

**EXECUTIVE
BOARD
MEETING**

EBS/20/127
Supplement 2

July 20, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Democratic Republic of São Tomé and Príncipe—First Review Under the Extended Credit Facility and Request for Augmentation of Access, Rephasing of Access, and Financing Assurances Review—Informational Annex**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Monday, July 27, 2020
Publication:	Yes*
Questions:	Ms. Li, AFR (ext. 36227) Mr. Srour, AFR (ext. 36184) Ms. Kolovich, AFR (ext. 38882)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—African Development Bank, World Trade Organization

*The authorities have indicated that they consent to the Fund's publication of this paper.



INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

July 20, 2020

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY AND
REQUEST FOR AUGMENTATION OF ACCESS, REPHASING OF
ACCESS, AND FINANCING ASSURANCES REVIEW —
INFORMATIONAL ANNEX

Prepared By

The African Department (in consultation with other
departments)

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RELATIONS WITH THE FUND

(As of June 30, 2020)

I. Membership Status: Joined: September 30, 1977; Article XIV

II. General Resources Account:	SDR Million	%Quota
Quota	14.80	100.00
IMF's Holdings of Currency (Holdings Rate)	14.80	100.02
Reserve Tranche Position	0.00	0.00

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	7.10	100.00
Holdings	0.42	5.87

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
RCF Loans	9.03	61.00
ECF Arrangements	6.34	42.82

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Oct 02, 2019	Feb 01, 2023	13.32	1.90
ECF	Jul 13, 2015	Dec 31, 2018	4.44	3.81
ECF	Jul 20, 2012	Jul 13, 2015	2.59	1.11

VI. Overdue Obligations and Projected Payments to Fund ^{1/}

(SDR Million; based on existing use of resources and present holdings of SDRs):

	2020	2021	Forthcoming	2023	2024
Principal	0.07	0.41	0.60	0.75	0.76
Charges/Interest	0.00	0.01	0.01	0.01	0.01
Total	0.08	0.42	0.61	0.75	0.77

^{1/} When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	Enhanced Framework
Decision point date	Dec 2000
Assistance committed by all creditors (US\$ Million) ^{1/}	124.30
Of which: IMF assistance (US\$ million)	1.24
(SDR equivalent in millions)	0.82

Completion point date	Mar 2007
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	0.82
Interim assistance	--
Completion point balance	0.82
Additional disbursement of interest income ^{2/}	0.04
Total disbursements	0.87

^{1/} Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

^{2/} Under the enhanced framework, an additional disbursement is made corresponding to interest income earned on the amount of HIPC assistance committed but not disbursed.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I.	MDRI-eligible debt (SDR Million) ^{1/}	1.43
	Financed by: MDRI Trust	1.05
	Remaining HIPC resources	0.38
II.	Debt Relief by Facility (SDR Million)	

Eligible Debt

Delivery Date	GRA	PRGT	Total
December 2007	N/A	0.38	0.38
March 2007	N/A	1.05	1.05

^{1/} The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

IX. Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
N/A	Apr 13, 2020	0.11	0.11

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Safeguards Assessments:

Safeguards assessments were conducted in 2009, 2013, 2015, and 2019. Limited progress has been made on strengthening safeguards at the Central Bank of Sao Tome and Principe (BCSTP). While external audits continue to be conducted by reputable audit firms, capacity constraints have contributed limited progress in strengthening the safeguards framework at the BCSTP. An updated central bank law, which will improve the autonomy and independence of the BCSTP, has been submitted to the BCSTP Board but still needs to be passed by parliament. The financial position is weak, and the implementation of international financial reporting standards remains work in progress. The internal audit function continues to face capacity constraints and independent oversight of daily operations continues to be lacking. Technical assistance is necessary to advance the needed reforms in the areas of financial reporting and internal audit.

