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DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

July 2013

First Review Under the Extended Credit Facility Arrangement

In the context of the first review under the extended credit facility arrangement, the following documents have been released and are included in this package:

- **Staff Report** prepared by a staff team of the IMF, following discussions that ended on March 21, 2013, with the officials of the Democratic Republic of São Tomé and Príncipe on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 29, 2013. 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.
- **Press Release** summarizing the views of the Executive Board.

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

Letter of Intent sent to the IMF by the authorities of the Democratic Republic of São Tomé and Príncipe*
Memorandum of Economic and Financial Policies by the authorities of the Democratic Republic of São Tomé and Príncipe*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT

May 29, 2013

EXECUTIVE SUMMARY

Context. A new coalition government has been in office since late 2012. It intends to maintain fiscal prudence and continue with structural reforms to support sustainable growth and poverty alleviation, in line with the policies outlined in the ECF-supported program. Medium-term prospects remain positive, but external and domestic shocks have adversely affected the economy in the near term.

Program performance. Despite a challenging environment, overall program implementation has been good. All continuous and end-December 2012 performance criteria were observed, and four end-December 2012 structural benchmarks were met (although two with a delay) and one partially met.

Macroeconomic policies in the near term. The authorities' macroeconomic policy framework for 2013 is built around a prudent fiscal stance, the exchange rate peg to the euro, and sound financial policies. The domestic primary deficit target of 3.1 percent of GDP (broadly unchanged from 2012) is consistent with the approved budget and is in line with projected non-debt-creating financing. To meet the fiscal target—and create additional space for priority infrastructure and pro-poor spending—the authorities will strengthen revenue collections, by modernizing the tax and customs administrations and broadening the tax base, and will contain non-priority spending. The central bank will monitor closely the financial soundness of the banking sector, including by carrying out planned on-site inspections, and it will stand ready to require banks to raise their capital, as needed, to ensure financial stability.

Approved By
David Owen and Elliott Harris

Discussions were held in São Tomé during March 8–20, 2013. The team comprised Messrs. Ricardo Velloso (head), Wendell Daal, Justin Matz, and Marcio Ronci (all AFR). Mr. Thierry Nguema Affane (OED) accompanied the mission and attended all policy discussions. The mission met with Finance Minister Hélio Silva Almeida, Central Bank Governor Maria do Carmo Silveira, other high level government officials, and the main representatives of São Tomé and Príncipe's private sector and development partners.

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BACKGROUND

The coalition government that took office in late 2012 intends to maintain fiscal prudence and continue with structural reforms in support of sustainable growth and poverty alleviation.

1. **A new government took office in late 2012**. The previous minority government was censured by the National Assembly on November 26, 2012, and formally dismissed by President Pinto da Costa on December 4, 2012. A coalition, majority government consisting of the other three parties with representation in the National Assembly was formed under the leadership of Prime Minister Gabriel Costa and sworn in by the President on December 12, 2012.

2. **The new government's policies are fully in line with the policies outlined in the three-year ECF-supported program and in the National Poverty Reduction Strategy Paper II**. These policies aim to create the foundations for economic development, focusing on sustainable growth and poverty alleviation. In this connection, the authorities stress that fiscal policy will continue to support macroeconomic stability and ongoing efforts to lower inflation, by ensuring that the domestic primary deficit is in line with available non-debt-creating financing. Given the critical role of liquidity management and banking supervision in maintaining stability, the authorities will ensure the independence of the central bank to conduct its technical work consistently with the fixed exchange rate regime.

RECENT ECONOMIC DEVELOPMENTS AND NEAR-TERM OUTLOOK

The economy remains vulnerable to shocks, as reflected in lower growth and a smaller decline in inflation in 2012, but the authorities have managed to preserve hard-won fiscal prudence. While medium-term prospects remain positive, the near-term outlook is challenging.

3. **The economy remains vulnerable to external and domestic shocks.** Growth decelerated to 4 percent in 2012, reflecting persistent global uncertainties, particularly in Europe, which contributed to a slowdown in foreign direct investment and in the execution of the foreign-financed public investment program (Table 1, Figure 1). After declining to 8 percent in April 2012, its lowest level in a decade, inflation rose in the following months due to unseasonably heavy rains that disrupted the supply of perishables, reaching 10½percent at end-2012.

4. **The programmed domestic primary deficit for 2012 was met as the authorities contained public spending to offset a revenue shortfall** (Tables 2 and 3, Figure 2). Revenue

underperformance stemmed mainly from lower-than-projected customs duties and consumption and profit taxes given the weakening economy, and the accumulation of fuel tax arrears by the National Fuel Company (ENCO). The government contained domestic primary expenditures, primarily through a lower execution of transfers and domestically-financed capital expenditure, while lower goods and services outlays were largely related to unpaid utility bills.

5. **Money growth accelerated slightly in 2012 reflecting an accumulation of foreign assets which more than offset flat private sector credit growth** (Tables 4 and 5, Figure 3). After neck-breaking growth in 2009–10 to finance consumption, real private sector credit growth slowed down in 2011 and came to a halt in 2012 as new sources of credit begun to dwindle and household debt levels reached record highs.

6. **The central bank continues to take steps to strengthen the financial sector**. Commercial banks' profitability and capital-to-risk weighted assets ratio declined in 2012, reflecting more challenging lending conditions (Table 6). The central bank continues to strengthen its banking supervision function through on-site inspections and enforcement of banking regulations. The ratio of non-performing loans in total stabilized at around 20 percent in 2012. The central bank is carefully monitoring the financial soundness of commercial banks and ensuring that banks continue to have a capital-to-risk weighted assets ratio above 10 percent. The central bank has recently taken over the operations of Island Bank, after it failed to comply with supervisory requirements and did not submit remedial action plans. This small commercial bank, with only 5 percent of the system's deposits, will remain under central bank management for 90 days.

7. **The external current account deficit improved slightly in2012** (Tables 7, 8 and 9, Figure 4). Weaker economic activity led to lower import growth and more than offset rising international food and fuel prices. Central bank's international reserves at end-2012 stood comfortably above the program's floor of 3 months of imports.

8. **While medium-term prospects remain positive, the near-term economic outlook is challenging**. Economic growth prospects over the medium term are positive reflecting, inter alia, the expected start of oil production and exports in 2015. However, growth for 2013 has been revised downward, from 5½ to 4½ percent, in light of lingering uncertainties from a difficult external environment and weak external financing prospects for both private and public investment projects. Upside risks to this projection stem mainly from a stronger-than-expected pickup in Europe, and downside risks are mainly linked to possible further delays in project execution due to financing shortfalls. Inflation at end-2013 has been revised upward, from 6 to 7–9 percent, reflecting a more

realistic inflation reduction and vulnerabilities of the inflation rate to supply shocks. Central bank's international reserves are expected to remain above 3 months of imports during 2013.

PERFORMANCE UNDER THE ECF-SUPPORTED PROGRAM

Overall, program implementation has been good. All continuous and end-December 2012 performance criteria were observed, and there was good progress on structural reforms.

9. **All continuous and end-December 2012 performance criteria (PCs) were met** (MEFP, ¶6 and Table 1). The authorities met, with a small margin, the end-year PC on the primary fiscal deficit by containing spending through lower execution of transfers and domestically-financed capital projects that offset lower-than-projected customs duties and consumption and profit taxes due to the weakening economy. The authorities met, with a large margin, the end-year PC on net international reserves and, as a result, central bank's international reserves stood at end-2012 comfortably above the program's floor of 3 months of imports. At the same time, this increase in net international reserves led to a larger than projected increase in base money and, as a result, the indicative target (IT) on base money was exceeded for both end-September and end-December.[1] The IT on central government domestic arrears was missed, but the IT on pro-poor spending was met despite difficult financing conditions.

10. **There was good progress on structural reforms** (MEFP, ¶7 and Table 2). Four end-December 2012 structural benchmarks were met (two with a delay) and one partially met. The authorities developed a reform strategy to modernize the tax administration, and set up a framework for forecasting liquidity in the banking system. They met with a delay the structural benchmarks on conducting on-site inspections of two commercial banks (the second inspection was finalized in April2 013), and on submitting to the National Assembly draft amendments to strengthen anti-money laundering legislation (submitted in May 2013).[2] The authorities partially met the structural benchmark on reconciling, certifying, and devising a plan to clear cross-arrears between ENCO, the Water and Electricity Company (EMAE), and the Treasury. While there was

[1] It has been very difficult to forecast base money in São Tomé and Príncipe due to the large size of foreign exchange flows relative to the economy and the limited sterilization options available to the Central Bank. However, the wild swings of base money growth (Figure 3, left-middle graph) seem to have had limited impact on inflation since the adoption of the exchange rate peg to the euro in early 2010.

[2] Amendments to the anti-money laundering law were drafted with support from the IMF's Legal Department. However, the authorities submitted the draft law only after receiving and reviewing the report of the December 2012 mutual assessment mission by the regional intergovernmental action group against money laundering (GIABA).

significant progress on clearing cross-arrears that related directly to the Treasury,[3] negotiations between EMAE and ENCO on a plan to clear EMAE's arrears to ENCO have been more difficult than anticipated and are now expected to be completed by end-September 2013 (new structural benchmark).

MACROECONOMIC POLICIES IN THE NEAR-TERM

Discussions centered on macroeconomic policies and structural reforms for 2013. There was agreement on the need to maintain a prudent fiscal stance, given debt distress risks and the limited availability of non-debt creating financing, and to strengthen monetary liquidity management and financial stability.

A. Strengthening Public Finances

The 2013 Fiscal Framework

11. **The authorities' commitment to fiscal prudence is welcome**. The 2013 domestic primary deficit target of 3.1 percent of GDP (broadly unchanged from 2012) is in line with projected non-debt-creating financing and is consistent with the budget.[4] To achieve this target—and create additional space for priority infrastructure and pro-poor spending—the authorities are committed to improving revenue collections, by strengthening the customs and tax administrations and broadening the tax base, and containing non-priority spending. In this connection, staff welcome that the authorities have capped in the 2013 budget the nominal growth of the wage bill at 7 percent, by not granting a general wage increase to civil servants and by limiting wage increases to the implementation of new career ladders in the priority areas of education and health. In addition, strict implementation of action plans at the customs and tax administrations (key elements of which are subject to structural benchmarks under the program) will help the revenue mobilization effort. The fiscal program for 2013 is fully funded, including: US$ 1.9 million from the National Oil Account; US$ 4.2 million in the form of a budget support grant from the World Bank; and US$ 6 million in grants from regional partners, such as Nigeria.[5]

[3] Arrears between the Treasury and EMAE were brought down in February 2013 to Dbs 12 billion (0.2 percent of GDP), from Dbs 72 billion.

[4] Containing the domestic primary deficit and securing, to the maximum extent possible, non-debt creating financing are critical elements of the authorities' strategy to mitigate São Tomé and Príncipe's high risk of debt distress (EBS/12/92).

[5] In addition, part of the net proceeds from the recently-concluded sale of the government's stake in TV Cabo to Unitel, an Angolan telecommunications operator, may be used to finance the budget, if needed.

Structural Reforms to Strengthen Public Finances

12. **In 2013, the authorities' structural reform program to strengthen public finances will focus on the tax and customs administrations and public financial management** (MEFP, ¶9). Specifically, staff agree with the authorities that key actions will include:

(i) Enhancing taxpayer management at the tax administration by increasing the security of the Taxpayer Registry, consolidating the segmentation of taxpayers, and creating a single taxpayer computerized file system (structural benchmark, end-December 2013).

(ii) Completing the second phase of ASYCUDA WORLD implementation, including the activation of all the functionalities and the establishment of a fully computerized procedure (structural benchmark, end-December 2013).

(iii) Preparing the general government accounts for 2012, and presenting them to the National Assembly and Audit Court shortly thereafter (structural benchmark, end-June 2013).

(iv) Achieving a long-lasting solution to the issue of cross-arrears, by completing negotiations on a plan to clear over time EMAE's arrears to ENCO and to avoid a recurrence of this problem in the future (structural benchmark, end-September 2013).

B. Enhancing Liquidity Management and Financial Stability

13. **In 2013, the central bank will continue modernizing its liquidity management practices and strengthening its banking supervision function** (MEFP, ¶10). Specifically, staff agree with the authorities that key actions will include:

(i) Completing the on-site inspection of the country's largest commercial bank in the first half of the year, with on-site inspections of two additional commercial banks in the second half of the year (structural benchmarks for, respectively, end-June 2013 and end-December 2013).

(ii) Monitoring carefully the financial soundness of commercial banks and, as needed, requiring shareholders to promptly increase bank capital, against the background of rising non-performing loans and challenging near-term prospects for the sector (low profitability, stagnant credit).

(iii) Strictly enforcing banking regulations, such as reserve requirements and dissemination of data to the credit registry; penalties will be applied to non-compliant institutions.

(iv) Strengthening liquidity management, by expanding the liquidity forecasting horizon, and developing a systematic approach toward analyzing forecasting errors and examining the evolution of daily aggregate liquidity surpluses/shortages.

C. Strengthening the Statistical System

14. **The authorities agree with the need to strengthen economic statistics**. In addition to the preparation of consolidated government accounts and progress toward the introduction at the central bank of international financial reporting standards (IFRS) consistent reporting and chart-of-accounts, the National Institute of Statistics (INE) is taking steps, with support from AFRISTAT, to improve the country's outdated consumer price index (CPI). The household survey completed in 2011 will serve as the basis for reweighting the CPI components and introducing new goods and services in the CPI basket (both were last updated twenty years ago). The new CPI is expected to be ready by end-December 2013 (structural benchmark), greatly improving the reliability of inflation measurement.

PROGRAM MONITORING AND SAFEGUARDS

15. **Program monitoring**. The government will maintain unchanged the previously agreed PCs, ITs, and structural benchmarks for the second review. Together with those, the new PCs, ITs, and structural benchmarks for the period July through December 2013 are presented in Tables 3 and 4 of the attached Memorandum of Economic and Financial Policies (MEFP). The definitions of quantitative PCs and ITs are provided in the attached Technical Memorandum of Understanding (TMU). The second review is expected to be completed by November 2013 and the third by May 2014 (Table 10).

16. **Safeguards**. The commitment of the authorities to strengthen the central bank's governance structure and to mitigate the risks identified by the recent IMF safeguards assessment mission is welcome.[6] Expanding the role of the central bank's internal audit department to track more systematically the implementation of external auditors' recommendations and to monitor the main risks to the central bank's balance sheet will be important milestones in this direction.

[6] For details on the safeguards assessment mission's main findings and recommendations, see Informational Annex.

STAFF APPRAISAL

Notwithstanding a challenging environment, program implementation has been good. The authorities should be encouraged to build on these achievements.

17. **Staying the fiscal prudence course and tackling the issue of cross-arrears are essential**. Staff encourage the authorities to preserve hard-won fiscal prudence by ensuring that the execution of spending in 2013 is fully in line with achieving the domestic primary deficit target. This is needed to foster sustainable growth and support efforts to bring inflation to low single digits over the medium term. The authorities should work closely with ENCO and EMAE to seek a long-lasting solution to the difficult issue of cross-arrears.

18. **The authorities need to continue with their prudent external borrowing policies**. Given the country's high risk of debt distress, the authorities should continue to seek grants and highly concessional financing to the maximum extent possible. Staff acknowledge the need for additional spending in priority areas and thus encourage ongoing efforts in revenue mobilization, by strengthening the tax and customs administrations and widening the tax base.

