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**Statement by Mr. Kiekens and Mr. Polák on
Democratic Republic of São Tomé and Príncipe
(Preliminary)
Executive Board Meeting
June 25, 2007**

We thank the staff for a realistic assessment of the current economic developments in São Tomé and Príncipe. We also appreciate Mr. Rutayisire's informative Buff statement. The Staff Report does not provide any significant changes from the staff's appraisal which was presented during the Board discussion on the Completion Point in March this year. Therefore, we will limit our remarks to some observations for emphasis.

It is noteworthy that the authorities were able to meet all the quantitative performance criteria and structural benchmarks for end-December 2006. We support the staff's recommendation to grant a waiver for the non-observance of the March 2007 structural performance criterion (the adoption of a decree to establish the new public accounting plan by end-March 2007). We understand that this was due to the delay in technical assistance and was supposedly out of the authorities' direct control.

We are encouraged by the sound macroeconomic policies implemented by the authorities. The progress made in improving the macroeconomic policies is welcome, especially enhancing the functionality of the foreign exchange market and the close cooperation between the Central Bank (BCSTP) and the Ministry of Finance in liquidity management.

The authorities' strong commitment to implement prudent budgetary measures on both the revenue and the expenditure sides is commendable. It is expected that tax reforms (indirect and direct taxes) will be introduced by end-June 2007. Also, a study of salary structure should be completed by end-June 2007. In this regard, could the staff please provide some preliminary insights? We welcome the authorities' readiness to reduce nonessential spending in order to offset the delays in implementing the tax reforms. We also support the inclusion of two additional structural benchmarks related to the public financial management for the fifth review, which should facilitate improvements in public expenditure management and state-owned enterprises.

It is encouraging that the authorities are aware that the medium-term budgetary performance depends critically on the prospects of oil export earnings and aid inflows. Since resources from oil production are not expected before 2014 and the commercial viability of the production is yet to be confirmed, we appreciate the authorities' intention to reassess the oil-related outlays based on the new evaluation of the Joint Development Authority. The authorities' contingency policy should be prudently incorporated in the use of signature oil bonuses. It is also noteworthy that the authorities are fully committed to work with the Paris Club and other creditors so as to benefit fully from the HIPC debt relief. Could the staff please update us on the outcome of the May 2007 meeting with the Paris Club?

The staff analysis shows the impact of unrealized oil bonuses for Blocks 5 – 6 on the fiscal adjustment over the medium term. Given the uncertainty behind the expected oil revenues, the authorities should not only continue to pursue prudent budgetary policies but also implement structural and governance reforms. The Report shows deterioration in the business climate ranking of São Tomé and Príncipe between 2005 and 2006. Further steps to improve investment climate will be essential for supporting growth and diversification of the economy. In this context, we note the revision of the medium-term growth projection. The current forecast shows a flat GDP growth at the rate of 6 percent annually during 2007-2010 as compared to the projection made in March (base line scenario in EBS/07/23) which showed a continued increase in GDP growth from 7 percent in 2007 to 8 percent in 2010. At the same time, the projection for inflation has remained unchanged. Could the staff explain these changes?