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DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

January 2025

REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SÃO TOMÉ AND PRÍNCIPE

In the context of the Request for an Arrangement Under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 19, 2024, following discussions that ended on October 21, 2024, with the officials of São Tomé and Príncipe on economic developments and policies underpinning the IMF Arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 6, 2024.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Staff Statement** updated information on recent developments.
- A **Statement by the Executive Director** for the Democratic Republic of São Tomé and Príncipe.

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PRESS RELEASE

PR24/490

IMF Executive Board Approves a New 40-month Extended Credit Facility (ECF) Arrangement for Democratic Republic of São Tomé and Príncipe

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved today a 40-month arrangement under the Extended Credit Facility (ECF) in the amount of SDR 18.5 million (approximately US$24 million) for São Tomé and Príncipe. The Board's decision allows for an immediate first disbursement of about US$5 million to São Tomé and Príncipe.
- The authorities' reform program aims to restore macroeconomic stability, while protecting the vulnerable and establishing a foundation for more rapid and inclusive growth. It encompasses urgent reforms in the electricity sector and medium-term structural adjustments to foster green energy and unleash the country's growth potential.
- The ECF arrangement is expected to catalyze additional external financing from development partners.

Washington, DC – **December 19, 2024:** The IMF Executive Board today approved a 40-month ECF arrangement for São Tomé and Príncipe, in the amount of SDR 18.5 million (approximately US$24 million, or 125 percent of the country's quota), to support the nation's economic and structural reforms. The Board's decision enables an immediate disbursement of SDR 3.964 million (about US$5 million). The remaining amount will be disbursed over the duration of the arrangement, subject to semi-annual reviews.

São Tomé and Príncipe is facing major macroeconomic challenges, including high fuel import needs, limited export potential, and low international reserves. A severe balance of payments shock in early 2023 created a large external financing gap. The economy faced low growth in 2022 and 2023 due to foreign exchange and energy shortages, while inflation stayed high. Growth is expected to remain weak in 2024, although inflation has started to decline.

Building on critical steps already taken, the authorities' ambitious reform initiative seeks to restore macroeconomic stability, improve living conditions, and promote sustainable and inclusive growth. This plan entails a substantial fiscal adjustment, which is crucial for reducing high public debt and rebalancing the economy under a pegged exchange rate, while also ensuring the protection of vulnerable groups. It includes urgent reforms in the electricity sector and medium-term structural changes to facilitate the transition to green energy and unlock the country's growth potential.

Following the Executive Board discussion, Bo Li, Deputy Managing Director and Chair, made the following statement:

"São Tomé and Príncipe has been facing significant challenges amid multiple shocks, low international reserves, and high debt vulnerabilities. In response, the authorities have designed a strong economic program to address protracted balance of payment needs, strengthen reserves, restore macroeconomic stability, and boost medium-term growth.

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“While growth remains sluggish, stubbornly high inflation has finally started to decline. Decisive implementation of the authorities’ economic program will support the economic recovery. The outlook is subject to significant downside risks.

“To strengthen the external position the authorities are implementing short-term policies to reduce external financing needs and structural reforms to strengthen competitiveness, diversify the economy, and boost exports. Given sizeable financing needs, strong and timely support from donors is critical.

“The authorities are pursuing an ambitious and front-loaded fiscal adjustment while protecting priority social spending. They introduced a VAT and achieved a significant fiscal improvement in 2023. Developing and implementing a domestic revenue mobilization strategy will be critical to achieve the medium-term fiscal targets. The programmed fiscal adjustment and cautious borrowing will help place public debt on a downward path. The authorities are committed to strengthen the fiscal framework, increase transparency in public procurement, and enhance governance.

“The authorities remain committed to maintaining debt sustainability, including through prudent borrowing practices and a focus on securing grant financing and concessional loans. They are actively engaging with creditors on arrears and are working on developing a medium-term debt management strategy.

“The authorities continue their efforts to reduce inflation, maintain financial stability, and accumulate international reserves. They are committed to adopting the new central bank organic law and implementing the remaining safeguards recommendations.

“The envisaged comprehensive reform of the energy sector and gradual shift towards renewable energy sources will help to reduce fuel imports, boost international reserves, and contain fiscal risks. Further efforts to boost private sector-led growth and reduce poverty are appropriately focused on strengthening human capital, building infrastructure, increasing climate resilience, and promoting women’s economic empowerment.”

Program Summary

The proposed 40-month arrangement aims to underpin the authorities' efforts to address protracted São Tomé and Principe's balance of payments needs, strengthen the reserve position, restore macroeconomic stability, and boost medium-term growth. Key priorities under the ECF include:

Restoring fiscal sustainability and reducing debt vulnerabilities via a substantial and front-loaded fiscal adjustment, alongside efforts to boost domestic fiscal revenues and rationalize budgetary expenditures, all while protecting the most vulnerable.

Filling the external financing gap and strengthening reserves through a policy package to substantially reduce external financing needs.
Managing fiscal risks from loss-making SOEs through reforms of the energy sector and improving the financial oversight of SOEs.

Maintaining a tight monetary policy stance to reduce excess liquidity, address high inflation, and support the peg to the euro.

Accelerating structural reforms to foster inclusive and private sector-led growth, alleviate poverty, and enhance women's economic empowerment.

Table 1. São Tomé and Príncipe: Selected Economic Indicators, 2021–29

(Annual change in percent, unless otherwise indicated)

	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
National Income and Prices									
GDP at constant prices	1.9	0.2	0.4	0.9	3.1	4.8	4.1	3.5	3.5
GDP deflator	5.2	15.7	21.7	14.9	9.8	6.2	4.5	4.4	4.5
Consumer prices (End of period)	9.5	25.2	17.1	10.9	6.9	5.0	5.0	5.0	5.0
Consumer prices (Period Average)	8.1	18.0	21.2	14.0	8.9	5.9	5.0	5.0	5.0
External Trade									
Exports of goods and nonfactor services	57.2	18.5	12.0	33.0	6.0	9.6	7.2	9.7	8.0
Imports of goods and nonfactor services	24.0	22.8	2.5	14.1	-3.6	-2.0	3.9	7.6	6.4
Exchange rate (dobras per US$; end of period) [1]	21.7	23.1	22.5	…	…	…	…	…	…
Real effective exchange rate (period average, depreciation = -)	5.5	3.4	22.1	…	…	…	…	…	…
Money and Credit									
Base money	12.7	-1.7	-11.6	-4.6	10.4	3.2	0.1	-3.9	-9.8
Broad money (M3)	-2.7	10.8	5.3	0.1	15.7	7.9	4.4	0.1	1.0
Credit to the economy	-5.0	-16.0	-24.2	-1.8	15.4	12.3	7.6	7.1	7.2
Velocity (GDP to broad money; end of period)	3.4	3.5	4.1	4.8	4.7	4.8	5.0	5.4	5.8
Central bank reference interest rate (percent)	9.0	9.5	10.0	…	…	…	…	…	…
Average bank lending rate (percent)	18.5	17.9	17.8	…	…	…	…	…	…
Government Finance (in Percent of GDP)									
Total revenue, grants, and oil signature bonuses	24.1	25.5	22.2	24.2	25.0	22.3	22.6	22.6	22.1
Of which: tax revenue	12.1	10.6	11.5	10.9	13.8	14.4	14.9	15.0	15.0
Nontax revenue	2.5	3.1	2.6	2.8	2.6	2.6	2.6	2.6	2.6
Grants	9.5	11.7	8.1	10.5	8.5	5.3	5.1	4.9	4.5
Total expenditure and net lending	25.6	27.7	21.1	21.4	21.4	20.4	20.3	20.5	20.3
Personnel costs	9.1	9.2	7.8	7.4	8.3	8.4	8.4	8.4	8.4
Interest due	0.2	0.5	0.7	1.1	0.6	0.7	0.6	0.6	0.6
Nonwage noninterest current expenditure	7.3	7.0	6.2	5.6	6.1	6.0	6.0	6.0	6.0
Treasury funded capital expenditures	0.1	2.4	0.3	0.3	0.3	0.3	0.4	0.5	0.5
Donor funded capital expenditures	7.3	8.5	5.9	6.8	5.9	4.8	4.7	4.8	4.6
HIPC Initiative-related capital expenditure	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1
COVID-19 spending	1.5	1.0	…	…	…	…	…	…	…
Domestic primary balance (commitment basis) [2]	-2.5	-5.7	-0.9	-0.5	1.0	1.5	2.0	2.0	2.0
Net domestic borrowing	4.1	4.6	0.4	-2.7	-1.1	-1.5	-2.1	-2.0	-2.0
Overall balance (commitment basis)	-1.5	-2.2	1.1	2.8	3.5	1.9	2.3	2.1	1.9
Public Debt [3]	88.1	88.2	76.7	68.6	61.3	57.0	53.2	49.1	45.8
Of which: EMAE's debt to ENCO	28.9	33.1	28.5	27.0	25.6	24.3	22.9	21.7	20.0
External Sector									
Current account balance (percent of GDP)									
Including official transfers	-13.1	-14.4	-12.3	-7.9	-5.5	-5.2	-4.4	-4.2	-4.3
Excluding official transfers	-22.5	-26.1	-20.5	-18.4	-14.0	-10.4	-9.5	-9.2	-8.7
PV of external debt (percent of GDP)	26.6	27.2	30.5	29.0	26.2	24.2	22.8	21.4	20.0
External debt service (percent of exports) [4]	3.0	6.2	4.3	6.4	10.8	12.3	11.5	9.9	8.2
Export of goods and non-factor services (US$ millions)	81.8	97.0	108.6	144.4	153.1	167.7	179.8	197.2	212.9
Gross international reserves (face value) [5]									
Millions of U.S. dollars	62.5	59.2	42.9	48.1	68.7	71.7	82.4	87.7	91.0
Months of imports of goods and services	2.9	2.7	1.7	2.0	2.9	2.9	3.1	3.1	3.1
Months of imports of goods and nonfactor services [6]	4.6	3.5	2.4	2.8	4.1	4.1	4.4	4.4	4.4
National Oil Account (stock, US$ millions)	13.6	15.7	16.6	19.2	20.8	22.7	24.7	26.9	29.2
Prospective financing (US$ millions)	…	…	…	**55.8**	**38.5**	**23.1**	**23.0**	**17.4**	**17.4**
Prospective nonproject grants and concessional loans	…	…	…	50.5	30.3	17.4	17.4	17.4	17.4
ECF disbursements	…	…	…	5.3	8.2	5.7	5.7	0.0	0.0
Memorandum Item									
Gross Domestic Product									
Millions of dobra	10,942	12,690	15,500	17,970	20,348	22,654	24,629	26,613	28,770
Millions of U.S. dollars	529	546	684	799	911	1,018	1,107	1,196	1,293
Per capita (in U.S. dollars)	2,370	2,405	2,949	3,372	3,767	3,961	4,222	4,472	4,740

Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections.

[1] Central Bank (BCSTP) mid-point rate.

[2] Excludes oil related revenues, ENCO debt repayment, grants, scheduled interest payments, and foreign-financed capital outlays as defined in the TMU.

[3] Total public and publicly guaranteed debt as defined in the DSA, which includes EMAE's debt to ENCO.

[4] Percent of exports of goods and nonfactor services.

[5] Gross international reserves as defined in the TMU.

[6] Imports of goods and services excluding imports of investment goods and technical assistance.

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

December 6, 2024

REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

EXECUTIVE SUMMARY

Context. The people of São Tomé and Príncipe (STP), a small fragile island state, have faced extraordinary challenges. STP continues to struggle with high fuel import needs, limited export potential, and depleted international reserves, and faced a massive balance of payments (BOP) shock in early 2023, which opened a large external financing gap. Inflation was stubbornly high in 2023 and the economy barely grew, dragged down by foreign exchange and energy shortages, as well as a large fiscal adjustment. Growth is projected to remain sluggish in 2024, while inflation has started to decline.

Outlook and risks. A gradual economic recovery is projected, underpinned by policy reforms under the IMF-supported program. The economy is facing significant downside risks, including delayed energy sector reforms, lower donor support, renewed energy shortages, and commodity price volatility. Furthermore, STP's infrastructure and rain-fed subsistence agriculture are highly vulnerable to natural disasters and climate change.

