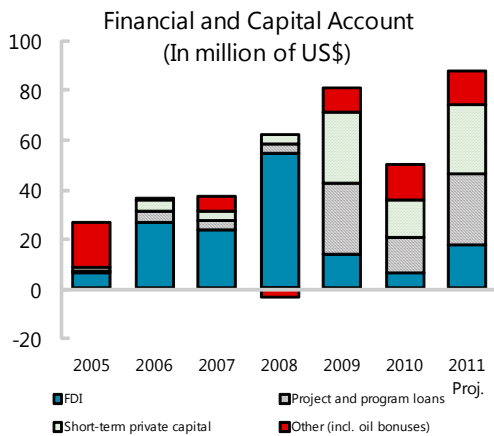
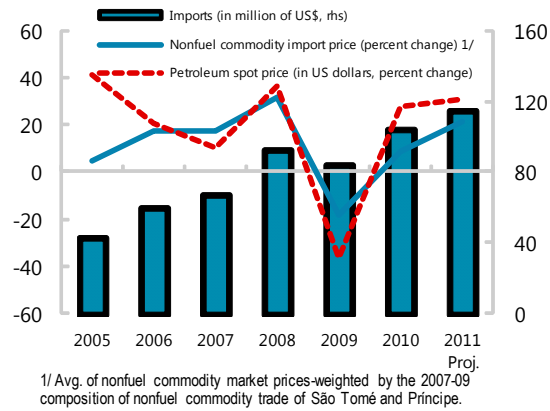
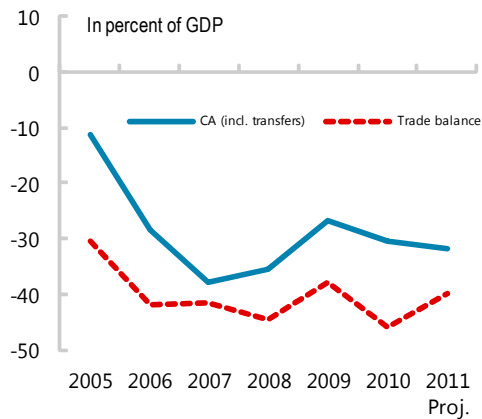
Source: World Bank 2012 Doing Business Report.

Sao Tome and Principe and Comparator Countries: Rank on Ease of Doing Business



Source: World Bank Doing Business database.

Figure 4. São Tomé and Príncipe: External Sector 2005–11



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

POVERTY REDUCTION, DATA, AND CAPACITY ISSUES

30. The government expects to publish a new National Poverty Reduction Strategy (NPRS) in early 2012. The new strategy will replace the Poverty Reduction Strategy Paper formulated in 2002, which was updated in 2005 with a three-year Priority Action Program (PAP, 2006-08). An assessment of PAP implementation attributed the low rate of execution of envisaged projects to political instability (i.e., frequent changes in government and re-organizations of ministries), lower-than-expected levels of external aid, and a lack of ownership of the evaluation and monitoring framework by sector ministries.³ The authorities indicated that they want the new strategy to be fully owned by a broad range of stakeholders.

31. The main objectives of new NPRS are expected to be similar to those of the old PRSP. The authorities emphasized the following key elements:

- Maintaining macroeconomic stability while increasing investment in infrastructure in order to sustain accelerated and broad-based economic growth.
- Promoting agriculture, fisheries and tourism as the leading sectors for growth, employment creation and poverty reduction.
- Improving the population's access to basic social services, including education and health.
- Combating corruption and improving the governance of public institutions.

- Addressing issues of food security, adaptation to climate change, and vulnerabilities to natural disasters.

32. The NPRS will update São Tomé & Príncipe's poverty profile. A household survey in 2001 estimated the incidence of poverty in São Tomé & Príncipe at 54 percent. The authorities noted that they have recently secured technical assistance from the UNDP for analyzing the results of a household survey that was completed in 2010, and that this work will form the basis for updating the country's poverty profile.

33. Progress toward achieving the Millennium Development Goals has been mixed (Table 10). São Tomé & Príncipe is advancing toward meeting the targets on universal primary education, infant mortality, and eradication of Malaria by 2015. The authorities also expect significant progress in combating HIV/AIDs and in achieving gender equality. However, it is unlikely that the goal of eradicating poverty and hunger will be met.

34. São Tomé & Príncipe's capacity for macroeconomic management remains low. The authorities are receiving help from several partners to strengthen public financial management (World Bank, IMF), tax and customs administration (USA), banking supervision (IMF), macro-fiscal analysis (Portugal), central bank liquidity management (IMF) and statistics (IMF). Technical assistance from the Fund in FY2012 will include support for capacity building in the areas of revenue administration, AML/CFT, government finance statistics, and balance of payments statistics.

35. The data provided to staff are broadly adequate for surveillance. However, national accounts and external sector statistics are very weak.

³ See 2008 Annual Progress Report on PRSP Implementation.

STAFF APPRAISAL

36. Increased external financing from regional sources has helped São Tomé & Príncipe’s recovery from the impact of the 2008 global financial crisis. In particular, investments in the port and airport by Sonangol have partially made up for projects that have been postponed on account of funding difficulties faced by investors from Europe. Also, concessional loans and grants from neighboring countries have helped the authorities implement their public investment program. Nevertheless, because of continuing strong trade and investment links with Europe, São Tomé & Príncipe’s recovery is subject to downside risks stemming from the ongoing financial and economic difficulties in Europe.

37. Staff welcomes the authorities’ 2012 budget proposals which build on progress made in 2010 and 2011 in fiscal consolidation. Fiscal consolidation to be achieved by restraining lower priority discretionary spending while continuing the efforts to boost domestic revenue. Over the medium term, staff recommends measures to enhance domestic revenues and to break the cycle of domestic cross arrears. Reduction in exemptions from customs duties and adoption of an automatic price adjustment mechanism to pass through changes in world fuel prices to retail prices would contribute to more robust revenues. Breaking the cycle of cross arrears will require realistic budgeting for the government’s utility bills, imposing a hard budget constraint on regional and local governments, as well as reforms to make EMAE a commercially viable entity.

38. The authorities need to maintain very prudent external borrowing policies to mitigate the high risk of debt distress. The authorities have accumulated substantial new external debt in the last few years to make up

for lower-than-expected project grants. Staff advised the government to slow down the pace of new borrowing and instead rely mainly on grants for financing the public investment program. If the government must borrow, new loans should be on highly concessional terms; adherence to a grant element of at least 50 percent for new loans—a commitment by the authorities under the ECF-supported program—would help mitigate the risk of debt distress.

39. Continued rapid credit growth and vulnerability to economic and financial stress in Europe pose risks to international reserves and financial stability. This calls for heightened vigilance by the BCSTP. Staff welcomes the central bank’s commitment to strengthening monetary management and banking supervision.

40. The authorities are to be commended for improving the investment climate. Staff welcomes the progress achieved in improving the legal framework—including making it easier to start a business, dealing with construction permits, and registering property—and the steps taken to upgrade the port and airport. Further progress is needed to improve basic infrastructure and to assure reliable energy supply in order to boost growth in output and exports.

41. It is proposed that the next Article IV Consultation with São Tomé & Príncipe takes place within 24 months, subject to the decision on consultation cycles (Decision No. 14747-(10/96), September 28, 2010).

Table 1. São Tomé and Príncipe: Selected Economic Indicators, 2007–16

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	Actual			Est.		Projections				
	(Annual change in percent, unless indicated)									
National income and prices										
GDP at constant prices	6.0	9.1	4.0	4.5	4.9	5.5	6.0	6.0	24.4	4.6
Consumer prices										
End of period	27.6	24.8	16.1	12.9	12.0	6.0	4.0	3.0	3.0	3.0
Period average	18.6	32.0	17.0	13.3	12.4	8.8	5.0	3.5	3.0	3.0
External trade										
Exports of goods and non-factor services	-22.0	49.6	3.1	9.5	10.2	12.3	12.1	12.9	497.8	0.5
Imports of goods and non-factor services	3.5	25.4	-5.7	22.4	4.4	7.4	10.5	7.9	39.9	8.5
Exchange rate (dobras per US\$; end of period) ¹	14,362	15,228	16,814	18,336	...	...	...	...	...	...
Real effective exchange rate (depreciation = -)	1.3	20.0	-6.3	1.9	...	...	...	...	...	...
Money and credit										
Base money	50.0	18.9	22.3	-7.9	-3.5	18.6	15.4	12.2	14.9	10.0
Broad money (M3)	38.1	36.8	8.2	25.1	15.8	14.7	13.5	11.9	15.1	10.0
Credit to the economy	33.9	22.8	39.1	40.0	12.2	9.2	7.6	7.6	11.8	8.2
Velocity (GDP to average broad money)	2.6	2.6	2.8	2.6	2.7	2.8	2.7	2.7	3.0	2.9
Central bank reference interest rate (percent)	28.0	28.0	16.0	15.0	...	...	...	...	...	...
Bank lending rate (percent)	32.4	32.4	29.3	26.8	...	...	...	...	...	...
Bank deposit rate (percent)	12.8	12.8	10.8	12.4	...	...	...	...	...	...
Government finance										
(Percent of GDP, unless otherwise indicated)										
Total revenue, grants, and oil signature bonuses ²	165.5	45.4	31.2	38.1	30.0	37.1	26.8	26.1	34.9	32.8
Of which: tax revenue	16.4	15.2	14.5	16.6	15.9	16.0	16.0	16.0	14.2	14.3
Non-tax revenue	2.8	1.5	2.1	2.2	1.7	1.4	1.4	1.4	1.4	1.5
grants	126.6	28.7	14.6	19.3	12.4	10.9	9.4	8.7	4.9	3.7
oil signature bonuses	19.8	0.0	0.0	0.0	0.0	8.8	0.0	0.0	0.0	0.0
oil revenues	...	...	...	...	...	...	...	...	14.3	13.2
Total expenditure and net lending	40.1	31.2	49.8	49.1	47.4	37.3	32.8	31.6	26.5	25.5
Of which: personnel costs	8.9	8.1	7.9	8.3	8.3	8.1	8.0	8.1	7.1	7.2
non-wage noninterest current expenditure	15.7	12.1	11.7	11.1	9.9	9.5	9.6	9.5	8.2	8.0
treasury funded capital expenditures	1.1	1.3	4.0	2.3	1.8	1.9	2.0	2.0	5.6	5.9
donor funded capital expenditures	10.4	6.9	24.5	26.3	25.9	16.5	11.9	10.9	4.8	3.6
Domestic primary balance ³	-8.5	-7.0	-8.0	-4.1	-3.5	-3.3	-3.2	-3.1	-5.9	-5.9
Overall balance (commitment basis)	125.4	14.2	-18.6	-11.0	-17.4	-0.3	-5.9	-5.5	8.4	7.3
External sector										
Current account balance										
Including official transfers	-38.4	-36.8	-26.9	-30.6	-30.0	-27.8	-28.0	-27.5	-24.6	-28.6
Excluding official transfers	-49.4	-49.4	-42.5	-52.1	-42.8	-39.0	-38.3	-37.0	-28.8	-30.8
PV of external debt	11.8	10.5	18.4	33.7	31.8	31.3	29.8	29.5	23.9	23.1
External debt service (percent of exports) ⁴	4.6	3.0	8.0	1.5	13.4	14.3	14.0	12.5	2.4	2.0
Export of goods and non-factor services (US\$ millions)	13.4	20.0	20.6	22.6	24.9	27.9	31.3	35.4	211.4	212.5
Gross foreign reserves ^{5, 6, 7}										
Months of imports of goods and nonfactor services ⁸	3.5	6.6	5.9	4.5	4.4	4.2	4.5	4.9	5.5	5.5
Millions of U.S. dollar	22.5	40.9	43.7	37.9	34.6	34.8	43.7	49.9	69.8	92.6
As proportion of M2 (in percent)	97	114	130	120	98	84	83	82	76	73
National Oil Account (US\$ millions) ⁹	14.9	12.1	9.8	7.9	6.3	31.1	25.1	20.2	68.6	115.8
Memorandum Item										
GDP										
Billions of dobras	1,953	2,696	3,185	3,719	4,376	5,165	5,839	6,508	8,315	8,886
Millions of U.S. dollars	144	183	196	201	254	297	334	369	468	496
Privatisation account (million US dollars)	0	21	6	0.7	0	0	0	0	0	0

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

¹ Central bank (BCSTP) mid-point rate.² Includes HIPC and MDRI debt relief.³ Excludes oil related revenues, grants, interest earned, scheduled interest payments, and foreign-financed capital outlay.⁴ In percent of exports of goods and nonfactor services. Includes HIPC and MDRI debt relief.⁵ Gross reserves exclude the National Oil Account and commercial banks' foreign currency deposits at the BCSTP in order to meet the reserve requirement for their foreign currency deposits or as application deposits for new licensing.⁶ For 2008, includes the proceeds from the privatization of the government's share in the fuel distribution company (ENCO) of \$32 million. Of this, \$10 million were used to pay back some of ENCO's debt to Sonangol, \$0.96 million were used to audit the transaction and \$21.4 million were put in the central bank to boost reserves.⁷ For 2009, includes new allocation of 6.5 million SDR.⁸ Imports of goods and nonfactor services excluding imports of investment goods and technical assistance.⁹ For 2012, based on the assumption that dispute will be settled to allow disbursement of bonuses for Block 6.

Table 2. São Tomé and Príncipe: Financial Operations of the Central Government, 2007–16
(Billion dobra)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	Actual				Est.	Projections				
Total revenue and grants	3233	1225	995	1417	1315	1915	1565	1698	2900	2911
Total revenue	374	451	529	698	770	899	1014	1130	1302	1403
Tax revenue	320	411	462	617	697	826	934	1041	1182	1274
Nontax revenue, of which:	55	40	67	80	73	73	80	89	120	129
Nigeria oil program	7	6	0	20	11	23	14	16	16	16
Grants	2471	774	466	719	545	563	551	568	409	333
Project grants	168	165	387	686	380	401	481	498	398	318
Nonproject grants	21	93	13	5	132	128	70	71	0	0
HIPC Initiative-related grants ¹	2282	516	66	28	32	34	0	0	11	14
Oil signature bonuses	387	0	0	0	0	452	0	0	0	0
Oil revenue	...	...	...	...	...	...	...	...	1189	1175
Total expenditure	783	841	1587	1824	2075	1928	1913	2058	2202	2262
Domestic primary expenditure	533	633	783	829	911	1046	1187	1317	1774	1914
Current expenditure	506	569	646	737	831	943	1059	1177	1295	1378
Of which: personnel costs	174	219	252	309	364	418	470	527	587	636
interest due	26	23	22	16	32	32	29	29	29	29
goods and services	112	164	195	191	209	232	252	280	305	331
transfers	140	124	144	192	202	237	272	294	325	331
Capital expenditure	226	219	907	1066	1209	950	813	840	866	843
Financed by the Treasury	22	34	126	87	77	100	117	128	466	524
Financed by external sources	203	185	781	979	1132	850	696	712	400	319
HIPC Initiative-related social expenditure	51	53	33	21	35	35	40	41	41	41
Domestic primary balance ²	-166	-188	-254	-152	-152	-169	-188	-203	-487	-528
Overall fiscal balance (commitment basis)	2449	383	-592	-408	-760	-13	-347	-360	698	649
Net change in arrears, float, and stat. discrepancies (reduction = -)	25	46	37	-58	0	0	0	0	0	0
External arrears	0	0	0	0	0	0	0	0	0	0
Domestic arrears	6	21	0	0	0	0	0	0	0	0
Float and statistical discrepancies	20	25	37	-58	0	0	0	0	0	0
Overall fiscal balance (cash basis)	2475	430	-555	-465	-760	-13	-347	-360	698	649
Financing	-2475	-430	555	465	760	13	347	360	-698	-649
Net external	-2461	-473	354	246	720	423	183	246	11	13
Disbursements (projects)	39	20	394	293	752	449	215	215	2	1
Program financing (loans)	30	30	0	1	0	58	42	110	103	93
Net short-term loans ³	-213	0	0	0	0	0	0	0	0	0
Scheduled amortization	-2319	-530	-75	-48	-18	-67	-57	-63	-78	-65
Change in arrears (principal)	-144	0	0	0	0	0	0	0	0	0
Bilateral rescheduling ^{4,5}	147	7	2	0	3	0	0	0	0	0
HIPC flow savings	0	0	32	0	-17	-17	-16	-16	-16	-16
Net domestic	-14	44	201	219	40	-409	164	115	-709	-662
Net bank credit to the government	-14	-270	168	219	40	-409	164	115	-709	-662
Banking system credit (excluding National Oil Account)	46	-298	148	201	2	11	55	26	-49	-50
of which Privatisation account ⁶	0	-312	196	13	0	0	0	0	0	0
National Oil Account	-60	29	21	18	38	-421	109	88	-660	-612
Nonbank financing	0	313	33	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Overall balance (commitment, incl. grants, oil flows, excl. oil bonuses)	-234	-402	-490	-216	-753	-909	-183	-246	-22	-28
MDRI debt relief (flow in US\$ million)	2	2	0	0	0	0	0	0	0	0
Privatisation account balance (US\$ million)	0	21	6	0	0	0	0	0	0	0
National Oil Account balance (US\$ million, excl. transfers to budget) ⁷	15	12	10	8	6	31	25	20	69	116

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

¹ For 2007, includes IDA and AfDB MDRI debt relief as a stock of debt reduction.² Exclude oil related revenues, grants, interest earned, scheduled interest payments, and foreign-financed capital outlays.³ For 2007, includes the repayment of three \$5 million loans disbursed by Nigeria in 2002–04 upon receipt of oil signature bonuses for Blocks 2–4 in the Joint Development Zone.⁴ For 2007, assumes rescheduling agreement with non-Paris Club bilateral creditors for current maturities and stock of arrears.⁵ For 2007, includes IMF MDRI debt relief as a stock of debt reduction.⁶ For 2008, includes the proceeds from the privatization of the government's share in the fuel distribution company (ENCO) of \$32 million. Of this, \$10 million were used to pay back some of ENCO's debt to Sonangol, \$0.96 million were used to audit the transaction and \$21.4 million were put in the central bank to boost reserves.⁷ For 2012, based on the assumption that dispute will be settled to allow disbursement of bonuses for Block 6.

