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Joint Statement by Mr. Psalidopoulos, Mr. Rashkovan, Ms. Lopes, and Mr. Manchev on Democratic Republic of São Tomé and Príncipe
(Preliminary)
Executive Board Meeting
July 23, 2018

We thank staff for the insightful reports and Mr. Sembene and Mr. Carvalho da Silveira for their helpful Buff statement. São Tomé and Príncipe continues to grow steadily, and progress has been made to foster macroeconomic stability. Nonetheless, the country is in debt distress, and the authorities should step up to achieve a balanced and sustainable fiscal consolidation and implement the reforms to promote medium-term growth. We support the completion of the fifth review and the requested waivers. As we broadly share the thrust of the staff appraisal, we would like to offer just a few comments.

The fiscal consolidation strategy needs to continue and should adequately balance revenue and expenditure measures. It is underwhelming that all fiscal performance criteria have been missed for end-December; a trend that seems to have continued this year, as preliminary data points to the same outcome for March indicative targets. This happened even after sizable corrective measures, many on the expenditure side, were taken to correct for earlier slippages as revenue shortfalls continue to undermine fiscal outcomes. Going forward, it is key to step up domestic revenue mobilization efforts, to ensure that development needs are properly addressed and priority expenditures are not curtailed, in a context of decreasing reliance on donor support.

Public Financial Management (PFM) efforts should be strengthened, and fiscal risks posed by state-owned enterprises (SOE) tackled. Slow progress in the PFM reform agenda has already impacted donor disbursement, and we encourage the authorities to work closely with development partners and the Fund to progress on this front. We agree with the main objectives spelled out in the authorities' capacity development strategy, notably to improve budget preparation and execution, including control of arrears. SOEs, notably ENCO and EMAE, pose significant fiscal risks, and we look forward to the outcome of the ongoing audit. Furthermore, we encourage the authorities to move forward with the adoption of the financial management plan and least cost energy-production plan, of which the completion is already delayed.

Further progress with addressing NPLs is key. While the financial sector soundness indicators have improved and coverage with provision is high, the NPL ratio remains close to 25 percent at end-2017. Although the SIP on the analysis of NPLs based on credit registry data was quite interesting, we wonder why many of these loans have not been written off from the balance sheets. *Staff's comments would be appreciated*. Going forward, we note that BCSTP agreed with the recommendation to introduce a requirement for banks to write off a loan when it is past-due for a certain period. We look forward to the results of the asset quality review, which has regrettably been delayed.

Program performance has been mixed, and we note that "The continuous PC that prohibits the introduction or intensification of exchange restrictions was inadvertently breached." However, as it is pointed out in the report, this breach occurred in in March of last year, before the discussion on the third and fourth review. So, it is quite surprising to note that this inadvertent infringement did not involve a misreporting incident, as staff was actually informed about the changes in due time. *Could staff clarify why they did not perceive these changes as a breach of the PC at that time? Furthermore, while we assume that the commitment of the authorities to this PC is reflected in the Letter of Intent ("(…) the government will not introduce or intensify any exchange restrictions (…)."), we would like to understand why the continuous PC is not included in table 1 of the MEFP.*