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July 19, 2018

**Statement by Mr. Fachada and Mr. Cheong on Democratic Republic of São Tomé and Príncipe
(Preliminary)
Executive Board Meeting
July 23, 2018**

1. We thank staff for the reports and Messrs. Sembene and Carvalho da Silveira for their helpful statement. The São Tomé and Príncipe authorities have made good progress over the past few years in addressing internal imbalances and implementing structural reforms. However, a combination of external and internal factors combined to affect both economic and program performance in 2017. Taking note of the authorities' program commitment to date and with staff assessing that São Tomé and Príncipe's capacity to repay the Fund is adequate, we support completion of the fifth review under the Extended Credit Facility (ECF). We also support the authorities' request for waivers for nonobservance of performance criteria.

2. Taking into consideration capacity constraints and the recent challenges, program performance has been roughly satisfactory. We support the inclusion of the prior actions to bring the fiscal targets back on track, although collecting tax arrears from specific companies can be challenging. On a positive note, implementation of structural benchmarks has been quite good, and plans are progressing to resolve remaining delays. Meanwhile, with risks to the outlook tilted to the downside, the authorities' commitment to strong policies will be required even beyond the program to ensure macroeconomic sustainability.

3. The authorities' expenditure driven fiscal consolidation effort over the past few years has been quite robust. Although capital expenditure has been reduced, current expenditure was also cut by 3.2 percent of GDP between 2015 and 2017, with staff anticipating a further 1 percent of GDP reduction in 2018. As a result, the overall fiscal position (commitment basis) is expected to swing to a small surplus in 2018, albeit temporarily, following years of large deficits. We welcome plans to mobilize revenues

through, *inter alia*, tightening collections from large taxpayers and the introduction of a value added tax (VAT) in 2019. Given the risks posed by state-owned enterprises (SOE), we agree with staff that SOE reform remains a priority, although diseconomies of scale make difficult any prospects of restructuring and privatization. *While we note that government has a minority equity position in ENCO, can staff indicate the other major stakeholders in the company and do staff and/or the authorities have any concerns from a macroeconomic sustainability and governance perspectives arising from these stakeholders?*

4. Decisive actions have been taken to resolve problem banks, but further efforts are needed to address remaining weaknesses. Banks in aggregate seem well capitalized and liquid, but non-performing loans are still extremely elevated. We welcome the recent upgrade of the credit registry, as well as the ongoing efforts by the central bank to complete the Asset Quality Review (AQR), improve the payment system infrastructure and develop a resolution manual. Finally, we commend the authorities for the successful redenomination of the currency in the beginning of the year.

5. Fostering job-friendly growth will be key to take advantage of São Tomé and Príncipe’s favorable demographic. Along with judicial reforms to improve the business environment, the development of various sector strategies and the National Development Plan are commendable. We welcome government’s plans to develop the blue economy and renewable energy sources, and encourage them to increase the level of environmental awareness among the citizenry. *Noting that oil related investment and FDI continue to be significant, can staff provide any updates on energy exploration activity?*

6. São Tomé and Príncipe is a fragile country, with significant technical assistance needs. As the staff report highlights, capacity building is fundamental for sustained reforms and development of São Tomé and Príncipe, and the authorities would welcome more hands-on technical assistance, particularly by long-term resident experts. The crucial role of ‘on-the-ground’ experts in fragile states has also been one of the main issues raised by the IEO in its last evaluation.¹ *Against this background, can staff indicate the reason/s why the longstanding principle that the IMF would maintain a resident representative office in program countries is not being followed in São Tomé and Príncipe? Additionally, what is staff’s view about the role of a resident representative in helping program implementation and capacity building in this case?*

¹ *IMF and Fragile States*, Mach 2018.