**Table 3. São Tomé and Príncipe: Financial Operations of the Central Government, 2007–16
(Percent of GDP)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	Actual				Est.	Projections				
Total revenue and grants	165.5	45.4	31.2	38.1	30.0	37.1	26.8	26.1	34.9	32.8
Total revenue	19.2	16.7	16.6	18.8	17.6	17.4	17.4	17.4	15.7	15.8
Tax revenue	16.4	15.2	14.5	16.6	15.9	16.0	16.0	16.0	14.2	14.3
Nontax revenue, of which:	2.8	1.5	2.1	2.2	1.7	1.4	1.4	1.4	1.4	1.5
Nigeria oil program	0.4	0.2	0.0	0.5	0.3	0.4	0.2	0.2	0.2	0.2
Grants	126.6	28.7	14.6	19.3	12.4	10.9	9.4	8.7	4.9	3.7
Project grants	8.6	6.1	12.2	18.5	8.7	7.8	8.2	7.6	4.8	3.6
Nonproject grants	1.1	3.4	0.4	0.1	3.0	2.5	1.2	1.1	0.0	0.0
HIPC Initiative-related grants ¹	116.9	19.1	2.1	0.7	0.7	0.7	0.0	0.0	0.1	0.2
Oil signature bonuses	19.8	0.0	0.0	0.0	0.0	8.8	0.0	0.0	0.0	0.0
Oil revenue	...	...	...	...	...	...	...	...	14.3	13.2
Total expenditure	40.1	31.2	49.8	49.1	47.4	37.3	32.8	31.6	26.5	25.5
Domestic primary expenditure	27.3	23.5	24.6	22.3	20.8	20.3	20.3	20.2	21.3	21.5
Current expenditure	25.9	21.1	20.3	19.8	19.0	18.3	18.1	18.1	15.6	15.5
Of which: personnel costs	8.9	8.1	7.9	8.3	8.3	8.1	8.0	8.1	7.1	7.2
interest due	1.3	0.9	0.7	0.4	0.7	0.6	0.5	0.4	0.3	0.3
goods and services	5.7	6.1	6.1	5.1	4.8	4.5	4.3	4.3	3.7	3.7
transfers	7.2	4.6	4.5	5.2	4.6	4.6	4.7	4.5	3.9	3.7
Capital expenditure	11.6	8.1	28.5	28.7	27.6	18.4	13.9	12.9	10.4	9.5
Financed by the Treasury	1.1	1.3	4.0	2.3	1.8	1.9	2.0	2.0	5.6	5.9
Financed by external sources	10.4	6.9	24.5	26.3	25.9	16.5	11.9	10.9	4.8	3.6
HIPC Initiative-related social expenditure	2.6	2.0	1.0	0.6	0.8	0.7	0.7	0.6	0.5	0.5
Domestic primary balance ²	-8.5	-7.0	-8.0	-4.1	-3.5	-3.3	-3.2	-3.1	-5.9	-5.9
Overall fiscal balance (commitment basis)	125.4	14.2	-18.6	-11.0	-17.4	-0.3	-5.9	-5.5	8.4	7.3
Net change in arrears, float, and stat. discrepancies (reduction = -)	1.3	1.7	1.2	-1.6	0.0	0.0	0.0	0.0	0.0	0.0
External arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears	0.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Float and statistical discrepancies	1.0	0.9	1.2	-1.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (cash basis)	126.7	15.9	-17.4	-12.5	-17.4	-0.3	-5.9	-5.5	8.4	7.3
Financing	-126.7	-15.9	17.4	12.5	17.4	0.3	5.9	5.5	-8.4	-7.3
Net external	-126.0	-17.6	11.1	6.6	16.5	8.2	3.1	3.8	0.1	0.1
Disbursements (projects)	2.0	0.7	12.4	7.9	17.2	8.7	3.7	3.3	0.0	0.0
Program financing (loans)	1.5	1.1	0.0	0.0	0.0	1.1	0.7	1.7	1.2	1.0
Net short-term loans ³	-10.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-118.8	-19.7	-2.3	-1.3	-0.4	-1.3	-1.0	-1.0	-0.9	-0.7
Change in arrears (principal)	-7.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral rescheduling ^{4,5}	7.6	0.3	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
HIPC flow savings										
Net domestic	-0.7	1.6	6.3	5.9	0.9	-7.9	2.8	1.8	-8.5	-7.5
Net bank credit to the government	-0.7	-10.0	5.3	5.9	0.9	-7.9	2.8	1.8	-8.5	-7.5
Banking system credit (excluding National Oil Account)	2.4	-11.1	4.6	5.4	0.0	0.2	0.9	0.4	-0.6	-0.6
of which Privatisation account ⁶	0.0	-11.6	6.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
National Oil Account	-3.1	1.1	0.6	0.5	0.9	-8.1	1.9	1.4	-7.9	-6.9
Nonbank financing	0.0	11.6	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Overall balance (commitment, incl. grants, oil flows, excl. oil bonuses)	-12.0	-14.9	-15.4	-5.8	-17.2	-17.6	-3.1	-3.8	-0.3	-0.3
MDRI debt relief (flow in US\$ million)	1.7	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatisation account balance (US\$ million)	0.0	21.0	5.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Oil Account balance (US\$ million, excl. transfers to budget) ⁷	14.9	12.1	9.8	7.9	6.3	31.1	25.1	20.2	68.6	115.8
Nominal GDP (Billions of dobras)	1,953	2,696	3,185	3,719	4,376	5,165	5,839	6,508	8,315	8,886

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

¹ For 2007, includes IDA and AfDB MDRI debt relief as a stock of debt reduction.² Exclude oil related revenues, grants, interest earned, scheduled interest payments, and foreign-financed capital outlays.³ For 2007, includes the repayment of three \$5 million loans disbursed by Nigeria in 2002–04 upon receipt of oil signature bonuses for Blocks 2–4 in the Joint Development Zone.⁴ For 2007, assumes rescheduling agreement with non-Paris Club bilateral creditors for current maturities and stock of arrears.⁵ For 2007, includes IMF MDRI debt relief as a stock of debt reduction.⁶ For 2008, includes the proceeds from the privatization of the government's share in the fuel distribution company (ENCO) of \$32 million. Of this, \$10 million were used to pay back some of ENCO's debt to Sonangol, \$0.96 million were used to audit the transaction and \$21.4 million were put in the central bank to boost reserves.⁷ For 2012, based on the assumption that dispute will be settled to allow disbursement of bonuses for Block 6.

Table 4. São Tomé and Príncipe: Summary Accounts of the Central Bank, 2007–16
(Billion dobra)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	Actual				Est.	Projections				
Net foreign assets	857	1,199	1,228	998	852	1,303	1,343	1,416	2,710	4,052
Net international reserves ¹	699	1,019	1,192	942	798	1,250	1,290	1,363	2,656	3,998
Gross reserves ¹	775	1,111	1,284	1,052	1,105	1,564	1,605	1,662	2,938	4,240
<i>Of which: National Oil Account (NOA)</i>	212	183	163	145	116	566	462	375	1,283	2,181
Commercial bank FX deposits	165	212	295	71	44	52	60	68	78	86
guarantee deposits	0	0	0	23	0	0	0	0	0	0
Short-term liabilities	-76	-93	-91	-110	-307	-313	-314	-299	-282	-242
Other foreign assets	172	195	385	259	263	260	261	263	265	266
Other liabilities ¹	-14	-15	-348	-203	-209	-207	-208	-209	-211	-212
Net domestic assets	-440	-703	-622	-439	-313	-665	-607	-589	-1,759	-3,007
Net domestic credit	-152	-393	-211	14	82	-335	-299	-215	-1,679	-2,691
Net credit to government	-163	-406	-232	-23	40	-377	-333	-251	-1,716	-2,728
Claims on government	112	126	157	258	279	301	301	285	266	268
<i>Of which: use of SDRs/PRGF Facility</i>	69	82	113	211	233	254	255	238	220	221
Government Deposits	-274	-532	-389	-281	-239	-678	-634	-535	-1,982	-2,996
Ordinary	-13	-89	-42	-26	-31	-20	-79	-67	-606	-722
<i>Of which: HIPC Initiative resources</i>	-8	-5	-1	-1	0	0	0	0	0	0
Counterpart funds	-8	-22	-30	-43	-32	-32	-32	-32	-32	-32
Foreign currency	-253	-420	-318	-211	-176	-626	-523	-436	-1,344	-2,242
<i>Of which: NOA</i>	-212	-183	-163	-145	-116	-566	-462	-375	-1,283	-2,181
Claims on commercial banks	1	1	1	9	9	9	0	0	0	0
Claims on other sectors	10	13	20	28	33	33	35	36	37	38
Central Bank certificates of deposit	0	0	0	0	0	0	0	0	0	0
Other items (net)	-288	-311	-411	-454	-395	-330	-308	-374	-80	-316
Base money	417	496	606	558	538	638	737	827	950	1,046
Currency issued	126	141	167	191	167	198	228	256	294	324
Bank reserves	291	355	439	367	372	441	509	571	656	722
<i>Of which: domestic currency</i>	126	143	144	297	328	388	448	503	578	636
foreign currency	165	212	295	71	44	52	60	68	78	86
Memorandum items:										
Gross international reserves (US\$ millions)	54.0	73.0	76.3	56.6	60.0	85.9	91.2	90.2	158.2	226.7
excluding NOA and guaranteed deposits	39.2	60.9	66.7	47.6	53.7	54.8	65.0	69.8	89.2	110.1
Net international reserves (US\$ millions)	48.7	66.9	70.9	50.7	43.3	68.7	73.3	73.9	143.0	213.8
<i>Of which: National Oil Account (US\$ millions)</i>	14.8	12.0	9.7	7.8	6.3	31.1	26.3	20.3	69.1	116.6
Guaranteed deposits (US\$ millions)	0.0	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Net international reserves (US\$ millions; excl. NOA)	33.9	54.9	61.2	41.7	37.0	37.6	47.1	53.6	74.0	97.2
<i>Of which: Commercial banks reserves in foreign currency</i>	11.5	13.9	17.5	3.8	2.4	2.9	3.4	3.7	4.2	4.6
Usable net international reserves										
in US\$ millions	22.5	40.9	43.7	37.9	34.6	34.8	43.7	49.9	69.8	92.6
in months of imports	3.5	6.6	5.9	4.5	3.8	4.2	4.5	4.9	5.5	5.5
Base money (annual percent change)	50.0	18.9	22.3	-7.9	-3.5	18.6	15.4	12.2	14.9	10.0

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

¹ For 2009, includes new allocation of 6.5 million SDR.

Table 5. São Tomé and Príncipe: Depository Corporations Survey, 2007–16
(Billion dobra)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	Actual				Est.	Projections				
Net foreign assets	1,030	1,418	1,279	1,364	1,158	1,561	1,579	1,775	3,072	4,417
Central bank	857	1,199	1,228	998	852	1,303	1,343	1,416	2,710	4,052
Commercial banks	173	219	50	367	306	258	236	359	362	364
Net domestic assets	-266	-373	-148	50	480	316	551	608	-328	-1,398
Net domestic credit	460	334	810	1,466	1,698	1,439	1,623	1,856	644	-173
Net credit to government	-178	-450	-280	-60	-13	-430	-389	-309	-1,777	-2,793
Claims on government	112	127	158	261	285	306	307	290	272	273
Government Deposits	-290	-577	-438	-321	-298	-737	-695	-599	-2,049	-3,066
Budgetary deposits	-13	-89	-42	-26	-31	-20	-79	-67	-606	-722
Counterpart funds	-8	-22	-30	-43	-32	-32	-32	-32	-32	-32
Foreign currency deposits	-269	-465	-366	-252	-235	-685	-584	-500	-1,411	-2,312
Of which: National Oil Account	-212	-183	-163	-145	-116	-566	-462	-375	-1,283	-2,181
Credit to the economy	638	784	1,090	1,526	1,711	1,870	2,012	2,165	2,421	2,620
Of which: credit in foreign currency	460	572	739	1,099	1,119	1,224	1,317	1,419	1,589	1,720
(In Millions of \$US)	32	38	44	59	61	67	75	77	86	92
Other items (net)	-726	-707	-958	-1,415	-1,219	-1,123	-1,072	-1,248	-972	-1,225
Broad money (M3)	764	1,045	1,130	1,415	1,637	1,877	2,130	2,383	2,743	3,019
Local currency	329	534	553	585	683	802	910	1,041	1,226	1,379
Money	285	429	437	562	652	765	868	994	1,171	1,317
Currency outside banks	109	120	149	163	181	212	241	276	324	365
Demand deposits	176	309	288	399	471	553	628	719	846	952
Time deposits	43	105	116	23	31	36	41	47	56	62
Foreign currency deposits	435	511	578	829	955	1,076	1,221	1,342	1,517	1,639
Memorandum items:										
Velocity (ratio of GDP to average broad money)	2.6	2.6	2.8	2.6	2.7	2.8	2.7	2.7	3.0	2.9
Money multiplier (M3/M0)	1.8	2.1	1.9	2.5	3.0	2.9	2.9	2.9	2.9	2.9
Base money (12-month growth rate)	50.0	18.9	22.3	-7.9	-3.5	18.6	15.4	12.2	14.9	10.0
Credit to the economy (12-month growth rate)	33.9	22.8	39.1	40.0	12.2	9.2	7.6	7.6	11.8	8.2
M3 (12-month growth rate) ¹	38.1	36.8	8.2	25.1	15.8	14.7	13.5	11.9	15.1	10.0

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

¹ Revised commercial banks monetary data beginning in Jan. 2010 is not comparable with historical series.

Table 6. São Tomé and Príncipe: Balance of Payments, 2007–16
(Millions of U.S. dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	Actual				Est.	Projections				
Trade balance	-60.1	-81.9	-74.6	-92.6	-98.1	-105.5	-115.6	-123.9	-20.2	-40.7
Exports, f.o.b.	6.8	10.3	9.2	10.8	12.5	13.8	14.5	15.2	167.1	165.5
<i>Of which:</i> Oil	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	152.1	150.5
cocoa	2.9	5.0	5.4	4.3	5.9	6.0	6.3	6.5	6.1	5.9
re-export	0.0	4.6	3.0	5.1	5.0	6.0	6.3	6.5	6.8	7.2
Imports, f.o.b.	-66.9	-92.2	-83.8	-103.4	-110.6	-119.3	-130.2	-139.1	-187.3	-206.2
<i>Of which:</i> food	-17.6	-24.2	-29.0	-31.8	-40.8	-44.1	-45.1	-45.3	-45.7	-47.6
petroleum products	-14.6	-22.1	-14.7	-18.4	-25.2	-29.8	-31.4	-32.6	-34.2	-35.9
Services and income (net)	-13.2	-11.7	-11.9	-15.3	-13.5	-13.4	-15.3	-15.9	-117.7	-115.4
Exports of nonfactor services	6.6	9.7	11.4	11.8	12.4	14.1	16.8	20.2	44.3	46.9
<i>Of which:</i> travel and tourism	4.9	7.7	8.9	9.2	9.6	11.2	13.7	16.8	22.4	25.0
Imports of nonfactor services	-25.0	-23.0	-24.8	-29.5	-28.2	-29.7	-34.5	-38.5	-61.1	-63.3
Factor services (net)	5.2	1.6	1.5	2.4	2.2	2.2	2.4	2.5	-100.9	-99.0
Interest due	-1.6	-2.5	-1.0	-0.5	-0.8	-0.8	-0.8	-0.8	-0.7	-0.7
National Oil Account (NOA) interest earnings	3.0	0.2	0.0	0.0	0.0	0.0	0.2	0.2	0.3	1.6
Private transfers (net)	2.0	3.0	3.0	3.1	3.1	3.2	3.2	3.2	3.3	3.3
Official transfers (net)	15.9	23.0	30.7	43.2	32.5	33.2	34.3	35.0	19.6	10.7
<i>Of which:</i> project grants	11.8	11.1	23.6	37.0	22.1	23.1	27.6	28.4	16.9	10.1
HIPC Initiative-related grants	0.7	0.9	0.6	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Current account balance	-55.4	-67.6	-52.8	-61.6	-76.0	-82.5	-93.4	-101.5	-115.1	-142.1
Including official transfers	-71.3	-90.6	-83.5	-104.8	-108.5	-115.7	-127.7	-136.6	-134.7	-152.8
Excluding official transfers	55.7	70.2	60.9	71.2	72.2	107.6	93.5	103.4	177.0	193.7
Capital and financial account balance	55.7	70.2	60.9	71.2	72.2	107.6	93.5	103.4	177.0	193.7
Capital transfer ¹	183.1	51.2	0.0	0.0	3.2	0.0	0.0	0.0	0.0	0.0
Financial account	-127.4	19.0	60.9	71.2	69.0	107.6	93.5	103.4	177.0	193.7
Public sector (net)	-198.6	-50.5	26.5	28.0	20.3	22.6	11.9	16.0	2.8	2.8
Project loans	1.4	1.9	2.7	2.3	4.7	3.3	2.4	1.5	1.0	0.5
Program loans	2.1	2.0	0.3	0.1	0.0	0.0	0.0	4.7	4.7	4.7
Amortization	-197.8	-53.2	-1.3	-1.2	-5.8	-2.6	-2.7	-2.6	-3.3	-2.6
Other investment	-4.3	-1.2	24.7	26.8	21.4	21.9	12.2	12.4	0.3	0.2
<i>Of which:</i> transfers to JDA	-3.0	0.1	-0.1	-0.1	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7
Private sector (net)	71.2	69.6	34.4	43.2	48.6	85.0	81.5	87.4	174.1	190.9
Direct foreign investment	52.6	54.2	13.8	6.6	18.0	49.5	30.0	33.2	118.6	121.3
<i>Of which:</i> Oil signature bonuses ²	28.6	0.0	0.0	0.0	0.0	26.0	0.0	0.0	0.0	0.0
Commercial banks	-3.2	-2.3	11.4	17.0	12.2	-8.5	-1.3	10.7	-0.1	0.0
Short-term private capital	21.8	17.7	9.2	19.6	18.4	44.0	52.8	43.5	55.6	69.6
Errors and omissions	6.6	12.7	-3.5	-15.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	6.9	15.4	4.6	-5.6	-3.8	25.1	0.1	1.9	61.8	51.6
Financing	-6.9	-15.4	-4.6	5.6	3.8	-25.1	-0.1	-1.9	-61.8	-51.6
Change in official reserves, excl. NOA (increase= -)	-1.9	-19.4	1.1	3.1	2.3	0.3	-5.2	-5.6	-12.4	-3.4
Use of Fund resources (net)	1.3	1.3	0.6	0.6	0.0	-0.6	-0.9	-1.1	-1.1	-1.0
Purchases	1.3	1.3	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases (incl. MDRI repayment)	0.0	0.0	0.0	0.0	0.0	-0.6	-0.9	-1.1	-1.1	-1.0
National Oil Account (increase = -)	-6.3	2.7	2.4	1.9	1.5	-24.8	6.0	4.9	-48.4	-47.2
Change in arrears (net; decrease = -)	-10.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing ³	0.0	0.0	-8.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Current account balance (percent of GDP)										
Before official transfers	-49.4	-49.4	-42.5	-52.1	-42.6	-38.9	-38.1	-36.8	-28.7	-30.6
After official transfers	-38.4	-36.8	-26.9	-30.6	-29.8	-27.8	-27.9	-27.3	-24.5	-28.5
Debt service ratio (percent of exports) ⁴	4.6	3.0	8.0	1.5	13.4	14.3	14.0	12.5	2.4	2.0
Usable Gross reserves ^{5,6}										
Millions of U.S. dollars	22.5	40.9	43.7	37.9	34.6	34.8	43.7	49.9	69.8	92.6
Months of imports of goods and nonfactor services ⁷	3.5	6.6	5.9	4.5	4.4	4.2	4.5	4.9	5.5	5.5
As proportion of M2 (in percent)	97.1	113.7	130.0	119.9	98.0	84.0	83.4	81.7	75.5	72.8

