

IMF Executive Board Discusses the Ex Post Assessment of Longer-Term Program Engagement with São Tomé and Príncipe

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On June 20, 2012, the Executive Board of the International Monetary Fund (IMF) discussed the Ex Post Assessment (EPA) of Longer-Term Engagement with São Tomé and Príncipe.¹

Background

The report reviews the experience of the Fund's longer-term engagement with São Tomé and Príncipe since 2000. It covers three Poverty Reduction and Growth Facility (now Extended Credit Facility) arrangements and one staff-monitored program.

Fund-supported programs played a useful role in helping São Tomé and Príncipe ensure macroeconomic stability and advance key structural reforms, especially in the fiscal area, after a period of important imbalances in the 1990s. Annual real GDP growth has averaged 5 percent a year since 2000 and substantial progress has been made toward meeting the Millennium Development Goals. Satisfactory performance under the programs secured considerable debt relief under the Heavily Indebted Poor Country (HIPC) and Multilateral Debt Relief Initiatives (MDRI), and created space for an increase in pro-poor spending. However, overall program performance was mixed given a modest track record of completion of program reviews and limited success in containing inflationary pressures.

Executive Board Assessment

Executive Directors noted the Ex Post Assessment's conclusion that, while performance under successive Fund-supported programs in São Tomé and Príncipe since 2000 has been mixed, Fund involvement has helped improve macroeconomic policies and advance key structural reforms. Directors highlighted several lessons for future program design and implementation, including the paramount importance of strong program ownership by the authorities. Directors considered that a successor Fund-supported program will be useful, but it should take into account the specific challenges of São Tomé and Príncipe's small-island economy with limited resources and capacity. In particular, any future program should have more streamlined and macro-critical conditionality, focus the reform effort on the most critical areas, and be flexible enough to accommodate implementation constraints and uncertainty about the timing and magnitude of future oil production. Furthermore, program implementation would need to be supported by well-targeted and coordinated training and technical assistance. Directors underscored that future policy priorities should include strengthening shock buffers, containing inflation and public debt, increasing public sector efficiency and capacity, and improving the business environment. Given the fixed exchange rate regime and fragile debt situation, prudent fiscal and debt management will be crucial for macroeconomic stability and debt sustainability.

São Tomé and Príncipe: Selected Economic Indicators, 2000–2011

	Actual										Est.	
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
(Annual change in percent, unless indicated)												
National income and prices												
GDP at constant prices	4.0	3.1	2.0	6.7	4.5	1.6	12.6	2.0	9.1	4.0	4.5	4.9
Consumer prices												
End of period	9.6	9.4	9.0	10.0	15.2	17.2	24.6	27.6	24.8	16.1	12.9	11.9
Period average	12.2	9.2	10.1	9.8	13.3	17.2	23.1	18.6	32.0	17.0	13.3	14.3
Money and credit												
Broad money (M3)	25.1	38.8	27.3	53.8	1.0	45.1	27.9	38.1	36.8	8.2	25.1	8.0
Credit to the economy	4.9	9.6	50.2	117.9	83.9	81.9	48.8	33.9	22.8	39.1	40.0	15.1
Government finance												
(Percent of GDP, unless otherwise indicated)												

Total revenue, grants, and oil signature bonuses ¹	29.9	36.8	31.9	34.0	34.8	71.6	33.9	165.5	45.4	31.2	38.1	36.7
Total expenditure and net lending	40.0	49.7	42.6	44.1	50.9	40.6	46.5	40.1	31.2	49.6	49.1	47.4
Domestic primary balance ²	1.3	-8.5	-7.9	-9.3	-14.2	-10.1	-9.9	-8.5	-7.0	-8.0	-4.1	-3.4
Overall balance (commitment basis)	-10.1	-12.9	-10.7	-10.1	-16.1	30.9	-12.7	125.4	14.2	-18.4	-11.0	-10.7
External sector												
Current account balance												
Including official transfers	-18.5	-21.3	-18.7	-14.7	-16.0	-11.0	-25.8	-29.8	-22.0	-25.5	-34.1	-33.1
Excluding official transfers	-38.8	-45.9	-37.7	-35.2	-36.9	-36.8	-50.0	-46.4	-52.5	-42.9	-56.1	-52.2
Usable net international reserves ³												
Millions of U.S. dollars	11.6	13.0	14.3	16.0	10.9	10.6	20.6	22.5	40.9	43.7	38.5	32.7
Months of imports of goods and nonfactor services	5.3	5.3	5.1	5.1	3.1	2.2	4.5	3.5	6.9	5.7	4.4	3.3

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

¹ For 2007, includes IDA and AfDB MDRI debt relief as a stock of debt reduction.

² Excludes oil related revenues, grants, interest earned, scheduled interest payments, and foreign-financed capital outlay.

³ Gross reserves excluding (i) the National Oil Account and (ii) commercial banks' foreign currency deposits at the central bank that are needed to meet the reserve requirement for their foreign currency deposits or as application deposits for new licensing.

¹ An EPA is required for all members having longer-term program engagement with the Fund. It is intended to provide an opportunity for the Fund to step back from continuing program relations with a member country to consider an analysis of the economic problems facing the country, a review of progress under Fund-supported programs and forward-looking assessment that takes into account the lessons learned, and presents a strategy for future Fund engagement.

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