Exchange Arrangements:

The *de jure* and *de facto* exchange rate arrangement is a conventional peg against the euro. São Tomé and Príncipe has pegged the dobra to the euro since January 2010, initially at a rate of dobra 24,500 per euro; however, it redenominated the currency by removing three zeros in January 2018. The organic law of the BCSTP authorizes it to make decisions regarding exchange rate policy. The commission on foreign exchange sales by banks cannot be higher than 2 percent for the euro, while the spread for other currencies cannot exceed 4 percent. Purchases of euro by banks must be done at the rate published by the BCSTP and no commissions are allowed. The BCSTP finances current international transactions at the official exchange rate and only after verification of the documentation establishing the bona fide nature of the bank's request. Access to foreign exchange is limited to banks having a net open position in the transaction currency of less than 12 percent of qualified capital, a net open position in total foreign currency less than 25 percent of qualified capital, and which are in compliance with the solvency and liquidity ratios set by the central bank, as well as minimum capital requirement. Banks are allowed to have a direct access to the central bank's facilities regardless of the above conditions if the foreign exchange is to be used for importation of goods in periods of crisis or for the importation of fuel. The central bank charges 1.5 percent commission on sales of euro and a 0.5 percent commission on purchases of euro. The buying rate is mainly indicative because the BCSTP rarely makes purchases.

São Tomé and Príncipe continues to avail itself of the transitional arrangements under Article XIV, but it does not maintain restrictions under Article XIV. However, it maintains restrictions subject to Fund approval under Article VIII. One exchange restriction regarding limitations on the

transferability of net income from investment arises from Article 3(g) and Article 18 of the Investment Code (Law No. 19/2016). This restriction results from the requirement that taxes and other obligations to the government have to be paid/fulfilled as a condition for transfer, to the extent the requirement includes the payment of taxes and the fulfillment of obligations unrelated to the net income to be transferred. The second exchange restriction arises from limitations on the availability of foreign exchange through rationing of foreign exchange by BCSTP. This exchange restriction also gives rise to a multiple currency practice as the rationing has channeled bona fide current transactions to the parallel market where the exchange rate is at a spread of more than 2 percent from the exchange rate in the formal market.

Article IV Consultation:

São Tomé and Príncipe is currently under a 24-month consultation cycle. The Executive Board concluded the last Article IV consultation on July 23, 2018.

Financial Sector Assessment Program (FSAP), Reports on Observance of Standards and Codes (ROSCs), and Offshore Financial Center (OFC) Assessments:

None.

Resident Representative:

The Fund has not had a Resident Representative office in São Tomé and Príncipe since October 2006.

Technical Assistance 2016–20:

Date of Delivery	Department/Purpose
June-20	STX remote mission on customs administration
June-20	AFRITAC remote mission on commitment plans
June-20	AFRITAC remote mission on macro-fiscal forecasts
June-20	AFRITAC remote mission on national accounts
February-20	AFRITAC mission on budget execution and controls
January-20	LEG mission on financial institutions law
January-20	STX mission tax administration
January-20	AFRITAC mission on macro-fiscal framework
December-19	LEG mission on BCSTP organic law
November-19	MCM mission on monetary operations
November-19	FAD mission on budget execution and controls
November-19	STX mission on VAT and Excise implementation
November-19	AFRITAC mission on national account statistics
September-19	STX mission on government finance statistics
September-19	AFRITAC Customs revenue mobilization
September-19	STX mission tax administration
August-19	MCM mission on open market operations
July-19	STX mission tax administration
June-19	STX mission revenue administration
May-19	AFRITAC mission on banking reg. and supervision
May-19	STX mission on revenue administration
May-19	FAD mission on revenue administration

Date of Delivery	Department/Purpose
April 2019	AFRITAC mission on national accounts statistics
March 2019	AFRITAC mission on government finance statistics
December 2018	AFRITAC mission on government finance statistics
December 2018	AFRITAC mission on banking reg. and supervision
October 2018	AFRITAC mission on government finance statistics
October 2018	AFRITAC mission on debt management
September 2018	AFRITAC mission on government finance statistics
August 2018	STX mission on tax policy
August 2018	FAD mission on revenue administration
August 2018	FAD mission on PFM