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

¹ Includes HIPC and MDRI debt relief delivered at the completion point in 2007.

² For 2012, based on the assumption that dispute will be settled to allow disbursement of bonuses for Block 6.

³ For 2009, includes new allocation of 6.5 million SDR.

⁴ In percent of exports of goods and nonfactor services.

⁵ Gross reserves exclude the National Oil Account and commercial banks' foreign currency deposits at the BCSTP in order to meet the reserve requirement for their foreign currency deposits or as application deposits for new licensing.

⁶ For 2008, includes the proceeds from the privatization of the government's share in the fuel distribution company (ENCO) of \$32 million. Of this, \$10 million were used to pay back some of ENCO's debt to Sonangol, \$0.96 million were used to audit the transaction and \$21.4 million were put in the central bank to boost reserves.

⁷ Imports of goods and nonfactor services excluding imports of investment goods and technical assistance.

Table 7. São Tomé and Príncipe: Balance of Payments, 2007–16
(Percent of GDP)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	Actual				Est.	Projections				
Trade balance	-41.6	-44.6	-37.9	-46.1	-38.7	-35.6	-34.6	-33.6	-4.3	-8.2
Exports, f.o.b.	4.7	5.6	4.7	5.4	4.9	4.7	4.4	4.1	35.7	33.4
<i>Of which:</i> Oil	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	32.5	30.3
cocoa	2.0	2.7	2.8	2.2	2.3	2.0	1.9	1.8	1.3	1.2
re-export	0.0	2.5	1.5	2.5	2.0	2.0	1.9	1.8	1.5	1.4
Imports, f.o.b.	-46.3	-50.2	-42.6	-51.4	-43.6	-40.2	-39.0	-37.7	-40.0	-41.6
<i>Of which:</i> food	-12.2	-13.2	-14.8	-15.8	-16.1	-14.9	-13.5	-12.3	-9.8	-9.6
petroleum products	-10.1	-12.1	-7.5	-9.2	-9.9	-10.0	-9.4	-8.8	-7.3	-7.2
Services and income (net)	-9.2	-6.4	-6.1	-7.6	-5.3	-4.5	-4.6	-4.3	-25.2	-23.3
Exports of nonfactor services	4.6	5.3	5.8	5.9	4.9	4.8	5.0	5.5	9.5	9.5
<i>Of which:</i> travel and tourism	3.4	4.2	4.5	4.6	3.8	3.8	4.1	4.5	4.8	5.0
Imports of nonfactor services	-17.3	-12.6	-12.6	-14.7	-11.1	-10.0	-10.3	-10.4	-13.1	-12.8
Factor services (net)	3.6	0.9	0.7	1.2	0.9	0.8	0.7	0.7	-21.6	-20.0
Interest due	-1.1	-1.4	-0.5	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1
National Oil Account (NOA) interest earnings	2.1	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.3
Private transfers (net)	1.4	1.6	1.5	1.5	1.2	1.1	1.0	0.9	0.7	0.7
Official transfers (net)	11.0	12.5	15.6	21.5	12.8	11.2	10.3	9.5	4.2	2.2
<i>Of which:</i> project grants	8.2	6.1	12.0	18.4	8.7	7.8	8.3	7.7	3.6	2.0
HIPC Initiative-related grants	0.5	0.5	0.3	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Current account balance										
Including official transfers	-38.4	-36.8	-26.9	-30.6	-30.0	-27.8	-28.0	-27.5	-24.6	-28.6
Excluding official transfers	-49.4	-49.4	-42.5	-52.1	-42.8	-39.0	-38.3	-37.0	-28.8	-30.8
Capital and financial account balance	38.6	38.3	31.0	35.4	28.5	36.3	28.0	28.0	37.8	39.0
Capital transfer ¹	126.9	27.9	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0
Financial account	-88.3	10.4	31.0	35.4	27.2	36.3	28.0	28.0	37.8	39.0
Public sector (net)	-137.7	-27.5	13.5	13.9	8.0	7.6	3.6	4.3	0.6	0.6
Project loans	1.0	1.0	1.4	1.1	1.9	1.1	0.7	0.4	0.2	0.1
Program loans	1.4	1.1	0.2	0.0	0.0	0.0	0.0	1.3	1.0	1.0
Amortization	-137.1	-29.0	-0.6	-0.6	-2.3	-0.9	-0.8	-0.7	-0.7	-0.5
Other investment	-3.0	-0.7	12.6	13.3	8.4	7.4	3.7	3.3	0.1	0.0
<i>Of which:</i> transfers to JDA	-2.1	0.1	-0.1	0.0	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1
Private sector (net)	49.4	37.9	17.5	21.5	19.2	28.7	24.4	23.7	37.2	38.5
Direct foreign investment	36.5	29.6	7.0	3.3	7.1	16.7	9.0	9.0	25.4	24.5
<i>Of which:</i> Oil signature bonuses ²	19.8	0.0	0.0	0.0	0.0	8.8	0.0	0.0	0.0	0.0
Commercial banks	-2.2	-1.3	5.8	8.5	4.8	-2.9	-0.4	2.9	0.0	0.0
Short-term private capital	15.1	9.6	4.7	9.8	7.3	14.8	15.8	11.8	11.9	14.0
Errors and omissions	4.5	6.9	-1.8	-7.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	4.8	8.4	2.3	-2.8	-1.5	8.5	0.0	0.5	13.2	10.4
Financing	-4.8	-8.4	-2.3	2.8	1.5	-8.5	0.0	-0.5	-13.2	-10.4
Change in official reserves, excl. NOA (increase = -)	-1.3	-10.6	0.6	1.5	0.9	0.1	-1.6	-1.5	-2.6	-0.7
Use of Fund resources (net)	0.9	0.7	0.3	0.3	0.0	-0.2	-0.3	-0.3	-0.2	-0.2
Purchases	0.9	0.7	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases (incl. MDRI repayment)	0.0	0.0	0.0	0.0	0.0	-0.2	-0.3	-0.3	-0.2	-0.2
National Oil Account (increase = -)	-4.3	1.5	1.2	0.9	0.6	-8.4	1.8	1.3	-10.3	-9.5
Change in arrears (net; decrease = -)	-7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing ³	0.0	0.0	-4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Debt service ratio (percent of exports) ⁴	4.6	3.0	8.0	1.5	13.4	14.3	14.0	12.5	2.4	2.0
Usable Gross reserves ^{5,6}										
Millions of U.S. dollars	22.5	40.9	43.7	37.9	41.8	41.2	46.0	51.1	61.5	64.4
Months of imports of goods and nonfactor services ⁷	3.5	6.6	5.9	4.5	4.4	4.2	4.5	4.9	5.5	5.5
As proportion of M2 (in percent)	97	114	130	120	98	84	83	82	76	73

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

¹ Includes HIPC and MDRI debt relief delivered at the completion point in 2007.

² For 2012, based on the assumption that dispute will be settled to allow disbursement of bonuses for Block 6.

³ For 2009, includes new allocation of 6.5 million SDR.

⁴ In percent of exports of goods and nonfactor services.

⁵ Gross reserves exclude the National Oil Account and commercial banks' foreign currency deposits at the BCSTP in order to meet the reserve requirement for their foreign currency deposits or as application deposits for new licensing.

⁶ For 2008, includes the proceeds from the privatization of the government's share in the fuel distribution company (ENCO) of \$32 million. Of this, \$10 million were used to pay back some of ENCO's debt to Sonangol, \$0.96 million were used to audit the transaction and \$21.4 million were put in the central bank to boost reserves.

⁷ Imports of goods and nonfactor services excluding imports of investment goods and technical assistance.

Table 8. São Tomé and Príncipe: External Financing Requirements and Sources, 2007–16
(Millions of U.S. dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	Actual				Est.	Projections				
Gross financing requirements	-285.5	-164.5	-58.9	-76.1	-90.6	-96.7	-124.3	-133.5	-151.1	-159.6
Current account, excluding official transfers	-71.3	-90.6	-83.5	-104.8	-108.5	-115.7	-127.7	-136.6	-134.7	-152.8
Exports, f.o.b.	6.8	10.3	9.2	10.8	12.5	13.8	14.5	15.2	167.1	165.5
Imports, f.o.b.	-66.9	-92.2	-83.8	-103.4	-110.6	-119.3	-130.2	-139.1	-187.3	-206.2
Services and income (net)	-13.2	-11.7	-11.9	-15.3	-13.5	-13.4	-15.3	-15.9	-117.7	-115.4
Private transfers	2.0	3.0	3.0	3.1	3.1	3.2	3.2	3.2	3.3	3.3
Financial account	-202.1	-54.5	23.5	25.6	15.6	18.7	8.6	8.7	-4.0	-3.4
Scheduled amortization ¹	-197.8	-53.2	-1.3	-1.2	-5.8	-2.6	-2.7	-2.6	-3.3	-2.6
IMF repayments ²	0.0	0.0	0.0	0.0	0.0	-0.6	-0.9	-1.1	-1.1	-1.0
Other public sector flows (net)	-4.3	-1.2	24.7	26.8	21.4	21.9	12.2	12.4	0.3	0.2
Change in external reserves (-ve = increase) ³	-1.9	-19.4	1.1	3.1	2.3	0.3	-5.2	-5.6	-12.4	-3.4
Change in arrears (net)	-10.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Available funding	285.5	164.5	58.9	76.1	90.6	96.7	124.3	133.5	151.1	159.6
National Oil Fund (net)	22.3	2.7	2.4	1.9	1.5	1.2	6.0	4.9	-48.4	-47.2
Oil signature bonuses ⁴	28.6	0.0	0.0	0.0	0.0	26.0	0.0	0.0	0.0	0.0
Saving (-ve = accumulation of oil reserve fund)	-6.3	2.7	2.4	1.9	1.5	-24.8	6.0	4.9	-48.4	-47.2
Expected disbursements	202.5	78.1	33.7	45.6	40.5	36.5	36.7	41.3	25.3	15.9
Multilateral HIPC interim assistance	0.7	0.9	0.6	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Capital transfers ^{1,2}	183.1	51.2	0.0	0.0	3.2	0.0	0.0	0.0	0.0	0.0
Grants ⁵	15.2	22.1	30.1	41.8	32.5	33.2	34.3	35.0	19.6	10.7
Concessional loans	3.5	3.9	3.0	2.3	4.7	3.3	2.4	6.2	5.8	5.2
Project loans	1.4	1.9	2.7	2.3	4.7	3.3	2.4	1.5	1.0	0.5
Program loans	2.1	2.0	0.3	0.1	0.0	0.0	0.0	4.7	4.7	4.7
Private sector (net)	49.2	82.3	30.9	28.1	48.6	59.0	81.5	87.4	174.1	190.9
IMF ^{3,6}	1.3	1.3	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	10.2	0.0	-8.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC debt relief (bilateral creditors) ²	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reschedulable arrears (bilateral creditors)	10.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing ³	0.0	0.0	-8.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

¹ Includes HIPC and MDRI debt relief delivered at the completion point in 2007.² Includes MDRI assistance from the IMF as a stock of debt reduction.³ For 2009, includes new allocation of 6.5 million SDR.⁴ For 2012, based on the assumption that dispute will be settled to allow disbursement of bonuses for Block 6.⁵ Includes revenue from Nigeria oil program.⁶ Includes projected disbursements under the new ECF.

Table 9. São Tomé and Príncipe: Financial Soundness Indicators for the Banking Sector, 2007–11

	2007	2008	2009	2010	2011 June
Capital Adequacy					
Regulatory capital to risk-weighted assets	71.40	71.40	85.70	85.70	100.00
Capital (net worth) to assets	16.70	24.70	23.20	27.90	28.86
Asset quality					
Foreign exchange loans to total loans	83.20	74.20	73.00	77.50	73.20
Nonperforming loans (past-due more than 30 days)	26.60	19.30	10.20	9.73	11.24
Provision as percent of past-due loans	53.40	10.90	24.00	42.20	44.99
Earnings and profitability					
Net profit before tax/net income	-24.20	-13.10	-1.20	...	...
Return on assets	-0.90	-1.00	0.10	0.70	0.07
Return on equity	0.90	-3.70	...	1.80	0.23
Expense (including amortiz. & provisions)/ net income	122.20	109.30	98.20	98.20	99.61
Liquidity					
Liquid assets/total assets	19.70	19.70	18.40	21.90	22.71
Liquid assets/short term liabilities	...	...	...	36.10	36.96
Loan/deposits	...	...	...	104.20	114.67
Foreign exchange liabilities/total liabilities	71.00	71.00	73.10	57.40	63.09
Sensitivity to market risk					
Foreign exchange liabilities to shareholders funds	349.20	215.70	274.00	203.80	112.29

Source: São Tomé and Príncipe authorities

Table 10. São Tomé & Príncipe: Millenium Development Goals

	1990	1995	2000	2005	2010
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	--	--	--	--	--
Employment to population ratio, ages 15-24, total (%)	--	--	--	--	--
Income share held by lowest 20%	--	--	5.2	--	--
Malnutrition prevalence, weight for age (% of children under 5)	--	--	10.1	--	13.1 ^{10/}
Poverty gap at \$1.25 a day (PPP) (%)	--	--	8.2 ^{5/}	--	--
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	--	--	29 ^{5/}	--	--
Prevalence of undernourishment (% of population)	14 ^{2/}	15 ^{3/}	8 ^{8/}	--	5 ^{8/}
Vulnerable employment, total (% of total employment)	27 ^{1/}	--	--	--	--
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	92 ^{1/}	--	95 ^{5/}	--	96 ^{10/}
Literacy rate, youth male (% of males ages 15-24)	96 ^{1/}	--	96 ^{5/}	--	95 ^{10/}
Persistence to last grade of primary, total (% of cohort)	--	--	59	69 ^{7/}	75 ^{8/}
Primary completion rate, total (% of relevant age group)	78	--	--	74	83 ^{10/}
Total enrollment, primary (% net)	97	--	88 ^{4/}	99	98 ^{10/}
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	12	--	9	9	18
Ratio of female to male primary enrollment (%)	92	--	97 ^{4/}	97	101 ^{10/}
Ratio of female to male secondary enrollment (%)	--	--	--	107	112 ^{10/}
Ratio of female to male tertiary enrollment (%)	--	--	--	--	93 ^{10/}
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	32 ^{1/}	--	--	--	--
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	71	74	69	88	90 ^{10/}
Mortality rate, infant (per 1,000 live births)	62	59	56	54	52 ^{10/}
Mortality rate, under-5 (per 1,000)	95	90	86	81	78 ^{10/}
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	--	--	87	73	62 ^{10/}
Births attended by skilled health staff (% of total)	--	--	79	--	82 ^{10/}
Contraceptive prevalence (% of women ages 15-49)	--	--	29	--	38 ^{10/}
Maternal mortality ratio (modeled estimate, per 100,000 live births)	--	--	--	--	--
Pregnant women receiving prenatal care (%)	--	--	91	--	98 ^{10/}
Unmet need for contraception (% of married women, ages 15-49)	--	--	--	--	--
Goal 6: Combat HIV/AIDS, Malaria and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	--	--	61	--	81 ^{0/}
Condom use, population ages 15-24, female (% of females ages 15-24)	--	--	--	--	--
Condom use, population ages 15-24, male (% of females ages 15-24)	--	--	--	--	--
Incidence of tuberculosis (per 100,000 people)	135	124	114	105	98 ^{10/}
Prevalence of HIV, female (% ages 15-24)	--	--	--	--	--
Prevalence of HIV, male (% ages 15-24)	--	--	--	--	--
Prevalence of HIV, total (% of population ages 15-49)	--	--	--	--	--
Tuberculosis case detection rate (all forms)	11	--	61	85	49 ^{10/}
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP \$ of GDP)	--	--	.62 ^{5/}	0.59	0.49 ^{8/}
CO2 emissions (metric tons per capita)	0.57	0.60	0.63	0.66	0.66 ^{8/}
Forest area (% of land area)	28	--	28	28	28
Improved sanitation facilities (% of population with access)	--	20	21	24	26 ^{9/}
Improved water source (% of population with access)	--	75	79	85	89 ^{9/}
Marine protected areas (% of total surface area)	--	--	--	--	--
Terrestrial protected areas (% of total surface area)	--	--	--	--	--
Goal 8: Develop a global partnership for development					
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	29	27 ^{3/}	22	64	6 ^{10/}
Internet users (per 100 people)	0.0	--	4.6	13.8	16.4 ^{10/}
Mobile cellular subscriptions (per 100 people)	0.0	0.0	0.0	7.8	39.3 ^{10/}
Net ODA received per capita (current US\$)	466	657	249	212	189 ^{10/}
Telephone lines (per 100 people)	1.9	2.0	3.3	4.7	4.8 ^{10/}
Other					
Fertility rate, total (births per woman)	5.4	5.0	4.6	4.1	3.7 ^{10/}
GNI per capita, Atlas method (current US\$)	--	--	--	770	1200
GNI, Atlas method (current US\$, millions)	--	--	--	118	199
Life expectancy at birth, total (years)	62	63	64	65	66 ^{10/}
Literacy rate, adult total (% of people ages 15 and above)	73 ^{1/}	--	84 ^{5/}	--	89 ^{10/}
Population, total (thousands)	116	128	140	153	165

Source: World Bank Development Indicators.

