

**EXECUTIVE
BOARD
MEETING**

EBS/19/83
Correction 1

September 26, 2019

To: Members of the Executive Board

From: The Secretary

Subject: **Democratic Republic of São Tomé and Príncipe—Request for a 40-Month
Arrangement Under the Extended Credit Facility**

Board Action:

The attached correction to EBS/19/83 (9/19/19) has been provided by the staff:

**Factual Errors Not
Affecting the
Presentation of Staff's
Analysis or Views**

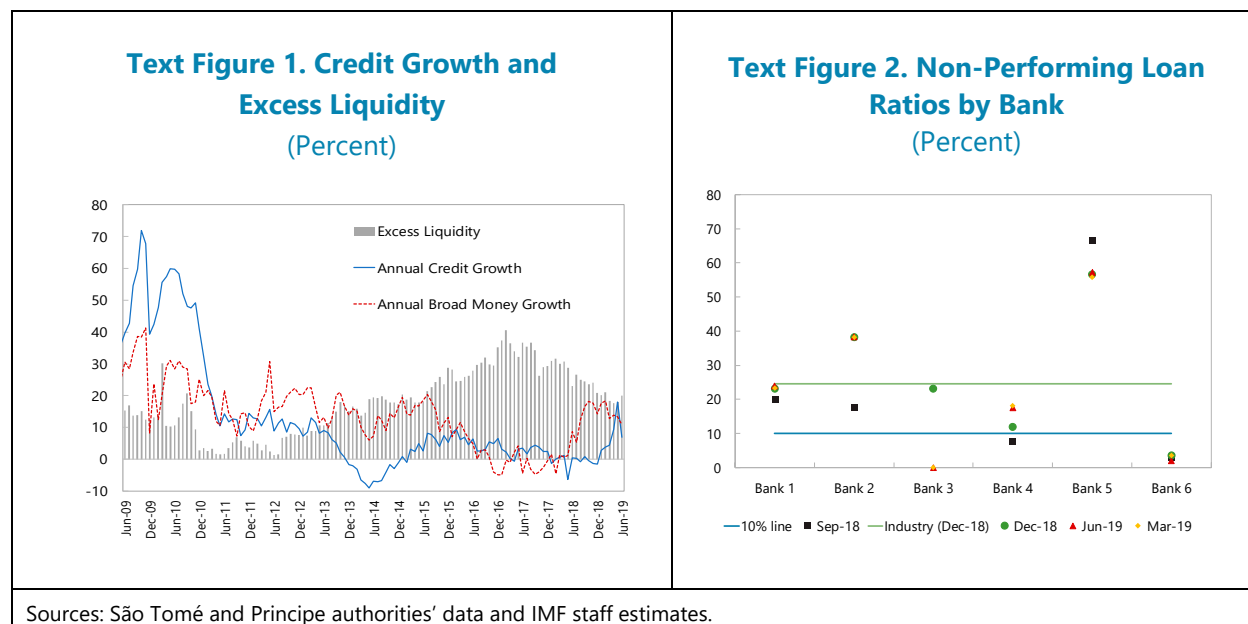
Page 6

Questions:

Ms. Li, AFR (ext. 36227)

reflecting lower imports due to lower FDI and project loans. Nonetheless, foreign outflows outpaced inflows because of the fiscal expansion, large public outlays, notably for the new central bank building, and the issuance of redenominated bills.¹ This brought GIR (excluding the oil fund) down by \$16.3 million (1.5 months of prospective imports) to 3.3 months of imports at end-2018, below the IMF LIC reserve adequacy metric of 3.8 months of imports.² As of end-June 2019, disbursements of external grants raised GIR to \$45 million (4.1 months of imports), although this level is bound to fall as projects are implemented.

9. Credit to the economy contracted. Lending fell by 1.6 percent in 2018 and continued to be anemic during the first semester of 2019, as banks were hesitant to lend while the economy was slowing. Non-performing loans (NPLs) remained high at about 25 percent at end-June 2019. A weak judiciary system impedes collection on defaulted loans, and government-payment delays further impaired suppliers' loan servicing. Banks' balance sheets are also constrained by loan exposures to state-owned enterprises (SOEs), particularly to loss-making EMAE. The recently-concluded asset quality review (AQR) found widespread loan misclassification, requiring additional provisioning and re-capitalization by some banks. As a result, the banking system is barely breaking even, and the market dominance of a large partially state-owned bank could contribute to losses at smaller banks. Meanwhile, banks' excess liquidity declined, driven by higher government borrowing, but is still elevated (Text Figures 1 and 2).



¹ About \$4 million was paid for a new central bank building in 2018. The redenomination of the dobra cost \$1.7 million in 2018 and \$1.1 million in 2017.

² The inclusion of the country's oil fund would raise GIR to 5.1 months of imports; ~~and a €25 million credit line with the Bank of Portugal also provides some buffer, and a €25 million contingent credit facility with the Portuguese Treasury also provides some buffer.~~