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

Sao Tome and Principe's economy has been steadily growing over the last years. Authorities are devoted to achieving stability, inclusive growth, economic diversification, and poverty reduction. Although program performance has experienced some inconveniences, the authorities are committed to its success by leading fiscal consolidation and conducting an appropriate monetary and financial policy. We thank staff for its documents and Messrs. Sembene and Carvalho for their comprehensive buff statement and support the Fifth Review Under the Extended Credit Facility and the Request for Waivers for Nonobservance of Performance Criteria, and Financing Assurances.

On the fiscal stance, we note that the program results were mixed with some performance criteria missed such as the domestic primary deficit (DPD), indicative targets on tax revenue and new domestic arrears, but note that the authorities are fully committed to implementing reforms and fiscal consolidation and that the initial actions aim at reducing DPD by improving tax collection and accumulated tax liabilities and restraining current and capital public expenditures and prioritizing arrears clearance, if possible. We welcome the broadening the financing possibilities by implementing liquidity management and the issuance of T-bills. Although we note that authorities are working on a capacity development (CD) strategy for strengthening public finance administration in the medium term, including enhancement of the tax system by implementing VAT (by 2019), as well as improvement of the Public Financial Management framework—with the assistance of the AfDB—and the transformation of SOEs, we agree with staff that it is necessary to strengthen fiscal consolidation to improve the fiscal position and reduce public debt. *Staff comments on why arrears of EMAE have continue to increase despite measures is welcome.*

The financial system shows vulnerabilities regarding the quality of assets, capital adequacy, and the absence of a robust institutional framework on prudential standards. We note the authorities' commitment to working on the bank and financial system soundness by

developing an institutional financial framework. We encourage the development and implementation of the instruments for improving the quality of assets and the creation of prudential and regulatory norms. International accounting standards need to be implemented. BCSTP has taken actions for upgrading the credit registry but developing a prudential, and regulatory framework is of the essence for banking system soundness. Promoting financial inclusion is highly recommended.

We welcome the authorities' commitment to achieving sustainable, inclusive growth in the medium and long term, their actions on several fronts, and the design of the development plan (NDP) 2017–2021 with various desirable targets.