1/ Correspond to 1991 2/ Correspond to 1992 3/ Correspond to 1997 4/ Correspond to 1999 5/ Correspond to 2001
6/ Correspond to 2002 7/ Correspond to 2004 8/ Correspond to 2007 9/ Correspond to 2008 10/ Correspond to 2009

Appendix I. São Tomé and Príncipe: Exchange Rate Assessment Using CGER

Methodologies

This Appendix¹ presents the results of assessments of São Tomé and Príncipe's exchange rate, based on the IMF's Consultative Group on Exchange Rate Issues (CGER) methodologies. CGER applies three approaches—macroeconomic balance, external sustainability, and equilibrium real exchange rate. The assessments focus on the pre-oil era, using 2014 as the medium-term reference period. Oil production—projected to begin in 2015—is expected to support a large improvement in the current account balance and a sustainable debt trajectory (see DSA).

In summary, the various approaches deliver a range of results from 13–37 percent overvaluation to a 20 percent undervaluation.

Actual current account ¹	-28.5
Underlying current account (A) ²	-39
Trade elasticity ³	-1.05
Macroeconomic Balance Approach	
Current account norm (B) ³	-12.6 to -15.7
Current account gap (C=A-B)	-26.4 to -23.3
REER gap (C/D) ^{4,5}	25.2 to 22.2
External Sustainability Approach	
Current account norm (E) ³	-0.15 to -4.03
Current account gap (F=A-E)	-38.9 to -35.0
REER gap (F/D) ^{4,5}	37.0 to 33.3
Equilibrium REER Approach⁶	
REER	19
GGER panel-based	
EREER	42 to 5
REER gap ^{4,5}	-20 to 15

¹ Observed CA in 2009
² Using 2014 CA as the medium-term reference period.
³ Using coefficients relating CA to macroeconomic fundamentals estimated by CGER and from samples of low-and middle income countries
⁴ "+" overvaluation, "-" undervaluation.
⁵ Change in the REER (in percentage) needed to close gap.
⁶ REEER derived from the coefficient estimates of the EREER approach from CGER and a recent panel study of non-advanced countries by Aydin (2010)

¹ Prepared by Jamal Omar, Toomas Orav, and Alfredo Torrez.

Macroeconomic balance approach. In this approach, an equilibrium current account balance ("norm") is estimated by relating the current account balance to macroeconomic fundamentals. Typical fundamentals include fiscal balance, output growth, real income, oil balance, demographics, trade openness and productivity. Applying coefficients estimated by CGER from two studies of low- and middle-income countries yields current account norms for São Tomé & Príncipe of -12.6 and -15.7 percent of GDP. This compares with an underlying current account balance in São Tomé & Príncipe (based on the projected current account balance in 2014 under the baseline) of -39 percent of GDP. The elasticity of the current account balance relative to the REER is assumed to be -1.05 drawing on Tokarick (2010).² Thus, this approach implies a real exchange rate overvaluation of 22–25 percent.

	Medium Term		Coefficients	
	Value	CGER	Vitek	
Fiscal balance	-1.59	0.19	0.20	
Oil trade balance	-14.71	0.17	0.38	
Population growth (%)	1.93	-1.03	0.17	
Lagged current account	-33.45	0.37		
Relative income (%)	4.37	0.02	-0.01	
Output growth rate (%)	4.51	-0.16	-0.61	
Dependency ratio (%)	-17.91	-0.12	-0.04	
Initial NFA	41.53		0.05	
Aid inflows	16.86		-0.41	
Remittances	2.03		-0.10	
Constant		-0.29		
CA Norm		-15.70	-12.57	
Underlying CA Projection		-39.00	-39.00	
CA Gap		-23.30	-26.43	
Trade Elasticity (%)			-1.05	
Real Exchange Rate Gap (%)		22.19	25.17	

² Tokarick, S. 2010. "A Method For Calculating Export Supply and Import Demand Elasticities", IMF Working Paper No. 10/180.

External sustainability approach. This approach calculates the current account balance that would be consistent with a benchmark value for net foreign assets. The resulting sustainable current account balance is calculated at about -4 percent of GDP in 2014. Using the same elasticities as in the macroeconomic balance approach yields a real exchange rate overvaluation of about 37 percent.

Equilibrium Real Exchange Rate Approach.

Based on the coefficients estimated by Aydin (2010) for Low to Medium-Income Countries, this approach yields a 20 percent undervaluation when foreign aid is included as an explanatory variable. Excluding foreign aid (which is statistically not significant) yields an overvaluation of about 15 percent.

	STP underlying fundamentals	Vitek (2010) Coefficients	Aydin (2010) Coefficients	CGER Coefficients
Terms of trade	0.48	0.36	0.12	0.55
Relative productivity	-2.83	0	0	0.19
Relative government consumption to GDP	-0.05	-0.04	-0.19	2.91
NFA to GDP	-0.02	-0.06	0.07	0.04
Aid to GDP	0.21	-0.66	1.66	
C				0.45
Equilibrium REER		0.03	0.42	0.05
Equilibrium REER Level		103.39	151.64	104.87
LREER actual (2009)			0.19	
LREER actual (in 2009 level)			120.65	
REER gap		0.167	-0.204	0.150



DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

December 30, 2011

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

African Department
(in consultation with other departments)

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RELATIONS WITH THE FUND

(As of November 30, 2011)

Membership Status

Joined: September 30, 1977; Article XIV

General Resources Account:	SDR Million	%Quota
Quota	7.40	100.00
Fund holdings of currency (exchange rate)	7.40	100.05
Reserve tranche position	0.00	0.00

SDR Department:	SDR Million	%Allocation
Net cumulative allocation	7.10	100.00
Holdings	3.77	53.09

Outstanding Purchases and Loans:	SDR Million	%Quota
ECF Arrangements	3.21	43.37

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF ^a	03/02/2009	03/01/2012	2.59	0.74
ECF ^a	08/01/2005	07/31/2008	2.96	2.96
ECF ^a	04/28/2000	04/27/2003	6.66	1.90

^a Formerly PRGF.

Projected Payments to Fund ¹

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

	<u>Forthcoming</u>				
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Principal			0.40	0.63	0.70
Charges/Interest		0.01	0.01	0.01	0.01
Total		0.01	0.41	0.64	0.71

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

Implementation of HIPC Initiative:

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

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

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

Implementation of Multilateral Debt Relief Initiative (MDRI):

MDRI-eligible debt (SDR Million) ¹	1.43
Financed by: MDRI Trust	1.05
Remaining HIPC resources	0.38

Debt Relief by Facility (SDR Million)

Delivery	Eligible Debt			
	Date	GRA	PRGF	Total
	March 2007	N/A	1.05	1.05
	December 2007	N/A	0.38	0.38

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

Safeguards Assessments:

An update safeguards assessment of the Central Bank of São Tomé and Príncipe (BCSTP) was finalized in November 2009. The assessment concluded that the overall governance structure and oversight should be strengthened to mitigate the control risks associated with the capacity constraints at the bank. The BCSTP continues to be audited by reputable audit firms and the 2009 audited financial statements were published. However, the financial reporting framework and the internal audit practices did not yet adhere to international standards.

Exchange Arrangements:

Since January 2010 São Tomé and Príncipe's has pegged the Dobra to the euro at a rate of Dobra 24,500 per euro. Commercial banks buy foreign exchange directly from the central bank, which can charge up to 1.5 percent commission on all foreign exchange transactions. Any foreign exchange commission that banks may decide to charge cannot exceed two percent for transactions in Euro and 4 percent for transactions in other currencies. The new exchange rate system has eliminated the multiple currency practice related to the existence of numerous exchange rate markets with differing effective exchange

rates for spot transactions that existed in previous years.

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

Article IV Consultation:

The Executive Board concluded the last Article IV consultation with São Tomé and Príncipe on June 18, 2008.

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

None.

Technical Assistance:

Date of Delivery	Department/Purpose
August 2011	FAD mission on Public Accounting
June 2011	MCM mission on Liquidity Management under Fixed Exchange Arrangement (follow up)
June 2011	FAD mission on Public Accounting
February 2011	MCM mission on Bank Resolution Framework
January 2011	FAD mission on Public Accounting
September 2010	MCM mission on Liquidity Management under Fixed Exchange Arrangement
August/September 2010	STA mission on Monetary and Financial Statistics
December 2009	MCM mission on banking supervision
August 2009	MCM mission on banking supervision
June 2009	FIN mission on safeguards assessment
May 2009	FAD mission on public financial management
April 2009	MCM mission on banking supervision
March 2009	MCM mission on banking supervision
January 2009	STA mission on national accounts
November 2008	MCM mission on banking supervision
August 2008	MCM mission on banking supervision
March 2008	MCM mission on banking supervision
September 2007	STA mission on government finance statistics
July 2007	STA mission on monetary and financial statistics
July 2007	MCM mission on banking supervision
March 2007	FAD mission on public financial management
March 2007	MCM mission on the foreign exchange market
March 2007	STA mission on balance of payment statistics
February 2007	LEG mission on tax laws
November/December 2006	LEG mission on tax codes
November/December 2006	MCM mission on banking supervision
November/December 2006	MFD missions on foreign exchange market and monetary operations.
August 2006	MFD mission on banking supervision
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

Date of Delivery	Department/Purpose
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

Resident Representative:

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

RELATIONS WITH THE WORLD BANK GROUP

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

(As of November, 2011)

1. The IMF and World Bank São Tomé and Príncipe teams held meetings to discuss macro critical structural reforms for São Tomé and Príncipe and their respective work programs for the period 2011–12.

2. The World Bank's work program is guided by the FY2011–FY2012 Interim Strategy Note that focuses on accelerating sustainable and broad-based economic growth and on strengthening governance, public institutions, and human capital. A Country Economic Memorandum, "Success Beyond Petroleum," was delivered to the authorities for comments in March 2011 and will be published in December 2011. Preparation of a new programmatic budget support operation for FY2012–14 is underway. A new Debt Management and Performance Assessment

(DeMPA) report was completed in October 2011, and an accompanying reform plan to improve debt management is expected to be completed in December 2011.

3. The IMF's work program includes the conclusion of the 2011 Article IV consultation, missions to conduct reviews under the ECF-supported program, and assistance with capacity building in the areas of PFM, liquidity management, banking supervision, AML/CFT, and statistics.

4. The Bank and the Fund are providing complementary support to help São Tomé & Príncipe strengthen public financial management and make progress toward debt sustainability. Regarding the latter, the teams will prepare a Joint IMF-World Bank Debt Sustainability Analysis (DSA) in 2011. The

teams will also prepare a Joint Staff Assessment Note (JSAN) on the government's new National Poverty Reduction Strategy

(NPRS) which is expected to be completed by January/February 2012.

<i>Title</i>	<i>Products</i>	<i>Provisional timing of missions</i>	<i>Expected delivery date</i>
A. Mutual information on relevant work programs			
World Bank work program in the next 12 months	<ul style="list-style-type: none"> • Country Economic Memorandum. • Budget support operation • DeMPA Report and Dissemination 	Oct 2011. Oct 2011, Nov 2011, and March 2012. Sept/Oct 2011, March 2012	FY2012. FY2012 FY2012
IMF work program in the next 12 months	<ul style="list-style-type: none"> • 2011 Article IV consultation • ECF second and third reviews. • ECF fourth review • Technical Assistance from FAD: <ul style="list-style-type: none"> ○ PFM ○ Revenue Administration • Technical Assistance from MCM: <ul style="list-style-type: none"> ○ Liquidity Management ○ Banking Supervision • Technical Assistance from LEG: <ul style="list-style-type: none"> ○ AML/CFT • Technical Assistance from STA: <ul style="list-style-type: none"> ○ Money and Banking Statistics ○ Government Finance Statistics ○ Balance of Payments Statistics 	August/September 2011 March 2012	January 2012 June 2012
B. Requests for work program inputs			
Fund request to Bank (with summary justification)	<ul style="list-style-type: none"> • Information on Bank budget support operations and disbursement schedule 	To support the 2012 fiscal program	March 2012
Bank request to Fund (with summary justification)	<ul style="list-style-type: none"> • Safeguard Assessment. • Macroeconomic framework 		November 2011.
C. Agreement on joint products			
Joint products in next 12 months	<ul style="list-style-type: none"> • Debt Sustainability Analysis • JSAN. 	Pending new PRSP in January/February 2012.	December 2011. March 2012

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP

(As of October 31, 2011)

1. São Tomé and Príncipe became a member of the African Development Bank Group (AfDB) in 1976. To date, the Bank Group has financed 28 operations in the country. This includes 22 projects, including institutional support, and 5 studies, for total net commitments of UA 100 million under the African Development Fund (ADF) (98.9%), as well as one special support operation of UA 1 million under the Nigeria Trust Fund (NTF). Ninety-four percent (94%) of these funds were in the form of loans and only 6% were in grants. At October 1 2011, the total amounts disbursed for the entire portfolio stood at UA 84.29 million, or 84.6% of net commitments. Agriculture has been the most important sector, receiving (24%) of the total assistance followed by (23%) for infrastructure/transport; (22%) for multi-sector interventions; (20%) for social sector; (9%) for energy, water, and sanitation; and (2%) for telecommunications. These operations have helped build and rehabilitate basic economic and social infrastructure (roads, airport, electricity, water, schools, and health centers) and have strengthened São Tomé and Príncipe's economic and institutional capacities. The AfDB has a national program office since 1995.

2. The AfDB has only three active projects—which started in 2005, 2006 and 2011—in human resource development, agriculture (the second phase of the livestock development project) and Infrastructure Rehabilitation for Food Security (PRIASA). These projects, in accordance with the PRSP, focus on the main factors affecting poverty.

The second phase of the livestock development project, financed with ADF-X resources (UA 4 million), was approved in May 2006 and signed in July 2006 – the mid-term review of the project took place in September 2010, aiming at restructuring the project for improved achievements. The human resource development project, financed with ADF-IX resources (UA 4 million) was signed in June 2003 and began in March 2005. This project tackles cross-sectoral capacity-building by providing training in literacy, information, and community organization, as well as specialized vocational training adapted to specific demands, particularly in the oil and tourist sectors. While the PRISA project, approved in November 2010 and signed in February 2011, aims at addressing the food security challenges in the country.

3. The AfDB Group assistance for São Tomé & Príncipe (Country Strategy Paper 2005–09) rested on two pillars: Pillar I-Poverty Reduction in Rural area; and Pillar II-Promotion of Good Governance in Public Finance Management. The country allocation of ADF-X resources (2005–07) was UA 5.15 million in the form of grants. The first pillar helped promote and diversify the country's economic base, especially the agricultural and rural sector, and reinforce operations in the social sectors. The second pillar supported macroeconomic reforms and governance, through an institutional support project on governance and a technical assistance on the PRSP process, which helped improve public finance management and institutional capacity building to prepare the

country for the forthcoming oil era. The UA 300.000 TA on PRSP process was approved in 2008 and proved very much effective in setting-up the PRSP follow-up mechanisms. The UA 1 million grant as an AfDB response to São Tomé & Príncipe food crisis, was approved by the AfDB Board in April 2009, and disbursed in a single tranche in August 2009. The mission for the completion of the AfDB Country Assistance for 2005–09 took place in August 2009, together with the Country Portfolio Performance Review (CPPR).

4. In 2009 the AfDB updated a study on São Tomé & Príncipe’s governance profile and has finalized the study on the costs of insularity in June 2010. Conclusions of this important report was presented and discussed with government officials, donors, and civil society, in São Tomé, November 10, 2010. The study on the regional capacity building initiatives, within CEMAC, ECCAS, the African Portuguese-speaking countries and the small insular countries, was postponed. Programming of other Economic and Sector Work studies is underway.

