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**Statement by Mr. Benk and Mr. Bayar on Democratic Republic of São Tomé and  
Príncipe  
(Preliminary)  
Executive Board Meeting  
July 27, 2020**

We thank staff for the comprehensive set of papers, and Messrs. Raghani and Carvalho da Silveira for their helpful Buff statement. Prior to the COVID-19 outbreak, São Tomé and Príncipe's (STP) Extended Credit Facility- (ECF) supported economic program was broadly on track, notwithstanding some delays in the complex structural reform objectives. Nonetheless, the pandemic has significantly deteriorated the economic outlook, owing particularly to a sudden stop in tourism, lower external demand, and weakening remittance inflows. Furthermore, the authorities' well-placed emphasis on the healthcare system, as well as the administrative measures to contain the propagation of the virus, have inevitably weighed on the economic activity and fiscal balances. Against this challenging backdrop, we take positive note of the authorities' continued commitment to reinstating macroeconomic stability and resuming their structural reform agenda in line with the adjusted ECF targets. **We therefore support the authorities' request for completion of the first review of the program under the ECF, the front-loaded augmentation of 10 percent of quota, and a rephrasing of access.** We would like to offer the following comments for emphasis.

**As the immediate pressures from the pandemic abate, a gradual fiscal adjustment is warranted to safeguard fiscal and debt sustainability.** We support the relaxation of the 2020 fiscal targets to accommodate the impact of the COVID crisis. We also welcome that this year's additional deficit is set to be fully financed by budgetary grants by the World Bank and African Development Bank. Nonetheless, STP has a very high public debt-to-GDP ratio – projected to exceed 100 percent in 2020 – as well as a persistent arrears problem. Therefore, delivering a fiscal adjustment consistent with the primary deficit targets of the ECF-supported program remains critical to put debt firmly on a downward path, contain inflation, and reduce external imbalances. We strongly support the authorities' efforts to mobilize domestic revenues, including the introduction of Value-Added Tax and improved tax administration. Containing the increase in expenditures is also critical, particularly through keeping the public wage bill under control. Here, we note that part of the recent hike

in spending stems from the education sector, where the authorities apparently struggled to honor competing objectives by different development partners. *On that note, we would appreciate if staff could comment on the cooperation between the Fund and other international organizations, especially in ensuring the coherence of their respective program objectives.*

**The monetary policy should strike a delicate balance between the system-wide liquidity needs and the need to preserve the currency peg.** We note that the Banco Central de São Tomé and Príncipe has relaxed reserve requirements and liquidity ratios to accommodate the pandemic-induced pressures in the markets. Nevertheless, monitoring and managing the system-wide liquidity remains critical, including through the issuance of certificates of deposit, to avoid a build-up of depreciation pressures that could undermine the sustainability of the currency peg and thus, the solvency of the sovereign.

**Strengthening financial supervision is a key program objective, given the significant vulnerabilities in the banking system.** Even before the pandemic, STP's banking system was already weakened by significant vulnerabilities, epitomized by persistent profitability problems and high non-performing loan ratios. It is therefore critical that the recommendations of the Asset Quality Review, particularly on provisioning and recapitalization, are implemented in line with the adjusted program deadlines. *Do staff see material risks around the fulfillment of identified recapitalization needs by end-2020?*

Finally, we welcome the authorities' commitment to a rigorous structural reform agenda, as set out in their National Sustainable Development Plan 2020-2024. In this regard, we agree that the reform efforts should prioritize (i) rehabilitating the energy sector; (ii) improving the business environment; (iii) providing equal opportunities to all; and (iv) enhancing the climate resilience of the economy.