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

We would like to thank staff for a clear and concise report and Mr. Sembene and Mr. Carvalho da Silveira for their informative Buff statement.

We support the authorities' request for Fifth Review under the Extended Credit Facility (ECF), Request for Waivers for Nonobservance of Performance Criteria, Financing Review and thus the Proposed Decision. We base our support on the progress achieved in the economy, as reflected in the consistent measures in the economic policy under the ECF arrangement, outcomes achieved in fiscal consolidation and structural reforms agenda, and the agreement on corrective measures reached by staff and the authorities to keep the program on track. As expressed by the authorities in their Letter of Intent, they maintain their commitment to continue applying sound macroeconomic policies and structural reforms in the framework with its development strategies.

São Tomé and Príncipe has made important progress, showing indicators of recovery and the forecast is favorable if structural reforms are strengthened by sustainable and appropriate policies. Economic growth is expected to be 4.0 percent in 2018 and it is projected to rise to 5.0 percent over the medium term, supported by public investments. Overall, the other key macroeconomic indicators are currently stable and exhibit a positive performance. However, risks related to the external position, which is assessed to be moderately weaker, and spending pressures for pre-elections, could delay and affect this positive outlook. We support the implementation of structural reforms to consolidate the gains from macroeconomic stabilization achieved under the ECF agreement to promote sustainable and inclusive growth.

Efforts to enhance the fiscal consolidation process through a prudent fiscal policy remain important. In recent years, the overall balance and the domestic primary deficit (DPD) decreased due to the correctives measures adopted and implemented to improve the

fiscal position. However, the staff report shows that the continued underperformance in revenues exposes certain vulnerabilities and the possibility of creating fiscal space to generate resources, expand investment, and reduce public debt will be in jeopardy. We support the target over the medium term to maintain the DPD close to 1 percent of GDP to improve the fiscal consolidation process. We concur with staff's recommendation on strengthening the fiscal sector through the preparation and adoption of VAT, improving public expenditure efficiency, and actions to reduce arrears in state-owned enterprises.

We welcome the country's efforts to improve the public debt outlook trajectory and calls to continue deepening fiscal consolidation in order to reduce debt-related risks.

The updated Debt Sustainability Analysis (DSA) indicates that public debt ratios have improved and are sustainable in the medium term, due to the negotiations on rescheduling external arrears with different creditors' countries. Nevertheless, the country faces an increased risk arising from domestic arrears denominated in U.S. dollars and contingent liabilities associated with state-owned enterprises. We support the implementation of policies consistent with the DSA, such as continuing fiscal consolidation, prudence in contracting new debt, and diversification of the economy and export base.

The financial system's soundness indicators improved favorably but further actions are necessary to strengthen supervision and deepen reforms. There has been a remarkable decrease in non-performing loans (NPLs) although we note that they are still high. As the staff report shows the financial system-wide capital has improved from 28 to 33.6 percent in 2017 but, nevertheless, pockets of vulnerability persist and require vigilance. The authorities should continue to closely monitor the performance of the financial sector, maintain the decreasing trend in NPLs, and strengthen the oversight through reforms in the legal system to assist loan recovery and support economic growth. We support staff's recommendation on the implementation of the safeguards assessment without delay.

We support the implementation of structural reforms to promote inclusive growth. São Tomé and Príncipe's economy has particular characteristics as a dual-island state, poverty and unemployment are persistent, and it is vulnerable to climate change. In this framework, the authorities prepared a tourism development strategy and the National Development Plan (NDP 2017-2021) to operationalize their long-term development agenda. We are in favor of the authorities' efforts to continue the implementation of structural reforms to increase the competitiveness of the economy by creating a business climate for private investment and the implementation of infrastructure projects to support key sectors, such as tourism, agriculture, and fisheries.

With these comments, we wish São Tomé and Príncipe and its people success in their future endeavors.