5. Decision has been made not to prepare an AfDB Country Assistance for 2010–14, as initially planned, but to finalize an Interim 2010–11 Strategy (approved by the AfDB Board on November 16, 2010) in the absence of a current PRSP, and in alignment with other development partners position. This interim strategy financed only one project (under the ADF XI allocation, UA 5 million) in the agriculture sector, i.e. a consolidated rural infrastructure project in support of food security (Pillar II)—the main objective of this Interim Strategy being on targeting capacity building activities in view of preparing the new PRSP (pillar I), by accessing the AfDB Fragile State Facility.

6. Since the I-CSP 2010–11 will expire at the end of 2011; based on the authorities information that the strategic thrust of the new PRSP II will remain as of the PRSP I, the Bank has started the preparation of its new strategy for São Tomé & Príncipe, CSP 2012–16. The overarching goal of the Bank’s proposed CSP 2012–16 is to strengthening São Tomé & Príncipe’s public sector capacity, notably in the area of PFM, consistent with pillar I of the I-CSP 2010–11. To that end, the proposed CSP 2012–16 is articulated around a single pillar, capacity building and institutional strengthening, to be financed under the ADF-XII.

7. In addition, as São Tomé & Príncipe reached decision and completion point respectively in 2000 and 2007. In reaching the HIPC decision point, São Tomé & Príncipe became eligible to MDRI and the debt service under the MDRI was estimated at \$99.56 million. The AfDB total assistance under HIPC and MDRI amounted to \$187.92. At the end of December 2008, the AfDB provided \$13.33 million under HIPC and \$99 million under MDRI.

Table 1. AfDB Ongoing Projects (Millions of UA)

Title of Projects	Window	Commitment	Disbursement Rate (percent)
Support for human resource development	ADF Loan	3.50	14.16
	ADF Grant	0.50	43.63
Livestock Development Project – Phase II	ADF Grant	4.0	21.25
PRIASA	ADF Grant	5.0	
<i>Total</i>		13.0	19.54 t

STATISTICAL ISSUES

Introduction

1. Although economic data are broadly adequate for surveillance, serious financial, human, and technological resource constraints have slowed down efforts to strengthen the statistical system.

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

National accounts

3. Statistics on GDP/GNP are compiled on a yearly basis and provided at the time of the Article IV consultation and program review missions. STA provided technical assistance in national accounts to the National Statistics Institute in 2005, 2006, 2008 and 2009. Low response rates and/or insufficient rigor of the responses to the business surveys, including those from important enterprises, continue to affect the quality of the business data compiled.

4. A new GDP series for the period 2007–10 with base year 2001 became available in mid-2011. The new estimates cover: (i) GDP by production approach at current and constant prices; and (ii) cross-classification tables by industry sectors. The revised series reflect more accurately recent economic developments. Based on the most recent population census, corporation census, and

living conditions survey, higher weights are now attributed to the sectors that experienced faster growth, such as trade, transportation and communication, and services. While the revision of the GDP series is a significant improvement, a number of shortcomings remain. Further improvements would require input from a new household expenditure survey (rather than living conditions survey), using producer prices, and better estimates for agricultural production. The National Institute of Statistics (INE) is moving toward using a new system to better capture survey and market information and to include estimates of the informal sector and is currently compiling data from a household survey undertaken at the end of 2010.

Consumer prices

5. Since 1997 the CPI weights have been based on a three-month household survey conducted in 1995. Data from the recent household expenditure survey need to be compiled to update the weights. Current price surveys only cover the capital, although there are plans to implement regional surveys.

Government finance statistics

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

improve since the debt data management capacity is expected to be strengthened.

7. An October 2004 government finance statistics (GFS) mission helped the Ministry of Finance to compile and disseminate GFS for the general government in accordance with the Government Finance Statistics Manual 2001 (GFSM 2001). The mission prepared bridge tables between national budget classification and GFSM 2001 classifications to be used to compile GFS for reporting to STA and AFR, as well as in MOF policy work. Given the importance of oil-related revenues, the mission also reviewed the classification of oil revenues under the Oil Revenue Management Law and made recommendations on classification of such transactions. A September 2007 follow-up mission found some progress with regard to the recommendations made by the 2004 mission. In particular, in January 2007 a new budget law was approved that significantly improved national budget classifications. Notwithstanding these efforts, faster statistical progress is hampered by an inadequate accounting system.

Monetary and financial statistics

8. STA missions provided technical assistance on monetary statistics in December 2004, April/May 2006, June 2007 and September 2010. As a result, the accuracy and timeliness of the monetary data reported in the standardized report forms (SRF) for the central bank and the other depository corporations data have improved.

9. The previous missions found that the BCSTP monthly trial balance sheets were broadly adequate to compile monetary statistics in line with the Monetary and Financial Statistics Manual (MFSM).

10. A New Plan of Accounts of other depository corporations was introduced in January 2010. The September mission reviewed the new plan of accounts for the financial system, and found it adequate for a proper classification, sectorization, and valuation of financial instruments, and in line with the methodology of the MFSM. However, the mission detected serious shortcomings in the information reported by some banks, an inconsistent approach in the way banks report to the BCSTP, and the fact that one bank is still reporting using the old plan of accounts. The mission developed the bridge table that links the ODCs' trial balances—based on the new plan of accounts—to the SRF for ODCs (form 2SR).

11. A September 2010 mission assisted the authorities in: (1) reconstructing the standardized report form (SRF) for other depository corporations (ODCs) following the introduction of the new plan of accounts; (2) assessing the quality of the data reported by ODCs after the migration to the new plan of accounts; (3) advancing work on the generation of the SRF for the central bank, based on the new plan of account; and (4) establishing an integrated monetary database (IMD) that automatically generates the data required for publication in International Financial Statistics (IFS), by the African Department (AFR) of the IMF for surveillance purposes, and by the BCSTP for analytical and dissemination purposes. For the integrated monetary database that meet the data needs of STA, AFR, and BCSTP, STA reconstructed the historical data starting from December 2001.

External sector statistics

12. There are significant weaknesses in the collection of source data related to

merchandise trade. 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 with some lags in recent months, and unit prices and volumes of exports are only occasionally included. AFR does not receive any data on São Tomé & Príncipe's international investment position (IIP) as these data are not yet compiled by the BCSTP.

13. The GDDS Lusophone project has targeted a substantial improvement in the source data, including the response rate to the surveys, and in the methodology for compiling the BOP in line with the Fifth Edition of the *Balance of Payments Manual*. A June 2003 mission reviewed the shortcomings of reported current and financial account transactions and concluded that weaknesses were mainly due to under coverage, including of foreign direct investment and commercial bank reports on international transactions.

14. A June 2004 mission found that despite efforts to implement the previous recommendations, several measures, in particular those related to improving source data were at best partially implemented. As a

result, inconsistencies in the classification of BOP operations persisted and certain 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 coordination and data sharing among data-producing agencies, intensifying contacts with survey respondents, and using alternative sources to improve source data. A March 2007 mission found that little progress had been achieved in implementing recommendations of previous missions, primarily due to resource constraints in the BCSTP. The mission assisted the authorities in reconciling balance of payments data and outlined a set of recommendations and detailed work plan to improve compilation capacity. Resource constraints at the BCSTP have also hampered the development of IIP data.

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

Common Indicators Required for Surveillance

(As of December 15, 2011)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting	Frequency of publication
Exchange rates	Nov 2011	Dec. 2011	D	D	D
International reserve assets and reserve liabilities of the monetary authorities ¹	Oct 2011	Nov 2011	D	D	D
Reserve/base money	Oct 2011	Nov 2011	D	D	D
Broad money	Sep 2011	Nov 2011	M	M	M
Central bank balance sheet	Oct 2011	Nov 2011	M	M	M
Consolidated balance sheet of the banking system	Sep 2011	Nov 2011	M	M	M
Interest rates ²	Sep 2011	Nov 2011	M	M	M
Consumer Price Index	Oct 2011	Dec 2011	M	M	M
Revenue, expenditure, balance and composition of financing ³ – general government ⁴	Jun 2011	Aug 2011	Q	Q	NA
Revenue, expenditure, balance and composition of financing ³ – central government	Jun 2011	Aug 2011	Q	Q	NA
Stocks of central government and central government-guaranteed debt ⁵	Sep 2011	Sep 2011	Q	I	M
External current account balance	Dec 2010	Sep 2011	A	I	A
Exports and imports of goods	Sep 2011	Nov 2011	M	I	A
GDP/GNP	2010	Aug 2011	A	I	A
Gross external debt	Sep 2011	Sep 2011	Q	I	A

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

² Central bank's reference rate.

³ Foreign, domestic bank, and domestic nonbank financing.

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

⁵ Including currency and maturity composition.

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



DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

JOINT IMF/WORLD BANK DEBT SUSTAINABILITY ANALYSIS¹

December 30, 2011

Approved By

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Prepared by:

International Monetary Fund and
International Development
Association

São Tomé & Príncipe remains at a high risk of debt distress. The PV of debt-to-exports ratio remains above the country-specific indicative threshold for a prolonged period of time under the baseline scenario.² Under the baseline, São Tomé & Príncipe's overall external sector debt indicators are elevated in the short term but are expected to show a decreasing trend over the longer run. Taking into account expected commercial oil production beginning in 2015 and associated foreign direct investment, the projected debt profile is consistent with manageable—if high risk—debt dynamics. Additional debt will further heighten the risks to external sustainability. All debt indicators deteriorate significantly under weaker growth and export assumptions. Uncertainties surrounding the outlook for oil production underscore the importance of strengthening fiscal performance. Under a non-oil scenario, reaching a sustainable debt level would require additional fiscal adjustment of 2 percent of GDP in the medium term. This also calls for (i) improving public financial and debt management; (ii) fiscal financing solely on the basis of grants and highly concessional borrowing; and (iii) implementing a comprehensive strategy to reduce the cost of doing business, attract investment, and broaden the export base.

¹ The DSA was prepared by IMF and World Bank staff in collaboration with the Saotomean authorities. The analysis updates the previous Joint DSA dated February 18, 2009 (IMF Country Report No. 09/106). The DSA follows the IMF and World Bank Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries (January 22, 2010).

² São Tomé & Príncipe is classified as a "Weak Performer" based on the three-year average of IDA's Country Policy and Institutional Assessment (CPIA) index. Under the joint IDA/IMF debt sustainability framework, the thresholds for "Weak Performer" are: 30 percent for the present value of debt-to-GDP ratio, 100 percent for present value of debt-to-exports ratio, 15 percent for the debt service-to-exports ratio, 200 percent for present value of debt-to-revenue ratio, and 25 percent of debt service-to-revenue ratio excluding grants.

BACKGROUND

1. São Tomé and Príncipe reached the completion point under the enhanced HIPC initiative in March 2007, received topping-up assistance in December 2007, and benefited from HIPC/MDRI debt relief. MDRI, in particular, brought substantial debt service savings, since 54 percent of total debt before the HIPC completion point was with IDA, AfDB, and IMF. Debt relief from Paris Club members also helped improve the country's debt profile as it represented 14 percent of total debt before the completion point.

2. São Tomé and Príncipe's medium- and long-term public and publically guaranteed (PPG) external debt was estimated at \$168.1 million in nominal terms as of August 2011 (Table 1)³. The debt burden has increased from \$110 million at the end of 2008, but remains significantly below the pre-debt relief high of \$359.5 million at the end of 2006. Total public sector debt is composed solely of debt contracted or guaranteed by the central government, and there is currently no State-Owned Enterprise external debt. Debt composition has shifted after the HIPC completion point. The share of multilateral debt declined from nearly 60 percent before the completion point to around 25 percent. Including technical arrears, Angola is the country's main bilateral creditor, accounting for approximately 23 percent of outstanding external debt. The main multilateral creditor is the IDA.

3. To implement the terms of the May 2007 Agreed Minute, the authorities signed

³\$80.4 million of this debt consists of technical arrears to Angola (\$28.8 million), China (\$17.0 million), Italy (\$25.8 million), and Yugoslavia (\$8.8 million).

bilateral agreements with all its Paris Club creditors, except Russia, with whom agreement has been reached but not formally signed. ⁴In July 2008, São Tomé & Príncipe received debt relief from Portugal, its main non-Paris Club creditor at the time. Efforts are underway to conclude additional debt relief with other non-Paris club creditors. Discussions have recently concluded with Algeria and are expected to conclude in the near term with Brazil. The authorities have requested the Fund's assistance to facilitate negotiations with Angola.⁵

São Tomé and Príncipe: External Debt Stock

(As of end-August 2011)		
	Million USD	Share
Multilateral Creditors	40.3	24%
IDA	17.7	11%
AfDB	2.1	1%
BADEA	5.2	3%
IMF	4.4	3%
OPEC	3.6	2%
FIDA	6.2	4%
Others	1.1	1%
Bilateral Creditors	127.8	76%
Angola 1/	38.8	23%
China1/	17.0	10%
Nigeria	20.0	12%
Portugal	17.4	10%
Italy 1/	25.8	15%
Others 1/	8.8	5%
Total	168.1	100%

Sources: Country authorities and IMF staff estimates

1/ Includes debt in dispute.

⁴ The signing of the agreement has been delayed due to the Russian authorities' request that an official signing ceremony take place in Moscow.

⁵ It is assumed that bilateral creditors with which São Tomé & Príncipe is engaged in negotiations will provide debt relief on terms comparable to those of the Paris Club. Currently, the country does not service bilateral debt under negotiation and has accumulated technical arrears in the amount of \$80.4 million.

UNDERLYING ASSUMPTIONS

4. The medium-term macroeconomic framework foresees a subdued recovery from the global economic crisis, with annual output growth projected to return to 6 percent (the historic norm) by 2013 (Box 1). The main drivers of growth are expected to be construction, tourism, and agriculture. These growth areas are supported by the public investment program, which will continue to focus on investments in transportation and telecommunication, public administration, and health. The DSA assumes continued macroeconomic stability over the medium term (i.e., through 2014) based on fiscal consolidation. It is assumed in the baseline scenario that oil reserves will be discovered in commercially viable quantities and that oil production will begin in 2015.

5. Fiscal performance has improved since a significant slippage in 2009. In 2009, the domestic primary deficit rose to 8 percent of GDP, largely due to revenue underperformance and excess current expenditure. The domestic primary deficit narrowed to 4.1 percent of GDP in 2010 on account of improved revenue performance. The domestic primary deficit is expected to narrow further to 3.5 percent of GDP in 2011 as on account of expenditure restraint. In the medium term, the domestic primary deficit is expected to decline as the efforts to boost domestic revenues and contain expenditure continue. Revenues are expected to be boosted in 2012 as the government receives oil signature bonuses (equivalent to about 9 percent of GDP).

6. The current DSA assumes the same level of external financing as under the previous Joint DSA, but assumes higher loan concessionality. The DSA assumes that the average grant element of new disbursement is

about 50 percent through the medium term, in line with the current IMF program. In the baseline, concessional financing is phased out beginning in 2015 as the country becomes an oil producer; first moving from IDA grants to IDA credits and then to accessing finance at market rates. No financing from future privatization operations, no commercial loans, no domestic borrowing, and no short-term loans are assumed throughout the period.

7. The baseline scenario retains the same petroleum assumptions applied under the previous Joint DSA. Production and export of about 12,700 barrels per day is assumed to commence in 2015 in the Joint Development Zone (JDZ) shared with Nigeria. This is expected to yield \$430 million in average annual export earnings and \$266 million in average annual revenues to the JDZ, of which 40 percent (\$106 million) will belong to São Tomé and Príncipe.⁶ In accordance with the Oil Revenue Management Law (ORML), these petroleum revenues will be accumulated in a National Oil Account (NOA) from which resources will be drawn up to a maximum of 20 percent of the balance per year to finance the annual budget. Once oil production starts, the bulk of current revenues are to be transferred into a sub-account of the NOA—the Permanent Fund of São Tomé & Príncipe. Resources in the Permanent Fund are

⁶ The last DSA update prepared by Fund staff (February 2010) assumed a similar volume of oil production and exports beginning in 2015 at a price of \$75 per barrel, compared to \$82 a barrel in this DSA. The 2009 Joint DSA assumed oil production beginning in 2014 and exports starting in 2015. The 2008 DSA had the same timeline for production and exports, but assumed a higher volume of production of about 15,000 barrels per day, priced at \$70 per barrel.

to be invested with a view to generating a permanent income stream for the NOA.

8. The main risk to the macroeconomic framework arises from the uncertainty about the prospects for oil. For illustrative purposes, the DSA expands the analysis under the alternative non-oil scenario to assess the debt outlook in the event that oil is not discovered in

commercially viable quantities. The details of the alternative medium-to long-term assumptions are described in Box 2. Medium-term growth could be slower than in the baseline if expected concessional financing cannot be obtained. A lack of grants or concessional loans will hamper the efforts to diversify the economy and improve infrastructure by slowing the government's public investment program.

Box 1. São Tomé and Príncipe: Baseline Macroeconomic Assumptions

Real GDP growth is projected at 5 percent in 2011 and then to average around 6 percent over the period 2012–14 as the country recovers from the global financial crisis and as foreign direct investment in tourism and oil-related construction picks up. Growth surges to 24 percent of GDP in 2015 as oil production commences, and then returns to the long-run average of 5.6 percent over the projection horizon.

Average annual inflation is projected to steadily decline from 13.3 percent in 2010, to 8.8 percent in 2012, and further to around 3.5 percent by 2014. It is assumed to remain around 3 percent over the longer term. The path reflects fiscal tightening and the peg of the dobra against the euro, which went into effect in January 2010.