Date of Delivery	Department/Purpose
June 2018	AFRITAC mission on national accounts statistics
June 2018	FAD mission on preparation for VAT
May 2018	FAD mission on customs administration
May 2018	AFRITAC training workshop on debt management
May 2018	AFRITAC mission on banking reg. and supervision
April 2018	AFRITAC mission on GFS
February 2018	AFRITAC mission on customs administration
February 2018	STA mission on BoP statistics
January-April 2018	FAD Peripatetic expert on preparation for VAT
January 2018	STA mission on price statistics
January 2018	AFRITAC mission on national accounts statistics
January 2018	AFRITAC mission on customs administration
December 2017	AFRITAC mission on banking reg. and supervision
December 2017	AFRITAC mission on public debt management
November 2017	MCM mission on bank resolution and liquidation
November 2017	LEG follow-up mission on VAT tax law
August 2017	AFRITAC mission on government finance statistics
July 2017	FAD mission on budget execution and control
March 2017	FAD mission on revenue administration
March 2017	FAD mission on arrears management
March 2017	STA mission on national accounts statistics
February 2017	MCM mission on banking supervision and regulation
November 2016	MCM mission on bank resolution and liquidation
August 2016	MCM mission on banking supervision and regulation

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank

<http://www.worldbank.org/en/country/saotome>

African Development Bank

<https://www.afdb.org/en/countries/southern-africa/sao-tome-and-principe/>

STATISTICAL ISSUES

(As of July 7, 2020)

I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision has some shortcomings, particularly in terms of timeliness of data, although it is broadly adequate for surveillance. More effort is needed to enhance macroeconomic statistics collection, particularly for leading indicators of economic activity and tourism data. Financial capacity and technological resource constraints have delayed efforts to strengthen the statistical system. Key shortcomings are in the national accounts and fiscal sector.</p>
<p>National Accounts: The Instituto Nacional de Estatística (INE) compiles and publishes annual GDP series, using an outdated base year (2008) and insufficient source data. The GDP time series contain several shortcomings, including use of ratios of intermediate consumption to output fixed over time at current prices, and GDP estimates by the expenditure approach with household final consumption expenditure estimated as a residual. The INE continues to work on improvements to source data. The latest estimate of GDP is for calendar year 2018, which is still subject to revision. Quarterly estimates of GDP are not compiled, but AFRITAC Central has started to provide technical assistance for their development.</p>
<p>Consumer Price Statistics: INE began to disseminate an updated CPI series (base: 2014 = 100) from January 2016. With the assistance of AFRISTAT, the product basket was changed and the weights were updated, using the results of the household expenditure survey (HES) conducted in 2010. Due to financial constraints, the CPI only covers the capital city. An STA technical assistance mission in fiscal year 2018 reviewed the re-referenced index, performed diagnostics on the entire series, linked the pre- and post-rebased series to produce an analytical series for the IMF database and statistical purposes. The mission also considered INE's plans for further updates to the CPI upon completion of the new HES, which is underway with World Bank support.</p>
<p>Government Finance Statistics: Detailed revenue and expenditure data are compiled and reported to AFR. The main areas that need to be strengthened are: (i) monitoring of expenditures on projects financed by donors; and (ii) financing operations. All project loans (financed by donors) are programmed in the budget, but some are executed independently. The government has requested development partners to help in recording all external financing in the budget. The recording of financing operations and stocks is expected to improve with the expected improvement of debt data management capacity. The 2010–16 government accounts have been finalized and submitted to the Court of Audit. The authorities are working on the 2017 government account.</p> <p>STP joined the AFRITAC Central project in 2017 with plans to develop GFS. TA missions completed in 2017 and 2018 focused on: i) identifying the priorities in terms of the GFS compilation and suggested to the authorities a migration path towards the full adoption of the Government Finance Statistics Manual 2014 (GFSM 2014) principles; and ii) assisting the Ministry of Finance to compile GFS for the budgetary central government for one fiscal year in accordance with the</p>

GFSM 2014. A TA mission in March 2019 supported the authorities in the ongoing capacity development program aimed at improving fiscal data compilation (implementing the framework of the Government Finance Statistics Manual 2014 (GFSM 2014)).