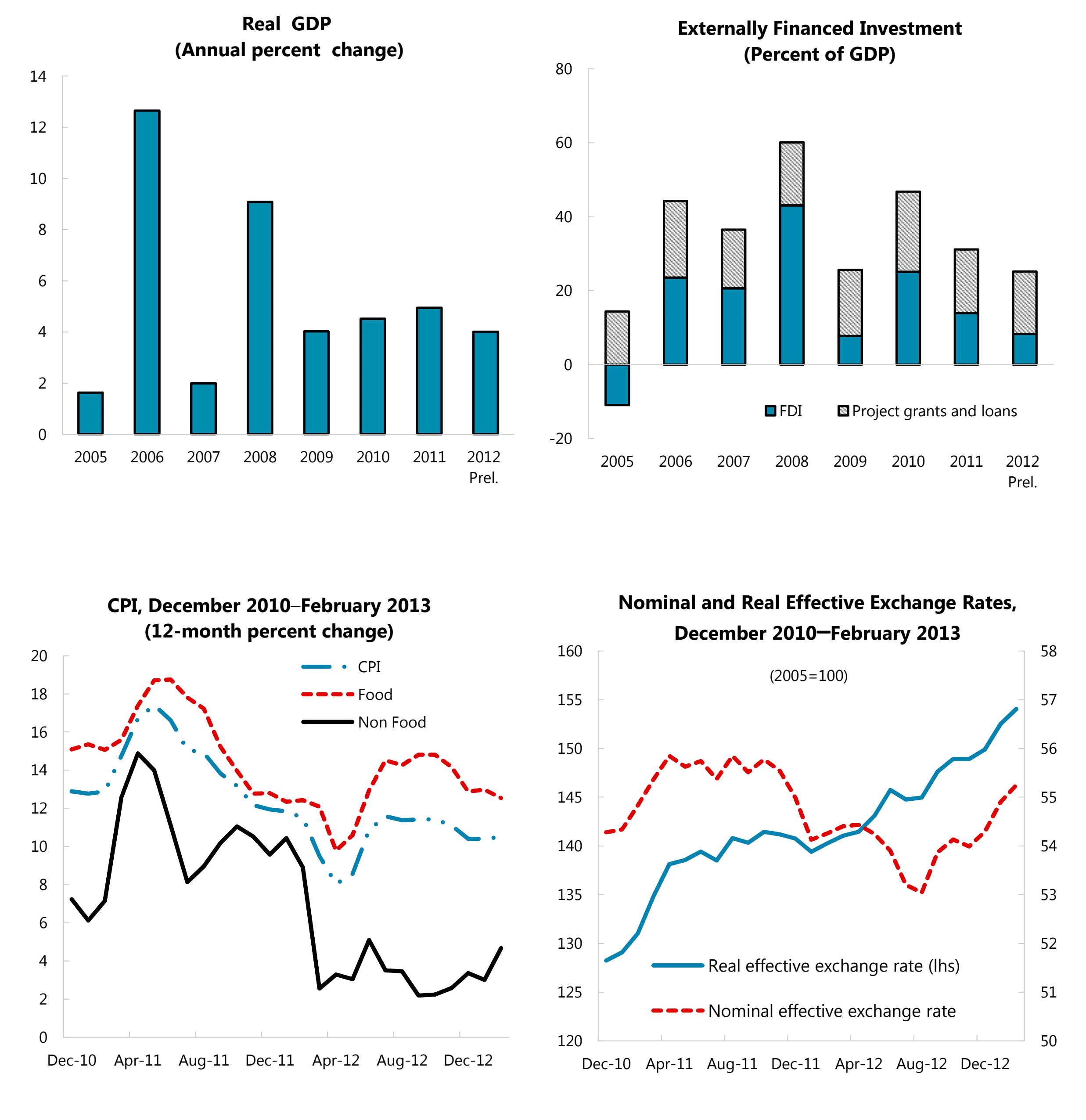
19. **There is room to improve taxpayer compliance and combat tax evasion**. For example, the authorities should take the necessary steps to reduce outstanding profit tax arrears. In addition, it will be important to implement ASYCUDA WORLD as planned, making customs clearance fully computerized and thus reducing the risks of under-invoicing.

20. **Staff share the authorities' concerns regarding rising non-performing loans, low profitability in the banking system, and stagnant credit growth**. It is encouraging that the Central Bank is increasing its efforts to carefully monitor the financial soundness of the banking sector, including by carrying out planned on-site inspections, and stands ready to require commercial banks to raise their capital, as needed, to ensure financial stability.

21. **Expeditious approval of the recently-submitted draft law on anti-money laundering will signal a strong commitment to strengthening São Tomé and Príncipe's framework in this area**. In addition, staff encourage the authorities to support further the operations of the Financial Intelligence Unit, by providing it with the needed additional staff and equipment, and facilitating the training of its staff.

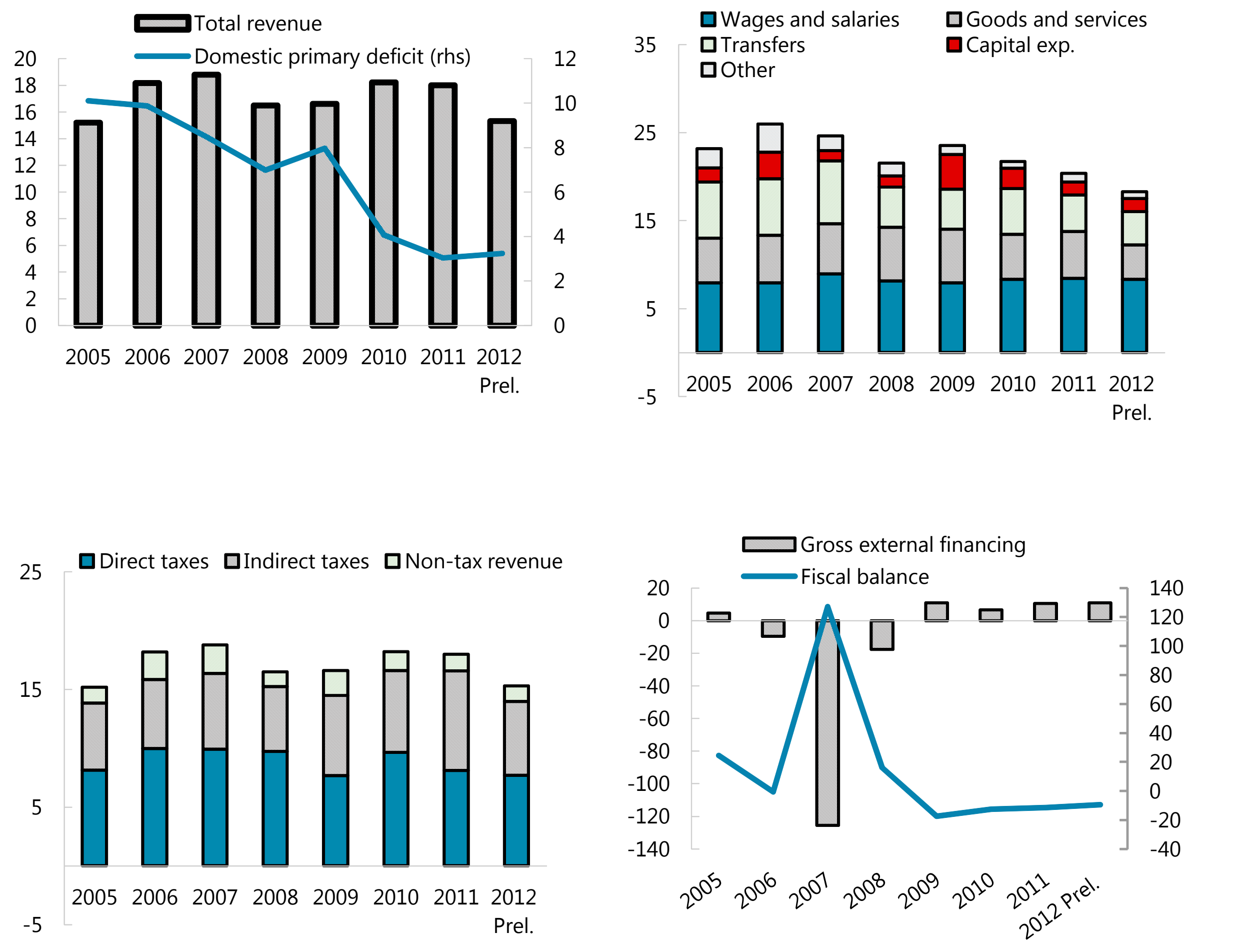
22. **In light of the good performance so far and the authorities' commitment to strong policies, staff support the authorities request for the completion of the first review under the three-year ECF arrangement and of the second disbursement in the amount of SDR 370,000**.

Figure 1. São Tomé and Príncipe: Recent Macroeconomic Developments



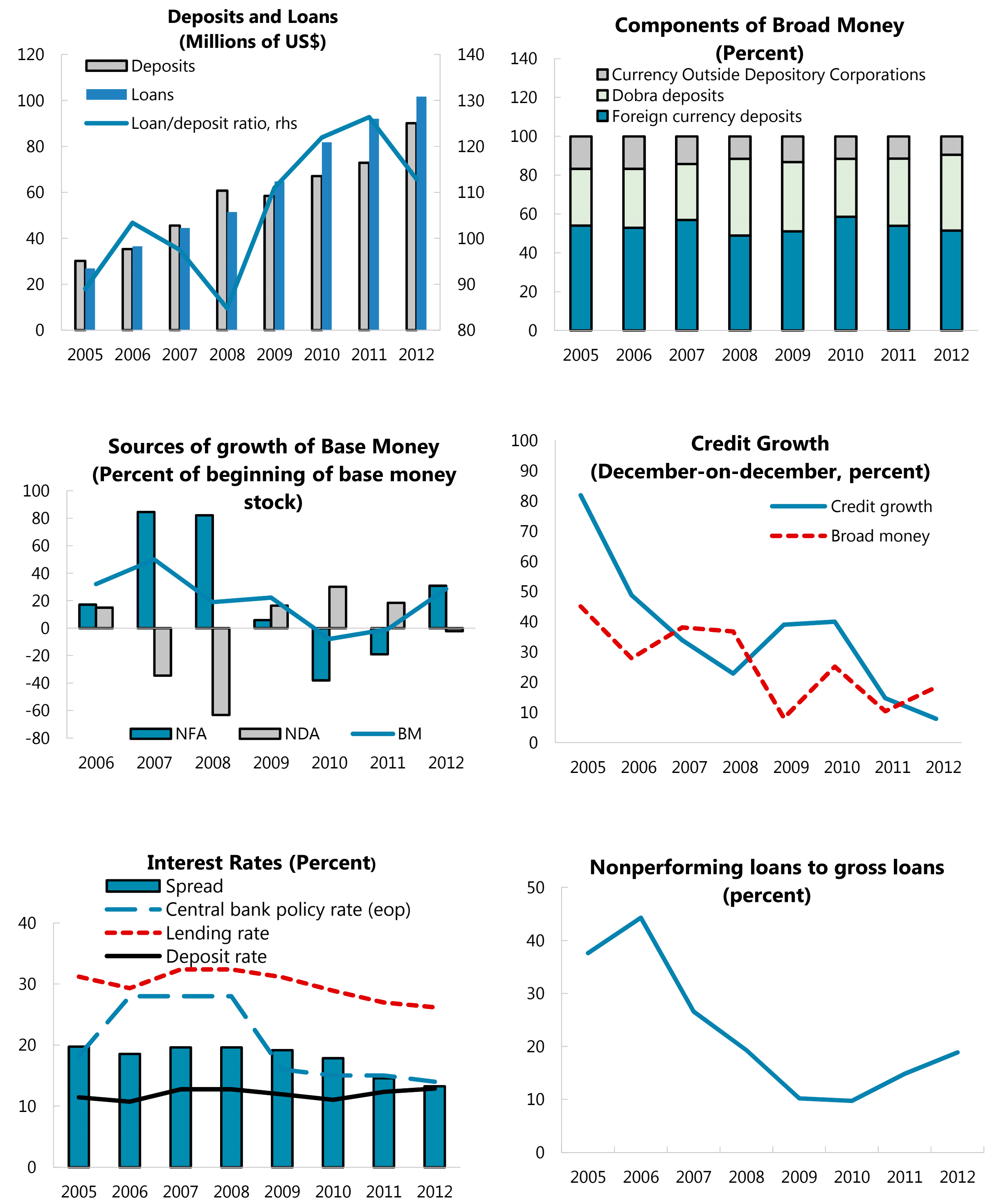
Sources: Data provided by the authorities and IMF staff estimates.

Figure 2. São Tomé and Príncipe: Fiscal Indicators 2005–12
(Percent of GDP)



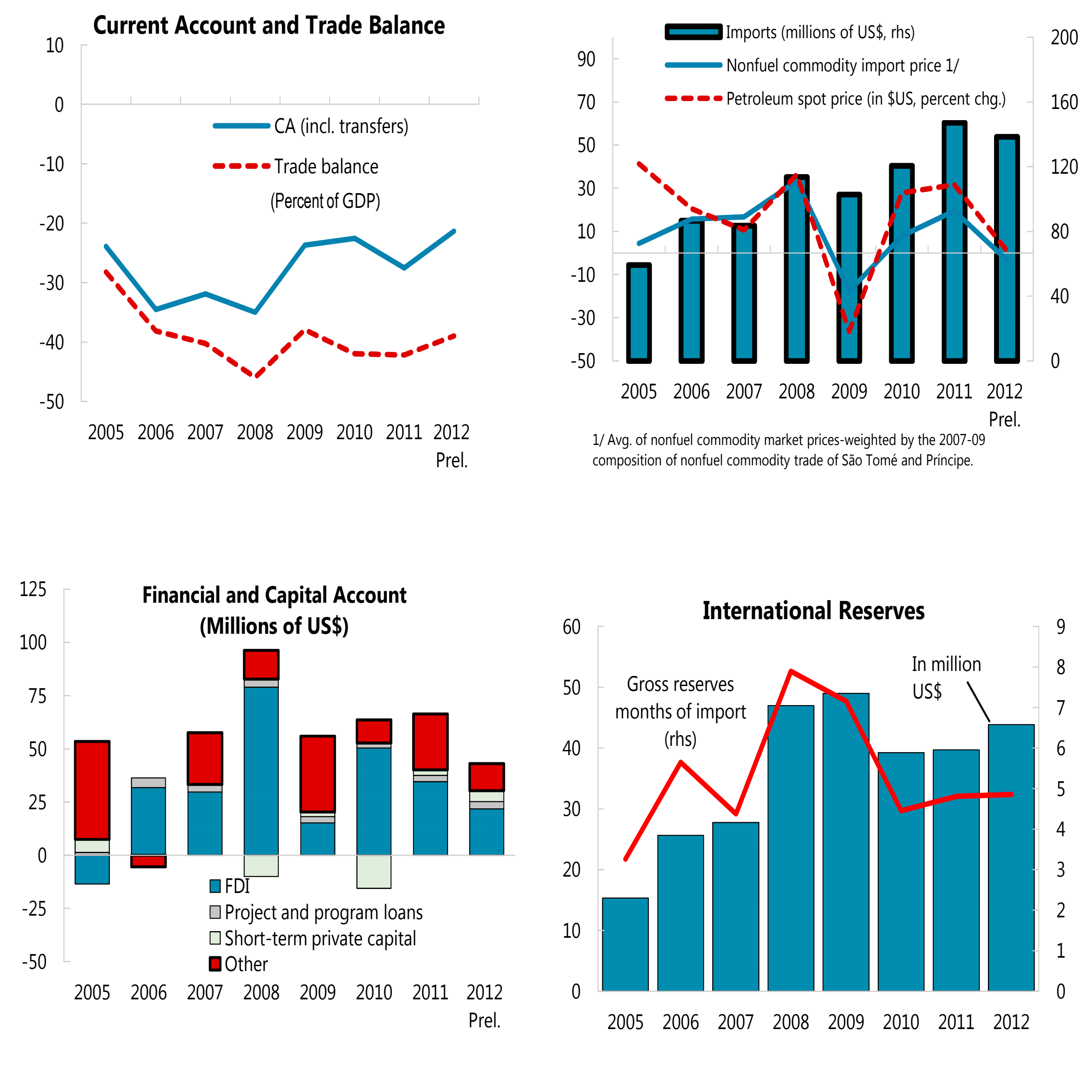
Sources: Data provided by the authorities and IMF staff estimates.