The non-interest current account deficit (including official grants) increased to 30.4 percent of GDP in 2010, due to increases in imports associated with oil-related investment projects. The non-interest current account deficit is expected to remain over 24 percent of GDP until oil exports start. Investment related to oil production is expected to keep the deficit around 30 percent through 2017. The current account is then expected to decline sharply to 14 percent of GDP and will gradually trend toward balance over the longer term. Pre-oil export growth will be driven by increases in cocoa production and re-exports of fuel to airline and shipping companies as São Tomé & Príncipe rehabilitates its airport and expands its connectivity.

The domestic primary deficit fell to 4.1 percent of GDP in 2010 and is expected to continue declining in the medium term, in line with the aim of mobilizing sufficient revenues to cover recurrent spending. Once oil production starts, the overall fiscal balance will average a surplus of around 8 percent of GDP over the longer term, while the non-oil domestic primary deficit will remain in line with non-debt creating financing. This is projected to result from restraint in wage and goods and services expenditures and improved revenue administration.

Grants are projected to decline from their current levels of 19 percent of GDP in 2010 to an average of 9 percent of GDP in the medium term. These grants, together with projected disbursements from concessional loans are assumed to be spent entirely on development projects and associated maintenance.

FDI levels declined to an average of 6 percent of GDP during 2009 through 2011 as a result of the global financial crisis and uncertainty surrounding oil production. FDI is expected to rebound to 17 percent of GDP in 2012 as exploration begins in the Exclusive Economic Zone (EEZ). In the oil era, FDI increases substantially to finance oil-related capital investments. Both grants and concessional loans are projected to decline substantially as oil income becomes available to finance development needs.

No domestic borrowing is envisaged. Any domestic financing needs are met via a drawdown of government deposits (including from the NOA).

EXTERNAL AND PUBLIC SECTOR DSA⁷

A. Baseline

9. Under the baseline, the external debt trajectory breaches the threshold level for the present value of PPG external debt. Reflecting São Tomé and Príncipe's low exports, the PV of PPG external debt-to-exports ratio is over three times the indicative threshold of 100 percent and is expected to remain above the threshold until 2015 when oil exports begin. External debt indicators improve dramatically with oil, with all ratios immediately dropping below the threshold and trending down. The debt-to GDP ratio is marginally above the threshold until the start of oil production.

10. São Tomé and Príncipe's debt dynamics remain below the thresholds for all other indicators. The debt-to-GDP ratio is within 2 percent of the threshold in 2011 and 2012 and additional borrowing beyond what is included in the baseline will only drive it further over the policy-dependent threshold, where it could remain in breach until oil comes on stream. The government has obtained additional concessional financing over the past year from various sources to make up for shortfalls in grants.⁸

11. Debt service ratios are expected to remain below the threshold for the projection period. Although São Tomé and Príncipe's debt service ratios fall below the indicative thresholds, the country will be unable to expand its very narrow export base in the short term. Absent oil production, this could contribute to solvency and liquidity risks.

São Tomé and Príncipe: External Debt Indicators

	Indicative Thresholds 1/	2009	2010	2011
NPV of external debt				
In percent of GDP	30	20	33	33
In percent of exports	100	151	298	324
In percent of revenue	200	105	178	181
Debt service				
In percent of exports	15	3	11	14
In percent of revenue	25	2	7	8

1/ Represents Low Income Country DSA indicative thresholds for São Tomé & Príncipe that is classified as a poor performer under the Bank's Country Policy Institutional Assessment. World

⁷ There is not much difference between the external and public sector DSAs since the government of São Tomé & Príncipe does not issue domestic debt and is not projected to issue debt in the baseline scenario.

⁸ During 2009, bilateral sources of highly concessional financing included Angola (\$10 million), Nigeria (\$10 million), and Portugal (\$1 million) and multilateral institutions (\$4 million). In 2010, concessional financing was received from Portugal (\$17.4 million) and multilateral institutions (\$3 million) while in 2011 the authorities received concessional loans from Nigeria (\$10 million), and multilateral agencies (\$4.7 million) by the end of August.

B. Sensitivity Analysis and Alternative Scenario

12. Stress tests show the vulnerability of the debt position to a slowdown in export growth and a combination of other adverse economic shocks. The present value of debt exceeds 30 percent of GDP through 2022. Similarly, the debt-to-revenue ratio rises above the 200 percent threshold from 2012–14, reaching 310 percent in 2013. Weaker-than-expected export growth causes the present value of debt-to-exports to rise to almost 800 percent

in 2013 and the debt service-to-exports ratio to breach the threshold, reaching over 31 percent in 2014. Several other potential shocks could also see debt levels remain above the indicative thresholds for a prolonged period. If the current account deficit were at lower levels, then debt could be reduced more quickly. Smaller current account deficits are unlikely in coming years as the remaining construction projects are rolled out and existing projects are completed.

Box 2. São Tomé and Príncipe: Macroeconomic Assumptions under the Alternative Non-Oil Scenario with Adjustment

Real GDP growth is assumed to be lower than in the baseline by 0.5 percent of GDP from 2013–15 as the government slows its public investment program absent finance from oil revenues. Over the long term, growth is projected to be sustained at around 5.5, similar to the historical norm. Strong macroeconomic policies, measures to enhance the business climate, and successful implementation of a tourism development strategy would be needed to achieve this potential. Growth would be led by tourism, agriculture, and fishing. Investment will have to be supported by grant inflows in the absence of oil.

The projected non-interest current account deficit would decline from around 30 percent of GDP to a medium-term level of around 25 percent, reflecting a decline in imports.

The domestic primary deficit is adjusted by a total of 2 percent over a period of two years starting in 2014 to keep it in line with projected available non-debt creating financing. Making the adjustment will keep the domestic primary deficit in line with non-debt creating financing. Most concessional borrowing is projected to arise to finance capital expenditures associated with the public investment program. To minimize the impact on growth, the

adjustment would come through measures to enhance revenue mobilization (i.e., broaden the tax base by consolidating tax revenue reforms) and to reduce nonpriority spending. The scenario continues to assume receipts of oil signature bonuses in 2011 and 2012, reflecting the results of completed contracts and on-going negotiations.

Concessional borrowing would decline from unsustainably high levels in 2009–11 to the historical norm of 3 percent of GDP, beginning with a reduction of planned borrowing during 2012–15 by around 3 percent of GDP per year. All borrowing through the long term will occur on highly concessional terms. Capital investment of about US\$24 million currently projected to be financed by concessional loans over 2013 and 2014 will have to be postponed to keep the PV of debt-to GDP ratio around the threshold.

Grant financing is expected to remain around historical norms, but additional grant mobilization could mitigate the impact of lower borrowing for capital investment.

FDI flows will subside toward 5 percent of GDP, consistent with the average for Sub-Saharan countries.

13. Under a non-oil scenario, São Tomé & Príncipe’s debt dynamics would remain close to the thresholds, with increased vulnerability to shocks. Fiscal deficits would be financed through highly concessional borrowing, raising debt levels relative to the baseline. Significant breaches would occur throughout the projection period for the debt-to-exports ratio. Additionally, the debt-to-GDP ratio would steadily climb to just

over the 30 percent threshold from 2021 until 2023 before gradually declining resulting from a combination of fiscal discipline and GDP growth. An adjustment to correct the debt-to-exports ratio is difficult given the narrow export base. However, redressing the breach of the debt-to-GDP threshold over the longer term would require a sustained fiscal adjustment.

CONCLUSION AND THE AUTHORITIES’ VIEW

14. São Tomé and Príncipe remains at a high risk of external debt distress. São Tomé & Príncipe benefits from the future oil prospects which attract foreign direct investment and from receiving grant inflows which clearly mitigate its liquidity risks; these are unstable and insufficient to limit the risks posed by the high debt levels. Despite being at a high risk, São Tomé and Príncipe’s debt dynamics are manageable. São Tomé and Príncipe is able to service its current obligations, and the overall public sector debt situation, while elevated over the short term, shows a downward trend in the longer run. The authorities will need to monitor the adequacy of fiscal adjustment under a non-oil scenario to ensure that long-term debt sustainability is not compromised. In this context, the DSA underlines the need for measures to mitigate risks:

- Strengthen the fiscal position such that recurrent expenditures are covered by domestic resources;
- Accelerate reforms to improve policy and institutional performance to enhance the growth potential of the country;
- Ensure favorable financing terms in the form of grants or highly concessional borrowing; and

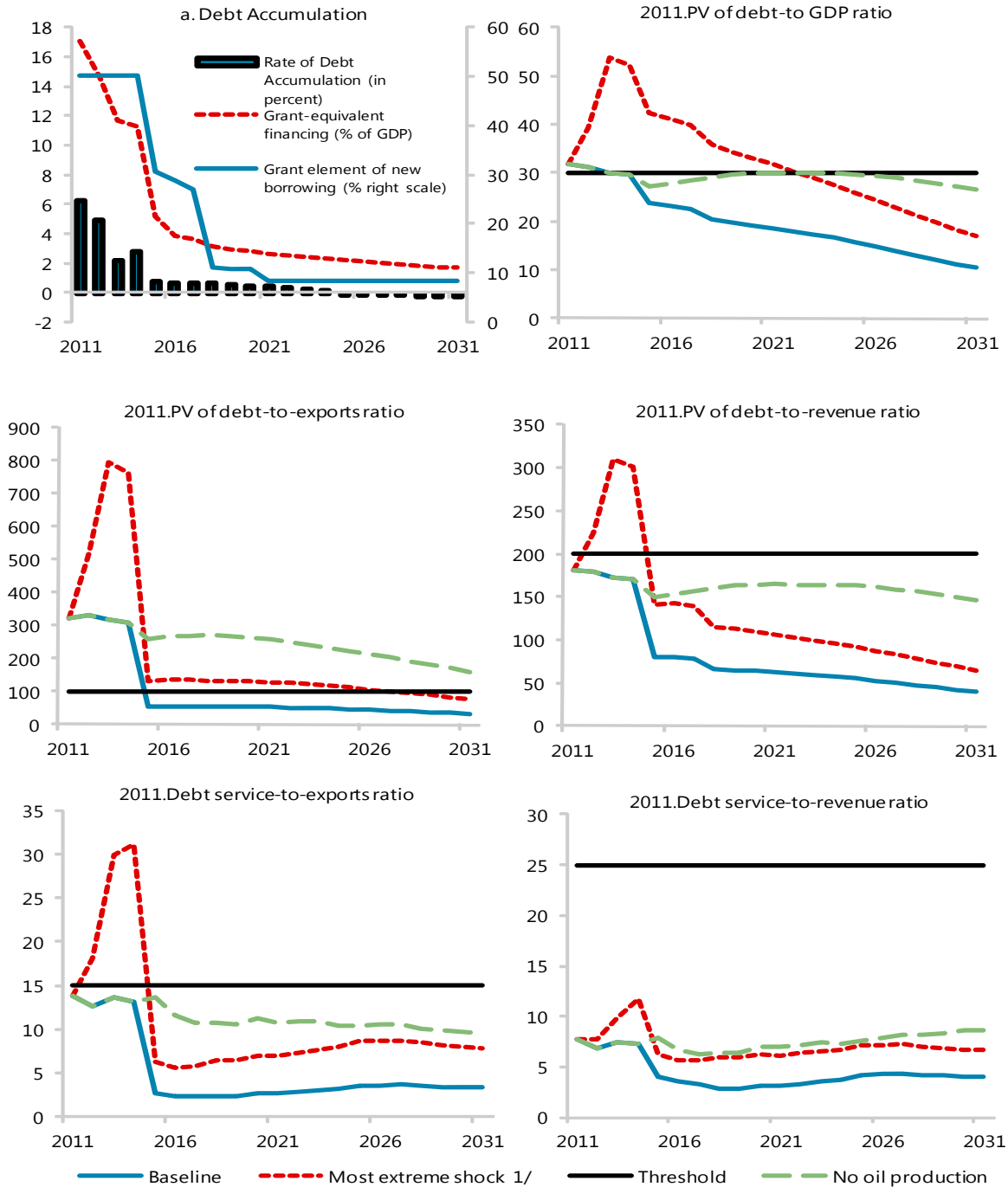
- Develop a comprehensive strategy to reduce the cost of doing business and attract investment that can broaden the export base.

15. Key medium-term vulnerabilities include lower GDP growth, major external shocks, and borrowing on less concessional terms. These vulnerabilities underscore the importance of sound macroeconomic policies to improve the growth potential on a sustained basis. The development of sound public debt management, anchored in a medium-term debt management strategy and in line with a medium-term fiscal framework will be essential to guide future development financing for São Tomé and Príncipe. Priority should be given to projects which would help generate high growth and employment to help ensure debt service capacity in the future.

16. The authorities broadly agreed with the key macroeconomic assumptions and the analysis underpinning the joint debt sustainability analysis. The authorities are optimistic about the prospects for future oil exploration, yet welcomed the discussion of a non-oil scenario. While acknowledging that São Tomé & Príncipe remains at risk of falling back into debt distress, they highlighted that supporting growth and diversification requires mobilizing sufficient resources to implement the

public investment program, which may require highly-concessional borrowing to the extent that sufficient grant financing is not available. The authorities noted that additional borrowing does not pose an immediate concern as the debt service levels are currently well below the thresholds.

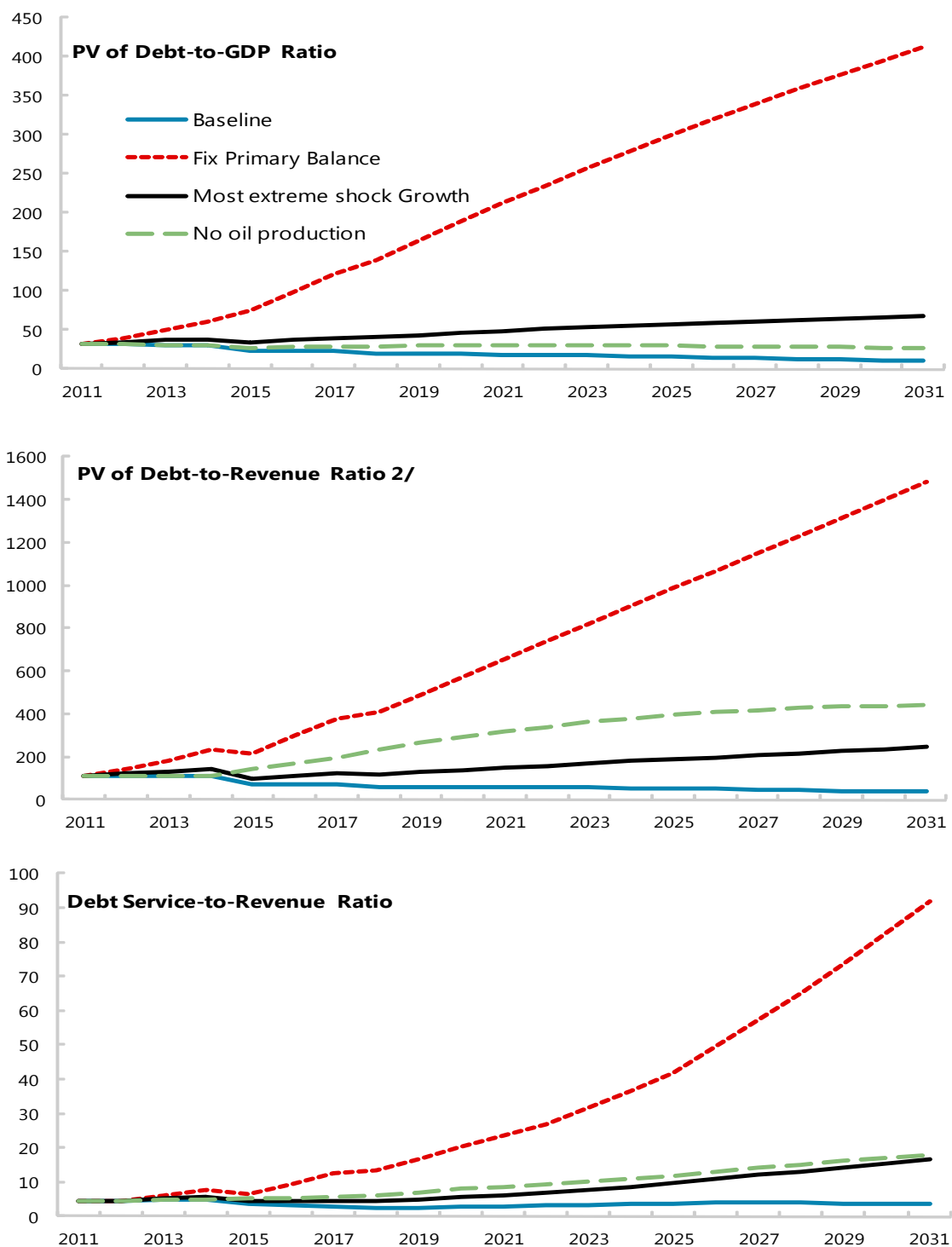
Figure 1. São Tomé and Príncipe: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2011–31^{1/}



Sources: Country authorities; and staff estimates and projections.

^{1/} The most extreme stress test is the test that yields the highest ratio in 2021. In figure b, it corresponds to a Combination shock; in c, to a Exports shock; in d, to a Combination shock; in e, to a Exports shock and in figure f, to a Combination shock

Figure 2. São Tomé and Príncipe: Indicators of Public Debt under Alternatives Scenarios, 2011–31^{1/}



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021.

2/ Revenues are defined inclusive of grants.