Proposed ECF arrangement. The authorities have requested a 40-month arrangement under the ECF in the amount of SDR 18.5 million (125 percent of quota). The proposed ECF aims to address protracted BOP needs, strengthen the reserve position, make significant progress towards macroeconomic stability, and boost medium-term growth. These objectives will be achieved through a substantial and front-loaded fiscal adjustment, an ambitious reform of the electricity sector, an end to monetary financing of the budget, and a tight monetary policy stance. To support the peg to the euro, the program contains measures to compress aggregate demand and reduce STP's dependence on fuel. Efforts to boost domestic fiscal revenues and rationalize budgetary expenditures will help protect the most vulnerable and create fiscal space to promote growth and development, while placing public debt on a downward trajectory. Furthermore, the program includes policies to strengthen fiscal transparency, address governance weaknesses, strengthen financial stability, and promote inclusive growth to reduce poverty and empower women.

Approved By
Costas Christou (AFR) and Anna Ivanova (SPR)

Discussions took place over two years, including in-person missions in February 2023 and May-June 2024, combined with virtual discussions throughout 2023 and 2024. A final staff-level agreement was announced on October 21, 2024. The staff team comprised Slavi Slavov (head), Julia Bersch, Elsa de Brito, Nkunde Mwase, Koffie Nassar, Wasima Rahman-Garrett, Ke Wang (all AFR), Felipe Bardella (FAD), Olya Kroytor (LEG), Yukun Ding and Ni Wang (SPR), Hector Carcel-Villanova (STA), and Bahrom Shukurov (Resident Representative). Kelvio Carvalho da Silveira (OED) participated in the discussions. Samten Bhutia, Xaverie Biloa, Kaihao Cai, and Islom Urolov provided research and editorial support. Alsis Irene Da Cruz, Dilson de Sousa Pontes Tiny (now STA), Wagner Soares Pires Fernandes, and Evelyne Vilhete Antonio de Carvalho (ResRep Office) ably assisted the team. The mission met with President Carlos Vila Nova; Prime Minister Patrice Émery Trovoada; then Minister of the Presidency of the Council of Ministers and Parliamentary Affairs Gareth Guadalupe; Minister of Planning and Finance Ginésio Valentim Afonso da Mata; Minister of Economy Disney Leite Ramos; Governor of the Central Bank Américo D' Oliveira Ramos; other senior government officials; representatives of the private sector; and development partners.

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CONTEXT

1. **São Tomé and Príncipe (STP) is a fragile state which faced several challenging years and continues to struggle with high fuel import needs, limited export potential, and depleted international reserves.** Legislative elections in September 2022 led to a change in government, as the Independent Democratic Action (ADI) party won an absolute majority and a new government led by Prime Minister Patrice Trovoada took office. The government inherited a difficult macroeconomic situation. Over the last few years, the country has been hit by multiple shocks whose impact on the economy continues to reverberate—including COVID-19, floods, and the commodity price shock following Russia's invasion of Ukraine. In addition, STP suffered a massive balance of payments (BOP) shock in early 2023 as the country's main fuel supplier stopped providing fuel on credit, opening a large external financing gap. As STP was already facing foreign exchange (FX) shortages and precariously low international reserves, the authorities have been struggling to finance fuel imports.

2. **STP's key vulnerability remains its dependence on fuel imports.** A large share of the imported fuel feeds an unreformed electricity sector dominated by a mismanaged state-owned enterprise (SOE) operating old and poorly maintained diesel generators. The sector is characterized by high losses, low bill collection rates, electricity tariffs falling far short of cost recovery, and extensive rationing. In late 2023, a foreign investor installed new diesel generators which have eliminated power outages. Moreover, STP's exports are currently too low to sustain these high fuel imports.

3. **Progress under the previous Extended Credit Facility (ECF) arrangement covering 2019-23 was uneven due to low capacity, fragility, and election cycles (Annex I).** After taking office in late 2022, the new government almost immediately requested a new ECF and let the previous program expire without completing the final review. The authorities had a good track record of meeting quantitative performance criteria, with only occasional breaches, throughout the first five program reviews of the 2019-23 ECF. The record on structural reform implementation was weaker, with frequent delays. Nevertheless, the structural conditionality under the previous ECF supported the technical preparations for the VAT introduction, improvements in transparency, curbing fuel price subsidies, as well as some improvements in STP's legislative and institutional framework.

4. **While working towards securing sufficient external financing, the authorities have already implemented some difficult reforms.** They launched the long-delayed VAT in June 2023 and engineered a large fiscal adjustment of nearly 5 percent of GDP in 2023. Fuel prices were adjusted in February 2023, and while the fuel price mechanism has not been consistently implemented since then, explicit fuel subsidies have been eliminated in the aggregate. The central bank (BCSTP) implemented some tightening measures to reduce excess reserves.

RECENT ECONOMIC DEVELOPMENTS

5. Macroeconomic conditions have been weak since 2022 (Figure 1 and Table 1). GDP growth was less than 1 percent in 2022 and 2023, and is projected to remain below 1 percent in 2024, dragged down by FX and fuel shortages (culminating in a brief economic standstill in June 2023), delays in donor support, elevated emigration to Portugal, and heightened economic uncertainty. Despite tight monetary and fiscal policies, inflation remained stubbornly high in 2023 and through the first quarter of 2024. In addition to the transitory impact from the VAT introduction, inflation was largely driven by idiosyncratic supply-side factors, in particularly shocks to the cost of locally produced food, mainly due to FX and fuel shortages. Since April 2024 headline and core inflation have decelerated rapidly to 11.6 and 3.9 percent, respectively, in September.

6. Fiscal consolidation in 2023 progressed faster than envisaged due to spending restraint (Text Table 1, Tables 2a-2b). The domestic primary balance (DPB) on a commitment basis is estimated at -0.9 percent of GDP, a 0.7 percent of GDP smaller deficit than implied by the budget, mainly driven by additional spending restraint for wages and capital expenditures. Following the VAT introduction in June 2023, consumption taxes performed better than anticipated, more than compensating for shortfalls in import taxes. This translated into a nearly 5 percent of GDP fiscal tightening relative to 2022.

Text Table 1. São Tomé and Príncipe: Fiscal Performance 2023-2024[1]

(Percent of GDP)

	2023		Jan - Sep 2024	
	Budget	Est.	Budget	Est.
I. Domestic revenue	**13.3**	**13.4**	**10.8**	**7.4**
Tax revenue	11.2	11.5	9.2	6.3
Import taxes	4.5	3.9	3.3	1.0
Consumption taxes	2.4	3.3	3.0	2.5
Profit taxes	0.7	0.7	0.5	0.5
Personal income taxes	2.8	2.7	2.0	1.7
Other taxes	0.8	0.9	0.5	0.5
Nontax revenue excl. oil revenue	2.2	2.0	1.6	1.1
II. Domestic primary expenditure	**15.0**	**14.4**	**10.9**	**9.3**
Current primary expenditure	14.2	14.0	10.4	9.0
Personnel costs	8.0	7.8	5.8	4.8
Goods and services	1.9	1.9	1.6	1.5
Transfers	2.9	2.8	2.1	1.7
Other current expenditure	1.4	1.5	0.9	1.0
Treasury financed capital expenditure	0.4	0.3	0.3	0.2
HIPC Initiative-related capital expenditure	0.4	0.1	0.2	0.1
Domestic primary balance (commitment basis)[2]	**-1.7**	**-0.9**	**-0.1**	**-1.9**
Net change in stock of domestic arrears	-0.3	-0.7	-0.2	-0.2
Domestic primary balance (cash basis)	**-2.0**	**-1.6**	**-0.3**	**-2.1**

[1] The budget and estimate columns for each time period use the same nominal GDP to ease comparison.

[2] Excludes oil related revenues, grants, scheduled interest payments, and foreign-financed capital outlays as defined in the TMU.

7. Weaker-than-expected tax revenues have posed challenges in 2024 (Text Table 1). Through September 2024, the DPB (commitment basis) recorded a deficit of 1.9 percent of GDP, versus a projected deficit of 0.1 percent of GDP implied by the budget. Domestic revenues were 3.4 percent of GDP lower than projected, mainly due to continued non-payment of import taxes on fuel, reduced non-fuel imports due to FX shortages, and lower import tax rates.[1] Domestic primary spending was 1.6 percent of GDP lower than projected due to spending restraint across the board, particularly for wages and transfers.

8. International reserves stayed at very low levels throughout 2023 and 2024 (Tables 3a-3b and 4). This reflected low external grants and larger-than-expected financing needs, mainly due to strong fuel import demand and required upfront payments for fuel. With very low usable reserves in early 2023, the authorities activated a €2 million credit line with Portugal and accessed US$11.8 million from a FX swap line with Afreximbank to pay for fuel imports. By end-2023, gross international reserves (GIR) decreased to US$42.9 million (equivalent to 1.7 months of next year's imports) from US$59.2 the preceding year, and net international reserves (NIR) plummeted to - US$12.6 million.[2] During most of 2024, GIR continued to decline, reaching a low in July. A recent US$8 million World Bank grant and €15 million concessional loan from Portugal have bolstered reserves. While the current account deficit narrowed somewhat to 12.3 percent of GDP in 2023, from 14.4 percent of GDP in 2022, it continued to weigh on reserves.

9. Credit to the economy continued to decline, by 15.5 percent y/y in mid-2024, as banks remained hesitant to lend in the precarious economic environment (Figure 2 and Tables 5-6). After nearly five years of contraction, the stock of private sector credit has shrunk to below 8 percent of GDP compared to 24 percent of GDP pre-pandemic. Two new regulations on asset classifications, provisioning, and capital adequacy were implemented in 2022 and have led to a significant decline in systemwide non-performing loans (NPLs) to 10 percent of total loans in 2024Q2, from a pandemic peak of about 34 percent in 2020Q3. Provisioning accounted for 62.4 percent of past due loans in mid-2024.

10. In late 2023, STP signed a Power Purchase Agreement with a foreign company to boost electricity generation. The company would install and operate diesel generators (phase one), dual generators for LNG/diesel (phase two), and solar panels (phase three), with generation capacity adding up to 50 MW, about 3 times current electricity demand. Phase one is already operational and reflected in the macroeconomic framework.

OUTLOOK AND RISKS

11. Strong external financial support, upfront and sustained fiscal adjustment, effective reserve management, and ambitious structural reforms are needed to avoid a BOP crisis. The

[1] As part of the VAT's introduction, import tax rates were reduced in late 2023.

[2] GIR and NIR are at face value and as defined in the Technical Memorandum of Understanding (TMU). The stock of FX reimbursement commitments to commercial banks is subtracted from NIR, which explains the negative NIR.

external position in 2023 is assessed as substantially weaker than the level implied by medium-term fundamentals and desirable policies, with an exchange rate overvaluation (estimated to range between 27 and 41 percent) and insufficient reserves (Annex II). STP is facing formidable challenges, including low international reserves, shortages of fertilizer and basic goods, still high inflation, and curtailed access to donor financing.

12. Under the proposed IMF-supported program, the economy is expected to gradually recover underpinned by policy reforms to make significant progress towards macroeconomic stability. Growth is projected to rebound to 3.1 percent in 2025, reach 4.8 percent by 2026, and then converge to 3.5 percent over the medium-term supported by infrastructure investment, strong tourism and increased exports of palm oil and cocoa (as access to fertilizer normalizes). Inflation is expected to continue decelerating, reaching 10.9 percent by end-2024 despite electricity tariffs increases, and then gradually decline to 5 percent over the medium term. The targeted fiscal consolidation combined with significant external financing is projected to crowd in domestic credit over the medium term.

13. Risks to the outlook remain tilted to the downside (Annex III). Delays in energy sector reforms could narrow the fiscal space and aggravate BOP pressures. Lower-than-expected and delayed donor support could limit financing options and strain reserves. Renewed energy shortages and continued commodity price volatility might delay the recovery and strain fiscal revenues. A slowdown in global growth and deepening geoeconomic fragmentation could worsen growth and BOP prospects. STP's infrastructure and rain-fed subsistence agriculture are vulnerable to natural disasters and climate change. Cocoa exports remain vulnerable to the cocoa swollen shoot virus, which has affected West Africa. Social discontent could cause economic disruptions and a stronger-than-expected impact from fiscal consolidation could delay the recovery. On the upside, higher global prices for cocoa and stronger palm oil exports could benefit STP. Accelerated reforms and infrastructure projects could boost medium-term growth.