Figure 3. São Tomé and Príncipe: Money and Credit Developments 2005–12



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

Figure 4. São Tomé and Príncipe: External Sector 2005–12



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

Table 1. São Tomé and Príncipe: Selected Economic Indicators, 2008–15
(Annual change in percent, unless otherwise indicated)

	2008	2009	2010	2011	2012		2013		2014	2015
	Actual			Est.	Program	Preliminary	Program	Revised Program	Projections	
National income and prices										
GDP at constant prices	9.1	4.0	4.5	4.9	4.5	4.0	5.5	4.5	5.5	36.8
Non-oil GDP at constant prices	9.1	4.0	4.5	4.9	4.5	4.0	5.5	4.5	5.5	6.0
Consumer prices										
End of period	24.8	16.1	12.9	11.9	8.3	10.4	6.0	8.0	6.0	4.0
Period average	32.0	17.0	13.3	14.3	9.6	10.6	7.1	9.0	7.1	4.8
External trade										
Exports of goods and nonfactor services	29.6	12.0	28.7	16.2	12.3	0.7	8.7	10.6	15.3	356.1
Imports of goods and nonfactor services	36.0	-9.5	17.3	22.0	8.8	-5.9	-3.3	10.5	3.7	58.0
Exchange rate (dobras per US$; end of period) [1]	15,228	16,814	18,651	19,008	...	18,585	...	...	...	...
Real effective exchange rate (depreciation = -)	13.2	12.0	-2.8	11.7	...	5.0	...	...	...	...
Money and credit										
Base money	18.9	22.3	-7.9	-0.7	4.1	28.6	7.7	11.8	26.8	51.5
Broad money (M3)	36.8	8.2	25.1	10.4	8.8	18.4	15.2	14.7	25.9	50.5
Credit to the economy	22.8	39.1	40.0	14.7	5.2	7.9	7.3	9.4	10.4	32.7
Velocity (GDP to broad money; end of period)	2.6	2.8	2.6	2.8	3.0	2.7	3.0	2.7	2.5	2.3
Central bank reference interest rate (percent)	28.0	16.0	15.0	15.0	...	14.0	...	...	...	...
Bank lending rate (percent)	32.4	31.1	28.9	27.0	...	26.2	...	...	...	...
Bank deposit rate (percent)	12.8	11.9	11.0	12.4	...	12.9	...	...	...	...
Government finance (figures in percent of GDP)										
Total revenue, grants, and oil signature bonuses [2]	45.4	31.2	38.1	37.1	44.8	33.5	32.7	38.4	31.3	28.5
Of which: tax revenue	15.2	14.5	16.6	16.6	16.4	14.0	17.1	15.2	15.7	13.5
Nontax revenue	1.2	2.1	1.6	1.4	1.1	1.3	1.3	1.3	1.3	1.0
Grants	28.9	14.6	19.9	18.3	23.5	17.4	14.3	20.6	14.3	6.7
Oil signature bonuses	0.0	0.0	0.0	0.8	4.0	0.8	0.0	1.3	0.0	0.0
Oil revenues	...	...	...	...	...	...	...	...	...	7.3
Total expenditure and net lending	31.2	49.6	49.1	49.0	53.6	44.2	45.0	45.7	39.9	28.7
Of which: personnel costs	8.1	7.9	8.3	8.4	8.3	8.3	8.3	7.8	7.8	6.2
Nonwage noninterest current expenditure	12.1	11.7	11.1	10.5	9.8	8.5	9.8	9.6	9.6	7.5
Treasury funded capital expenditures	1.3	4.0	2.3	1.5	1.9	1.5	2.7	1.7	2.2	3.6
Donor funded capital expenditures	6.9	24.4	26.3	27.5	32.4	25.1	23.0	25.7	19.3	10.9
Domestic primary balance [3]	-7.0	-8.0	-4.1	-3.0	-3.2	-3.2	-3.1	-3.1	-3.0	-3.0
Overall balance (commitment basis)	14.2	-18.4	-11.0	-12.0	-8.8	-10.7	-12.3	-7.2	-8.6	-0.2
External sector										
Current account balance (percent of GDP)										
Including official transfers	-35.0	-23.7	-22.6	-27.5	-21.8	-21.4	-23.0	-16.6	-18.5	-10.1
Excluding official transfers	-52.5	-42.9	-46.1	-46.5	-46.0	-40.3	-38.0	-37.7	-33.3	-17.2
PV of external debt (percent of GDP)	10.5	18.1	33.7	33.6	35.5	35.6	33.9	32.5	30.9	22.2
External debt service (percent of exports) [4]	10.9	8.3	6.4	8.0	10.6	8.2	11.7	12.7	12.4	3.1
Export of goods and non-factor services (US$ millions)	17.5	19.6	25.3	29.3	32.6	29.6	35.5	32.7	37.7	171.9
Gross international reserves [5, 6, 7]										
Millions of U.S. dollars	47.0	49.0	39.3	39.7	28.8	43.8	31.8	37.3	37.1	38.8
Months of imports of goods and nonfactor services [8]	7.9	7.2	4.5	4.8	3.3	4.9	3.5	4.0	4.1	4.0
National Oil Account (US$ millions)	12.0	9.7	7.8	8.3	17.6	9.0	14.2	11.5	9.2	36.2
Memorandum Item										
GDP										
Billions of dobras	2,696	3,185	3,719	4,376	5,063	5,034	5,801	5,780	6,569	9,289
Millions of U.S. dollars	183.5	196.5	201.0	248.3	264.8	264.0	298.8	312.2	353.6	496.5

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 international reserves exclude the National Oil Account and commercial banks' foreign currency deposits at the BCSTP in order to meet reserve requirements and foreign currency deposits of commercial banks used application deposits for new licensing or for meeting capital requirements.

[6] For 2008 and 2009, includes the proceeds from the privatization of the government's share in the National Fuel 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 BCSTP to boost reserves.

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

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

Table 2. São Tomé and Príncipe: Financial Operations of the Central Government, 2008–15
(Billions of Dobra)

	2008	2009	2010	2011	2012		2013		2014	2015
	Actual				Program	Preliminary	Program	Revised Program	Projections	
Total revenue and grants	1225	995	1417	1622	2270	1685	1897	2222	2058	2651
Total revenue	444	529	677	787	882	771	1065	954	1118	1349
Tax revenue	411	462	617	726	828	704	990	878	1030	1255
Nontax revenue	33	67	60	61	54	67	75	77	87	94
Grants	780	466	739	799	1188	876	832	1190	941	623
Project grants	165	387	686	674	962	730	640	964	702	410
Nonproject grants	99	13	25	83	182	119	151	193	190	146
HIPC Initiative-related grants	516	66	28	43	43	28	42	32	49	67
Oil signature bonuses	0	0	0	35	201	38	0	78	0	0
Oil revenue	...	...	...	...	...	...	...	...	...	679
Total expenditure	841	1581	1824	2145	2716	2225	2610	2639	2620	2670
Domestic primary expenditure	633	783	829	920	1046	934	1243	1133	1318	1628
Current expenditure	569	646	737	851	946	875	1081	1030	1176	1297
Of which: personnel costs	219	252	309	369	418	419	479	449	510	573
Interest due	23	23	16	24	32	30	33	24	32	32
Goods and services	164	195	191	234	223	198	255	236	268	294
Transfers	124	144	192	181	237	190	272	287	327	358
Other current expenditure	39	32	28	43	36	39	41	34	39	41
Capital expenditure	219	902	1066	1266	1735	1336	1489	1581	1416	1345
Of which: financed by the Treasury	34	126	87	65	96	74	155	99	146	335
Financed by external sources	185	776	979	1201	1638	1262	1334	1483	1271	1010
HIPC Initiative-related social expenditure	53	33	21	29	35	14	41	28	28	28
Primary Balance	360	-609	-424	-547	-478	-570	-747	-441	-593	-50
Overall fiscal balance (commitment basis)	383	-586	-408	-524	-446	-540	-713	-417	-562	-19
Net change in arrears, float, and stat. discrepancies (reduction = -)	52	35	-58	25	0	64	0	0	0	0
External arrears	0	0	0	0	0	0	0	0	0	0
Domestic arrears	21	0	0	65	0	33	0	0	0	0
Float and statistical discrepancies	31	35	-58	-40	0	31	0	0	0	0
Overall fiscal balance (cash basis)	435	-552	-466	-499	-446	-476	-713	-417	-562	-19
Financing	-435	552	466	499	446	476	713	418	562	19
Net external	-473	348	246	461	629	558	645	461	519	523
Disbursements (projects)	20	388	293	528	676	532	694	518	569	600
Program financing (loans)	30	0	1	1	0	75	0	0	0	0
Net short-term loans	0	0	0	0	0	0	0	0	0	0
Scheduled amortization	-530	-75	-48	-68	-47	-49	-49	-57	-50	-76
Change in arrears (principal)	0	0	0	0	0	0	0	0	0	0
Bilateral rescheduling	7	2	0	0	0	0	0	0	0	0
HIPC flow savings	0	32	0	0	0	0	0	0	0	0
Net domestic	38	203	220	38	-183	-81	68	-43	43	-505
Net bank credit to the government	-272	170	220	38	-183	-81	68	-43	43	-505
Banking system credit (excluding National Oil Account)	-301	149	201	51	0	-66	0	0	0	-1
Of which: Privatisation account [1]	-309	196	13	0	0	0	0	0	0	0
National Oil Account	29	21	18	-13	-183	-15	68	-43	43	-504
Nonbank financing	310	33	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Domestic primary balance [2]	-188	-254	-152	-133	-164	-163	-178	-178	-200	-280
MDRI debt relief (flow in US$ million)	1.8	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatisation account balance (US$ million)	21.0	5.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Oil Account balance (US$ million, excl. transfers to budget)	12.0	9.7	7.8	8.3	17.6	9.0	14.2	11.5	9.2	36.2

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

[1] For 2008, includes the proceeds from the privatization of the government's share in the National Fuel 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 BCSTP to boost reserves.

[2] Exclude oil related revenues, grants, interest earned, scheduled interest payments, and foreign-financed capital outlays.

Table 3. São Tomé and Príncipe: Financial Operations of the Central Government, 2008–15
(Percent of GDP)

	2008	2009	2010	2011	2012		2013		2014	2015
	Actual				Program	Preliminary	Program	Revised Program	Projections	
Total revenue and grants	**45.4**	**31.2**	**38.1**	**37.1**	**44.8**	**33.5**	**32.7**	**38.4**	**31.3**	**28.5**
Total revenue	16.5	16.6	18.2	18.0	17.4	15.3	18.4	16.5	17.0	14.5
Tax revenue	15.2	14.5	16.6	16.6	16.4	14.0	17.1	15.2	15.7	13.5
Nontax revenue	1.2	2.1	1.6	1.4	1.1	1.3	1.3	1.3	1.3	1.0
Grants	28.9	14.6	19.9	18.3	23.5	17.4	14.3	20.6	14.3	6.7
Project grants	6.1	12.2	18.5	15.4	19.0	14.5	11.0	16.7	10.7	4.4
Nonproject grants	3.7	0.4	0.7	1.9	3.6	2.4	2.6	3.3	2.9	1.6
HIPC Initiative-related grants	19.1	2.1	0.7	1.0	0.8	0.5	0.7	0.6	0.7	0.7
Oil signature bonuses	0.0	0.0	0.0	0.8	4.0	0.8	0.0	1.3	0.0	0.0
Oil revenue	...	...	...	...	...	...	...	...	...	7.3
Total expenditure	**31.2**	**49.6**	**49.1**	**49.0**	**53.6**	**44.2**	**45.0**	**45.7**	**39.9**	**28.7**
Domestic primary expenditure	23.5	24.6	22.3	21.0	20.7	18.6	21.4	19.6	20.1	17.5
Current expenditure	21.1	20.3	19.8	19.4	18.7	17.4	18.6	17.8	17.9	14.0
Of which: personnel costs	8.1	7.9	8.3	8.4	8.3	8.3	8.3	7.8	7.8	6.2
Interest due	0.9	0.7	0.4	0.5	0.6	0.6	0.6	0.4	0.5	0.3
Goods and services	6.1	6.1	5.1	5.3	4.4	3.9	4.4	4.1	4.1	3.2
Transfers	4.6	4.5	5.2	4.1	4.7	3.8	4.7	5.0	5.0	3.9
Other current expenditure	1.4	1.0	0.8	1.0	0.7	0.8	0.7	0.6	0.6	0.4
Capital expenditure	8.1	28.3	28.7	28.9	34.3	26.5	25.7	27.4	21.6	14.5
Of which: financed by the Treasury	1.3	4.0	2.3	1.5	1.9	1.5	2.7	1.7	2.2	3.6
Financed by external sources	6.9	24.4	26.3	27.5	32.4	25.1	23.0	25.7	19.3	10.9
HIPC Initiative-related social expenditure	2.0	1.0	0.6	0.7	0.7	0.3	0.7	0.5	0.4	0.3
Primary Balance	13.3	-19.1	-11.4	-12.5	-9.4	-11.3	-12.9	-7.6	-9.0	-0.5
Overall fiscal balance (commitment basis)	14.2	-18.4	-11.0	-12.0	-8.8	-10.7	-12.3	-7.2	-8.6	-0.2
Net change in arrears, float, and stat. discrepancies (reduction = -)	1.9	1.1	-1.6	0.6	0.0	1.3	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	0.8	0.0	0.0	1.5	0.0	0.6	0.0	0.0	0.0	0.0
Float and statistical discrepancies	1.1	1.1	-1.6	-0.9	0.0	0.6	0.0	0.0	0.0	0.0
Overall fiscal balance (cash basis)	**16.1**	**-17.3**	**-12.5**	**-11.4**	**-8.8**	**-9.5**	**-12.3**	**-7.2**	**-8.6**	**-0.2**
Financing	**-16.1**	**17.3**	**12.5**	**11.4**	**8.8**	**9.5**	**12.3**	**7.2**	**8.6**	**0.2**
Net external	-17.6	10.9	6.6	10.5	12.4	11.1	11.1	8.0	7.9	5.6
Disbursements (projects)	0.7	12.2	7.9	12.1	13.4	10.6	12.0	9.0	8.7	6.5
Program financing (loans)	1.1	0.0	0.0	0.0	0.0	1.5	0.0	0.0	0.0	0.0
Net short-term loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-19.7	-2.3	-1.3	-1.6	-0.9	-1.0	-0.8	-1.0	-0.8	-0.8
Change in arrears (principal)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral rescheduling	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC flow savings	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic	1.4	6.4	5.9	0.9	-3.6	-1.6	1.2	-0.8	0.6	-5.4
Net bank credit to the government	-10.1	5.3	5.9	0.9	-3.6	-1.6	1.2	-0.8	0.6	-5.4
Banking system credit (excluding National Oil Account)	-11.2	4.7	5.4	1.2	0.0	-1.3	0.0	0.0	0.0	0.0
Of which: Privatisation account [1]	-11.5	6.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Oil Account	1.1	0.6	0.5	-0.3	-3.6	-0.3	1.2	-0.8	0.6	-5.4
Nonbank financing	11.5	1.1	0.0	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:										
Domestic primary balance [2]	-7.0	-8.0	-4.1	-3.0	-3.2	-3.2	-3.1	-3.1	-3.0	-3.0
MDRI debt relief (flow in US$ million)	1.8	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatisation account balance (US$ million)	21.0	5.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Oil Account balance (US$ million, excl. transfers to budget)	12.0	9.7	7.8	8.3	17.6	9.0	14.2	11.5	9.2	36.2
Nominal GDP (Billions of dobras)	2,696	3,185	3,719	4,376	5,063	5,034	5,801	5,780	6,569	9,289

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

[1] For 2008, includes the proceeds from the privatization of the government's share in the National Fuel 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 BCSTP to boost reserves.

[2] Exclude oil related revenues, grants, interest earned, scheduled interest payments, and foreign-financed capital outlays.