Table 1. São Tomé and Príncipe: External Debt Sustainability Framework, Baseline Scenario, 2008–31 1/
(Percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections						2011-2016 Average	2021	2031	2017-2031 Average	
	2008	2009	2010			2011	2012	2013	2014	2015	2016					
External debt (nominal) 1/	22.2	35.0	47.4			47.6	48.5	46.6	46.2	36.8	35.0		25.3	12.4		
o/w public and publicly guaranteed (PPG)	22.2	35.0	47.4			47.6	48.5	46.6	46.2	36.8	35.0		25.3	12.4		
Change in external debt	-36.1	12.8	12.4			0.2	0.9	-1.8	-0.4	-9.4	-1.8		-1.4	-1.1		
Identified net debt-creating flows	-14.9	6.7	7.4			8.3	5.3	-0.8	0.0	-11.2	-1.9		-1.9	0.1		
Non-interest current account deficit	35.5	26.4	30.4	22.3	10.2	29.6	27.5	27.7	27.2	24.3	28.3		8.9	6.1	9.4	
Deficit in balance of goods and services	51.9	44.8	54.9			44.9	40.8	39.9	38.5	7.9	11.5		1.9	3.4		
Exports	10.9	10.5	11.2			9.8	9.4	9.4	9.6	45.2	42.8		35.3	32.2		
Imports	62.8	55.3	66.1			54.7	50.3	49.3	48.1	53.1	54.3		37.2	35.6		
Net current transfers (negative = inflow)	-14.2	-17.1	-23.0	-21.6	5.7	-14.1	-12.2	-11.2	-10.4	-4.9	-2.8		-2.1	-1.3	-1.9	
o/w official	-12.5	-15.6	-21.5			-12.8	-11.2	-10.3	-9.5	-4.2	-2.2		-1.6	-1.0		
Other current account flows (negative = net inflow)	-2.2	-1.2	-1.5			-1.2	-1.1	-1.0	-1.0	21.3	19.7		9.0	4.0		
Net FDI (negative = inflow)	-39.4	-18.7	-22.5	-23.5	15.4	-19.8	-20.3	-26.2	-25.0	-26.9	-29.0		-9.8	-5.6	-10.1	
Endogenous debt dynamics 2/	-11.0	-1.0	-0.5			-1.5	-1.9	-2.3	-2.2	-8.6	-1.3		-1.0	-0.4		
Contribution from nominal interest rate	1.4	0.5	0.3			0.3	0.3	0.3	0.3	0.3	0.3		0.3	0.2		
Contribution from real GDP growth	-4.2	-0.8	-1.5			-1.9	-2.2	-2.6	-2.5	-8.9	-1.6		-1.3	-0.6		
Contribution from price and exchange rate changes	-8.3	-0.6	0.7			-1.0	-0.4	-0.4	-0.4	1.7	0.2		0.5	-1.2		
Residual (3-4) 3/	-21.2	6.1	5.0			-8.1	-4.4	-1.0	-0.4	1.7	0.2		0.5	-1.2		
o/w exceptional financing	-99.8	-26.1	0.0			0.0	-1.1	0.0	0.0	0.0	0.0		0.0	0.0		
PV of external debt 4/	...	...	33.4			31.77	31.4	29.9	29.6	23.9	23.2		18.7	10.4	
In percent of exports	...	...	297.5			323.51	332.6	318.8	309.0	53.0	54.2		53.0	32.5	
PV of PPG external debt	...	...	33.4			31.77	31.4	29.9	29.6	23.9	23.2		18.7	10.4	
In percent of exports	...	...	297.5			323.51	332.6	318.8	309.0	53.0	54.2		53.0	32.5	
In percent of government revenues	...	...	178.3			180.51	180.0	172.3	170.5	79.9	80.0		62.9	40.0	
Debt service-to-exports ratio (in percent)	49.2	18.9	11.2			13.82	12.6	13.7	13.2	2.7	2.4		2.6	3.3		
PPG debt service-to-exports ratio (in percent)	49.2	18.9	11.2			13.82	12.6	13.7	13.2	2.7	2.4		2.6	3.3		
PPG debt service-to-revenue ratio (in percent)	32.1	12.0	6.7			7.71	6.8	7.4	7.3	4.0	3.5		3.1	4.0		
Total gross financing need (Billions of U.S. dollars)	0.0	0.0	0.0			0.03	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Non-interest current account deficit that stabilizes debt ratio	71.6	13.5	18.0			29.43	26.6	29.5	27.6	33.8	30.1		10.2	7.2		
Key macroeconomic assumptions																
Real GDP growth (in percent)	9.1	4.0	4.5	5.1	5.4	4.9	5.5	6.0	6.0	24.4	4.6	8.6	5.2	4.8	5.6	
GDP deflator in US dollar terms (change in percent)	16.6	2.9	-2.1	5.0	8.5	20.2	10.9	6.2	4.3	1.9	1.4	7.5	0.4	0.4	0.4	
Effective interest rate (percent) 5/	3.1	2.5	0.8	1.2	0.9	0.9	0.8	0.7	0.7	0.8	0.9	0.8	1.2	1.8	1.4	
Growth of exports of G&S (US dollar terms, in percent)	49.6	3.1	9.5	4.8	26.8	10.2	12.3	12.1	12.9	497.8	0.5	91.0	3.5	5.2	4.0	
Growth of imports of G&S (US dollar terms, in percent)	25.4	-5.7	22.4	13.7	15.0	4.4	7.4	10.5	7.9	39.9	8.5	13.1	4.8	5.4	3.1	
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	50.0	50.0	50.0	50.0	30.6	28.7	43.2	8.5	8.5	10.2
Government revenues (excluding grants, in percent of GDP) 6/	16.7	16.6	18.8	...	...	17.6	17.4	17.4	17.4	30.0	29.0	...	29.7	26.1	28.5
Aid flows (in Billions of US dollars) 7/	0.0	0.1	0.1	...	...	0.056	0.056	0.046	0.050	0.028	0.023	...	0.023	0.024	...
o/w Grants	0.0	0.0	0.0	...	...	0.030	0.030	0.032	0.032	0.022	0.018	...	0.018	0.019	...
o/w Concessional loans	0.0	0.0	0.0	...	...	0.027	0.025	0.014	0.018	0.006	0.005	...	0.005	0.005	...
Grant-equivalent financing (in percent of GDP) 8/	...	...	...	...	...	17.0	14.6	11.6	11.2	5.2	3.9	...	2.6	1.7	2.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...	...	...	76.2	77.1	84.1	81.8	85.6	83.8	...	81.2	82.0	81.8
Memorandum items:																
Nominal GDP (Billions of US dollars)	0.2	0.2	0.2	...	...	0.3	0.3	0.3	0.4	0.5	0.5	...	0.7	1.2	...
Nominal dollar GDP growth	27.2	7.1	2.3	...	...	26.1	17.0	12.6	10.6	26.8	6.0	16.5	5.6	5.2	6.0
PV of PPG external debt (in Billions of US dollars)	...	...	0.068	...	...	0.080	0.093	0.100	0.109	0.112	0.115	...	0.1	0.1	...
(PVT-PVt-1)/GDPt-1 (in percent)	...	...	...	...	...	6.3	4.9	2.2	2.8	0.7	0.7	2.9	0.4	-0.3	0.1
Gross remittances (Billions of US dollars)	0.0	0.0	0.0	...	...	0.0	0.0	0.0	0.0	0.0	0.0	...	0.0	0.0	...
PV of PPG external debt (in percent of GDP + remittances)	...	...	32.9	...	...	31.4	31.0	29.6	29.3	23.8	23.1	...	18.6	10.4	...
PV of PPG external debt (in percent of exports + remittances)	...	...	262.0	...	...	287.4	298.8	289.3	283.2	52.2	53.4	...	52.3	32.1	...
Debt service of PPG external debt (in percent of exports + remittances)	...	...	9.8	...	...	12.3	11.3	12.4	12.1	2.6	2.4	...	2.6	3.2	...

Sources: Country authorities; and staff estimates and projections. Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes and private capital flows.

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

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

6/ Defined as total government revenue, excluding grants and debt relief.

7/ Defined as grants, concessional loans, and debt relief. Concessional debt is defined as debt having of grant element of at least 50 percent.

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

Table 2. São Tomé and Príncipe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011–31
(Percent)

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
PV of debt-to GDP ratio								
Baseline	32	31	30	30	24	23	19	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011–2031 1/	32	26	23	20	20	18	12	0
A2. New public sector loans on less favorable terms in 2011–2031 2	32	34	33	34	28	27	23	16
A3. No Oil Production and Fiscal Adjustment	32	31	30	30	38	45	85	117
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–2013	32	33	33	33	27	26	21	12
B2. Export value growth at historical average minus one standard deviation in 2012–2013 3/	32	34	36	35	29	28	22	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012–2013	32	36	38	37	30	29	23	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–2013 4/	32	39	48	46	38	37	28	15
B5. Combination of B1–B4 using one-half standard deviation shocks	32	39	54	52	42	41	32	17
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	32	43	41	40	33	32	25	14
PV of debt-to-exports ratio								
Baseline	324	333	319	309	53	54	53	32
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011–2031 1/	324	274	243	209	43	41	33	0
A2. New public sector loans on less favorable terms in 2011–2031 2	324	359	355	355	61	64	66	49
A3. No Oil Production and Fiscal Adjustment	324	333	319	309	410	496	966	1390
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–2013	324	333	318	308	53	54	53	32
B2. Export value growth at historical average minus one standard deviation in 2012–2013 3/	324	516	797	765	131	135	128	77
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012–2013	324	333	318	308	53	54	53	32
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–2013 4/	324	409	510	484	83	85	79	46
B5. Combination of B1–B4 using one-half standard deviation shocks	324	451	699	666	115	117	110	64
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	324	333	318	308	53	54	53	32
PV of debt-to-revenue ratio								
Baseline	181	180	172	171	80	80	63	40
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011–2031 1/	181	148	131	115	65	61	40	1
A2. New public sector loans on less favorable terms in 2011–2031 2	181	194	192	196	93	94	79	60
A3. No Oil Production and Fiscal Adjustment	181	180	172	171	184	222	397	583
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–2013	181	190	193	191	89	90	70	44
B2. Export value growth at historical average minus one standard deviation in 2012–2013 3/	181	194	208	204	96	96	73	45
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012–2013	181	207	217	215	101	101	79	50
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012–2013 4/	181	222	275	267	126	126	94	56
B5. Combination of B1–B4 using one-half standard deviation shocks	181	225	310	301	142	142	107	65
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	181	247	235	233	109	109	86	54

Table 2. São Tomé and Príncipe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011–31 (concluded)
(Percent)

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
Debt service-to-exports ratio								
Baseline	14	13	14	13	3	2	3	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	14	13	13	12	3	2	1	1
A2. New public sector loans on less favorable terms in 2011-2031 2	14	13	15	15	3	3	4	4
A3. No Oil Production and Fiscal Adjustment	14	13	14	13	15	15	26	57
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	14	13	14	13	3	2	3	3
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	14	18	30	31	6	6	7	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	14	13	14	13	3	2	3	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	14	13	16	19	4	3	5	5
B5. Combination of B1-B4 using one-half standard deviation shocks	14	15	22	26	5	5	6	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	14	13	14	13	3	2	3	3
Debt service-to-revenue ratio								
Baseline	8	7	7	7	4	4	3	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	8	7	7	6	4	3	2	1
A2. New public sector loans on less favorable terms in 2011-2031 2	8	7	8	8	5	4	4	5
A3. No Oil Production and Fiscal Adjustment	8	7	7	7	8	8	13	27
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	8	7	8	8	5	4	3	5
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	8	7	8	8	5	4	4	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	8	8	9	9	5	4	4	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	8	7	9	10	5	5	6	6
B5. Combination of B1-B4 using one-half standard deviation shocks	8	8	10	12	6	6	6	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	8	9	10	10	6	5	4	6

Sources: Country authorities; and staff estimates and projections.

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

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

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

4/ Includes official and private transfers and FDI.

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

Table 3. São Tomé and Príncipe: Public Sector Debt Sustainability Framework, Baseline Scenario, 2008–31
(Percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate					Projections			
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-16 Average	2021	2031	2017-31 Average
Public sector debt 1/	22.2	35.0	47.4			47.6	48.5	46.6	46.2	36.8	35.0		25.3	12.4
o/w foreign-currency denominated	22.2	35.0	47.4			47.6	48.5	46.6	46.2	36.8	35.0		25.3	12.4
Change in public sector debt	-36.1	12.8	12.4			0.2	0.9	-1.8	-0.4	-9.4	-1.8		-1.4	-1.1
Identified debt-creating flows	-102.4	-15.0	8.5			7.9	2.1	0.0	0.5	-18.5	-9.7		-10.8	-6.1
Primary deficit	1.6	19.1	10.9	9.2	4.7	17.0	8.7	5.0	4.6	-9.0	-7.9	3.0	-9.6	-5.6
Revenue and grants	26.3	29.2	37.4			29.3	27.7	26.8	26.1	34.7	32.6		32.3	27.7
of which: grants	9.6	12.6	18.6			11.7	10.2	9.4	8.7	4.8	3.6		2.6	1.6
Primary (noninterest) expenditure	27.9	48.3	48.2			46.3	36.3	31.8	30.7	25.7	24.7		22.7	22.1
Automatic debt dynamics	-12.1	-0.9	-2.1			-9.1	-6.6	-5.0	-4.2	-9.5	-1.8		-1.1	-0.4
Contribution from interest rate/growth differential	-4.4	-0.6	-1.6			-2.8	-2.6	-2.9	-2.7	-9.2	-1.8		-1.4	-0.6
of which: contribution from average real interest rate	0.5	0.3	-0.1			-0.5	-0.1	-0.1	-0.1	-0.2	-0.2		-0.1	0.0
of which: contribution from real GDP growth	-4.8	-0.9	-1.5			-2.2	-2.5	-2.7	-2.6	-9.1	-1.6		-1.3	-0.6
Contribution from real exchange rate depreciation	-7.7	-0.4	-0.4			-6.3	-4.0	-2.1	-1.4	-0.2	0.0		...	...
Denominator = 1+g	1.1	1.0	1.0			1.0	1.1	1.1	1.1	1.2	1.0		1.1	1.0
Other identified debt-creating flows	-91.9	-33.2	-0.3			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Privatization receipts (negative)	11.6	-6.2	-0.3			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Debt relief (HIPC and other)	-103.4	-27.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Residual, including asset changes 5/	66.3	27.9	3.9			-7.7	-1.2	-1.8	-0.9	9.1	7.9		9.4	5.0
Other Sustainability Indicators														
PV of public sector debt	0.0	0.0	33.4			31.8	31.4	29.9	29.6	23.9	23.2		18.7	10.4
o/w foreign-currency denominated	0.0	0.0	33.4			31.8	31.4	29.9	29.6	23.9	23.2		18.7	10.4
o/w external	...	...	33.4			31.8	31.4	29.9	29.6	23.9	23.2		18.7	10.4
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	7.0	21.1	12.1			18.3	9.9	6.2	5.9	-7.8	-6.9		-8.7	-4.6
PV of public sector debt-to-revenue and grants ratio (in percent)	0.0	0.0	89.5			108.4	113.4	111.6	113.5	68.9	71.2		57.9	37.6
PV of public sector debt-to-revenue ratio (in percent)	0.0	0.0	178.3			180.5	180.0	172.3	170.5	79.9	80.0		62.9	40.0
o/w external 3/	...	...	178.3			180.5	180.0	172.3	170.5	79.9	80.0		62.9	40.0
Debt service-to-revenue and grants ratio (in percent) 4/	20.4	6.8	3.4			4.6	4.3	4.8	4.8	3.5	3.1		2.8	3.8
Debt service-to-revenue ratio (in percent) 4/	32.1	12.0	6.7			7.7	6.8	7.4	7.3	4.0	3.5		3.1	4.0
Primary deficit that stabilizes the debt-to-GDP ratio	37.7	6.3	-1.5			16.8	7.8	6.8	5.0	0.4	-6.1		-8.3	-4.5
Key macroeconomic and fiscal assumptions														
Nominal GDP (local currency)	2696.1	3184.5	3718.9			4375.5	5164.9	5839.3	6508.0	8315.2	8885.9		13561.8	26424.0
Real GDP growth (in percent)	9.1	4.0	4.5	5.1	5.4	4.9	5.5	6.0	6.0	24.4	4.6	8.6	5.2	4.8
Average nominal interest rate on forex debt (in percent)	3.1	2.5	0.8	1.2	0.9	0.9	0.8	0.7	0.7	0.8	0.9	0.8	1.2	1.8
Average real interest rate on domestic debt (in percent)	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Real exchange rate depreciation (in percent, + indicates depreciation)	-14.4	-1.7	-1.3	-3.3	8.5	-14.2	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	26.6	13.6	11.7	15.6	10.0	12.1	11.9	6.7	5.1	2.7	2.2	6.8	1.9	1.9
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.2	0.8	0.0	0.1	0.3	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	50.0	50.0	50.0	50.0	30.6	28.7	43.2	8.5	8.5

Sources: Country authorities; and staff estimates and projections. Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

1/ Public sector, includes general government. There is no debt contracted by local governments or state owned-corporations.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

5/ Projected residual reflect flows not covered by the template, including National Oil Account and privatization funds.