PROGRAM OBJECTIVES AND POLICIES

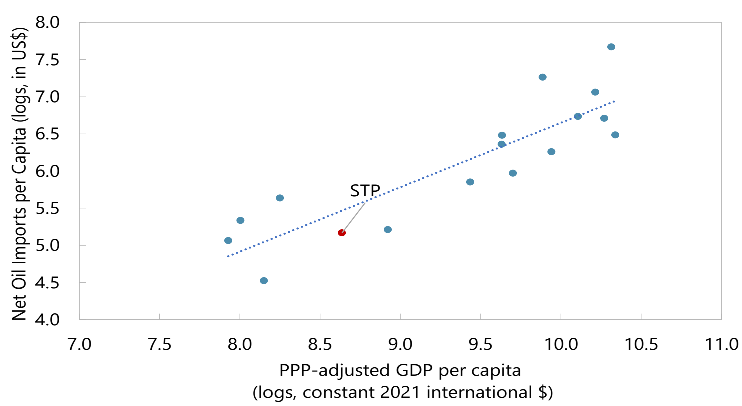
14. The proposed ECF-supported program will underpin the authorities' efforts to address protracted BOP needs, strengthen the reserve position, restore macroeconomic stability, and boost medium-term growth. These objectives will be achieved through a substantial and front-loaded fiscal adjustment, an ambitious reform of the electricity sector, an end to monetary financing of the budget, and a tight monetary stance. Given the authorities' determination to maintain the peg to the euro, the program contains measures to compress aggregate demand and reduce STP's dependence on fuel, thereby helping re-build international reserve buffers. Efforts to boost domestic fiscal revenue and rationalize budgetary expenditure will help protect the most vulnerable from the burden of the adjustment. These efforts will also create fiscal space for implementing growth-enhancing structural reforms and help place public debt on a downward trajectory. The ECF-supported program will strengthen fiscal transparency, address governance weaknesses to reduce vulnerabilities to corruption, strengthen financial stability, and promote inclusive growth to reduce poverty and empower women. The program will play a catalytic role for other international financial institutions (IFIs) and donors, whose support is essential to the country.

A. Filling the External Financing Gap and Strengthening Reserves

15. Fuel imports are a key driver behind the external imbalance and need to be reduced. Comparing STP with 17 other small island developing states (excluding oil producers), net fuel imports over 2018-23 do not seem excessively high (Text Figure 1). Nevertheless, given STP's low export capacity, they are too high for STP to finance without significant external support. The envisioned electricity sector reforms are expected to help reduce fuel demand and thereby external financing needs, though they will take years to bear fruit. Therefore, the authorities will implement near-term measures to reduce fuel demand by completing the replacement of incandescent lightbulbs with LED ones, increasing electricity tariffs, and installing solar panels. Specifically, two solar projects are expected to be completed in 2025, one for 2 MW grant-financed by the African Development Bank (AfDB) and the United Nations Development Program (UNDP) and another for 11 MW supported by the International Finance Corporation (IFC). If successfully implemented, these projects could cover close to half of the country's electricity needs.

Text Figure 1. São Tomé and Príncipe: Fuel Imports

Net Oil Imports Per Capita vs. PPP-adjusted GDP Per Capita (2018-23)



16. The authorities' policy package is expected to significantly reduce external financing needs (Text Table 2). The measures include reducing fuel imports directly (see above), enforcing export repatriation and surrender requirements, reducing the central bank's role in financing fuel imports, taking advantage of extra FX availability due to the fiscal consolidation, and requiring that fuel bunkering operations are self-financed. The package is expected to reduce external financing needs by US$85.8 million in 2024-25. Furthermore, since early 2024 the World Bank has channeled part of its project grants through the BCSTP, helping to increase BCSTP's foreign exchange holdings to the extent that project spending is conducted locally.

17. Temporary capital flow management measures (CFMs) will help strengthen the BCSTP's reserve position, alongside broader macroeconomic and structural measures, in line with the IMF's Institutional View (MEFP ¶29). The authorities have already enacted implementing regulations for the existing export repatriation and surrender requirements to strengthen reserves (**prior action (PA) 8**).[3] As these CFMs will be temporary, implemented during a crisis, and are part of a comprehensive policy strategy to tackle the underlying imbalances, they do not substitute for the warranted macroeconomic adjustment. The BCSTP will gradually phase out these measures once the crisis abates and reserves are restored to adequate levels. The authorities also plan to lower the limit on the maximum amount of FX in cash that residents can take out of the country without declaration. Furthermore, the targeted fiscal consolidation of 2.5 percent of GDP during 2025-27 will reduce aggregate demand, including for imports, and, thereby, leave more FX at commercial banks' disposal to finance fuel imports. The BCSTP will prepare and submit to Fund staff a detailed assessment of the FX market by end-June 2025 (proposed **structural benchmark** (SB6)).

Text Table 2. São Tomé and Príncipe: Policy Package to Strengthen the BCSTP's Reserve Position in 2024-25

(In Millions of U.S. Dollars)

Policy package	**85.8**
Measures to directly reduce fuel imports (installation of LED lamps, increased electricity tariffs and solar projects)[1]	14.7
Enforcement of the export repatriation and surrender requirement	17.3
Amended fuel reimbursement regulation to reduce the central bank's role in financing fuel imports	28.0
Increased FX availability in commercial banks due to fiscal consolidation, which can finance fuel imports	5.9
Fuel coverage by ENCO for bunkering operations	19.9

[1] Projections for fuel imports were provided by ENCO, the country's only fuel importer. Measures include US$7.9 million from LED lamps, US$1.8 million from a 20 percent increase in electricity tariffs, and US$5.0 million from new solar plants.

18. Reducing the BCSTP's role in financing fuel imports will further contain FX outflows and strengthen reserves (MEFP ¶29). In late 2023, the BCSTP amended the regulation on FX coverage and eliminated the waiver of eligibility requirements for fuel imports (**PA5**), even in times of crisis. Previously, financial institutions could request FX coverage from the BCSTP to finance fuel imports without any preconditions. As global fuel prices rose and suppliers started requesting advance payments for fuel imports, reimbursement requests from commercial banks became the main driver of FX outflows and reserve losses. The amended regulation is estimated to reduce annual FX outflows by US$14 million. Furthermore, planned fuel bunkering operations are expected to be self-financed.

B. Restoring Fiscal Sustainability and Reducing Debt Vulnerabilities

19. The authorities have already demonstrated their commitment to fiscal consolidation, tightening by nearly 5 percent of GDP in 2023 compared to 2022:

[3] The regulation contains a 100 percent repatriation requirement and a 25 percent surrender requirement.

- *Value-added and excise taxes.* The authorities implemented the VAT in June 2023 with a main rate of 15 percent (**PA2**). In addition, a lower VAT rate of 7.5 percent applies to basic food products. In 2023, the VAT generated an estimated 1.2 percent of GDP in additional fiscal revenue and is expected, over the medium-term, to generate around 2.5 percent of GDP extra revenue compared to the consumption taxes and stamp duties it replaced.[4] However, the implemented VAT has more exemptions than initially envisaged—notably, fuel products are exempted and still taxed under the old system of import duties. The authorities also introduced an *ad valorem* excise tax on selected products. In late 2023, they switched to specific excise taxes, which is appropriate given STP's weak administrative capacity. The excise tax generated 0.4 percent of GDP in revenue in 2023 and its full year implementation together with the policy change is expected to generate an additional 0.1 percent of GDP in 2024.

- *Other tax policy measures.* The 2023 budget introduced higher custom duties on alcohol, tobacco, and other products harmful to public health and safety, as well as an additional personal income tax bracket. These measures created the fiscal space to exempt selected basic consumption goods from custom duties to contain inflation.

- *Wage bill.* The authorities contained the 2023 wage bill below the budgeted amount, while higher-than-expected inflation eroded real public wages further. Consequently, the wage bill was 0.2 percent of GDP lower than envisaged in the budget.

- *Monetary financing of the budget.* Since 2023 the BCSTP no longer provides financing for the budget.

20. An ambitious and front-loaded fiscal adjustment is critical to ensure sustainability and address protracted BOP pressures (MEFP ¶10, 12-13). The program targets an additional DPB improvement of 2.9 percent of GDP over 2024-27, anchored on reaching a domestic primary surplus of 2.0 percent of GDP on a commitment basis, while ensuring that priority social spending is protected. Considering the difficult economic situation, the program targets a DPB of -0.5 percent of GDP for 2024, implying an adjustment of 0.4 percent of GDP. This will be achieved mainly with significant expenditure cuts, including to compensate for revenue shortfalls (Text Table 1). FX shortages and weak growth are weighing heavily on tax revenue, reducing the full year net impact of the value-added and excise taxes (0.2 percent of GDP vs. an expected 1.4 percent of GDP) and contributing to a decline in non-fuel import taxes (-0.5 percent of GDP), fuel import taxes (-0.5 percent of GDP) and personal income taxes (-0.3 percent of GDP).[5] To compensate for these shortfalls, the authorities enacted significant but mostly temporary cuts of non-priority operational spending for 2024H2 (-0.7 percent of GDP) and wage bill spending is also significantly lower than

[4] The net impact of the VAT on overall tax revenue is somewhat smaller, given the import tax reductions (see footnote 1 above).

[5] The import tax rate on diesel consumed by EMAE was reduced to zero (from 20 percent) in mid-2024, which negatively affects import taxes. Low tax payments on current fuel imports are only partly compensated by tax arrears payments in 2024.

forecast (-0.7 percent of GDP), even though the budget accommodated a partial restoration of purchasing power for public wages eroded by high inflation.

21. For 2025, the program targets a domestic primary surplus of 1 percent of GDP (MEFP ¶12). The Council of Ministers will approve a 2025 budget consistent with program parameters (**PA1**). In addition to the targeted consolidation of 1.5 percent of GDP, the authorities need to compensate for the reversal of the temporary operational spending cuts in 2024 (0.5 percent of GDP) and finance an additional wage bill increase to accommodate planned reforms (0.9 percent of GDP).[6] To achieve the target the authorities will implement an ambitious package of measures (Text Table 3), including:

- *Continue consolidating the value-added tax, including by strengthening revenue administration.* To ensure the targeted yields, the authorities will continue their taxpayer education campaign, refine administrative procedures, and double down on tax collection efforts.

- *Strengthen import tax collections.* The authorities will work with ENCO (the country's fuel importer) to ensure timely payment of fuel import taxes and a significant reduction in fuel tax arrears.[7] Furthermore, they will introduce automated valuation controls at customs and strengthen audits.

- *Introduce a new environmental tax.* To address waste management challenges, the authorities will introduce a new tax on packaging material for imports as well as on selected fuel imports (as there is no excise tax on fuel).

- *Enhance efforts to collect tax arrears and deter recurrence*. Building on a pilot in 2023, the authorities will implement source withholding of personal income taxes for public institutions that receive government transfers. Furthermore, they will sign MoUs with SOEs and key public institutions to clear tax arrears and avoid recurrence. The authorities will also double-down on revenue administration efforts and tax arrears collections more broadly.

[6] A small part of the operational spending cuts will be made permanent. The planned wage reform is based on an envelope of 8.3 percent of GDP for 2025 and did not anticipate the significant unplanned savings in 2024.

[7] To finance the payment of tax arrears, the government will reduce its liabilities to ENCO that arose from historical uncompensated fuel price subsidies.

Text Table 3. São Tomé and Príncipe: Proposed Revenue Measures[1/]
(In Percent of GDP)

	2024	2025	2026	2027	2024-27
Tax revenue measures	***0.1***	***2.3***	***0.6***	***0.5***	***3.4***
Tax measures related to VAT introduction	**0.2**	**0.8**	**-0.2**	**0.1**	**0.8**
Import tax measures	**-0.2**	**0.7**	**-1.8**	**0.0**	**-1.2**
New environmental tax on packaging and fuel imports		0.3			0.3
Strengtened customs controls		0.1			0.1
Tax arrears collections	-0.2	0.4	-1.8		-1.6
Personal income tax measures	**0.1**	**0.7**	**-0.3**	**0.0**	**0.5**
Collection of tax arrears & avoidance of new arrears	0.1	0.4	-0.3		0.2
Improvements in revenue administration (incl. tighter audits/e-invoicing)		0.3			0.3
Unidentified tax measures			**2.8**	**0.4**	**3.3**
Spending measures	***-0.7***	***1.4***	***0.1***	***0.0***	***0.9***
Cuts in operational spending	-0.7	0.5			-0.1
Wage bill reform[2]		0.9	0.1		1.0

Source: Ministry of Finance and Fund staff estimates and projections.