Table 4. São Tomé and Príncipe: Summary Accounts of the Central Bank, 2008–15
(Billions of Dobra)

	2008	2009	2010	2011	2012	2012	2013	2013	2014	2015
	Actual				Program	Actual	Program	Revised Program	Projections	
Net foreign assets	**1,199**	**1,228**	**998**	**891**	**1,070**	**1,062**	**1,054**	**975**	**969**	**1,574**
Claims on nonresidents	1,306	1,668	1,311	1,385	1,410	1,385	1,417	1,318	1,314	1,923
Official foreign reserves [1]	1,111	1,284	1,052	1,148	1,160	1,136	1,164	1,066	1,058	1,665
Other foreign assets	195	385	259	237	250	249	253	252	256	258
Liabilities to nonresidents	-107	-440	-313	-494	-340	-324	-363	-343	-345	-349
Short-term liabilities to nonresidents	-93	-91	-110	-287	-129	-121	-151	-141	-142	-145
Other foreign liabilities [1]	-15	-348	-203	-207	-211	-203	-212	-202	-203	-205
Net domestic assets	**-703**	**-622**	**-439**	**-337**	**-494**	**-349**	**-433**	**-178**	**41**	**-44**
Net domestic credit	-393	-211	14	70	-106	56	-38	14	58	-447
Claims on other depository corporations	1	1	9	1	1	41	1	41	41	41
Net claims on central government	-406	-232	-23	35	-145	-30	-80	-74	-33	-541
Claims on central government	126	157	258	262	266	233	267	233	234	236
Of which: use of SDRs/PRGF Facility [2]	*82*	*113*	*211*	*215*	*219*	*186*	*220*	*186*	*187*	*188*
Liabilities to central government	-532	-389	-281	-228	-411	-263	-347	-307	-267	-776
Ordinary deposits of central government	-89	-42	-33	-25	-25	-4	-25	-4	-4	-5
Counterpart funds	-22	-30	-43	-30	-30	-65	-30	-65	-65	-65
Foreign currency deposits	-420	-318	-205	-173	-356	-194	-292	-238	-198	-707
Of which: National oil account	*-183*	*-163*	*-145*	*-157*	*-340*	*-168*	*-276*	*-212*	*-172*	*-680*
Claims on other sectors	13	20	28	35	39	45	41	47	50	53
Other items (net)	-311	-411	-454	-407	-388	-405	-395	-192	-17	403
Base money	**496**	**606**	**558**	**554**	**577**	**712**	**621**	**797**	**1,010**	**1,530**
Currency issued	141	167	191	204	171	217	185	226	295	458
Bank reserves	355	439	367	350	405	495	436	571	715	1,072
Of which : domestic currency	143	144	297	268	320	399	344	462	578	864
Of which: foreign currency	212	295	71	82	85	97	92	108	137	208
Memorandum items:										
Gross international reserves (US$ millions) [3]	47.0	49.0	39.3	39.7	28.8	43.8	31.8	37.3	37.1	38.8
Months of imports of goods and nonfactor services [4]	7.9	7.2	4.5	4.8	3.3	4.9	3.5	4.0	4.1	4.0
Net international reserves (US$ millions) [5]	40.9	43.5	33.3	24.6	22.1	37.3	24.0	29.6	29.5	31.1
Months of imports of goods and nonfactor services [4]	6.9	6.4	3.8	3.0	2.5	4.1	2.6	3.2	3.3	3.2
National Oil Account (US$ millions)	12.0	9.7	7.8	8.3	17.6	9.0	14.2	11.5	9.2	36.2
Commercial banks reserves in foreign currency (US$ millions)	13.9	17.5	3.8	4.3	4.4	5.2	4.7	5.9	7.4	11.1
Guaranteed deposits (US$ millions)	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Base money (annual percent change)	18.9	22.3	-7.9	-0.7	4.1	28.6	7.7	11.8	26.8	51.5

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

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

[2] The December 2012 figure reflects a small correction in the recording of IMF loans.

[3] Gross international reserves exclude the National Oil Account and foreign currency deposits of commercial banks used application deposits for new licensing or for meeting capital requirements.

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

[5] Net international reserves exclude the National Oil Account and commercial banks' foreign currency deposits at the BCSTP in order to meet reserve requirements and foreign currency deposits of commercial banks used application deposits for new licensing or for meeting capital requirements.

Table 5. São Tomé and Príncipe: Monetary Survey, 2008–15
(Billions of Dobra)

	2008	2009	2010	2011	2012	2012	2013	2013	2014	2015
	Actual				Program	Actual	Program	Revised Program	Projections	
Net foreign assets	**1,418**	**1,279**	**1,364**	**1,263**	**1,365**	**1,487**	**1,328**	**1,409**	**1,424**	**2,050**
Net foreign assets of the BCSTP	1,199	1,228	998	891	1,070	1,062	1,054	975	969	1,574
Net foreign assets of other depository corporations	219	50	367	372	295	426	275	434	455	476
Net domestic assets	**-373**	**-148**	**50**	**299**	**296**	**362**	**584**	**712**	**1,247**	**1,969**
Net domestic credit	334	810	1,466	1,728	1,635	1,765	1,833	1,893	2,146	2,380
Net claims on central government	-450	-280	-60	-22	-212	-123	-149	-172	-136	-648
Claims on central government [1]	127	158	261	267	267	236	268	236	237	238
Liabilities to central government	-577	-438	-321	-290	-479	-359	-417	-408	-372	-886
Budgetary deposits	-89	-42	-33	-25	-25	-4	-25	-4	-4	-5
Counterpart funds	-22	-30	-43	-30	-30	-65	-30	-65	-65	-65
Foreign currency deposits	-465	-366	-245	-235	-424	-290	-363	-338	-303	-816
Of which: National Oil Account	-183	-163	-145	-157	-340	-168	-276	-212	-172	-680
Claims on other sectors	784	1,090	1,526	1,750	1,847	1,889	1,982	2,065	2,281	3,028
Of which: claims in foreign currency	572	739	1,099	1,114	1,098	1,143	1,178	1,150	1,227	1,577
(In Millions of $US)	38	44	59	59	57	62	61	62	66	84
Other items (net)	-707	-958	-1,415	-1,429	-1,339	-1,404	-1,249	-1,181	-899	-411
Broad money (M3)	**1,045**	**1,130**	**1,415**	**1,562**	**1,661**	**1,849**	**1,913**	**2,121**	**2,671**	**4,018**
Local currency liabilities included in broad money (M2)	534	553	585	719	755	897	869	978	1,238	1,871
Money (M1)	429	437	562	670	719	718	828	836	1,059	1,603
Currency outside depository corporations	120	149	163	177	196	176	225	192	252	394
Transferable deposits in dobra	309	288	399	493	523	542	603	644	807	1,210
Other deposits in dobra	105	116	23	48	36	180	41	143	179	268
Foreign currency deposits	511	578	829	843	906	952	1,043	1,143	1,433	2,147
Memorandum items:										
Velocity (ratio of GDP to M3; end of period)	2.6	2.8	2.6	2.8	3.0	2.7	3.0	2.7	2.5	2.3
Money multiplier (M3/M0)	2.1	1.9	2.5	2.8	2.9	2.6	3.1	2.7	2.6	2.6
Base money (12-month growth rate)	18.9	22.3	-7.9	-0.7	4.1	28.6	7.7	11.8	26.8	51.5
Claims on other resident sectors (12-month growth rate)	22.8	39.1	40.0	14.7	5.2	7.9	7.3	9.4	10.4	32.7
M3 (12-month growth rate) [2]	36.8	8.2	25.1	10.4	8.8	18.4	15.2	14.7	25.9	50.5

Sources: São Tomé and Príncipe authorities and IMF staff estimates and projections.
[1] The December 2012 figure reflects a small correction in the recording of IMF loans.
[2] Revised commercial banks monetary data beginning in Jan. 2010 is not comparable with historical series.

Table 6. São Tomé and Príncipe: Financial Soundness Indicators, 2008–12
(in percent)

	2008	2009	2010	2011	2012	2012	2012	2012
	December	December	December	December	March	June	September	December
Capital Adequacy								
Regulatory capital to risk-weighted assets								
Percentage of banks greater or equal to 10 percent	71.40	85.70	85.70	100.00	100.00	100.00	100.00	100.00
Percentage of banks below 10 and above 6 percent minimum			...	...	...	...	...	...
Percentage of banks below 6 percent minimum	28.60	14.30	14.30					
Capital (net worth) to assets	24.70	23.20	27.90	28.00	24.99	22.56	25.80	24.39
Deposits with banks below 6%			...	...	...	...	...	...
Asset quality								
Foreign exchange loans to total loans	74.20	73.00	77.50	67.08	64.16	62.70	60.16	57.91
Nonperforming loans	19.30	10.20	9.73	14.83	20.92	19.72	20.11	18.88
Provision as percent of past-due loans	10.90	24.00	42.20	46.05	37.04	38.11	37.82	39.43
Earnings and profitability								
Net profit (before tax)/net income	-13.10	-1.20						
Return on assets	-1.00	0.10	0.70	0.07	-0.05	0.26	-0.24	-0.04
Return on equity	-3.70		1.80	0.23	-0.20	1.16	-1.01	-0.16
Expense(w/amortization & provisions)/income	109.30	98.20	98.20	97.48	98.99	97.82	98.66	97.84
Liquidity								
Liquid assets/total assets	19.70	18.40	21.90	21.43	27.96	34.73	37.14	36.25
Liquid assets/short term liabilities			36.10	36.18	44.15	52.51	56.71	55.89
Loan/total liabilities			109.73	103.04	117.62	135.38	136.71	135.82
Foreign exchange liabilities/total liabilities	71.00	73.10	57.40	59.22	60.62	61.76	60.80	58.46
Loan/deposits			104.20	114.15	109.24	100.45	104.87	102.11
Sensitivity to market risk								
Foreign exchange liabilities to shareholders funds	215.70	274.00	203.80	112.29	118.96	144.04	149.53	141.06

Source: São Tomé and Príncipe Authorities

Table 7. São Tomé and Príncipe: Balance of Payments, 2008–15
(Millions of U.S. Dollars)

	2008	2009	2010	2011	2012	2012	2013	2013	2014	2015
	Actual				Program	Preliminary	Program	Revised Program	Projections	
Trade balance	**-84.3**	**-74.6**	**-84.3**	**-104.7**	**-105.4**	**-102.9**	**-105.0**	**-110.9**	**-116.7**	**-64.8**
Exports, f.o.b.	7.8	9.2	11.9	10.9	11.5	12.2	10.0	11.8	12.3	125.3
Of which: oil	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	111.9
Cocoa	5.0	5.4	5.4	5.3	4.6	5.3	4.5	5.1	5.4	5.4
Re-export	2.2	3.0	5.2	5.1	6.4	5.8	5.0	5.6	5.6	5.7
Imports, f.o.b.	-92.2	-83.8	-96.2	-115.7	-116.8	-115.1	-115.0	-122.7	-129.0	-190.1
Of which : food	-24.2	-29.0	-25.5	-33.6	-32.6	-33.7	-32.8	-34.4	-34.1	-35.5
Petroleum products	-22.1	-14.7	-18.4	-25.2	-25.8	-25.9	-25.2	-25.9	-26.7	-27.6
Investment goods	-35.3	-30.0	-36.0	-40.2	-44.1	-35.2	-40.9	-39.2	-42.9	-37.9
Oil sector related investment goods	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-67.9
Services and income (net)	**-11.8**	**-8.9**	**-11.3**	**-13.4**	**-19.4**	**-8.3**	**-11.7**	**-11.7**	**-6.1**	**-25.5**
Exports of nonfactor services	9.7	10.4	13.4	18.4	21.2	17.4	25.4	20.9	25.4	46.6
Of which : travel and tourism	7.7	8.3	11.1	15.6	17.7	14.7	21.8	18.1	22.2	29.7
Imports of nonfactor services	-21.4	-19.0	-24.3	-31.4	-41.3	-23.4	-38.0	-30.2	-29.6	-60.6
Factor services (net)	-0.1	-0.3	-0.4	-0.4	0.8	-2.3	0.9	-2.3	-1.9	-11.6
Of which: oil related	0.4	0.5	0.1	0.3	0.0	0.0	0.0	0.0	0.1	-9.7
Private transfers (net)	**-0.2**	**-0.9**	**3.0**	**2.8**	**2.9**	**4.9**	**3.0**	**5.0**	**5.1**	**5.2**
Official transfers (net)	**32.2**	**37.8**	**47.3**	**47.0**	**64.1**	**49.9**	**44.9**	**65.9**	**52.3**	**35.0**
Of which : project grants	29.5	32.4	41.3	39.9	50.3	41.3	32.9	53.8	40.4	25.5
HIPC Initiative-related grants	4.2	6.3	1.2	3.0	2.2	2.3	2.1	1.7	2.6	3.6
Current account balance										
Including official transfers	-64.1	-46.5	-45.4	-68.3	-57.7	-56.4	-68.8	-51.7	-65.4	-50.2
Excluding official transfers	-96.4	-84.4	-92.6	-115.3	-121.8	-106.3	-113.7	-117.6	-117.7	-85.2
Capital and financial account balance	**118.5**	**66.2**	**59.3**	**76.5**	**65.3**	**66.7**	**68.3**	**47.8**	**64.4**	**82.4**
Capital transfer [1]	26.3	7.5	0.3	6.6	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	92.2	58.7	59.0	69.9	65.3	66.7	68.3	47.8	64.4	82.4
Direct foreign investment	79.0	15.3	50.5	34.9	22.5	22.2	25.0	19.8	22.4	31.4
Of which: Oil signature bonuses	0.0	0.0	0.0	2.0	10.4	2.0	0.0	4.2	0.0	0.0
Petroleum related investment	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	102.9
Recovery of oil capital expense	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	-102.9
Portfolio Investment (net)	0.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	13.1	44.9	8.4	35.0	42.8	44.5	43.3	28.0	41.9	51.0
Assets	32.1	10.0	11.2	9.8	0.0	23.3	0.0	23.7	24.0	24.4
Public sector (net)	-9.0	32.8	12.8	22.6	15.7	16.0	4.6	3.0	7.2	-0.6
Project loans	2.1	28.0	17.8	27.7	3.3	20.1	2.4	8.4	7.5	1.0
Program loans	2.7	0.8	4.2	0.9	0.0	1.4	0.0	0.0	4.5	4.5
Amortization	-13.7	-4.6	-5.7	-6.3	-2.6	-4.9	-2.7	-4.8	-4.7	-6.1
Other investment	-0.1	8.5	-3.6	0.2	14.9	-0.6	4.9	-0.5	-0.2	-0.1
Of which : transfers to JDA	-0.1	-0.2	-0.1	-0.3	-0.5	-0.4	-0.6	-0.4	-0.4	-0.4
Private sector (net)	-10.0	2.1	-15.5	2.6	27.1	5.1	38.7	1.3	10.7	27.2
Commercial banks	-2.3	11.4	-16.7	0.1	-1.8	3.4	-1.1	0.5	0.9	0.9
Short-term private capital	-7.7	-9.3	1.1	2.5	28.9	1.8	39.8	0.7	9.8	26.3
Errors and omissions	**-33.0**	**0.3**	**-26.9**	**-3.1**	**0.0**	**-11.5**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**21.4**	**20.0**	**-13.0**	**5.0**	**7.6**	**-1.2**	**-0.6**	**-3.9**	**-1.0**	**32.2**
Financing	-21.4	-19.9	13.0	-5.0	-7.6	1.2	0.6	3.9	1.0	-32.2
Change in official reserves, excl. NOA (increase= -)	-24.8	-12.6	10.5	-4.5	1.2	1.4	-3.3	5.8	-1.4	-5.2
Use of Fund resources (net)	0.7	0.5	0.6	0.0	0.6	0.6	0.5	0.5	0.2	0.1
Purchases	0.7	0.5	0.6	0.0	0.6	0.6	1.1	1.1	1.1	1.1
Repurchases (incl. MDRI repayment)	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	-0.6	-1.0	-1.1
National Oil Account (increase = -)	2.7	2.4	1.9	-0.5	-9.3	-0.8	3.4	-2.4	2.2	-27.0
Exceptional financing [2]	0.0	-10.2	0.0	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:										
Current account balance (percent of GDP)										
Before official transfers	-52.5	-42.9	-46.1	-46.5	-46.0	-40.3	-38.0	-37.7	-33.3	-17.2
After official transfers	-35.0	-23.7	-22.6	-27.5	-21.8	-21.4	-23.0	-16.6	-18.5	-10.1
Debt service ratio (percent of exports) [3]	10.9	8.3	6.4	8.0	10.6	8.2	11.7	12.7	12.4	3.1
Gross international reserves [4, 5]										
Millions of U.S. dollars	47.0	49.0	39.3	39.7	28.8	43.8	31.8	37.3	37.1	38.8
Months of imports of goods and nonfactor services [6]	7.9	7.2	4.5	4.8	3.3	4.9	3.5	4.0	4.1	4.0

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

[1] Includes MDRI debt relief.