An AFRITAC Central workshop in 2019 focused on the i) selection of data sources for compiling the TOFE; ii) procedures and mechanisms for producing GFS from government entities trial balances and financial statements; and iii) transmission of GFS and public sector debt statistics to STA.

Monetary and Financial Statistics: STA missions provided technical assistance on monetary statistics in December 2004, April/May 2006, June 2007 and September 2010. As a result, the accuracy and timeliness of monetary data reported in the standardized report forms (SRF) for the central bank and the other depository corporations' data improved significantly. The BCSTP reports monthly data to STA for the central bank and other depository corporations (ODCs) on a regular basis, although with some delays for ODCs.

The BCSTP monthly trial balance sheet is broadly adequate to compile monetary statistics in line with the *Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)*. The central bank has begun to collect data from insurance companies that opened in the past few years. The asset sizes of insurance companies remain small enough not to warrant inclusion in monetary statistics at this time.

The central bank produces a quarterly FSI table. MCM TA missions on banking supervision have helped expand the coverage of the table and improved the data quality. TA missions in December 2018, May 2019, and November 2019, led by the Central Africa Regional Technical Assistance Center (AFRITAC Central, AFC), focused on supporting the BCSTP in implementing risk-based banking supervision. AFC plans to fund two banking regulation and supervision missions to BCSTP each fiscal year to support the authorities with operational and hands-on technical assistance.

BCSTP reports some data and indicators to the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

External Sector Statistics (ESS): The BCSTP compiles quarterly balance of payments and international investment position (IIP) statistics consistent with the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*. Data submission to STA is regular, although timeliness should be improved (lags exceed two quarters) and further work is needed to improve coverage, reliability, and level of detail.

Response rates to surveys of the nonfinancial sector are low and the net errors and omissions remains very large; the BCSTP is evaluating other data collection methods to be relied on until the survey response rate is deemed adequate. Direct access by compilers to oil trade data is essential to improve the quality of ESS. Procedures for compiling consistent travel data need to be improved, as well as data on direct investment related to oil exploration in Sao Tome and Prince

territory. Further work is also needed improve the compilation and consistency of financial transactions and IIP statistics.

The most recent technical assistance mission (February 2018) found challenges related to the low response rate to surveys, limited granularity and coverage of the goods account, and constrained staff resources.

II. Data Standards and Quality

São Tomé and Príncipe is a participant in the Fund's enhanced General Data Dissemination System (eGDDS) and has successfully published critical economic data for surveillance on the National Summary Data Page since May 2019.

Democratic Republic of São Tomé and Príncipe: Table of Common Indicators Required for Surveillance

(As of June 28, 2020)

	Date of Last Actual Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting	Frequency of Publication
Exchange rates	April 2020	May 2020	M	M	M
International reserve assets and reserve liabilities of the monetary authorities ¹	April 2020	May 2020	M	M	M
International investment position	Q3 2019	Jan 2020	Q	Q	Q
Reserve/base money	April 2020	May 2020	M	M	M
Broad money	April 2020	May 2020	M	M	M
Central bank balance sheet	April 2020	May 2020	M	M	M
Consolidated balance sheet of the banking system	April 2020	May 2020	M	M	M
Interest rates ²	April 2020	May 2020	M	M	M
Consumer Price Index	March 2020	April 2020	M	M	M
Revenue, expenditure, balance and composition of financing ³ – general government ⁴	May 2018	Jun 2018	M	M	M
Revenue, expenditure, balance and composition of financing ³ – central government	May 2018	Jun 2018	M	M	M
Stocks of central government and central government-guaranteed debt ⁵	Dec 2017	Mar 2018	M	Q	Q
External current account balance	Q1 2020	Jun 2020	Q	Q	Q
Exports and imports of goods	Q1 2020	June 2020	Q	Q	Q
GDP/GNP ⁶	2017	Mar 2018	A	A	A
Gross external debt	Dec 2017	Mar 2018	M	Q	Q

¹ Includes reserve asset pledged or otherwise encumbered as well as net derivative positions.

² Central bank's reference rate.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); not available (NA).