1/ The yields are reported as marginal impact.

2/ The reported impact takes into account the unplanned savings in 2024.

22. The authorities will implement the following policies to achieve the medium-term fiscal targets (MEFP ¶13-18):

- *Develop a domestic revenue mobilization plan.* Supported by IMF Technical Assistance (TA), the authorities plan to reassess their overall tax regime, including fuel taxation, VAT exemptions, and property taxes, combined with continued efforts to strengthen revenue administration. This will guide how the fiscal targets for 2026-27 will be achieved—this requires 3.2 percent of GDP in yet unidentified permanent measures, including to compensate for temporary measures in 2025.

- *Contain the wage bill.* The authorities are planning a comprehensive reform of the public administration, the wage bill and workforce planning, with TA from the IMF and other partners. While the program provides some fiscal space to strengthen financial incentives for public sector workers over the medium term, the wage bill is proposed to be contained to 8.4 percent of GDP.

- *Maintain pro-poor spending, in particular targeted social cash transfers.* The proposed program will include a floor on social spending, defined to include the cash transfer program.[8]

[8] See "São Tomé and Príncipe—Staff Report for the Fifth Review under the Extended Credit Facility Arrangement" for a detailed analysis of social protection programs and social spending in STP.

- *Continue efforts to mobilize grants*. To offset further social scarring and make progress towards the Sustainable Development Goals, the authorities are committed to step up their efforts to mobilize grant financing.

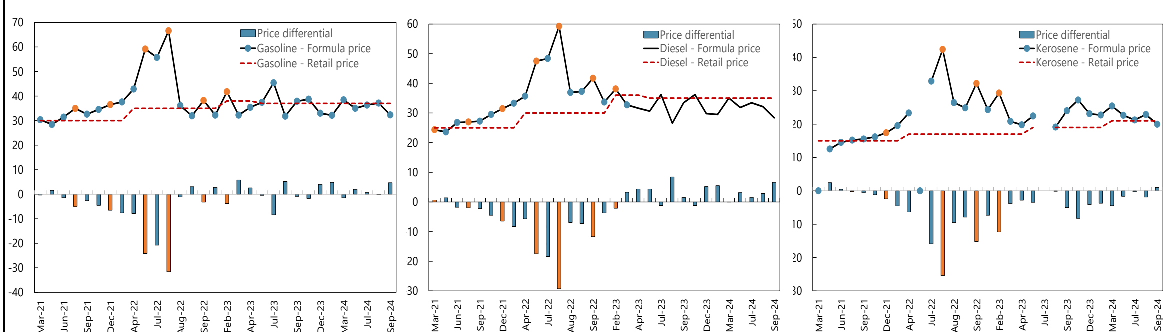
- *Heed the risks associated with the fiscal adjustment strategy*. To address potential revenue shortfalls, the authorities' contingency plan focuses on spending cuts, particularly for wages and non-essential items, and revisiting the customs duty exemption for certain basic products. The authorities will carefully analyze and consider the distributional impact of reforms and potential risks to social stability.

23. Monthly application of the fuel price adjustment mechanism is critical to prevent fuel subsidies, contain fiscal risks, and reduce pressure on reserves (Text Figure 2, MEFP ¶23). The authorities increased retail prices for gasoline and diesel by 9 and 20 percent, respectively, in February 2023. Subsequent minor adjustments were made in May 2023 and March 2024. Fuel subsidies have been eliminated in the aggregate (**PA6**) and also individually for gasoline, diesel, and kerosene (Text Figure 2). The regulation that administers the fuel price adjustment mechanism will be amended to stipulate monthly reviews of fuel prices that will be publicized (**PA3**). The regular application of the fuel price adjustment mechanism will be a monthly structural benchmark (proposed **SB1**).

Text Figure 2. São Tomé and Príncipe: Fuel Pricing

Fuel Price Differential for Gasoline, non-EMAE Diesel, and Kerosene[1]

(STN Per Liter)



Sources: GAMAP, Ministry of Finance, and Fund staff estimates.

[1] The formula price and the price gap are based on the price of fuel cargo shipped into STP through September 2024. EMAE is the state-owned utility company.

24. The authorities will strengthen the fiscal policy framework (MEFP ¶19). While three-year fiscal projections were incorporated for the first time in the 2022 budget, further efforts are needed to improve macro-fiscal forecasting. Furthermore, the authorities plan to strengthen budget forecasts, execution, cash management, and analysis of fiscal risk, as well as the reconciliation of budget execution data with financing, with IMF TA support. They have published their first fiscal risk report and plan to have a regular annual report. With IMF TA, the authorities plan to conduct a Public Investment Management Assessment (PIMA), including the new climate change module, to improve the planning and efficiency of public investment programs. They will also implement the commitment control mechanism for all central government spending units by end-2024.

25. A credible medium-term fiscal strategy needs to be supported by strengthened transparency and governance (MEFP ¶20). The Court of Auditors (CoA) published audits of the fiscal accounts for 2020 and 2021, which found various irregularities. The 2022 audit is under way and the CoA will publish audits of the 2023 fiscal accounts by end-June 2025 (proposed **SB3**). The authorities will continue to publish the adjudication notices of public procurement contracts, the contracts themselves, and the ex-post validation of contract delivery. They will finalize revisions to the draft of the new Procurement Law, which incorporates provisions for the collection and publication of beneficial ownership information for companies awarded public procurement contracts, supported by past World Bank and IMF TA. Legislative approval and enactment of the draft law was frozen largely due to the electoral cycle in 2022, and the President will enact the new law by end-March 2025 (proposed **SB2**). In September 2023, the President enacted amendments to the Organic Law for the CoA and the authorities are committed to support an independent assessment of these amendments by the Development Initiative of the International Organization of Supreme Audit Institutions (INTOSAI).

26. The programmed fiscal consolidation and cautious borrowing will help place public debt on a downward path (MEFP ¶21-22 and Debt Sustainability Analysis, DSA). Public debt is deemed sustainable, but the country remains in debt distress due to prolonged unsettled external arrears (1.6 percent of GDP). Under the proposed program, public debt is expected to be on a downward trajectory—reaching about 42 percent of GDP in 2030—given the authorities' commitment to fiscal consolidation, energy sector reforms, and concessional borrowing. The present value of public and publicly guaranteed (PPG) debt, after discounting the state-owned utility company EMAE's debt and arrears to ENCO, is expected to fall below the DSA threshold associated with the country's weak debt-carrying capacity (35 percent of GDP) in 2025. Public debt sustainability remains subject to large risks. The authorities are implementing measures to strengthen STP's debt management and debt-carrying capacity, including developing a medium-term debt management strategy and starting to prepare annual borrowing plans.

27. External debt is elevated but still sustainable (DSA). External DSA metrics have deteriorated recently, particularly the export-related debt burden indicators. The debt-to-exports ratio temporally breaches the threshold of 140 percent of GDP for 4 years (through 2027). The debt-service-to-exports ratio is projected to breach the 10 percent of GDP threshold during 2025-2028 and peak at 13 percent of GDP in 2026 due to the non-concessional financing from Afreximbank in 2023. While both indicators fall below their thresholds after these temporary breaches, the debt-service-to-export ratio remains just below its threshold through 2030 illustrating the high vulnerability to shocks and sensitivity of the assessment to macroeconomic assumptions. Sustained improvement in the country's export performance is projected to mitigate solvency risks associated with external debt. Given the downward trajectory of external PPG debt over the medium-term, with threshold breaches being marginal and short-term, and no further non-concessional loans anticipated, external debt is deemed sustainable. Stress tests indicate that debt is especially vulnerable to shocks to exports and contingent liabilities.

C. Managing Fiscal Risks from Loss-Making SOEs

28. Accelerating reforms of the energy sector is urgently needed to alleviate pressures on public debt and FX reserves, and unlock growth. Daily electricity shortages were common throughout 2021-23 and were overcome when a foreign private investor installed new electricity generators in late 2023. The electricity sector is characterized by low bill collection rates and high losses (with non-technical losses estimated at 24 percent). Electricity tariffs have not been adjusted for more than a decade and fall short of cost recovery by 70 percent. Progress in installing meters, capping consumption, improving collection rates, and improving management of EMAE (the state-owned utility company) has been slow and limited.

29. To recover reform momentum and address the ongoing crisis in the electricity sector, the authorities are taking decisive policy actions (MEFP ¶24-26). Their comprehensive reform strategy, supported by the World Bank, is centered on implementing the Least Cost Development Plan and the Management Improvement Plan for EMAE to achieve full cost recovery. The strategy includes four interlocking objectives: i) increase electricity generation capacity (with a shift towards more sustainable sources), ii) contain consumption, iii) enhance the efficiency in EMAE's operations by reducing losses and increasing collection rates, and iv) improve the design of the electricity tariff structure. The authorities plan to install a private concessionaire for EMAE's commercial operations to improve efficiency. Their near-term actions focus on addressing the crisis in the sector:

- In May 2023, they established a high-level crisis committee, chaired by the Prime Minister, to oversee reform progress.

- The authorities will raise the weighted average electricity tariff by 20 percent (**PA7**), while enhancing the progressivity of the tariff structure. Over the coming years, the authorities plan to gradually reduce losses and costs, improve bill collections, and increase tariffs until the price-cost gap is closed.

- To limit non-technical losses, the authorities have started enforcing the law against electricity theft. Furthermore, to boost bill collection rates, they have started the gradual installation of prepaid electricity meters with funding from the European Investment Bank and will install 3,000 consumption meters for large clients by end-2024.

- To boost bill collection rates, the authorities have rescinded the decree law that prevents EMAE from cutting service to non-paying institutional clients.

- To reduce electricity consumption, the authorities have started replacing incandescent lightbulbs with LED ones throughout the country, with World Bank funding. They have also raised import duties on incandescent lamps.

- They will start publishing EMAE's key performance indicators for every quarter beginning with 2024Q4 (proposed **SB9**).

- By end-December 2025 the authorities will, with donor support, prepare a time-bound restructuring plan for EMAE to achieve financial viability (proposed **SB10**). The plan will cover financial, operational, and organizational/workforce restructuring, including the overhaul of management and governance.

30. The authorities are committed to improving the financial oversight of SOEs (MEFP ¶27). They will establish a dedicated SOE unit within the Ministry of Finance (MoF) which will monitor fiscal risks posed by the largest SOEs. They will also adopt an SOE ownership strategy to enhance transparency and accountability.