[2] For 2009, includes new allocation of SDR 6.5 million.

[3] In percent of exports of goods and nonfactor services.

[4] Gross international reserves exclude the National Oil Account and commercial banks' foreign currency deposits at the BCSTP in order to meet reserve requirements and foreign currency deposits of commercial banks used application deposits for new licensing or for meeting capital requirements.

[5] For 2008, includes the proceeds from the privatization of the government's share in the National Fuel 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 BCSTP to boost reserves.

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

Table 8. São Tomé and Príncipe: Balance of Payments, 2008–15
(Percent of GDP)

	2008	2009	2010	2011	2012	2012	2013	2013	2014	2015
	Actual				Program	Preliminary	Program	Revised Program	Projections	
Trade balance	**-46.0**	**-37.9**	**-41.9**	**-42.2**	**-39.8**	**-39.0**	**-35.1**	**-35.5**	**-33.0**	**-13.1**
Exports, f.o.b.	4.3	4.7	5.9	4.4	4.3	4.6	3.4	3.8	3.5	25.2
Of which: oil	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.5
Cocoa	2.7	2.8	2.7	2.1	1.7	2.0	1.5	1.6	1.5	1.1
Re-export	1.2	1.5	2.6	2.0	2.4	2.2	1.7	1.8	1.6	1.1
Imports, f.o.b.	-50.2	-42.6	-47.8	-46.6	-44.1	-43.6	-38.5	-39.3	-36.5	-38.3
Of which : food	-13.2	-14.8	-12.7	-13.5	-12.3	-12.8	-11.0	-11.0	-9.6	-7.1
Petroleum products	-12.1	-7.5	-9.1	-10.2	-9.7	-9.8	-8.4	-8.3	-7.6	-5.6
Investment goods	-19.2	-15.2	-17.9	-16.2	-16.7	-13.3	-13.7	-12.6	-12.1	-7.6
Oil sector related investment goods	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-13.7
Services and income (net)	**-6.4**	**-4.5**	**-5.6**	**-5.4**	**-7.3**	**-3.1**	**-3.9**	**-3.7**	**-1.7**	**-5.1**
Exports of nonfactor services	5.3	5.3	6.7	7.4	8.0	6.6	8.5	6.7	7.2	9.4
Of which : travel and tourism	4.2	4.2	5.5	6.3	6.7	5.6	7.3	5.8	6.3	6.0
Imports of nonfactor services	-11.7	-9.7	-12.1	-12.6	-15.6	-8.9	-12.7	-9.7	-8.4	-12.2
Factor services (net)	0.0	-0.1	-0.2	-0.2	0.3	-0.9	0.3	-0.7	-0.5	-2.3
Of which: oil related	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	-2.0
Private transfers (net)	**-0.1**	**-0.5**	**1.5**	**1.1**	**1.1**	**1.9**	**1.0**	**1.6**	**1.4**	**1.0**
Official transfers (net)	**17.6**	**19.2**	**23.5**	**18.9**	**24.2**	**18.9**	**15.0**	**21.1**	**14.8**	**7.0**
Of which : project grants	16.1	16.5	20.6	16.1	19.0	15.6	11.0	17.2	11.4	5.1
HIPC Initiative-related grants	2.3	3.2	0.6	1.2	0.8	0.9	0.7	0.6	0.7	0.7
Current account balance										
Including official transfers	-35.0	-23.7	-22.6	-27.5	-21.8	-21.4	-23.0	-16.6	-18.5	-10.1
Excluding official transfers	-52.5	-42.9	-46.1	-46.5	-46.0	-40.3	-38.0	-37.7	-33.3	-17.2
Capital and financial account balance	**64.6**	**33.7**	**29.5**	**30.8**	**24.7**	**25.2**	**22.8**	**15.3**	**18.2**	**16.6**
Capital transfer [1]	14.3	3.8	0.1	2.6	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	50.2	29.9	29.3	28.2	24.7	25.3	22.8	15.3	18.2	16.6
Direct foreign investment	43.1	7.8	25.1	14.1	8.5	8.4	8.4	6.3	6.3	6.3
Of which: Oil signature bonuses	0.0	0.0	0.0	0.8	3.9	0.8	0.0	1.3	0.0	0.0
Petroleum related investment	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	20.7
Recovery of oil capital expense	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	-20.7
Portfolio Investment (net)	0.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	7.2	22.8	4.2	14.1	16.2	16.8	14.5	9.0	11.9	10.3
Assets	17.5	5.1	5.6	3.9	0.0	8.8	0.0	7.6	6.8	4.9
Public sector (net)	-4.9	16.7	6.4	9.1	5.9	6.1	1.5	1.0	2.0	-0.1
Project loans	1.1	14.2	8.9	11.2	1.3	7.6	0.8	2.7	2.1	0.2
Program loans	1.4	0.4	2.1	0.4	0.0	0.5	0.0	0.0	1.3	0.9
Amortization	-7.4	-2.3	-2.8	-2.5	-1.0	-1.9	-0.9	-1.6	-1.3	-1.2
Other investment	0.0	4.3	-1.8	0.1	5.6	-0.2	1.6	-0.2	0.0	0.0
Of which : transfers to JDA	-0.1	-0.1	0.0	-0.1	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
Private sector (net)	-5.5	1.1	-7.7	1.1	10.2	1.9	12.9	0.4	3.0	5.5
Commercial banks	-1.3	5.8	-8.3	0.0	-0.7	1.3	-0.4	0.2	0.3	0.2
Short-term private capital	-4.2	-4.7	0.6	1.0	10.9	0.7	13.3	0.2	2.8	5.3
Errors and omissions	**-18.0**	**0.1**	**-13.4**	**-1.2**	**0.0**	**-4.4**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**11.7**	**10.2**	**-6.5**	**2.0**	**2.9**	**-0.5**	**-0.2**	**-1.3**	**-0.3**	**6.5**
Financing	-11.7	-10.1	6.5	-2.0	-2.9	0.5	0.2	1.3	0.3	-6.5
Change in official reserves, excl. NOA (increase= -)	-13.5	-6.4	5.2	-1.8	0.4	0.5	-1.1	1.9	-0.4	-1.1
Use of Fund resources (net)	0.4	0.3	0.3	0.0	0.2	0.2	0.2	0.2	0.0	0.0
Purchases	0.4	0.3	0.3	0.0	0.2	0.2	0.4	0.4	0.3	0.2
Repurchases (incl. MDRI repayment)	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.2	-0.3	-0.2
National Oil Account (increase = -)	1.5	1.2	0.9	-0.2	-3.5	-0.3	1.1	-0.8	0.6	-5.4
Exceptional financing [2]	0.0	-5.2	0.0	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:										
Debt service ratio (percent of exports) [3]	10.9	8.3	6.4	8.0	10.6	8.2	11.7	12.7	12.4	3.1
Gross international reserves [4, 5]										
Millions of U.S. dollars	47.0	49.0	39.3	39.7	28.8	43.8	31.8	37.3	37.1	38.8
Months of imports of goods and nonfactor services [6]	7.9	7.2	4.5	4.8	3.3	4.9	3.5	4.0	4.1	4.0

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

[1] Includes MDRI debt relief.

[2] For 2009, includes new allocation of SDR 6.5 million.

[3] In percent of exports of goods and nonfactor services.

[4] Gross international reserves exclude the National Oil Account and commercial banks' foreign currency deposits at the BCSTP in order to meet reserve requirements and foreign currency deposits of commercial banks used application deposits for new licensing or for meeting capital requirements.

[5] For 2008, includes the proceeds from the privatization of the government's share in the National Fuel 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 BCSTP to boost reserves.

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

Table 9. São Tomé and Príncipe: External Financing Requirements and Sources, 2008–15
(Millions of U.S. Dollars)

	2008	2009	2010	2011	2012	2012	2013	2013	2014	2015
	Actual				Program	Preliminary	Program	Revised Program	Projections	
Gross financing requirements	**-134.9**	**-93.0**	**-91.4**	**-126.0**	**-108.4**	**-110.4**	**-115.5**	**-117.7**	**-124.8**	**-97.7**
Current account, excluding official transfers	-96.4	-84.4	-92.6	-115.3	-121.8	-106.3	-113.7	-117.6	-117.7	-85.2
Exports, f.o.b.	7.8	9.2	11.9	10.9	11.5	12.2	10.0	11.8	12.3	125.3
Imports, f.o.b.	-92.2	-83.8	-96.2	-115.7	-116.8	-115.1	-115.0	-122.7	-129.0	-190.1
Services and income (net)	-11.8	-8.9	-11.3	-13.4	-19.4	-8.3	-11.7	-11.7	-6.1	-25.5
Private transfers	-0.2	-0.9	3.0	2.8	2.9	4.9	3.0	5.0	5.1	5.2
Financial account	-13.7	3.9	-9.2	-6.1	12.3	-5.5	1.6	-6.0	-5.8	-7.2
Scheduled amortization [1]	-13.7	-4.6	-5.7	-6.3	-2.6	-4.9	-2.7	-4.8	-4.7	-6.1
IMF repayments [2]	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	-0.6	-1.0	-1.1
Other public sector flows (net)	-0.1	8.5	-3.6	0.2	14.9	-0.6	4.9	-0.5	-0.2	-0.1
Change in external reserves (-ve = increase) [3]	-24.8	-12.6	10.5	-4.5	1.2	1.4	-3.3	5.8	-1.4	-5.2
Available funding	**134.9**	**93.1**	**91.4**	**126.0**	**108.4**	**110.4**	**115.5**	**117.7**	**124.8**	**97.7**
National Oil Fund (net)	2.7	2.4	1.9	1.5	1.1	1.2	3.4	1.8	2.2	-27.0
Oil signature bonuses	0.0	0.0	0.0	2.0	10.4	2.0	0.0	4.2	0.0	0.0
Saving (-ve = accumulation of oil reserve fund)	2.7	2.4	1.9	-0.5	-9.3	-0.8	3.4	-2.4	2.2	-27.0
Expected disbursements	63.3	74.1	69.6	82.2	67.5	71.4	47.2	74.3	64.3	40.5
Multilateral HIPC interim assistance	4.2	6.3	1.2	3.0	2.2	2.3	2.1	1.7	2.6	3.6
Capital transfers [1, 2]	26.3	7.5	0.3	6.6	0.0	0.0	0.0	0.0	0.0	0.0
Grants [4]	28.1	31.5	46.1	44.0	61.9	47.6	42.7	64.2	49.7	31.4
Concessional loans	4.7	28.8	22.0	28.7	3.3	21.5	2.4	8.4	12.0	5.6
Project loans	2.1	28.0	17.8	27.7	3.3	20.1	2.4	8.4	7.5	1.0
Program loans	2.7	0.8	4.2	0.9	0.0	1.4	0.0	0.0	4.5	4.5
Private sector (net)	68.2	26.3	19.3	42.3	39.3	37.2	63.7	40.5	57.1	83.0
IMF [3]	0.7	0.5	0.6	0.0	0.6	0.6	1.1	1.1	1.1	1.1
Financing gap	0.0	-10.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing [3]	0.0	-10.2	0.0	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 MDRI debt relief.

[2] Includes MDRI assistance from the IMF as a stock of debt reduction.

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

[4] Includes revenue from Nigeria oil program.

Table 10. São Tomé and Príncipe: Schedule of Disbursements Under the ECF Arrangement, 2012–15

Date	Disbursement conditions	SDR Amount	Percent of Quota
07/20/12	Board approval of arrangement.	370,000	5
04/15/13	Observance of PCs for end-December 2012 and completion of the first review.	370,000	5
10/15/13	Observance of PCs for end-June 2013 and completion of the second review.	370,000	5
04/15/14	Observance of PCs for end-December 2013 and completion of the third review.	370,000	5
10/15/14	Observance of PCs for end-June 2014 and completion of the fourth review.	370,000	5
04/15/15	Observance of PCs for end-December 2014 and completion of the fifth review.	370,000	5
06/15/15	Observance of PCs for end-March 2015 and completion of the sixth review	370,000	5
	Total	2,590,000	35

Source: IMF

Appendix. Letter of Intent

São Tomé, May 29, 2013

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Lagarde:

On July 20, 2012, the Executive Board of the International Monetary Fund (IMF) approved a new three-year arrangement under the Extended Credit Facility (ECF) in favor of the Democratic Republic of São Tomé and Príncipe. This arrangement intends to support the Government's medium-term efforts to strengthen macroeconomic stability, foster sustainable and inclusive growth, and reduce poverty. The Government recently discussed the first review under this arrangement with an IMF staff mission. The mission focused on program implementation through end-December 2012, as well as on the outlook and the fiscal and financial measures to be implemented during 2013.

Despite a challenging international environment, particularly in Europe, overall program implementation through end-December 2012 was good. All performance criteria were observed, and there was good progress on structural reforms. Negotiations between the Government, the Water and Electricity Company, EMAE, and the National Fuel Company, ENCO, on a lasting plan to clear EMAE's arrears to ENCO and to avoid a recurrence of this problem in the future have been more difficult than expected and are likely to be completed only by end-September 2013.

The Government is fully committed to build on these achievements in 2013. In this connection, fiscal policy will be set to support macroeconomic stability and ongoing efforts to lower inflation, by ensuring that the domestic primary deficit is in line with available non-debt-creating financing. Given the critical role of liquidity management and banking supervision in financial stability, the Government intends to ensure that the central bank remain independent to conduct its highly technical work.

The Government believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the program's objectives, but it will take additional measures, if needed, to safeguard those objectives. São Tomé and Príncipe will consult with the IMF on the adoption of these measures, and in advance of any revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. The Government will furnish the IMF with the necessary data for monitoring purposes on a timely basis. That information as well as arrangements for monitoring program implementation and the definitions of indicative targets and performance criteria are detailed in the Technical Memorandum of Understanding (TMU), which is also attached to this letter. During the program period, the Government will not introduce or intensify any exchange rate restrictions or multiple currency practice that are inconsistent with Article VIII of the IMF's Articles of Agreement, or introduce or intensify import restrictions for balance of payments purposes.

In light of the appreciable progress in implementing the program supported by the ECF arrangement, the Government is requesting the completion of the first review as well as the second disbursement of SDR 0.37 million under this arrangement.

The Government wishes to make this letter available to the public, along with the attached MEFP and TMU, as well as the IMF staff report on the first review. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval.

Yours truly,

/s/	/s/
Mr. Hélio Almeida	Ms. Maria do Carmo Silveira
Minister of Planning and Finance	Governor of the Central Bank of São Tomé and Príncipe

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

Attachment I. Memorandum of Economic and Financial Policies for 2013

I. INTRODUCTION

1. **A coalition government has been in office since late 2012**. The previous minority government of the ADI party, which took office in August 2010, was censured by the National Assembly on November 26, 2012, and formally dismissed by President Pinto da Costa on December 4, 2012. A new government consisting of the other three political parties with representation in the National Assembly was formed under the leadership of Prime Minister Gabriel Costa and sworn in by the President on December 12, 2012.