Table 4. São Tomé and Príncipe: Sensitivity Analysis for Key Indicators of Public Debt, 2011–31
(Percent)

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
PV of Debt-to-GDP Ratio								
Baseline	32	31	30	30	24	23	19	10
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	32	32	35	39	58	75	174	319
A2. Primary balance is unchanged from 2011	32	40	50	61	75	98	212	412
A3. No Oil & Adjustment 3/	32	31	30	30	38	45	85	117
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013 1/	32	34	37	38	35	37	49	69
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	32	37	44	43	35	34	28	18
B3. Combination of B1-B2 using one half standard deviation shocks	32	35	41	41	35	36	39	45
B4. One-time 30 percent real depreciation in 2012	32	42	39	37	30	30	25	18
B5. 10 percent of GDP increase in other debt-creating flows in 2012	32	41	39	38	31	30	25	16
PV of Debt-to-Revenue Ratio 2/								
Baseline	108	113	112	113	69	71	58	38
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	108	116	130	149	162	225	527	1130
A2. Primary balance is unchanged from 2011	108	143	185	232	217	302	656	1485
A3. No Oil & Adjustment 3/	108	113	112	113	144	171	319	442
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013 1/	108	121	131	141	98	113	149	245
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	108	133	164	164	100	104	86	67
B3. Combination of B1-B2 using one half standard deviation shocks	108	125	149	154	101	110	121	163
B4. One-time 30 percent real depreciation in 2012	108	151	145	142	87	91	78	66
B5. 10 percent of GDP increase in other debt-creating flows in 2012	108	150	146	147	90	93	77	57

Table 4. São Tomé and Príncipe: Sensitivity Analysis for Key Indicators of Public Debt, 2011–31 (concluded)
(Percent of Revenue)

	Debt Service-to-Revenue Ratio 2/							
Baseline	5	4	5	5	3	3	3	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	5	4	5	6	5	7	19	71
A2. Primary balance is unchanged from 2011	5	4	6	8	7	9	24	92
A3. No Oil & Adjustment 3/	5	4	5	5	5	5	9	18
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013 1/	5	4	5	6	4	4	6	17
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	5	4	6	7	5	4	4	7
B3. Combination of B1-B2 using one half standard deviation shocks	5	4	5	6	5	4	5	12
B4. One-time 30 percent real depreciation in 2012	5	5	7	7	5	5	4	7
B5. 10 percent of GDP increase in other debt-creating flows in 2012	5	4	6	6	4	4	4	6

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

3/ Assumes no oil production in the long-term and fiscal adjustment totalling 2.0 percent of GDP during 2013-2014.



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IMF Executive Board Concludes 2011 Article IV Consultation with Democratic Republic of São Tomé and Príncipe

On January 23, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with São Tomé and Príncipe.¹

Background

São Tomé & Príncipe's economy is gradually recovering after a marked slowdown in 2009. The slowdown reflected a decline in foreign direct investment as a result of the global financial crisis. Gross domestic product (GDP) growth is estimated to have rebounded to nearly 5 percent in 2011 as externally financed projects helped drive activities in construction, trade, tourism, and agriculture. Growth momentum is expected to increase as exploratory drilling for oil continues. The authorities expect oil production to start in 2015. The recovery is subject to downside risks stemming from the financial and economic difficulties in Europe, which could dampen the prospects for aid, foreign direct investment, and remittances.

Inflation has declined substantially since 2008 but remains at double-digit levels. A tightening of fiscal and monetary policies in 2008 and falling world food prices helped lower year-on-year inflation from a peak of 37 percent in July 2008 to 11½ percent in June 2010. Since then, a reversal in international food prices, increases in the administered retail prices of petroleum products, and other domestic factors have kept inflation in the teens. Inflation is projected to

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

decline in line with expected falls in non-fuel commodity prices over the medium term, supported by the peg to the euro and fiscal consolidation.

The central bank has made good progress in strengthening the regulation and supervision of banks. It has initiated a program of on-site inspections and expects to complete the inspection of all banks by end-2012. All banks have complied with a recent increase in minimum capital requirements. Rapid credit growth and the economy's vulnerability to economic and financial stress in Europe pose risks to financial stability.

São Tomé & Príncipe remains at a high risk of debt distress, although it has received substantial debt relief. The debt burden remains heavy, especially in relation to export revenues. Improvement in the outlook hinges on the commercial viability of the oil discoveries.

Oil signature bonuses, investment inflows, and concessional loans have financed a large increase in the current account deficit in recent years. Without oil, the deficit is not sustainable. Quantitative assessments of the real exchange rate are inconclusive. However, continuing high domestic inflation will lead to over-valuation of the real exchange rate and loss of international competitiveness.

The authorities have improved the investment climate. The World Bank's 2012 Doing Business Survey ranked São Tomé & Príncipe among the top reformers in the past year. Major reforms included the elimination of a raft of licensing and minimum capital requirements for starting a wide range of businesses. The authorities are now turning their attention to upgrading the country's physical infrastructure and reforms in the energy sector to assure more reliable power supply.

Executive Board Assessment

Executive Directors welcomed São Tomé and Príncipe's gradual recovery from the impact of the 2008 global financial crisis. However, the economy is vulnerable to external shocks and downside risks stemming from the ongoing financial and economic difficulties in Europe.

Directors commended the progress made in fiscal consolidation and saw a need for continued efforts to dampen domestic demand pressures, safeguard international reserves, and protect the exchange rate peg. They welcomed the authorities' medium-term fiscal objective of stabilizing the domestic primary deficit at a level that can be financed by available non-debt-creating resources. In this regard, Directors encouraged the authorities to further enhance domestic revenues, reduce exemptions from customs duties, and adopt an automatic price adjustment mechanism to pass through changes in world fuel prices to retail prices. Directors also stressed the need to break the cycle of domestic cross arrears by ensuring realistic budgeting for the government's utility bills, imposing a hard budget constraint on regional and local governments, and making the state-owned water and electricity corporation commercially viable. They supported the steps being taken to ensure that future oil revenues are managed carefully.

Directors noted that despite substantial debt relief, São Tomé and Príncipe remains at high risk of debt distress and urged the authorities to maintain a prudent external borrowing policy, relying mainly on grants to finance the public investment program. Directors stressed that, if new borrowing is needed, it should be on highly concessional terms. They looked forward to the participation in the multilateral debt relief initiatives by remaining creditors.

Directors welcomed the authorities' commitment to strengthen monetary management and banking supervision. They urged continued vigilance toward risks stemming from rapid credit growth, high dollarization, and economic and financial developments in Europe. They supported ongoing efforts to strengthen the [Anti-Money Laundering and Combating the Financing of Terrorism](#) (AML/CFT) framework.

Directors commended the progress in improving the business and investment climate. They encouraged the authorities to continue their efforts by upgrading infrastructure and assuring a reliable energy supply, in order to boost output and export growth. Directors also urged the authorities to complete the new National Poverty Reduction Strategy as soon as possible.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

São Tomé and Príncipe: Selected Economic Indicators, 2007–16

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
		Actual			Est.	Projections				
	(Annual change in percent, unless indicated)									
National income and prices										
GDP at constant prices	6.0	9.1	4.0	4.5	4.9	5.5	6.0	6.0	24.4	4.6
Consumer prices										
End of period	27.6	24.8	16.1	12.9	12.0	6.0	4.0	3.0	3.0	3.0
Period average	18.6	32.0	17.0	13.3	12.4	8.8	5.0	3.5	3.0	3.0
External trade										
Exports of goods and nonfactor services	-22.0	49.6	3.1	9.5	10.2	12.3	12.1	12.9	497.8	0.5
Imports of goods and nonfactor services	3.5	25.4	-5.7	22.4	4.4	7.4	10.5	7.9	39.9	8.5
Exchange rate (dobras per US\$; end of period) ¹	14,362	15,228	16,814	18,336	...	...	...	...	...	...
Real effective exchange rate (depreciation = -)	1.3	20.0	-6.3	1.9	...	...	...	...	...	...
Money and credit										
Base money	50.0	18.9	22.3	-7.9	-3.5	18.6	15.4	12.2	14.9	10.0
Broad money (M3)	38.1	36.8	8.2	25.1	15.8	14.7	13.5	11.9	15.1	10.0
Credit to the economy	33.9	22.8	39.1	40.0	12.2	9.2	7.6	7.6	11.8	8.2
Velocity (GDP to average broad money)	2.6	2.6	2.8	2.6	2.7	2.8	2.7	2.7	3.0	2.9
Central bank reference interest rate (percent)	28.0	28.0	16.0	15.0	...	...	...	...	...	...
Bank lending rate (percent)	32.4	32.4	29.3	26.8	...	...	...	...	...	...
Bank deposit rate (percent)	12.8	12.8	10.8	12.4	...	...	...	...	...	...
Government finance										
(Percent of GDP, unless otherwise indicated)										
Total revenue, grants, and oil signature bonuses ²	165.5	45.4	31.2	38.1	30.0	37.1	26.8	26.1	34.9	32.8
Of which: tax revenue	16.4	15.2	14.5	16.6	15.9	16.0	16.0	16.0	14.2	14.3
Nontax revenue	2.8	1.5	2.1	2.2	1.7	1.4	1.4	1.4	1.4	1.5
grants	126.6	28.7	14.6	19.3	12.4	10.9	9.4	8.7	4.9	3.7
oil signature bonuses	19.8	0.0	0.0	0.0	0.0	8.8	0.0	0.0	0.0	0.0
oil revenues	...	...	...	...	...	...	...	...	14.3	13.2
Total expenditure and net lending	40.1	31.2	49.8	49.1	47.4	37.3	32.8	31.6	26.5	25.5
Of which: personnel costs	8.9	8.1	7.9	8.3	8.3	8.1	8.0	8.1	7.1	7.2
nonwage noninterest current expenditure	15.7	12.1	11.7	11.1	9.9	9.5	9.6	9.5	8.2	8.0
treasury funded capital expenditures	1.1	1.3	4.0	2.3	1.8	1.9	2.0	2.0	5.6	5.9
donor funded capital expenditures	10.4	6.9	24.5	26.3	25.9	16.5	11.9	10.9	4.8	3.6
Domestic primary balance ³	-8.5	-7.0	-8.0	-4.1	-3.5	-3.3	-3.2	-3.1	-5.9	-5.9
Overall balance (commitment basis)	125.4	14.2	-18.6	-11.0	-17.4	-0.3	-5.9	-5.5	8.4	7.3
External sector										
Current account balance										
Including official transfers	-38.4	-36.8	-26.9	-30.6	-30.0	-27.8	-28.0	-27.5	-24.6	-28.6
Excluding official transfers	-49.4	-49.4	-42.5	-52.1	-42.8	-39.0	-38.3	-37.0	-28.8	-30.8
PV of external debt	11.8	10.5	18.4	33.7	31.8	31.3	29.8	29.5	23.9	23.1
External debt service (percent of exports) ⁴	4.6	3.0	8.0	1.5	13.4	14.3	14.0	12.5	2.4	2.0
Export of goods and nonfactor services (US\$ millions)	13.4	20.0	20.6	22.6	24.9	27.9	31.3	35.4	211.4	212.5
Gross foreign reserves ^{5, 6, 7}										
Months of imports of goods and nonfactor services	3.5	6.6	5.9	4.5	4.4	4.2	4.5	4.9	5.5	5.5
Millions of U.S. dollar	22.5	40.9	43.7	37.9	34.6	34.8	43.7	49.9	69.8	92.6
As proportion of M2 (percent)	97	114	130	120	98	84	83	82	76	73
National Oil Account (US\$ millions) ⁹	14.9	12.1	9.8	7.9	6.3	31.1	25.1	20.2	68.6	115.8
Memorandum Item										
GDP										
Billions of dobras	1,953	2,696	3,185	3,719	4,376	5,165	5,839	6,508	8,315	8,886
Millions of U.S. dollars	144	183	196	201	254	297	334	369	468	496
Privatization account (million U.S. dollars)	0	21	6	0.7	0	0	0	0	0	0

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

¹ Central bank (BCSTP) mid-point rate.

² Includes HIPC and MDRI debt relief.

³ Excludes oil related revenues, grants, interest earned, scheduled interest payments, and foreign-financed capital outlay.

⁴ In percent of exports of goods and nonfactor services. Includes HIPC and MDRI debt relief.

⁵ Gross reserves exclude the National Oil Account and commercial banks' foreign currency deposits at the BCSTP in order to meet the reserve requirement for their foreign currency deposits or as application deposits for new licensing.

⁶ For 2008, includes the proceeds from the privatization of the government's share in the fuel distribution company (ENCO) of \$32 million. Of this, \$10 million were used to pay back some of ENCO's debt to Sonangol, \$0.96 million were used to audit the transaction and \$21.4 million were put in the central bank to boost reserves.

⁷ For 2009, includes new allocation of 6.5 million SDR.

⁸ Imports of goods and nonfactor services excluding imports of investment goods and technical assistance.

⁹ For 2012, based on the assumption that dispute will be settled to allow disbursement of bonuses for Block 6.

Statement by Mr. Assimaidou on Democratic Republic of Sao Tome and Principe
January 23, 2012

Our Sao Tomean authorities would like to express their appreciation for the Fund's continued support and constructive policy dialogue including during the consultations held in Sao Tome and in Washington DC in September 2011.

Sao Tome and Principe is recovering from the impact of the global economic and financial crisis which led to a sharp decline of Foreign Direct Investment (FDI), and increased imported inflation pressures. As reflected in the well written and balanced staff report, the authorities vigorously responded to mitigate the impact of the crisis, preserve macroeconomic stability, while making inroads in achieving their growth and development objectives.

Driven by the construction, tourism and agriculture sectors, real GDP growth for 2011 is projected at 5 percent. Inflation continued its declining trend at 13.2 percent rate in October 2011 after reaching a peak of 37 percent in 2008. Nonetheless, the pass through of international petroleum prices heightened domestic prices fluctuations.

The authorities' policies aimed not only at mitigating the impact of the immediate crisis, but also at realizing their medium term growth and poverty reduction objectives, in line with their ECF-supported program. As noted by staff, the program performance criteria have been substantially implemented, albeit with some delays. The authorities are in the process of finalizing the updating of the poverty reduction strategy paper (PRSP), which is required for the ECF program reviews to be completed.

Fiscal Consolidation and Macroeconomic Stability

The authorities pursued a prudent fiscal stance, intensifying their fiscal consolidation efforts, with the view to preserving macroeconomic stability, and safeguarding the exchange rate peg. Fiscal performance in 2011 has been strong owing to higher than projected revenues and tighter expenditure controls.

Looking forward, the 2012 budget aims to lower further the primary deficit to 3.2 percent of GDP, in line with the authorities' medium-term objectives. In this regard, greater revenue mobilization efforts are planned, including stepped up tax collections activities, and customs and tax administration efficiency gains. The authorities will take steps to break the cycle of cross-arrears due to public utilities. These include a close monitoring of payments by local municipalities to public utilities and adequately provisioning for the payment of utility bills.

As regards spending, the authorities will seek to control the wage bill in real terms, and to reallocate expenditures towards priority sectors. The authorities will also strive to improve public financial management, particularly through enhanced monitoring and increased transparency in budget execution.

Enhancing monetary policy and financial stability

In order to promote the development of the financial system, and protect it from the spillovers of the global financial crisis, the authorities are strengthening the regulatory and supervisory framework, and monetary policy management.

With respect to monetary policy management, the authorities will focus on improving liquidity management, with Fund technical assistance. The authorities are closely monitoring inflation development as well. Their fiscal and monetary policy tightening and the recently adopted peg helped significantly reduce inflationary pressures. However, the narrow economic basis, supply bottlenecks, as well as import price fluctuations-notably of petroleum and basic commodities prices-continued to drive the inflation outlook. Although second round effects from the recent spike in prices were not observed, as noted by staff, the authorities are undertaking steps to reduce supply side constraints, and stand ready to further tighten monetary policy as needed.

Banking regulation and supervision will be further strengthened through increased banks' capital requirement, and by stepping up onsite inspections of banks. The authorities are also taking steps to enhance the resilience of the banking sector's balance sheets to exchange rate fluctuations, by taking measures to reduce the dollarization of the financial system, and requiring commercial banks to hold reserve requirements in Dobra, the local currency.

The authorities are committed to ensuring that Sao Tome and Principe's financial system is in compliance with international standards such as the FATF's AML/CFT. Amongst the actions taken, they amended the AML/CFT laws, and established a Financial Intelligence Unit, in line with the FATF's recommendations. As recognized by the FATF's assessment, the authorities are fully committed at the highest level to implement the action plan agreed upon, with the view to addressing the remaining deficiencies. They have also requested Fund's technical assistance for that purpose. In light of the progress made to date, and efforts to further strengthen compliance, they are seeking the removal of Sao Tome and Principe from the list of non-cooperating jurisdictions.

Strengthening Sao Tome and Principe's External Position

The Debt Sustainability Analysis finds that Sao Tome and Principe remains at high risk of debt distress due to a narrow export base, and uncertainties as to the oil production prospects. In order to preserve external debt sustainability, the authorities are committed to seek grants and highly concessional financing of their public investments. They are also strengthening their debt management capacities and intend to pursue a prudent borrowing strategy.

To expand their export base, the authorities are moving forward with the exploitation of their hydrocarbon resources, including through the allocation of development licensing in the Joint

Development Zone with Nigeria. They will also promote non-oil sectors, particularly Tourism and Agriculture in order to diversify their economy.

The authorities are determined to preserve Sao Tome and Principe's international competitiveness in the context of the peg to the Euro, which recently experienced renewed market stress on account of the sovereign debt crisis. They are determined to reduce over time the inflation differential with the euro area, and will continue to improve the investment climate including through reforms in the energy sector and infrastructure investments.

Medium Growth and Poverty Reduction Strategy

As mentioned above the authorities are in the process of finalizing their National Poverty Reduction Strategy (NPRS), which will guide their reform agenda going forward. The finalization of the NPRS, which is required before the conclusion of the ECF program's reviews, was delayed due to capacity constraints and the need to ensure broad-based ownership of the new strategy.

The NPRS will benefit from the recent update of the poverty profile. Key pillars of the strategy will include: i) the reform of public institutions, and the promotion of good governance, ii) a broad-based economic growth, iii) human resources development, and iv) improved access to basic services.

The authorities will actively promote the role of the private sector in fostering a diverse and resilient economy. They have deployed sustained efforts to enhance the investment climate, including the establishment of a "one-stop" window to assist investors, and to streamline business regulations. These efforts were recognized in the World Bank's 2012 Doing Business Survey which ranked Sao Tome and Principe among the top performers.

Going forward, the authorities will pursue additional reforms, building on the gains achieved so far, including by overhauling the countries' infrastructure, notably the port and airport, and by reforming the energy sector.