

SU/19/151

October 3, 2019

**The Acting Chair's Summing Up
Democratic Republic of São Tomé and Príncipe—Request for a
40-Month Arrangement Under the Extended Credit Facility
Executive Board Meeting 19/84
October 2, 2019**

Executive Directors welcomed São Tomé and Príncipe's commitment to pursue a policy and reform agenda to reinstate macroeconomic stability, bring down the high debt level, and address structural bottlenecks to boost inclusive growth and achieve poverty reduction. However, Directors emphasized the important downside risks to the program given the country's fragilities, limited resources, and low institutional capacity and against the background of past policy slippages and limited progress achieved under previous programs. In this context, they emphasized the importance of strong program ownership and implementation of measures to address capacity constraints through hands-on technical assistance, including considering a resident representative office. They noted that such efforts would catalyze additional development support, and help foster sustainable, inclusive growth and poverty reduction.

Directors highlighted the importance of sustained fiscal consolidation, while protecting the vulnerable, to reduce public debt as the country is in debt distress. They underscored the need to increase domestic revenues, including by introducing a VAT, strengthening tax administration and public financial management, and expenditure restraint. Directors welcomed the authorities' commitment to eschew non-concessional loans, limit external concessional borrowing, address arrears as well as strengthen the financial position and oversight of state-owned enterprises, including the public utility company EMEA. They also encouraged the authorities to strengthen debt management capacity. Directors also welcomed the complementary World Bank social protection program to protect the most vulnerable households.

Directors supported the proposed monetary tightening, as a complement to fiscal consolidation, to alleviate foreign exchange reserve pressures and rein in inflation. They encouraged the authorities to continue financial sector reform, including implementing the Asset Quality Review recommendations, addressing the legacy of non-performing loans, improving supervision, and developing a national financial inclusion plan. They stressed that the safeguards assessment recommendations should be implemented without delay. They welcomed the effort to develop the capability to process international credit cards to boost local tourism and foreign exchange reserves.

Directors welcomed the authorities' pursuit of structural reforms, including to improve the business climate and reform the energy sector to support private sector-led inclusive growth. They welcomed the commitment to implement the tourism development strategy and promote women's economic empowerment and financial inclusion. Directors also encouraged the authorities to focus on high return infrastructure projects.