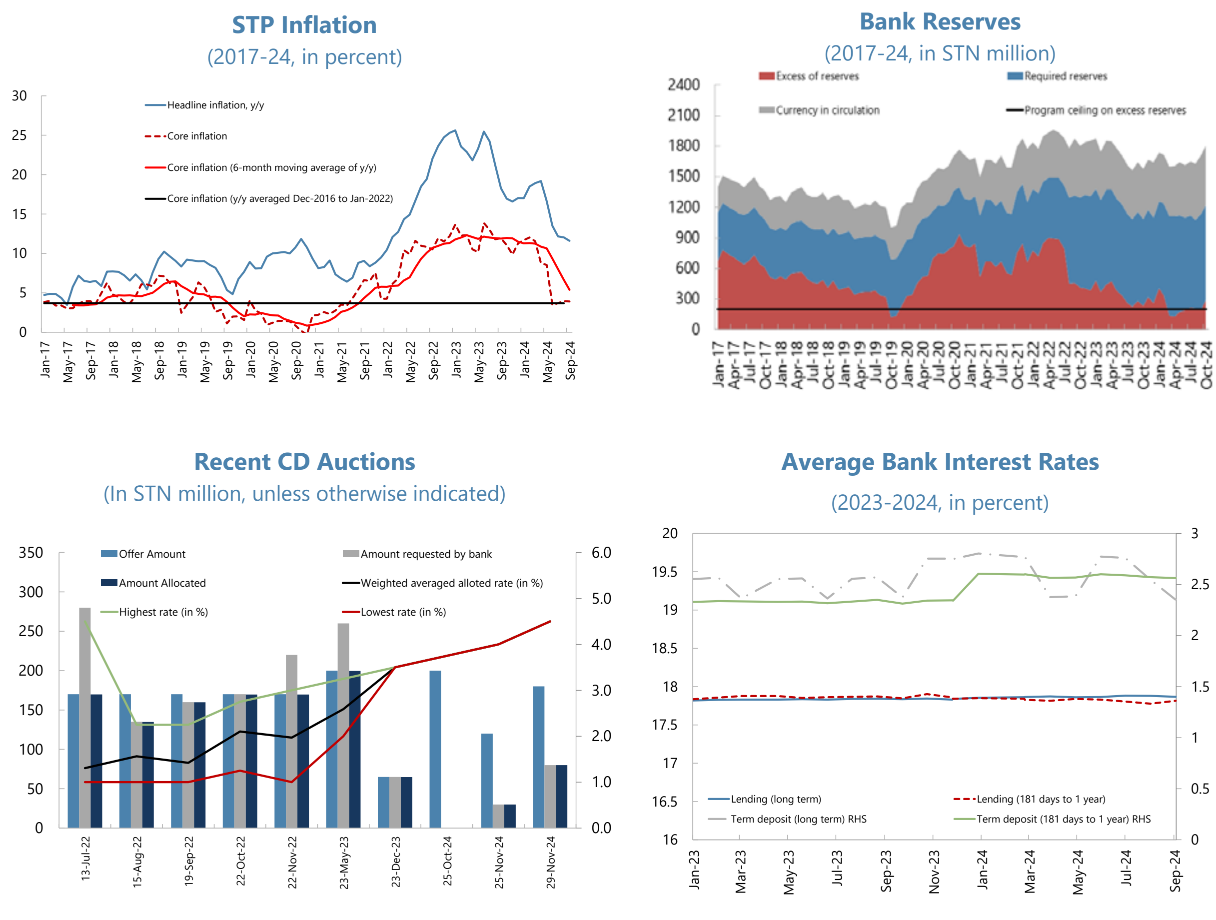
D. Maintaining a Tight Monetary Stance and Strengthening Central Bank Autonomy and Governance

31. The peg to the euro continues to anchor monetary policy, effectively curbing inflation over the past decade. Despite vulnerability to external and domestic shocks, including natural disasters, the peg continues to serve the country well given its small size, fragility, capacity constraints, strong trade and tourism ties with Europe, and high exchange rate pass-through. However, since the start of 2022, headline inflation surged, peaking at 25.5 percent in January 2023. This extended episode of high inflation has led to a substantially wider inflation differential with the Euro Area, putting pressure on the peg and international reserves.

32. The BCSTP has taken measures to reduce excess liquidity, address high inflation, and support the peg (Text Figure 3, Figure 2, MEFP ¶28). The BCSTP reduced banks' excess reserves in local currency to below STN 200 million through the issuance of Certificates of Deposits (CDs) at variable rates (**PA4**), after they briefly exceeded this threshold in October. In 2023, the BCSTP only issued CDs twice, with the weighted average interest rate increasing from around 2 percent at end-2022 to 3.5 percent at end-2023. In 2024, the BCSTP kept relying on the placement of T-bills by the MoF to reduce excess reserves, with T-bill interest rates increasing from around 4 percent in 2022 to slightly above 6 percent most recently, while interest rates in the banking system stayed practically unchanged. The BCSTP targets core inflation of 3 percent. After hovering around 11 percent for most of 2023 and 2024, the six-month moving average of core inflation has started to decline, reaching 5.4 percent in September 2024.

33. To promote effective monetary policy implementation and support the peg, the BCSTP has committed to maintain a tight monetary policy stance (MEFP ¶28). The BCSTP will maintain banks' estimated excess reserves in local currency below STN 200 million through the issuances of CDs until the six-month moving average of core inflation declines below 3 percent (proposed **monthly SB4**). The BCSTP will also start offering 6-month and 12-month CDs, in addition to the current 1-month and 3-month ones, to help remove structural excess liquidity when it accumulates in the system. To ensure effective monetary policy implementation and safeguard BCSTP's financial autonomy, the government and the BCSTP will form a joint working group to develop a BCSTP recapitalization strategy.

Text Figure 3. São Tomé and Príncipe: Monetary Framework



Sources: BCSTP, and Fund staff estimates.

34. Stronger efforts are needed to implement the recommendations of the 2023 update safeguards assessment (MEFP ¶30-31). The updated assessment found that limited progress has been made since the 2019 assessment. To ensure the BCSTP's autonomy and appropriate governance arrangements, including independent board oversight, a sound BCSTP Organic Law is needed. As the previous government did not enact the new Organic Law, the new authorities restarted the process. They are committed to enact and publish a new BCSTP Organic Law in line with IMF advice incorporating safeguards assessment recommendations by end-January 2025 (proposed **SB5**). The authorities have finalized the 2022 audit, albeit with delays, and the 2023 audit is near completion. They will work to resume timely audits and resolve recurring audit modifications. They also plan to agree on a recapitalization strategy for the central bank. Further work is needed on the implementation of other safeguards recommendations such as strengthening the internal audit function and transitioning to full International Financial Reporting Standards (IFRS) implementation, with 2025 financial results to be reported under IFRS.

35. The authorities will continue strengthening banking supervision and promoting a sound banking sector (MEFP ¶32). A new Financial Institutions Law is expected to improve the legal framework for bank regulation and supervision, including on matters such as bank authorization, change in ownership, corporate governance of banks, major acquisitions, related party transactions, exposure risks, and respective powers, responsibilities, and functions of the BCSTP. The draft law will be submitted to the Council of Ministers by end-June 2025 (proposed **SB7**) and to Parliament by end-December 2025 (proposed **SB8**). Furthermore, the authorities will continue their efforts to expedite the liquidation of Banco Privado, Energy Bank, and Banco Equador. The BCSTP also continues to implement regular stress-testing exercises.

36. The authorities have used their full 2021 SDR allocation of SDR 14.2 million (about US$20 million). Three on-lending agreements totaling US$20 million were signed between the MoF and the BCSTP during 2021-22 for pandemic-related spending, flood expenses, and infrastructure rehabilitation, with US$6.5 million outstanding to be repaid to the BCSTP. The authorities are committed to gradually rebuild their SDR holdings as part of their foreign reserve management and thereby generate significant interest savings.

E. Accelerating Structural Reforms for Job-Rich and Inclusive Growth

37. The authorities will develop a comprehensive reform strategy to boost private sector-led growth and reduce poverty (MEFP ¶35-37). It will focus on developing human capital, building infrastructure, reforming the energy sector, expanding transportation links and domestic food production, and improving the business environment. To promote a more favorable business environment, in May 2023 Parliament passed a law to give the Trade and Investment Promotion Agency (APCI) sole authority to implement policies to attract investment, support and monitor investment projects, and provide incentives for first-time investors. The authorities will develop a strategic plan to remove airlines certified in STP from the EU's Air Safety blacklist by end-December 2025 to facilitate the recovery of tourism and exports (proposed **SB11**). They will also update their tourism sector strategy, with World Bank support, by mid-2025.

38. The authorities will continue promoting women's economic empowerment (MEFP ¶38). They are implementing their 2021 Financial Inclusion Strategy, focusing on improving women's financial access, fostering financial digitalization, and improving financial literacy. The authorities will publish data about gender disparities in access to education, healthcare, and financial services, as well as in labor market outcomes. Moreover, they will, in collaboration with development partners, evaluate and update the 2019 National Strategy for Gender by mid-2025.

PROGRAM ISSUES AND RISKS

39. Duration, access, and phasing. A 40-month arrangement under the ECF would provide access at 125 percent of quota (SDR 18.5 million) to help address protracted BOP needs and achieve the medium-term GIR target of at least 3.1 months of imports.[9] Given heightened near-term pressures on

[9] The proposed 40-month program duration will allow sufficient time to complete the final review, taking into account capacity constraints.

the BOP and international reserves, disbursements under the ECF are proposed to be frontloaded. The full amount of each disbursement will go toward rebuilding BCSTP reserves. The arrangement will catalyze other donor financing, including from the World Bank (US$44 million), the AfDB (US$29.8 million), the European Union (US$7.9 million), and bilateral donors (US$33.9 million, see Text Table 4). The share of IMF financing in total IFI financing for BOP and/or budget support over 2024-27 would be around 25 percent. The financing gap after 2027 is expected to be fully financed by other donors. The IMF-supported program will comprise six reviews, with disbursements front-loaded for the program approval and the completion of the first review, with the remaining disbursements evenly phased (Table 9).

40. Program performance will be monitored through semi-annual reviews based on quantitative performance criteria (QPCs), indicative targets (ITs), and structural benchmarks (MEFP Tables 1 and 2). All QPCs and ITs from the 2019–23 ECF arrangement have been kept. However, the ceiling on net bank financing of the central government will be replaced with a zero ceiling on the change in the stock of gross central bank claims on the central government to directly target monetary financing of the budget by the central bank. In addition, to align the program architecture with the Debt Limit Policy, the ceiling on new concessional external debt will be replaced with a zero ceiling on the contracting or guaranteeing of new non-concessional external debt.[10] Furthermore, a continuous zero ceiling on disbursements of non-concessional debt was added to contain risks associated with the recent contracting of non-concessional debt. Given weak implementation capacity and substantial risks, the program incorporates an ambitious set of prior actions and SBs.

41. Financing assurances and external arrears. External financing is a vital component in bridging the financing gap and ensuring the success of the program (Table 7 and Text Table 4). Staff has established that there are firm commitments in place to ensure the program is fully financed over the next 12 months, and good prospects that there will be adequate financing for the remaining program period. STP's outstanding official external arrears amount to US$10.8 million (1.6 percent of GDP), including US$4.8 million to Angola, US$4.3 million to Brazil, and US$1.7 million to Equatorial Guinea, all of which are expected to consent to Fund financing notwithstanding these arrears.[11] Regarding sovereign external arrears to private creditors, the Lending into Arrears Policy will apply. Staff has ascertained that STP is making good faith efforts to reach a collaborative agreement with its private creditors, and to facilitate a collaborative agreement between debtors and creditors regarding non-sovereign external arrears to private creditors (ENCO's debt to Sonangol).

[10] STP is in external debt distress with no significant access to international financial markets, which typically warrants a zero non-concessional borrowing limit and an IT on contracting external debt under the "Guidance Note on Implementing the Debt Limits Policy in Fund-supported Programs."

[11] Staff will revert with an update prior to the Board meeting. An agreement with the Brazilian government was reached and is pending ratification by the Brazilian Senate. Negotiations with Equatorial Guinea are progressing well, with technical steps completed, pending final signed agreements. The negotiations with Angola are also ongoing, with most of the technical details regarding consolidation of historical debt and arrears agreed, pending final agreement between the two governments.

Text Table 4. São Tomé and Príncipe: IMF Disbursement and Official Inflows
(In millions of US dollars)

	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.
Total 1/	**110.1**	**92.6**	**72.2**	**66.9**
Grants 2/	**80.4**	**74.0**	**50.4**	**45.1**
World Bank	47.4	53.2	29.6	32.0
African Development Bank	14.0	8.0	8.1	5.4
European Union (EU)	5.8	4.7	4.7	4.7
Other project grants	5.0	5.0	5.0	0.0
Other budget support grants	8.2	3.0	3.0	3.0
France/AFD	2.2	0.0	0.0	0.0
United States of America	1.0	0.0	0.0	0.0
Democratic Republic of Congo	2.0	0.0	0.0	0.0
Other	3.0	3.0	3.0	3.0
Loans	**29.7**	**18.6**	**21.9**	**21.8**
IMF	5.3	8.2	5.7	5.7
Project loans 3/	7.7	7.5	16.2	16.1
Budget support loans	16.7	3.0	0.0	0.0
African Development Bank	0.0	3.0		
Portugal	16.7	0.0		

Sources: São Tomé and Príncipe authorities; AfDB, World Bank, and Fund staff estimates.

[1] Some of the financing is pending approval. For 2024, budget support grants from the AfDB (US$5.3 million), the WB (US$8 million), DRC (US$2 million), and a budget support loan from Portugal (EUR 15 million) have already been disbursed.

[2] Grants amount excludes HIPC interim assistance.

[3] The project loan amounts presented here and incorporated into the fiscal and balance of payments projections apply a historical execution rate to the forecasts used in the DSA.