2. **The new government is committed to pursuing structural reforms and maintaining fiscal prudence and financial stability in line with the policies outlined in the ECF-supported program approved by the IMF Executive Board in July 2012**. The government's policies aim to create the foundations for economic development, focusing on job creation and poverty alleviation through sustainable and inclusive growth. In this connection, fiscal policy will be set to support macroeconomic stability and ongoing efforts to lower inflation by ensuring that the domestic primary deficit is in line with available non-debt creating financing. Given the critical role of liquidity management and banking supervision in macroeconomic and financial stability, the government intends to ensure that the central bank remain independent to conduct its highly technical work.

II. RECENT ECONOMIC DEVELOPMENTS AND NEAR-TERM OUTLOOK

3. **The economy remains vulnerable to shocks**. Growth decelerated to 4 percent in 2012—slightly lower than the programmed 4½ percent—reflecting persistent global uncertainties, particularly in Europe, which contributed to a slowdown in both foreign direct investment and the execution of the foreign-financed public investment program. After an initial decline to 8 percent in April 2012, its lowest level in a decade, inflation rose in the following months due to unseasonably heavy rains that disrupted the supply of perishables, reaching 10½ percent at end-2012—higher than the program's 8¼ percent. Credit growth came almost to a halt in 2012 as household debt levels reached record highs, and banks increased provisions for non-performing loans. The external current account deficit improved slightly in 2012 as weaker economic activity led to lower import growth, which more than offset rising international food and fuel prices.

4. **The government contained public spending to offset a revenue shortfall**. Revenue underperformance stemmed mainly from lower-than-projected customs duties and consumption and profit taxes given the weakening economy, and the accumulation of fuel tax arrears by the National Fuel Company (ENCO). The government contained domestic primary expenditures, primarily through a lower execution of transfers and domestically-financed capital expenditure, while lower goods and services outlays were largely related to unpaid utility bills. The domestic primary deficit reached 3.2 percent of GDP, as programmed.

5. **The near-term economic outlook is challenging**. Economic growth for 2013 has been revised downward, from 5½ to 4½ percent, in light of lingering uncertainties from a difficult external environment and weak external financing prospects for both private and public investment projects. Delayed execution of some construction projects, such as improvements to the airport, port, and roads, contribute to the projected small pickup in economic growth. Upside risks to this projection stem mainly from a stronger-than-expected pickup in Europe, and downside risks are mainly linked to possible further delays in project execution due to financing shortfalls. Inflation at end-2013 has been revised upward, from 6 percent to a range of 7–9 percent, reflecting a more realistic disinflation path in line with the experience so far with the exchange rate peg to the euro as well as vulnerabilities to supply shocks.[1] Foreign exchange reserves at the central bank are expected to remain above the program's floor of three months of imports in 2013.

III. PERFORMANCE UNDER THE ECF-SUPPORTED PROGRAM

6. **All continuous and end-December performance criteria (PCs) have been met** (Table 1). After missing the end-September 2012 indicative target (IT) on the domestic primary balance by about 0.4 percent of GDP, the government met the end-December PC by containing expenditure, fully offsetting revenue shortfalls. The end-September IT on net bank financing of the central government was missed as the central bank temporarily advanced funds to the government in line with existing legislation, and the end-December PC was met as the advance was fully repaid on October 26, 2012. The central bank met with large margins both the end-September IT and end-December PC on net international reserves as the government repaid in foreign currency the central bank's advance and the market valuation of central bank's securities improved. This unexpected increase in net international reserves led to a larger than projected increase in base money and, as a result, the IT on base money was exceeded for both end-September and end-December.

7. **Four structural benchmarks have been met (although two with a delay) and one partially met** (Table 2). As expected, the government developed a reform strategy plan to modernize the tax administration in line with IMF's Fiscal Affairs Department (FAD) recommendations, and the central bank set up a framework for liquidity forecasting with technical assistant (TA) from the IMF's Monetary and Capital Markets Department (MCM). The central bank finalized in November 2012 the on-site inspection of one commercial bank but, due to capacity constraints, finalization of the inspection of a second commercial bank happened only in April 2013. With TA from the IMF's Legal Department (LEG), the government drafted amendments to Law on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) and submitted the revised draft law to the National Assembly in May 2013, after receiving and analyzing the report of GIABA's December 2012 mutual assessment mission.[2] The government partially met the benchmark on reconciling and certifying cross-arrears between ENCO, the Water and Electricity Company (EMAE), and the Treasury and devising a plan to clear

[1] The dobra (Dbs) has been pegged to the euro (€) at a rate of Dbs 24,500 per € since 2010.

[2] GIABA is the regional intergovernmental action group against money laundering. São Tomé and Príncipe became a member of GIABA in June 2012.

these arrears and avoid this problem from recurring: (i) arrears between the Treasury and EMAE have been certified and brought down in February 2013 to Db 12 billion, from Db 72 billion; (ii) the Treasury plans to remain current on its payments to EMAE and clear the remaining Db 12 billion in arrears during the course of 2013; and (iii) EMAE's arrears to ENCO have been verified and certified. However, negotiations between the government, EMAE and ENCO on a plan to clear EMAE's arrears to ENCO and, more generally, to avoid a recurrence of cross-arrears, have been more difficult than expected and are likely to be completed only by end-September 2013.

IV. MACROECONOMIC POLICIES

A. Strengthening Public Finances

The 2013 Fiscal Framework

8. **The government is fully committed to maintaining fiscal prudence**. It has targeted in the recently approved budget a domestic primary deficit of 3.1 percent of GDP for 2013, which is slightly below last year's target and outcome. To meet the 2013 fiscal target, the government will strengthen revenue collections, by modernizing the tax and customs administrations and broadening the tax base (see below), and it will continue to contain non-priority spending. For example, the government has capped in the 2013 budget the nominal growth of the wage bill to 7 percent, by only granting wage adjustments to implement career plans in the areas of education and health. The fiscal program for 2013 is fully funded given that, in addition to National Oil Account (NOA) financing for US$ 1.8 million, the government has already secured budget support from the World Bank in the amount of US$ 4.2 million and from regional donors, including Nigeria, in the total amount of US$ 6.0 million.

Structural Reforms to Strengthen Public Finances

9. **The government's reform program to strengthen public finances will focus on tax and customs administration and public financial management (PFM)**. Specific actions in 2013 will include:

- Increasing taxpayer voluntary compliance by improving the quality of services to taxpayers, simplifying and harmonizing tax procedures, extending tax services to the more remote areas of the country, and conducting visits to newly created firms.

- Enhancing taxpayer management at the tax administration by increasing the security of the Taxpayer Registry, consolidating the segmentation of taxpayers, and creating a single taxpayer computerized file system.

- Combating tax fraud and evasion by improving the selection of taxpayers for audit through risk analysis, expanding tax coverage throughout the country, and strengthening the National Tax Court, by allowing it to perform its duties with own resources.

- Completing the second phase of ASYCUDA World implementation, by activating all its functionalities and fully establishing its computerized procedures.

- Providing the tax and customs administrations with the necessary resources, including additional staff and equipment, to implement the reforms mentioned above.

- Taking steps to make the government's financial administration system (SAFE-e) fully operational, including by activating the system's accounting module.

- Preparing by end-June 2013 the general government accounts for 2012, and presenting them to the National Assembly and Audit Court shortly thereafter. This will be the first time in two decades that the general government accounts will be prepared and discussed.

- Establishing by end-June 2013 a multi-sector unit, with representatives from the ministry of finance, central bank, and national institute of statistics, to develop an action plan for implementing a medium-term fiscal framework (MTFF).

- Achieving by end-September 2013 a long-lasting solution to the issue of cross-arrears between the Treasury, EMAE, and ENCO, by completing negotiations on a plan to clear over time EMAE's arrears to ENCO and to avoid a recurrence in the future of the problem of cross-arrears.

B. Enhancing Liquidity Management, Financial Stability, and Safeguards

10. **The central bank will continue to modernize its liquidity management practices and strengthen its banking supervision function. In addition, the central bank will take steps to bolster safeguards to its balance sheet.** Specific actions in 2013 will include:

- Completing the on-site inspection of the largest commercial bank in the first half of the year, with on-site inspections of two additional commercial banks in the second half.

- Monitoring carefully the financial soundness of commercial banks and, as needed, requiring shareholders to promptly increase bank capital, against the background of rising non-performing loans and near-term prospects for low profitability and stagnant credit.

- Hiring additional supervisors to help increase the frequency of on-site inspections and improve the analysis of the commercial banks' quarterly reports.

- Strictly enforcing banking regulations, such as reserve requirements and dissemination of data to the credit registry; penalties will be applied to non-compliant institutions.

- Strengthening liquidity management, by expanding the forecasting horizon to one week, and developing a systematic approach toward analyzing forecasting errors and examining the evolution of daily aggregate liquidity surpluses/shortages.

- Supporting the exchange rate peg, by maintaining net international reserves at the central bank above the equivalent to three months of imports, and investing central bank international reserves in high quality and liquid financial assets.

- Improving external communications policies to strengthen credibility in the financial system, including regular publication of reports and economic bulletins, strengthening the capacity of the Office of Consumer Affairs, and promoting financial literacy.

- Encouraging the use of credit and debit cards, point-of-sale terminals, ATMs, and secure mobile-banking, with the objective of expanding the operations of the electronic payments system to the whole country.

- Expanding the role of the Internal Audit Department to track more systematically the implementation of external auditors' recommendations and monitor the main risks to the central bank's balance sheet.

- Introducing a new chart-of-accounts and reporting at the central bank in line with international financial reporting standards (IFRS).

V. STRENGTHENING THE ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM (AML/CFT) FRAMEWORK

11. **The government is fully committed to addressing the deficiencies of São Tomé and Príncipe's AML/CFT framework**. With LEG TA, it drafted amendments to the AML/CFT law and submitted the revised draft law to the National Assembly in May 2013. Approval of this law will be an important step toward removing São Tomé and Príncipe from the Financial Action Task Force's list of high risk and non-cooperative jurisdictions. In addition, the government will strengthen the operations of the Financial Intelligence Unit (FIU) by providing it with the needed additional staff and equipment, and facilitating the training of its staff. These actions are meant to strengthen the FIU core functions, such as the receipt, analysis, and submission to the general attorney's office of suspicious transaction reports from financial and non-financial institutions and professions.

VI. STATISTICS

12. **The government continues to work on strengthening the statistical system**. In addition to the expected improvements listed above regarding the preparation of consolidated government accounts and the introduction at the central bank of IFRS consistent reporting and chart-of-accounts, the National Institute of Statistics (INE) is taking steps to improve the outdated consumer price index (CPI). The household survey completed in 2011 will serve as the basis for reweighting the CPI components and introducing new goods and services to the CPI basket (both were last updated twenty years ago). The new CPI is expected to be ready by end-December 2013, greatly improving the measurement of inflation.

VII. PROGRAM MONITORING

13. The government will maintain unchanged the previously agreed PCs, ITs, and structural benchmarks for the second review. Together with those, the new PCs, ITs, and structural benchmarks for the period of July through December 2013 are presented in Tables 3 and 4. The definitions of quantitative PCs and ITs are provided in the attached Technical Memorandum of Understanding (TMU). The second review is expected to be completed by November 2013 and the third by May 2014.

Table 1. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2012

(Billions of dobra, cumulative from beginning of year, unless otherwise specified)

	2012					
	September			December		
	Indicative Target	Indicative Targets w/adjustment	Actual	Performance Criteria [1]	Performance Criteria w/adjustment	Actual
	30-Sep-12	30-Sep-12	30-Sep-12	31-Dec-12	31-Dec-12	31-Dec-12
Performance criteria:						
1 Floor on domestic primary balance (as defined in the TMU) [2]	-99	-99	-110	-164	-164	-163
2 Ceiling on changes in net bank financing of the central government (at program exchange rate) [3, 4, 5, 6]	0	-24	11	0	45	-65
3 Floor on net international reserves of the central bank (US$ millions) [2, 4]	21.97	23.24	27.54	21.97	19.59	39.08
4 Ceiling on central government's outstanding external payment arrears (stock, US$ millions) [5, 7, 8, 9]	0	...	0	0	...	0
5 Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the central government or the BCSTP (US$ millions) [5, 7, 8, 9, 10, 11]	0	...	0	0	...	0
6 Ceiling on the outstanding stock of external debt with original maturity of up to and including one year owed or guaranteed by the central government or the BCSTP (stock, US$ millions) [5, 8, 9, 10, 11]	0	...	0	0	...	0
Indicative targets:						
Ceiling on central government's outstanding domestic arrears	0	...	49	0	...	33
Ceiling on dobra base money (stock)	515	...	536	551	...	616
Floor on pro-poor expenditures	213	...	193	285	...	288
Memorandum items:						
Transfer from NOA to the budget (US$ millions)	1.2	...	1.2	1.2	...	1.2
Net external debt service payments [12]	59	...	28	79	...	73
Official external program support [12]	141	...	85	278	...	194
Treasury-funded capital expenditure	58	...	60	96	...	74

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

[1] Performance at the December test date is assessed on the first review.

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

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

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

[5] The term "government" is defined as in point 3 of the TMU, which excludes the operations of state-owned enterprises.

[6] The December 2012 figure reflects a small correction in the recording of IMF loans.

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

[8] The term "external" is defined in accordance with the residency of the creditor as indicated in point 2 of the IMF Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF (as amended effective December 1, 2009).

[9] This performance criterion applies not only to debt as defined in point 9 of the IMF Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF (as amended effective December 1, 2009) but also to commitments contracted or guaranteed for which value has not been received. For further details on the definition of debt and external arrears refer to the TMU, ¶ 14-16.

[10] Only applies to debt with a grant element of less than 50 percent as defined in point 8 g (i) of the IMF Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No 6230-(79/140) of the Executive Board of the IMF (as amended effective December 1, 2009). For further details on the definition of concessionality refer to the TMU, Footnote 6.

[11] Debt is defined as in point 9 of the IMF Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF (as amended effective December 1, 2009). For further details on the definition of debt refer to the TMU, ¶ 14-15.

[12] As defined in the TMU, valued at the program exchange rate.

Table 2. São Tomé and Príncipe: Structural Benchmarks for 2012

Category		Structural Benchmarks	Economic rationale	Indicative timeframe	Status
		Strengthening Public Finances			
Tax administration	i.	Develop a reform strategy plan to modernize tax administration in line with FAD recommendations.	Strengthen revenue administration	End-Dec. 2012	Met
Internal control	ii.	Strengthen internal control, by Reconciling and certifying the cross-arrears between ENCO, EMAE, and the Treasury, and agreeing on a strategy to address these and to prevent future accumulation of arrears between these entities.	Strengthen PFM	End-Dec. 2012	Partially met
		Enhancing Monetary Management and Financial Stability			
Liquidity management	iii.	Improve liquidity management, by Setting up a framework for forecasting liquidity, international reserves, and government accounts to identify the level of excess or deficit in liquidity.	Strengthen the monetary policy framework	End-Dec. 2012	Met
Bank supervision	iv.	Strengthen banking supervision and regulation, by Completing the on-site supervision process for two commercial banks.	Ensure financial stability	End-Dec. 2012	Met with delay
		Strengthening AML/CFT Framework			
AML/CFT Framework	v.	Strengthening AML/CFT, by Submitting to parliament appropriate draft amendments to the AML/CFT law.	Bring the AML/CFT legislation in line with FATF standards and contribute to delisting from FATF blacklist	End-Dec. 2012	Met with delay

Table 3. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2013

(Billions of dobra, cumulative from beginning of year, unless otherwise specified)

	2013			
	March	June	September	December
	Indicative Target	Performance Criteria [1]	Indicative Target	Performance Criteria [1]
	31-Mar-13	30-Jun-13	30-Sep-13	31-Dec-13
Performance criteria:				
1 Floor on domestic primary balance (as defined in the TMU) [2]	-47	-105	-142	-178
2 Ceiling on changes in net bank financing of the central government (at program exchange rate) [3, 4, 5]	0	0	0	0
3 Floor on net international reserves of the central bank (US$ millions) [2, 4]	21.97	21.97	21.97	21.97
4 Ceiling on central government's outstanding external payment arrears (stock, US$ millions) [5, 6, 7, 8]	0	0	0	0
5 Ceiling on the contracting or guaranteeing of new nonconcessional external debt with original maturity of more than one year by the central government or the BCSTP (US$ millions) [5, 6, 7, 8, 9, 10]	0	0	0	0
6 Ceiling on the outstanding stock of external debt with original maturity of up to and including one year owed or guaranteed by the central government or the BCSTP (stock, US$ millions) [5, 7, 8, 9, 10]	0	0	0	0
Indicative targets:				
Ceiling on central government's outstanding domestic arrears	0	0	0	0
Ceiling on dobra base money (stock)	635	649	675	715
Floor on pro-poor expenditures	73	146	219	292
Memorandum items:				
Transfer from NOA to the budget (US$ millions)	1.8	1.8	1.8	1.8
Net external debt service payments [11]	14	35	57	81
Official external program support [11]	74	158	168	193
Treasury-funded capital expenditure	25	31	90	99

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

[1] Performance at the December test date is assessed on the first review.