42. **Capacity to Repay (CtR) the Fund is weak but would become adequate—with significant risks—subject to full program implementation (Table 8 and Annex IV).** Fund credit outstanding would peak at 4.7 percent of GDP in 2025, 27.8 percent of exports of goods and services in 2025, and 62 percent of GIR in 2025. Payments to the Fund would peak at 8.1 percent of GIR in 2026 and 3.7 percent of exports of goods and services in 2027. STP's capacity to repay indicators are above the interquartile range for other PRGT borrowers. As shown in Annex Figure 1 in Annex IV, this is the case in four areas throughout the forecast period, including total Fund credit outstanding relative to GIR, total debt service to the Fund relative to revenues excluding grants, exports of goods and services, and PPG external debt service. The other two CtR indicators are above the interquartile range compared to other PRGT borrowers in the early forecast years. STP's inconsistent track record of structural reform implementation and its status of being in debt distress

with weak debt-carrying capacity both add to CtR risks. Risks are mitigated by the projected economic recovery, planned energy sector reforms, strong prior actions and front-loaded fiscal adjustment, as well as relying solely on concessional lending and grants. Boosting STP's export potential would also help.

43. The program is subject to significant downside risks, including due to STP's fragility and low capacity. In addition to the risks to the outlook (¶13), the primary risk revolves around policy slippages. Limited administrative capacity or wavering commitment to reform implementation could hinder program execution, potentially delaying donor disbursements. Failure to address the external imbalances could constrain financing options and adversely affect growth. Delayed EMAE reforms and renewed power outages could also dent growth and put additional strain on fiscal revenues and international reserves. Delays in revenue mobilization efforts could narrow fiscal space for social and development spending. Natural disasters and external risks could delay fiscal consolidation. Transparent communication about the objectives and benefits of reforms, such as stabilizing electricity supply and protecting vulnerable households, will be critical to securing public buy-in.

44. The authorities request a one-year temporary approval for the retention of measures that give rise to exchange restrictions subject to IMF jurisdiscion under Article VIII, Section 2(a). These exchange measures include: (i) a restriction arising under Articles 3(g) and 18 of the Investment Code of 2016 due to limitations on the transferability of net income from investments; and (ii) a restriction arising from limitations on the availability of foreign exchange for payments of current international transactions, due to the rationing of foreign exchange by BCSTP. The authorities have requested approval of these measures for a period of twelve months because they are temporary and needed for BOP reasons. The IMF Executive Board's previous temporary one-year approval expired at end-March 2023. Under the program, the authorities plan to remove the restrictions in the near term.[12]

45. Further efforts are needed to strengthen capacity and improve economic data, although both are broadly adequate for surveillance (Annex V). Capacity development (CD) remains instrumental for reform implementation. CD priority areas are well aligned with the program and include enhancing domestic revenue mobilization; improving public financial management, public wage bill management, and debt recording; and reforming the monetary, financial and legal framework. Work is ongoing to implement the e-GDDS. More efforts are needed to strengthen macroeconomic statistics, particularly for leading indicators of economic activity, as well as external sector, monetary, and financial statistics.

[12] Until July 2022, STP maintained one multiple currency practice (MCP) arising from the channeling of *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. Given that the parallel FX market in STP is illegal, the existing MCP was therefore considered eliminated.

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46. STP's macroeconomic situation remains challenging, with sluggish growth, high fuel import needs, limited export potential, and depleted international reserves, aggravated by fragility and low capacity. The country has been hit by multiple shocks, including COVID-19, floods, and the commodity price shock following the war in Ukraine, and their impact continues to reverberate. A large BOP shock in early 2023 aggravated FX shortages and heightened challenges to finance fuel imports. While growth remains sluggish, stubbornly high inflation has finally started to decline. Fiscal performance improved significantly in 2023, supported by the VAT introduction and spending restraint, while the weak economy and FX shortages are weighing on fiscal revenues in 2024. Decisive implementation of the authorities' economic program will help make significant progress towards macroeconomic stability and support the economic recovery. The outlook is subject to significant downside risks, such as delayed energy sector reforms, lower donor support, renewed energy shortages and commodity price volatility. Furthermore, STP's infrastructure and rain-fed subsistence agriculture are highly vulnerable to natural disasters and climate change.

47. Short-term policies to reduce fuel import and external financing needs are key to contain FX outflows and strengthen reserves. The authorities' policy package, which includes measures to directly reduce fuel imports, enforce existing repatriation and export surrender requirements, and reduce the BCSTP's role in financing fuel imports, is expected to reduce external financing needs significantly. The external position in 2023 is assessed as substantially weaker than the level implied by medium-term fundamentals and desirable policies, with an overvalued exchange rate and insufficient reserves. Structural reforms to strengthen competitiveness, diversify the economy, and boost exports will help to strengthen the external position.

48. An ambitious and front-loaded fiscal adjustment is critical to ensure sustainability and address protracted BOP pressures, while protecting priority social spending. The authorities already demonstrated their commitment to fiscal consolidation with the introduction of the long-delayed VAT and the significant fiscal improvement achieved in 2023. The programmed fiscal adjustment and cautious borrowing will help place public debt on a downward path. After a significant decline in the public debt-to-GDP ratio in 2023, a substantial further reduction is projected over the program period. Public debt is deemed sustainable, but the country remains in debt distress due to prolonged unsettled external arrears. The authorities' fiscal plans appropriately focus on the revenue side, with significant tax policy reforms and improvements in revenue administration, which will be supported by a domestic revenue mobilization plan. On the expenditure side, the authorities will contain the wage bill while restoring purchasing power and strengthening financial incentives for public sector workers. They will also protect pro-poor spending and carefully consider the distributional impact of reforms. It is crucial to preserve debt sustainability and gradually strengthen the country's debt management and debt-carrying capacity.

49. The authorities should strengthen the fiscal policy framework, supported by enhanced transparency and governance. Strengthening budget forecasts, execution, cash management, and fiscal risk analysis all remain critical, as well as the reconciliation of budget execution data with financing and the implementation of the commitment control system. The authorities should persevere in increasing transparency in public procurement, as well as finalize and enact the new procurement law.

50. Strong efforts are needed to accelerate energy sector reforms, following years of mismanagement. The authorities should steadfastly implement their comprehensive reform strategy for the sector, supported by the World Bank. The increase in electricity tariffs is an important step and the authorities should forge ahead with other near-term actions, including installing electricity meters, enforcing the law against electricity theft, completing the replacement of incandescent lightbulbs with LED ones, and preparing a restructuring plan for EMAE. The authorities are also gradually shifting the electricity generation mix from thermal plants towards renewable sources. The fuel price adjustment mechanism is helping to prevent explicit fuel subsidies and contain fiscal risks. Energy sector reforms will also help reduce fuel imports and boost international reserves.

51. The BCSTP should persevere in its efforts to reduce inflation and maintain financial stability. An end to monetary financing of the budget, containing excess liquidity, and a gradual accumulation of international reserves will support the peg to the euro. The new BCSTP Organic Law should urgently be adopted and enacted. Progress in implementing the remaining safeguards recommendations needs to continue. Additional efforts are needed to comply with IFRS standards, reform internal audit and currency operations, strengthen supervisory capacity, and accelerate the liquidation of closed banks.

52. Comprehensive structural reforms are needed to boost private sector-led growth to reduce poverty. These should focus on strengthening human capital, building infrastructure, reforming the energy sector, increasing climate resilience, expanding transportation and food production, and improving the business environment. Promoting women's economic empowerment will also be critical. The authorities should implement necessary actions to remove airlines certified in STP from the EU's Air Safety blacklist, in order to boost tourism and exports.

53. The authorities' program supported by the ECF arrangement and the related financing will play an important catalytic role. Given the sizeable financing needs, strong and timely support from donors is critical. Moreover, the authorities need to intensify their efforts in mobilizing grant support, including by demonstrating good progress on macroeconomic stabilization and structural reforms.

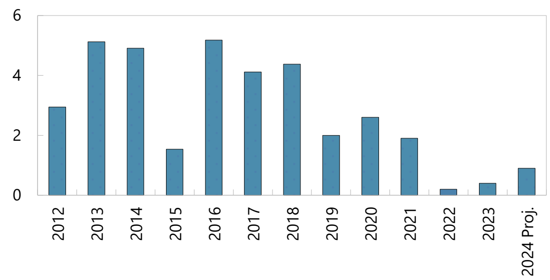
54. Staff supports the authorities' request for a 40-month arrangement under the ECF, with access of SDR 18.5 million (125 percent of quota). This is based on the strength of the proposed program, the prior actions taken by the authorities, and the financing assurances provided by donors and creditors. Staff also supports the authorities' request for a one-year temporary approval for the retention of measures resulting in exchange restrictions subject to IMF jurisdiction under Article VIII, Section 2(a) because these measures are temporary and needed for BOP reasons.

Figure 1. São Tomé and Príncipe: Macroeconomic Developments, 2010–24

Growth was weak in 2023, due to FX and energy shortages, and is expected to remain sluggish in 2024.

Real GDP

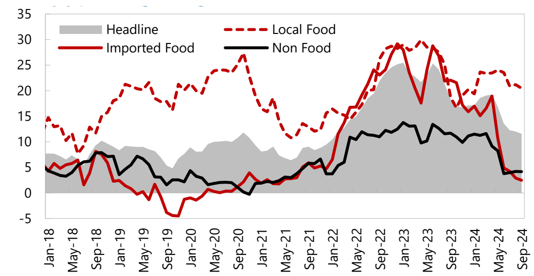
(Annual Percentage Change)



After being stubbornly high during 2023, headline inflation has decelerated rapidly since April 2024.

Consumer Price Index

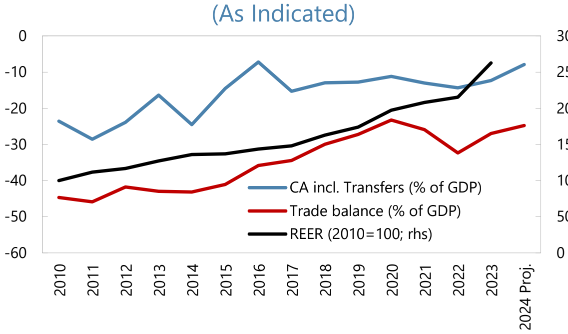
(Y/Y Percentage Change)



The CA deficit narrowed in 2023, a trend which is expected to continue, driven mainly by lower imports.

Current Account Balance and REER

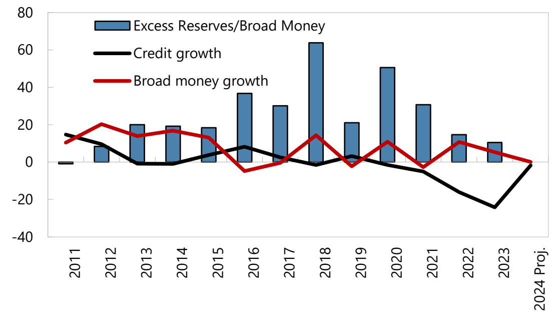
(As Indicated)



Credit growth has been negative since 2020, but is expected to converge towards zero in 2024.

Liquidity, Credit and Broad Money

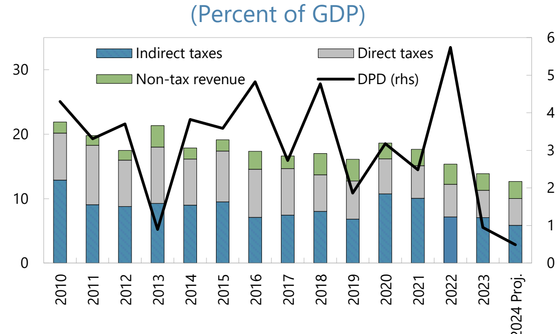
(Percent)



The domestic primary deficit improved significantly in 2023, mainly due to spending restraint.

Government Revenue and Primary Balance

(Percent of GDP)



FX reserves declined further in 2023, reflecting low financial inflows and high fuel imports.

International Reserves

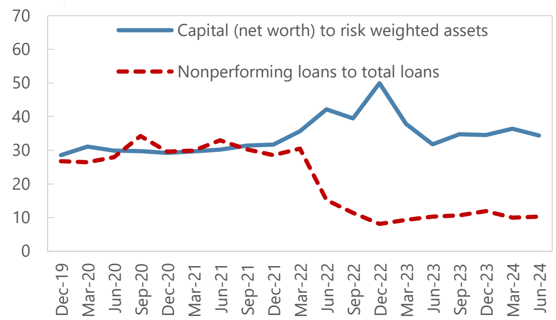
(As Indicated)

Sources: São Tomé and Príncipe authorities, and Fund staff estimates.

Figure 2. São Tomé and Príncipe: Banking Sector

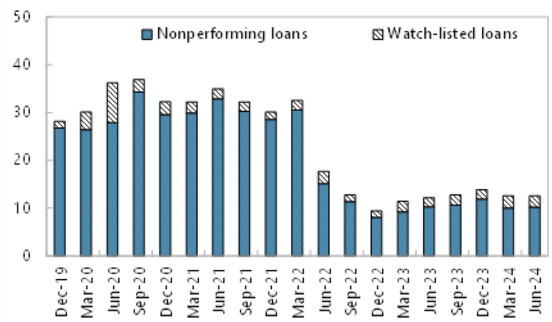
Bank capital jumped due to new regulations in 2022, but has stabilized at lower levels since then.

Capital Adequacy and NPLs
(Percent)



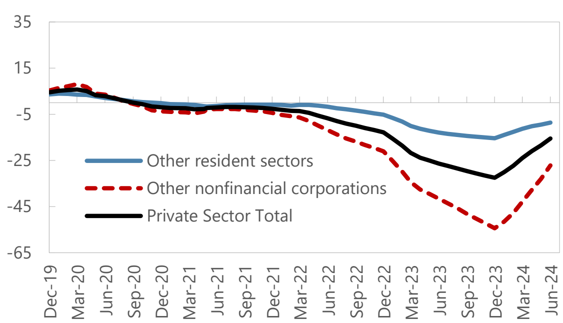
Similarly, NPLs and watch-listed loans dropped in 2022, but have stabilized at somewhat higher levels.

Past Due Loans to Gross Loans
(Percent)



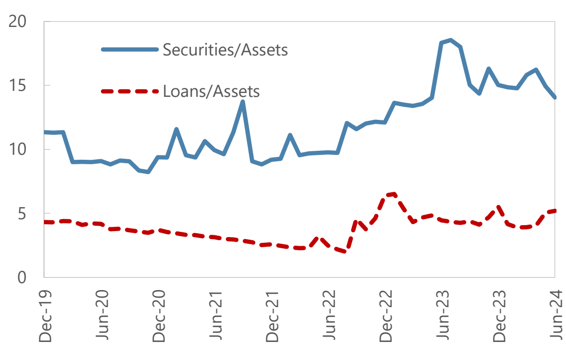
Credit to the private sector continues to decline, but the rate of decline has recently decelerated.

Private Sector Credit Growth
(Percent, 12-Month Moving Average)



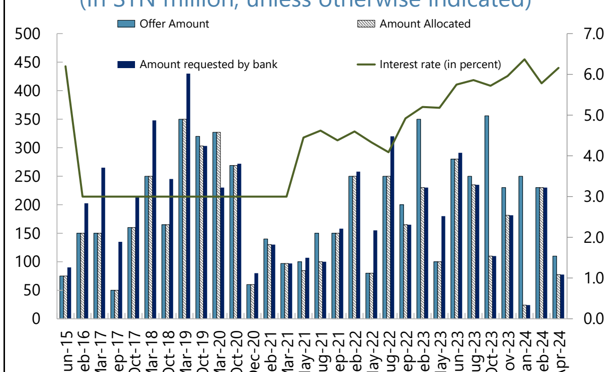
At the same time, banks' exposure to the government remains high.

Government Securities and Claims
(Percent of Total Commercial Banks' Assets)



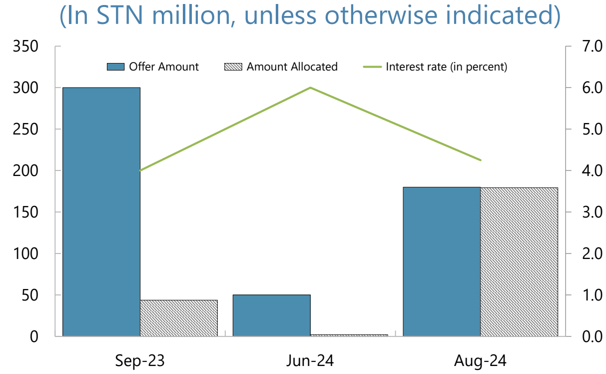
The BCSTP continued to rely mostly on the placement of T-bills by the MoF to absorb excess liquidity…

T-Bill Auctions
(In STN million, unless otherwise indicated)



…while the MoF started to successfully issue 2-year T-bonds.

T-Bond Auctions
(In STN million, unless otherwise indicated)



Sources: São Tomé and Príncipe authorities.

Table 1. São Tomé and Príncipe: Selected Economic Indicators, 2021–29

(Annual Change in Percent, unless otherwise indicated)

	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
National Income and Prices									
GDP at constant prices	1.9	0.2	0.4	0.9	3.1	4.8	4.1	3.5	3.5
GDP deflator	5.2	15.7	21.7	14.9	9.8	6.2	4.5	4.4	4.5
Consumer prices (End of period)	9.5	25.2	17.1	10.9	6.9	5.0	5.0	5.0	5.0
Consumer prices (Period Average)	8.1	18.0	21.2	14.0	8.9	5.9	5.0	5.0	5.0
External Trade									
Exports of goods and nonfactor services	57.2	18.5	12.0	33.0	6.0	9.6	7.2	9.7	8.0
Imports of goods and nonfactor services	24.0	22.8	2.5	14.1	-3.6	-2.0	3.9	7.6	6.4
Exchange rate (dobras per US$; end of period) [1]	21.7	23.1	22.5	...	...	...	...	...	...
Real effective exchange rate (period average, depreciation = -)	5.5	3.4	22.1	...	...	...	...	...	...
Money and Credit									
Base money	12.7	-1.7	-11.6	-4.6	10.4	3.2	0.1	-3.9	-9.8
Broad money (M3)	-2.7	10.8	5.3	0.1	15.7	7.9	4.4	0.1	1.0
Credit to the economy	-5.0	-16.0	-24.2	-1.8	15.4	12.3	7.6	7.1	7.2
Velocity (GDP to broad money; end of period)	3.4	3.5	4.1	4.8	4.7	4.8	5.0	5.4	5.8
Central bank reference interest rate (percent)	9.0	9.5	10.0	...	...	...	...	...	...
Average bank lending rate (percent)	18.5	17.9	17.8	...	...	...	...	...	...
Government Finance (in Percent of GDP)									
Total revenue, grants, and oil signature bonuses	24.1	25.5	22.2	24.2	25.0	22.3	22.6	22.6	22.1
Of which: tax revenue	12.1	10.6	11.5	10.9	13.8	14.4	14.9	15.0	15.0
Nontax revenue	2.5	3.1	2.6	2.8	2.6	2.6	2.6	2.6	2.6
Grants	9.5	11.7	8.1	10.5	8.5	5.3	5.1	4.9	4.5
Total expenditure and net lending	25.6	27.7	21.1	21.4	21.4	20.4	20.3	20.5	20.3
Personnel costs	9.1	9.2	7.8	7.4	8.3	8.4	8.4	8.4	8.4
Interest due	0.2	0.5	0.7	1.1	0.6	0.7	0.6	0.6	0.6
Nonwage noninterest current expenditure	7.3	7.0	6.2	5.6	6.1	6.0	6.0	6.0	6.0
Treasury funded capital expenditures	0.1	2.4	0.3	0.3	0.3	0.3	0.4	0.5	0.5
Donor funded capital expenditures	7.3	8.5	5.9	6.8	5.9	4.8	4.7	4.8	4.6
HIPC Initiative-related capital expenditure	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1
COVID-19 spending	1.5	1.0	...	...	...	...	...	...	...
Domestic primary balance (commitment basis) [2]	-2.5	-5.7	-0.9	-0.5	1.0	1.5	2.0	2.0	2.0
Net domestic borrowing	4.1	4.6	0.4	-2.7	-1.1	-1.5	-2.1	-2.0	-2.0
Overall balance (commitment basis)	-1.5	-2.2	1.1	2.8	3.5	1.9	2.3	2.1	1.9
Public Debt [3]	88.1	88.2	76.7	68.6	61.3	57.0	53.2	49.1	45.8
Of which: EMAE's debt to ENCO	28.9	33.1	28.5	27.0	25.6	24.3	22.9	21.7	20.0
External Sector									
Current account balance (percent of GDP)									
Including official transfers	-13.1	-14.4	-12.3	-7.9	-5.5	-5.2	-4.4	-4.2	-4.3
Excluding official transfers	-22.5	-26.1	-20.5	-18.4	-14.0	-10.4	-9.5	-9.2	-8.7
PV of external debt (percent of GDP)	26.6	27.2	30.5	29.0	26.2	24.2	22.8	21.4	20.0
External debt service (percent of exports) [4]	3.0	6.2	4.3	6.4	10.8	12.3	11.5	9.9	8.2
Export of goods and non-factor services (US$ millions)	81.8	97.0	108.6	144.4	153.1	167.7	179.8	197.2	212.9
Gross international reserves (face value) [5]									
Millions of U.S. dollars	62.5	59.2	42.9	48.1	68.7	71.7	82.4	87.7	91.0
Months of imports of goods and services	2.9	2.7	1.7	2.0	2.9	2.9	3.1	3.1	3.1
Months of imports of goods and nonfactor services [6]	4.6	3.5	2.4	2.8	4.1	4.1	4.4	4.4	4.4
National Oil Account (stock, US$ millions)	13.6	15.7	16.6	19.2	20.8	22.7	24.7	26.9	29.2
Prospective financing (US$ millions)	...	...	...	**55.8**	**38.5**	**23.1**	**23.0**	**17.4**	**17.4**
Prospective nonproject grants and concessional loans	...	...	...	50.5	30.3	17.4	17.4	17.4	17.4
ECF disbursements	...	...	...	5.3	8.2	5.7	5.7	0.0	0.0
Memorandum Item									
Gross Domestic Product									
Millions of dobra	10,942	12,690	15,500	17,970	20,348	22,654	24,629	26,613	28,770
Millions of U.S. dollars	529	546	684	799	911	1,018	1,107	1,196	1,293
Per capita (in U.S. dollars)	2,370	2,405	2,949	3,372	3,767	3,961	4,222	4,472	4,740

Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections.

[1] Central Bank (BCSTP) mid-point rate.

[2] Excludes oil related revenues, ENCO debt repayment, grants, scheduled interest payments, and foreign-financed capital outlays as defined in the TMU.

[3] Total public and publicly guaranteed debt as defined in the DSA, which includes EMAE's debt to ENCO.

[4] Percent of exports of goods and nonfactor services.

[5] Gross international reserves as defined in the TMU.

[6] Imports of goods and services excluding imports of investment goods and technical assistance.