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

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

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

[5] The term "government" is defined as in point 3 of the TMU, which excludes the operations of state-owned enterprises.

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

[7] The term "external" is defined in accordance with the residency of the creditor as indicated in point 2 of the IMF Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF (as amended effective December 1, 2009).

[8] This performance criterion applies not only to debt as defined in point 9 of the IMF Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF (as amended effective December 1, 2009) but also to commitments contracted or guaranteed for which value has not been received. For further details on the definition of debt and external arrears refer to the TMU, ¶ 14-16.

[9] Only applies to debt with a grant element of less than 50 percent as defined in point 8 g (i) of the IMF Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No 6230-(79/140) of the Executive Board of the IMF (as amended effective December 1, 2009). For further details on the definition of concessionality refer to the TMU, Footnote 6.

[10] Debt is defined as in point 9 of the IMF Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF (as amended effective December 1, 2009). For further details on the definition of debt refer to the TMU, ¶ 14-15.

[11] As defined in the TMU, valued at the program exchange rate.

Table 4. São Tomé and Príncipe: Structural Benchmarks for 2013

Category		Structural Benchmarks	Economic rationale	Indicative timeframe
		Strengthening Public Finances		
External control	i.	Strengthen external control, by Preparing the general government accounts for 2012 and sending them to the National Assembly and the Court of Audit.	Strengthen PFM	End-Jun. 2013
Internal control	ii.	Strengthen internal control, by Finalizing a plan to clear over time EMAE's arrears to ENCO and to avoid a recurrence in the future of the problem of cross-arrears.	Strengthen PFM	End-Sep. 2013
Tax administration	iii.	Improve taxpayer management and compliance with tax obligations, by Enhancing the security of the Taxpayer Registry, creating a dedicated large taxpayer unit, and creating a single taxpayer computerized file system.	Strengthen revenue administration	End-Dec. 2013
Customs administration	iv.	Complete the second phase of ASYCUDA WORLD implementation, by Activating all the functionalities and the establishing a fully computerized procedure.	Strengthen revenue administration	End-Dec. 2013
		Enhancing Monetary Management and Financial Stability		
Bank supervision	v.	Strengthen banking supervision and regulation, by	Ensure financial stability	
		Completing the on-site supervision process for the largest commercial bank.		End-Jun. 2013
		Completing the on-site supervision process for the remaining two commercial banks.		End-Dec. 2013
		Statistics		
CPI statistics	vi.	Improve consumer price index statistics, by Reweighting the CPI components and introducing new goods and services to the CPI basket.	Strengthen statistical system	End-Dec. 2013

Attachment II. São Tomé and Príncipe: Technical Memorandum of Understanding

May 2013

1. This Technical Memorandum of Understanding (TMU) contains definitions and adjuster mechanisms that clarify the measurement of quantitative performance criteria and indicative targets in Tables 1 and 3, which are attached to the Memorandum of Economic and Financial Policies for 2013. Unless otherwise specified, all quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from the beginning of each calendar year.

I. Provision of Data to the Fund

2. Data with respect to all variables subject to performance criteria and indicative targets will be provided to Fund staff monthly with a lag of no more than four weeks for data on net international reserves of the Central Bank of São Tomé and Príncipe (BCSTP) and six weeks for other data. The authorities will transmit promptly to Fund staff any data revisions. For variables that are relevant for assessing performance against program objectives but are not specifically defined in this memorandum, the authorities will consult with Fund staff as needed on the appropriate way of measuring and reporting. Performance criteria included in the program, as defined below, refer to the domestic primary balance and net bank financing of the central government, net international reserves of the central bank, external payments arrears, and non-concessional short-term and medium- and long-term external debt owed or guaranteed by the central government and/or the central bank.

II. Definitions

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

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

5. **Domestic primary expenditure** comprises all government spending assessed on a commitment basis (*base compromisso*), excluding (1) capital expenditure financed with external concessional loans and grants and (2) scheduled interest payments. Reporting of government domestic expenditure will be based

on the state budget execution prepared every month by the Directorate of Budget and the Directorate of Treasury in the Ministry of Planning and Finance.

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

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

Code	Description of expenditure	Ministry of Education	Ministry of Health	Ministry of Labour
01.00.00	Personnel expenses	x	x	x
02.01.05	Other durable goods	x	x	
02.02.02	Fuel and lubricants[1]	x	x	x
02.02.04	Food[1]	x		
02.02.05	Medicine	x	x	
02.02.06	Clothing and footwear[1]	x	x	x
02.02.09	Other nondurable goods	x	x	
02.03.01.01	Water and energy	x	x	x
02.03.02	Custody of goods	x	x	
02.03.06	Communications	x	x	x
04.02.01	Private institutions	x		x
04.03.01	Individuals	x		x
04.04.02	Other inward transfers		x	
06.01.00	Education and training		x	
06.04.01	Project costs	x		
06.04.04.02	Miscellaneous	x	x	

[1] Expenditures on fuels and lubricants (*combustíveis e lubrificantes*) that are effected for administrative purposes are excluded. Likewise, food (*alimentação*) and clothing and shoes (*roupas e calçados*) supplied to administrative staff are excluded.

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

7. **Treasury-funded capital expenditure**: This is classified as part of domestic primary expenditure and covers projects that are not directly financed by project grants and concessional loans. Treasury funded capital spending will correspond to the 2012 and 2013 government plans for investment on roads, bridges, schools, water and power. It will include spending on new construction, rehabilitation, and maintenance. Expenditure on wages and salaries and the purchase of goods and services related to the projects will not be classified as capital expenditure. The government investment program will be carried out by the Ministries of Public Works and Natural Resources, Education, and Health.

8. **Domestic primary balance** is defined as the difference between government domestic revenue and domestic primary expenditure. For reference, this balance for end-December 2012 was 163 billion dobra, broken down as follows:

	Government domestic revenue:	771 billion
Less:	Government primary expenditure:	
	(As defined in paragraph 5)	934 billion
Equals:	Domestic primary balance:	-163 billion

9. **Domestic arrears** are defined as the difference between expenditure on a commitment basis and cash payments (amounts past due after 40 days and unpaid).

10. **The program exchange rate** for the purposes of this TMU[1] will be: (i) 19,008 dobra per U.S. dollar, 24,500 dobra per euro, and 28,987 dobra per Special Drawing Right (SDR) for 2012; and (ii) 18,585 dobra per U.S. dollar, 24,500 dobra per euro, and 28,563 dobra per SDR for 2013.

11. **Net bank financing of the central government (NCG)** is defined as the stock of all outstanding claims on the central government held by the BCSTP and by other depository corporations (ODCs), less all deposits held by the central government with the BCSTP and with ODCs, as they are reported monthly by the BCSTP to the IMF staff. The balance of the National Oil Account (NOA) is not included in NCG. All foreign exchange-denominated accounts will be converted to dobra at the program exchange rate. For reference, at end-December 2012, outstanding net bank financing of the central government (excluding NOA) was 44 billion dobra, broken down as follows:

	BCSTP credit, including use of IMF resources:		233 billion
Less:	Government deposits with the BCSTP (excluding NOA)		95 billion
	Of which:	Treasury dobra-denominated accounts	4 billion
		Treasury foreign currency-denominated accounts	26 billion
		Counterpart deposits	65 billion
Equals:	Net credit to government by the BCSTP		138 billion
Plus:	ODC's credit to the government		3 billion
Less:	Government deposits with ODCs (including counterpart funds)		96 billion
Equals:	Net bank financing of the government (excluding NOA)		44 billion

12. **Dobra base money** is defined as the sum of currency issued—which consists of currency outside depository corporations and cash in vaults—and banks reserves denominated in dobra. Bank reserves refer to reserves of commercial banks – in dobra – held with the central bank and include reserves in excess of the reserve requirements. For reference, at end-December 2012 dobra base money was 616 billion dobra, calculated as follows:

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

	Currency issued:		217 billion
	Of which:	Cash in vaults	41 billion
		Currency outside depository corporations	176 billion
Plus:	Bank reserves denominated in dobra		399 billion
Equals:	Dobra base money		616 billion

13. **Net international reserves** (NIR) of the BCSTP are defined for program-monitoring purposes as short-term, tradable foreign assets of the BCSTP minus short-term external liabilities, including liabilities to the IMF. All short-term foreign assets that are not fully convertible external assets nor readily available to and controlled by the BCSTP (i.e., they are pledged or otherwise encumbered external assets, including but not limited to the HIPC umbrella SDR account and assets used as collateral or guarantees for third-party liabilities) will be excluded from the definition of NIR. Securities whose market value on the last day of the year differs by over 20 percent from their original nominal issue price will be assessed at their market value as reported by the BCSTP's Markets Department. The balance of (1) NOA at the BCSTP, (2) banks' deposits related to capital or licensing requirements, and (3) banks' reserves denominated in foreign currency are excluded from the program definition of NIR. All values are to be converted to U.S. dollars at the actual mid-point market exchange rates prevailing at the test date. For reference, at end-December 2012 NIR was 717 billion dobra, calculated as follows:

Gross international reserves:				933 billion
	Of which:	Cash		19 billion
		Demand deposits		127 billion
		Term deposits (including banks' deposits in foreign currency)		388 billion
		Securities other than shares		376 billion
		Of which:	Portuguese Treasury bonds	92 billion
			Rede Ferroviaria Nacional bonds	123 billion
			Less: discount (71.60)	35 billion
			Mortgage-backed securities of CDG	195 billion
		Accrued interest on securities		10 billion
		Reserve position in the Fund		0 billion
		SDR holdings		13 billion
Less:	Short-term liabilities (including liabilities to the IMF)			110 billion
Less:	Banks' reserves denominated in foreign currency			97 billion
Less:	Banks' guaranteed deposits denominated in foreign currency			10billion
Equals:	Net international reserves			717 billion
Plus:	Other foreign assets			249 billion
Less:	Medium and long-term liabilities (including SDR allocation)			203 billion
Equals:	Net foreign assets			763 billion
Memorandum item:	National Oil Account (NOA)			168 billion

14. **The performance criterion on short-term external debt** refers to the outstanding stock of external debt with an original maturity of one year or less (including overdraft positions but excluding normal import credits) owed or guaranteed by the government and/or the BCSTP.[2] With respect to the precautionary line of credit from Portugal to support the pegging of the dobra to the euro, unpaid balances outstanding during the first three quarters of a given year will be excluded from the short-term external debt limit. However, outstanding balances at the end of a given year will be included in the assessment of compliance with the short-term external debt performance criterion. For reference, at end-December 2012 the stock of short-term external debt was zero.

15. **The performance criterion on nonconcessional medium- and long-term external debt is a continuous performance criterion** that refers to the contracting or guaranteeing of new external debt with original maturity of more than one year by the government and/or the BCSTP.[3,4] Debt being rescheduled or restructured is excluded from the ceilings set on nonconcessional borrowing. Medium- and long-term debt will be reported by the Debt Management Department of the Ministry of Planning and Finance (as appropriate) by the BCSTP, measured in U.S. dollars at the prevailing exchange rates. The government should consult with IMF staff before contracting or guaranteeing new medium- or long-term debt obligations.

16. **The non-accumulation of external payment arrears is a continuous performance criterion**. Government external payment arrears are defined as all unpaid external public debt obligations, according to the data established by the Debt Management Department of the Ministry of Planning and Finance and (as appropriate) by the BCSTP, except for arrears pending rescheduling arrangements. The latter are considered as technical arrears. Debt would be deemed to be in arrears when it has not been paid by the time it is due, unless arrears have otherwise been contractually defined. This performance criterion does not apply to those arrears pending the signing of bilateral agreements in the context of debt-rescheduling with the Paris Club, if any, and other bilateral creditors.

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[2] The term "debt" is defined as in point 9 of the IMF *Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF*, as amended effective December 1, 2009. Debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract.

[3] This performance criterion applies not only to debt as defined in point 9 of the IMF *Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF*, as amended effective December 1, 2009, but also to commitments contracted or guaranteed for which value has not been received.

[4] The level of concessionality of loans is assessed according to the reference interest rate by currency published, by the Export Credit Division of the Organization for Economic Cooperation and Development. For loans of terms of no less than 15 years, the 10-year average of commercial interest reference rates for the currency in which the loan is denominated will be used. For loans of shorter terms, the six-month average will apply. For least developed countries, such as São Tomé and Príncipe, a loan is deemed to be on concessional terms if, on the date of initial disbursement, the ratio of the present value of the loan, calculated on the basis of the reference interest rate, to the nominal value of the loan is less than 50 percent (in other words, a grant element of at least 50 percent). For currencies with no available reference interest rates, the SDR rate will be used. This performance criterion does not apply to IMF facilities.

17. **Net external debt service payments** are defined as debt service due less the accumulation of any new external payment arrears, including technical arrears.

18. **Official external program support** is defined as grants and loans, including in-kind aid when the products are sold by the government and the receipts are earmarked for a budgeted spending item, and other exceptional financing provided by foreign official entities and incorporated into the budget. Amounts assumed in the program consistent with the definition are shown in Tables 1 and 3 of the MEFP as a memorandum item labeled "official external program support."

III. USE OF ADJUSTERS

19. **The performance criterion on the domestic primary deficit will have one adjuster**. The limit on the domestic primary deficit will be adjusted upward if the government finds budget support and privatization receipts in 2012 and 2013 in addition to that described in the MEFP; this adjuster will be capped at 22 billion dobra (½ percent of 2011 GDP) for 2012, and at 50 billion dobra (1 percent of 2012 GDP) for 2013.[5]

20. **Adjusters for the performance criteria on net bank financing of the central government and net international reserves will be set**. Deviations from amounts projected in the program for budget transfers from the NOA, official external program support, net external debt service payments, and domestic arrears will trigger adjustments on the above mentioned performance criteria. These deviations will be calculated cumulatively from end-December 2011 or end-December 2012, as appropriate (MEFP, Tables 1 and 3). The following is an explanation of these adjustments:

- **Adjustors on ceilings on changes in net bank financing of the central government (NCG)**: Quarterly differences between actual and projected receipts of budget transfers from the NOA, official external program support, net external debt service payments, and domestic arrears will be converted to dobra at the program exchange rate and aggregated from end-December 2011 or end-December 2012, as appropriate, to the test date. The ceilings will be adjusted downward (upward) by cumulative deviations downward (upward) of actual from projected net external debt service payments, and by deviations upward (downward) in budget transfers from the NOA, official external program support, and domestic arrears. The combined application of all adjusters at any test date is capped at the equivalent to US$3 million at the program exchange rate.

- **Adjustors for the floor on net international reserves (NIR) of the BCSTP**: Quarterly differences between actual and projected receipts of budget transfers from the NOA, official external program support, net external debt service payments, and domestic arrears in dobra, will be converted to U.S. dollars at the program exchange rate and aggregated from end-December 2011 or end-December 2012, as appropriate, to the test date. The floor will be

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

adjusted upward (downward) by the cumulative deviation downward (upward) of actual from projected net external debt service payments of the central government, and by deviations upward (downward) for budget transfers from the NOA, official external program support, and domestic arrears. The combined application of all adjusters at any test date is capped in such a way that the adjusted floor does not fall short of US$18.97 million.

IV. Data Reporting

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

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

- Monthly data on central government operations for revenues, expenditure, and financing, including detailed description of net earmarked resources (*recursos consignados*), on commitment (*compromisso*) and cash payments (*caixa*);
- Monthly data on net credit to the government by the BCSTP, recorded account by account in a format fully compatible with the monetary accounts of the BCSTP;
- Monthly detailed data on tax and nontax revenues;
- Monthly detailed data on domestically financed capital expenditure on commitment (*compromisso*) and cash payments (*caixa*);
- Monthly data on domestic arrears by type;
- Monthly data on official external program support (non-project);
- Quarterly data on the execution of the public investment program (PIP) by project and sources of financing;
- Quarterly data on the execution of Treasury-funded capital expenditure by project type, amount, timetable of execution, and progress of execution;
- Quarterly data on project grant and loan disbursement (HIPC and non-HIPC);
- Quarterly data on bilateral HIPC debt relief;
- Latest outstanding petroleum price structures and submission of new pricing structures (within a week of any changes).

2) **Monetary Data**: The BCSTP will provide the IMF staff, within three weeks from the end of each month, the monetary accounts of the BCSTP. Other monetary data will be provided within six weeks after the end of each month for monthly data, within two months after the end of each quarter for quarterly data, and within two months after the end of the year for annual data. Weekly data will be provided no later than two weeks after the end of the week. The BCSTP will provide the following information to IMF staff:

- Daily data on exchange rates, to be posted on the central bank's web site;
- Daily data on interest rates, to be posted on the central bank's web site;

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

3) **External Debt Data**: The Debt Management Unit at the Ministry of Planning and Finance will provide the IMF staff, within two months after the end of each month the following information:

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

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

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

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—INFORMATIONAL ANNEX

May 29, 2013

Prepared By

African Department
(in consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of April 30, 2013)

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	0.32	4.44

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	3.44	46.43

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF[a]	07/20/2012	07/19/2015	2.59	0.37
ECF[a]	03/02/2009	03/01/2012	2.59	0.74
ECF[a]	08/01/2005	07/31/2008	2.96	2.96

[a] Formerly PRGF.

Projected Payments to Fund [1]

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

	Forthcoming				
	2013	2014	2015	2016	2017
Principal	0.25	0.63	0.70	0.61	0.44
Charges/Interest	0.00	0.00	0.01	0.01	0.01
Total	0.26	0.63	0.71	0.62	0.45

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

Implementation of HIPC Initiative:

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

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

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

Implementation of Multilateral Debt Relief Initiative (MDRI):

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

Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGT**	**Total**
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) is completed. The assessment noted the severe capacity constraints faced by the BCSTP, including lack of independent oversight. External audits conducted by reputable audit firms continue to serve as a critical safeguard mechanism, and the assessment recommended strengthened coordination of the audits by senior BCSTP management to ensure prompt remedial actions on audit findings. Other recommendations included strengthening of the internal audit function and implementation of formal investment policies.

Exchange Arrangements:

The de jure and de facto exchange rate arrangement is a conventional peg against the euro. Since January 2010 São Tomé and Príncipe has pegged the Dobra to the euro at a rate of Dobra 24,500 per euro. The organic law of the BCSTP authorizes it to make decisions regarding exchange rate policy. The commission on foreign exchange sales cannot be higher than 2% for the euro and 4% for other currencies. Purchases of euros must be done at the rate published by the BCSTP and no commissions are allowed. The official euro–U.S. dollar cross rate is based on the European Central Bank (ECB) reference rate of the previous day. The BCSTP finances current international transactions at the official exchange rate only after verification of the documentation establishing the bona fide nature of the bank's request. Access to foreign exchange is limited to institutions having a net position in the transaction currency of less than 12% of qualified capital, a net position in total foreign currency less than 25% of qualified capital, and which are in compliance with the central bank's regulations on bank liquidity and capital adequacy. Financial institutions are allowed access to the central bank's facilities regardless of the above conditions if the foreign exchange is to be used for importation of goods and services in periods of crisis or for the importation of fuel. Commercial banks that meet these requirements can buy foreign exchange directly from the central bank, which can charge up to 1.5 percent commission on sales of euro and up to a 0.5 percent commission on purchases of euro. The buying rate is mainly indicative because the BCSTP rarely makes purchases. 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 January 23, 2012.

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

None.

Resident Representative:

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

Technical Assistance:

Date of Delivery	Department/Purpose
March 2013	MCM mission on banking supervision
January 2013	MCM mission on liquidity management
January 2013	FAD mission on public accounting
November 2012	FAD mission on medium-term fiscal framework
November 2012	FIN mission on safeguards assessment
November 2012	LEG follow-up mission on AML/CFT
October 2012	MCM mission on banking supervision
October 2012	FAD diagnostic mission on customs
October 2012	FAD mission on public accounting
September 2012	MCM mission on liquidity management
July 2012	LEG diagnostic mission on AML/CFT
April 2012	FAD mission on revenue administration
March 2012	FAD mission on public financial management
March 2012	STA mission on balance of payments
February 2012	LEG diagnostic mission on AML/CFT
February 2012	FAD mission on implementation of SAFEe
January 2012	FAD diagnostic mission on tax administration
November 2011	MCM TA needs assessment mission
November 2011	MCM mission on liquidity management
November 2011	FAD mission on public accounting
October 2011	FAD mission on public financial management
August 2011	FAD mission on public accounting
June 2011	MCM mission on liquidity management
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
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

RELATIONS WITH THE WORLD BANK GROUP

Joint Managerial Action Plan (JMAP) for São Tomé and Príncipe
(As of April, 2013)

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 2013–14.

2. The World Bank's work program is guided by an Interim Strategy Note approved in 2011 that focuses on accelerating sustainable and broad-based economic growth and on strengthening governance, public institutions, and human capital. A new Country Assistance Strategy for 2013–2016 will be completed in 2013, following the recent completion of a Joint Staff Assessment Note (JSAN) on the country's second National Poverty Reduction Strategy. Analytical underpinnings for the new Country Assistance Strategy include a Country Economic Memorandum, "Success Beyond Petroleum," completed in 2011, a Diagnostic Trade Integration Study, and a Poverty Assessment, which are expected to be completed in 2013. A Governance and Competitiveness budget support operation was approved in March 2012. This is the first of a series of three annual programmatic budget support operations for 2012–14. A Debt Management and Performance Assessment (DeMPA) report was completed in October 2011, and an accompanying reform plan to improve debt management was completed in March 2012.

3. The IMF's work program includes the Executive Board's consideration of the first review under the ECF-supported program, a staff visit, a mission to conduct the Article IV discussions and second review under the ECF-supported program, and assistance with capacity development in the areas of PFM, liquidity management, and banking supervision.

4. The Bank and the Fund are providing complementary support to help São Tomé and Príncipe strengthen public financial management and make progress toward debt sustainability. Regarding the latter, the teams prepared a Joint IMF-World Bank Debt Sustainability Analysis (DSA) update in 2012. A new DSA will be prepared in 2013.

Work Program for Period 2013–14

Title	*Products*	*Provisional timing of missions*	*Expected delivery date*
A. Mutual information on relevant work programs			
World Bank work program in the next 12 months	• Poverty Assessment • Country Assistance Strategy • Diagnostic Trade Integration Study • Budget support operation	June 2013 June/July 2013 October 2013 November 2013	FY2014 FY2014 FY2014 FY2014
IMF work program in the next 12 months	• Staff visit • ECF second review and Article IV • ECF third review • Technical Assistance from FAD: o PFM • Technical Assistance from MCM: o Liquidity Management o Banking Supervision	July 2013 September 2013 March 2014	July 2013 November 2013 May 2014
B. Requests for work program inputs			
Fund request to Bank (with summary justification)	• Information on Bank budget support operations and disbursement schedule	To support the 2014 fiscal program	September 2013

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP

(As of April, 2013)

1. São Tomé and Príncipe (STP) became a member of the African Development Bank Group (AfDB) in 1976. To date, the AfDB has financed 29 operations in the country. This comprises of 24 projects, including institutional support, and 5 studies, for a total net commitment of UA 112.299 million under the African Development Fund (ADF) (98.9%), and one special support operation of UA 1 million under the Nigeria Trust Fund (NTF). The vast majority of these operations (94%) were financed through loans with the remaining 6% through grants. As of March 19, 2013, overall disbursements stood at UA 87.1 million, or 78% of net commitments. The agricultural sector has been the largest beneficiary, receiving 29.14% of the total allocation, followed by transport (23.6%), multi-sector (21.4%), social sector (17.2%), and public utilities (8.7%). These operations have helped to build and rehabilitate basic economic and social infrastructure (roads, airport, electricity, water, schools, and health centers) as well as strengthening the country's institutional capacity.

2. As of March 19, 2013, the AfDB's ongoing portfolio comprised of six active projects for a total commitment of UA 20.4 million. They are: the Human Resource Development Project; the Livestock Development Project II; the Infrastructure Rehabilitation for Food Security (PRIASA); the General Population and Housing Census; the Public Finance Management Project (PAGEF)[1]; and technical assistance and capacity building at the Ministry of Planning and Finance[2] (Table 1).

3. The AfDB current involvement in STP is guided by the new Country Strategy Paper (CSP) 2012-2016, approved in July 2012. The CSP's main objective is to prepare the authorities for the forthcoming oil production era and the associated challenges and risks to the country's socio-economic development. The new strategy is anchored on a single pillar of Capacity Building and Institutional Strengthening which absorbed the entire African Development Fund (ADF)-12 resources of UA 5 million for STP. More specifically, the strategy aims at improving the capacity of key public administration institutions, including human resource development, country systems, and strategic legal and regulatory frameworks by the time the oil era begins.

4. As part of its strategy and knowledge products, the AfDB organized a validation workshop held in Gabon in November 2012. The findings of the regional study on Private Sector Investment Constraints in the Economic Community of Central African States (ECCAS), of which STP is a member, were presented for discussion to representatives from the government and the private sector.

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[1] PAGEF was approved on January 14, 2013, in the context of the new Country Strategy Paper (CSP) 2012-2016. It aims at improving the economic and financial governance, strategic planning, and to create an environment for private sector development.

[2] Approved on March 4, 2013, joint assistance will be provided by the Regional South Department (ORSB) and the African Legal Support Facility founded by the AfDB to offer legal advice and capacity building to African countries.

5. STP reached the Highly Indebted Poor Countries (HIPC) decision and completion points in 2000 and 2007, respectively. To this effect, the country became eligible for the MDRI with an estimated $99.56 million in debt service according to the terms of the MDRI. The AfDB total assistance under HIPC and MDRI amounted to $187.92 million. 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)
Human Resource Development	ADF Loan	3.5	55.7
Livestock Development Project – Phase II	ADF Grant	4.0	21.25
PRIASA	ADF Grant	5.0	16.0
General Population and Housing Census	ADF Grant	0.7	56.93
PAGEF	ADF+FSF	7	0.0
Technical Assistance and Capacity Building	ADF+FSF	0.2	0.0
Total		***20.4***	***37.47 (average)***

STATISTICAL ISSUES

(As of April, 2013)

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 (INE) 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 the recently completed household expenditure survey (rather than living conditions survey), using producer prices, and better estimates for agricultural production. INE is moving toward using a new system to better capture survey and market information and to include estimates of the informal sector.

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 use the results of the 2010 household survey to expand coverage nationwide. The authorities are working to compile new CPI based on the revised weights and increased coverage and data should be ready by end-2013.

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 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 (ODCs) was introduced in January 2010. The September 2010 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 and an inconsistent approach in the way banks report to the BCSTP. An investment bank which recently entered the market is not yet included in the coverage of ODCs. The central bank has begun to collect data from insurance companies which opened in the past few years. The asset size of insurance companies remains small enough not to warrant inclusion in monetary statistics at this time.

External sector statistics

11. 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, and unit prices and volumes of exports are only occasionally included. AFR does not receive any data on São Tomé and Príncipe's international investment position (IIP) as these data are not yet compiled by the BCSTP.

12. A March 2012 mission found inconsistencies in the classification of BOP operations and that 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. The mission assisted the authorities in creating a bridge table to report data in the *Balance of Payments Manual (BPM6)* format and outlined a set of recommendations and detailed work plan to improve compilation capacity. Resource constraints at the BCSTP have prevented the development of IIP data.

13. 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 May 20, 2013)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting	Frequency of publication
Exchange rates	May 2013	May 2013	D	D	D
International reserve assets and reserve liabilities of the monetary authorities [1]	May 2013	May 2013	D	D	D
Reserve/base money	May 2013	May 2013	D	D	D
Broad money	March 2013	May 2013	M	M	M
Central bank balance sheet	April 2013	May 2013	M	M	M
Consolidated balance sheet of the banking system	March 2013	May 2013	M	M	M
Interest rates [2]	March 2013	April 2013	M	M	M
Consumer Price Index	April 2013	May 2013	M	M	M
Revenue, expenditure, balance and composition of financing [3] – general government [4]	Dec. 2012	March 2013	Q	Q	Q
Revenue, expenditure, balance and composition of financing [3]– central government	Dec. 2012	March 2013	Q	Q	Q
Stocks of central government and central government-guaranteed debt [5]	Dec. 2012	March 2013	Q	I	Q
External current account balance	Dec. 2012	March 2013	A	I	A
Exports and imports of goods	March 2013	May 2013	M	M	A
GDP/GNP	2010	Aug 2011	A	I	A
Gross external debt	Dec. 2012	March 2013	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).

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review under the ECF for São Tomé and Príncipe and Approves US$ 0.564 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the first review under a three-year arrangement under the Extended Credit Facility (ECF) for São Tomé and Príncipe.[1] The completion of the review enables the disbursement of an amount equivalent to SDR 0.370 million (about US$ 0.564 million), which will bring total disbursements under the arrangement to SDR 0.740 million (about US$1.129 million). The Executive Board's decision was taken on a lapse of time basis.[2]

The economy of São Tomé and Príncipe remains vulnerable to shocks, as reflected in lower growth and a smaller decline in inflation than projected for 2012, but the authorities have managed to preserve hard-won fiscal prudence. Money growth accelerated slightly reflecting an accumulation of foreign exchange assets, while the central bank has continued to take steps to strengthen the financial sector.

Performance under the program has been good, despite a challenging environment. Increased efforts to contain spending against the backdrop of revenue and financing shortfalls helped achieve the fiscal targets, while supporting the exchange rate peg and contributing to reducing the rate of inflation. The authorities have also made good progress on structural reforms in the areas of tax administration, monetary management, financial stability, and the Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) framework.

While the medium-term outlook remains positive, reflecting the prospects for oil production and exports in 2015, the near-tem economic outlook is challenging. Growth in 2013 has been revised slightly downward to 4½ percent in light of lingering uncertainties in the global economy, while inflation has been revised slightly upwards. International reserves are expected to remain above 3 months import coverage.

[1] The IMF's framework for ECF is designed for low-income countries that need IMF financial assistance.
[2] The Executive Board takes decisions under its lapse of time procedures when it is agreed by the Board that a proposal can be considered without convening formal discussions.

The government should stay the course of prudent fiscal policy, while addressing the long-standing issue of cross-arrears. In this regard, it is crucial that the government keeps budgetary execution in line with the programmed fiscal target and continues with prudent external borrowing policies, while bolstering efforts to mobilize additional revenues to create more space for priority spending. The program will continue to focus on ensuring financial stability, including on-site inspection of banks, while the central bank should stand ready to require banks to raise capital, as needed, to ensure financial stability.

The three-year SDR 2.59 million (then about US$ 3.9 million) ECF arrangement with São Tomé and Príncipe was approved by the IMF's Executive Board on July 20, 2012 (see Press Release No.12/272).