Table 2a. São Tomé and Príncipe: Financial Operations of the Central Government, 2021–29

(Millions of New Dobra)

	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
Total revenue and grants[1]	**2,639**	**3,232**	**3,434**	**4,354**	**5,077**	**5,061**	**5,572**	**6,011**	**6,370**
Total revenue	1,604	1,747	2,177	2,462	3,350	3,866	4,323	4,699	5,081
Tax revenue	1,325	1,348	1,780	1,955	2,815	3,270	3,674	3,997	4,323
Consumption taxes	240	248	516	659	913	971	1,068	1,168	1,262
Import taxes	531	461	604	586	949	658	705	762	823
Other taxes	555	639	659	710	953	997	1,096	1,198	1,297
Unidentified additional tax measures	0	0	0	0	0	643	805	870	941
Nontax revenue	278	399	397	507	536	596	649	702	758
Of which: oil revenue	8	114	92	130	120	134	145	157	170
Grants	1,035	1,484	1,258	1,891	1,727	1,195	1,248	1,312	1,288
Project grants	751	1,006	813	1,047	1,041	734	798	862	839
Nonproject grants[2]	257	418	360	760	610	386	386	386	386
HIPC Initiative-related grants	27	61	85	85	76	75	64	63	63
Total expenditure	**2,805**	**3,516**	**3,264**	**3,849**	**4,362**	**4,628**	**5,001**	**5,452**	**5,833**
Of which: domestic primary expenditure	1,867	2,362	2,231	2,422	3,036	3,382	3,694	4,015	4,337
Current expenditure	1,823	2,121	2,281	2,537	3,048	3,412	3,695	3,995	4,308
Personnel costs	997	1,169	1,214	1,330	1,688	1,902	2,067	2,234	2,415
Interest due	23	70	113	206	118	152	150	165	168
Goods and services	260	262	297	364	412	459	499	539	583
Transfers	335	370	431	411	572	613	667	721	779
Other current expenditure	207	251	225	227	257	286	311	337	364
Capital expenditure	812	1,384	962	1,282	1,277	1,171	1,265	1,416	1,483
Financed by the Treasury	13	300	42	61	69	77	108	144	155
Financed by external sources	799	1,084	920	1,221	1,208	1,094	1,156	1,272	1,328
HIPC Initiative-related capital expenditure	11	11	21	30	38	45	41	41	41
COVID-19 spending	159	0	…	…	…	…	…	…	…
Financed by the Treasury	44	0	…	…	…	…	…	…	…
Financed by external sources	115	0	…	…	…	…	…	…	…
Domestic primary balance (commitment basis)[3]	**-271**	**-728**	**-147**	**-90**	**194**	**350**	**484**	**527**	**575**
Change in the stock of domestic expenditure arrears	-98	-17	-109	-82	-47	-47	-47	-47	-47
Domestic primary balance (cash basis)	-369	-746	-256	-172	147	304	437	480	528
Overall fiscal balance (commitment basis)	**-166**	**-284**	**170**	**504**	**715**	**433**	**571**	**558**	**537**
Net change in external arrears	0	0	0	0	0	0	0	0	0
Net change in domestic arrears	-98	-17	-109	-82	-47	-47	-47	-47	-47
Float and statistical discrepancies	-157	-330	0	0	0	0	0	0	0
Overall fiscal balance (cash basis)	-420	-632	61	422	668	386	524	512	490
Financing	**420**	**632**	**-61**	**-422**	**-668**	**-386**	**-524**	**-512**	**-490**
Net external	-26	-55	-77	239	-71	13	67	88	165
Disbursements (project loans)	48	79	103	174	167	360	358	410	489
Program financing (loans)[2]	0	0	0	375	67	0	0	0	0
Scheduled amortization	-74	-134	-180	-311	-305	-348	-292	-322	-324
Net domestic	446	687	16	-660	-597	-399	-591	-600	-656
Net bank credit to the government	514	645	125	-401	-258	-374	-566	-575	-631
Banking credit (net, excluding National Oil Account)[4]	446	585	55	-477	-224	-333	-522	-528	-581
National Oil Account	68	59	70	76	-35	-41	-44	-47	-50
Nonbank financing	-68	42	-109	-259	-339	-25	-25	-25	-25
Of which: Amortization payments of CG to ENCO	-68	42	-113	-259	-339	-25	-25	-25	-25
Prospective financing[2]	…	…	…	**1,135**	**677**	**386**	**386**	**386**	**386**
World Bank	…	…	…	292	380	156	156	156	156
African Development Bank	…	…	…	239	187	120	120	120	120
EU	…	…	…	44	44	44	44	44	44
Other	…	…	…	559	67	67	67	67	67
Memorandum Items									
Gross Domestic Product	10,942	12,690	15,500	17,970	20,348	22,654	24,629	26,613	28,770
Public Debt (in percent of GDP)	88	88	77	69	61	57	53	49	46

Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections.

[1] Revenue is measured on a cash basis.

[2] Of the prospective financing amounts, some are pending approval. For 2024, budget support grants from the AfDB (US$5.3 million), the WB (US$8 million), DRC (US$2 million), and a budget support loan from Portugal (EUR 15 million) have already been disbursed.

[3] Excludes oil related revenues, ENCO debt repayment, grants, scheduled interest payments, and foreign-financed capital outlays as defined in the TMU.

[4] Includes use of past IMF budget support.

Table 2b. São Tomé and Príncipe: Financial Operations of the Central Government, 2021–29

(In Percent of GDP)

	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
Total revenue and grants[1]	**24.1**	**25.5**	**22.2**	**24.2**	**25.0**	**22.3**	**22.6**	**22.6**	**22.1**
Total revenue	14.7	13.8	14.0	13.7	16.5	17.1	17.6	17.7	17.7
Tax revenue	12.1	10.6	11.5	10.9	13.8	14.4	14.9	15.0	15.0
Consumption taxes	2.2	2.0	3.3	3.7	4.5	4.3	4.3	4.4	4.4
Import taxes	4.9	3.6	3.9	3.3	4.7	2.9	2.9	2.9	2.9
Other taxes	5.1	5.0	4.3	4.0	4.7	4.4	4.5	4.5	4.5
Unidentified additional tax measures	0.0	0.0	0.0	0.0	0.0	2.8	3.3	3.3	3.3
Nontax revenue	2.5	3.1	2.6	2.8	2.6	2.6	2.6	2.6	2.6
Of which: oil revenue	0.1	0.9	0.6	0.7	0.6	0.6	0.6	0.6	0.6
Grants	9.5	11.7	8.1	10.5	8.5	5.3	5.1	4.9	4.5
Project grants	6.9	7.9	5.2	5.8	5.1	3.2	3.2	3.2	2.9
Nonproject grants[2]	2.4	3.3	2.3	4.2	3.0	1.7	1.6	1.5	1.3
HIPC Initiative-related grants	0.2	0.5	0.5	0.5	0.4	0.3	0.3	0.2	0.2
Total expenditure	**25.6**	**27.7**	**21.1**	**21.4**	**21.4**	**20.4**	**20.3**	**20.5**	**20.3**
Of which: Domestic primary expenditure	17.1	18.6	14.4	13.5	14.9	14.9	15.0	15.1	15.1
Current expenditure	16.7	16.7	14.7	14.1	15.0	15.1	15.0	15.0	15.0
Personnel costs	9.1	9.2	7.8	7.4	8.3	8.4	8.4	8.4	8.4
Interest due	0.2	0.5	0.7	1.1	0.6	0.7	0.6	0.6	0.6
Goods and services	2.4	2.1	1.9	2.0	2.0	2.0	2.0	2.0	2.0
Transfers	3.1	2.9	2.8	2.3	2.8	2.7	2.7	2.7	2.7
Other current expenditure	1.9	2.0	1.5	1.3	1.3	1.3	1.3	1.3	1.3
Capital expenditure	7.4	10.9	6.2	7.1	6.3	5.2	5.1	5.3	5.2
Financed by the Treasury	0.1	2.4	0.3	0.3	0.3	0.3	0.4	0.5	0.5
Financed by external sources	7.3	8.5	5.9	6.8	5.9	4.8	4.7	4.8	4.6
HIPC Initiative-related capital expenditure	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1
COVID-19 spending	1.5	0.0	…	…	…	…	…	…	…
Financed by the Treasury	0.4	0.0	…	…	…	…	…	…	…
Financed by external sources	1.1	0.0	…	…	…	…	…	…	…
Domestic primary balance (commitment basis)[3]	**-2.5**	**-5.7**	**-0.9**	**-0.5**	**1.0**	**1.5**	**2.0**	**2.0**	**2.0**
Change in the stock of domestic expenditure arrears	-0.9	-0.1	-0.7	-0.5	-0.2	-0.2	-0.2	-0.2	-0.2
Domestic primary balance (cash basis)	-3.4	-5.9	-1.6	-1.0	0.7	1.3	1.8	1.8	1.8
Overall fiscal balance (commitment basis)	**-1.5**	**-2.2**	**1.1**	**2.8**	**3.5**	**1.9**	**2.3**	**2.1**	**1.9**
Net change in external arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net change in domestic arrears	-0.9	-0.1	-0.7	-0.5	-0.2	-0.2	-0.2	-0.2	-0.2
Float and statistical discrepancies	-1.4	-2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (cash basis)	**-3.8**	**-5.0**	**0.4**	**2.3**	**3.3**	**1.7**	**2.1**	**1.9**	**1.7**
Financing	**3.8**	**5.0**	**-0.4**	**-2.3**	**-3.3**	**-1.7**	**-2.1**	**-1.9**	**-1.7**
Net external	-0.2	-0.4	-0.5	1.3	-0.3	0.1	0.3	0.3	0.6
Disbursements (project loans)	0.4	0.6	0.7	1.0	0.8	1.6	1.5	1.5	1.7
Program financing (loans)[2]	0.0	0.0	0.0	2.1	0.3	0.0	0.0	0.0	0.0
Scheduled amortization	-0.7	-1.1	-1.2	-1.7	-1.5	-1.5	-1.2	-1.2	-1.1
Net domestic	4.1	5.4	0.1	-3.7	-2.9	-1.8	-2.4	-2.3	-2.3
Net bank credit to the government	4.7	5.1	0.8	-2.2	-1.3	-1.7	-2.3	-2.2	-2.2
Banking credit (net, excluding National Oil Account)[4]	4.1	4.6	0.4	-2.7	-1.1	-1.5	-2.1	-2.0	-2.0
National Oil Account	0.6	0.5	0.5	0.4	-0.2	-0.2	-0.2	-0.2	-0.2
Nonbank financing	-0.6	0.3	-0.7	-1.4	-1.7	-0.1	-0.1	-0.1	-0.1
Of which: Amortization payments of CG to ENCO	-0.6	0.3	-0.7	-1.4	-1.7	-0.1	-0.1	-0.1	-0.1
Prospective financing[2]	…	…	…	**6.3**	**3.3**	**1.7**	**1.6**	**1.5**	**1.3**
World Bank	…	…	…	1.6	1.9	0.7	0.6	0.6	0.5
African Development Bank	…	…	…	1.3	0.9	0.5	0.5	0.4	0.4
EU	…	…	…	0.2	0.2	0.2	0.2	0.2	0.2
Other	…	…	…	3.1	0.3	0.3	0.3	0.3	0.2
Memorandum Items									
Nominal GDP (Millions of dobra)	10,942	12,690	15,500	17,970	20,348	22,654	24,629	26,613	28,770
Public Debt	88	88	77	69	61	57	53	49	46

Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections.

[1] Revenue is measured on a cash basis.

[2] Of the prospective financing amounts, some are pending approval. For 2024, budget support grants from the AfDB (US$5.3 million), the WB (US$8 million), DRC (US$2 million), and a budget support loan from Portugal (EUR 15 million) have already been disbursed.

[3] Excludes oil related revenues, ENCO debt repayment, grants, scheduled interest payments, and foreign-financed capital outlays as defined in the TMU.

[4] Includes use of past IMF budget support.

Table 3a. São Tomé and Príncipe: Balance of Payments, 2021–29

(Millions of U.S. dollars)

	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
Trade Balance	**-136.9**	**-176.8**	**-184.8**	**-198.1**	**-188.8**	**-177.1**	**-182.5**	**-196.5**	**-206.4**
Exports, f.o.b.	20.8	21.9	23.6	46.9	44.7	47.0	48.6	53.4	59.0
Cocoa	10.3	7.8	10.1	27.1	22.2	21.6	23.2	25.6	30.3
Palm oil	6.0	7.9	5.8	6.5	7.1	7.7	8.4	9.3	9.6
Re-export	1.9	5.1	6.7	12.0	13.9	16.1	15.1	16.7	17.0
Imports, f.o.b.	-157.7	-198.7	-208.5	-245.0	-233.5	-224.1	-231.1	-249.9	-265.4
Food	-36.8	-35.1	-43.4	-50.3	-51.9	-54.4	-56.6	-58.6	-61.8
Petroleum products	-45.3	-51.4	-64.7	-61.4	-46.2	-42.7	-44.6	-46.6	-48.7
Non-oil investment goods	-29.8	-36.1	-33.0	-41.5	-43.6	-35.3	-33.6	-41.1	-42.1
Oil sector related investment goods	-37.5	-53.8	-27.6	-42.2	-40.4	-43.9	-47.4	-50.0	-54.0
Other	-8.3	-22.3	-39.8	-49.6	-51.4	-47.9	-48.9	-53.7	-58.8
Services and Income (Net)	**10.9**	**25.8**	**35.9**	**40.3**	**49.9**	**57.8**	**63.6**	**71.3**	**76.9**
Exports of nonfactor services	61.0	75.1	85.0	97.5	108.4	120.7	131.2	143.8	154.0
Of which : travel and tourism	35.8	47.5	61.2	69.0	76.1	84.7	92.1	101.6	108.3
Imports of nonfactor services	-52.8	-59.9	-56.6	-57.5	-58.0	-61.6	-65.7	-69.4	-74.3
Factor services (net)	2.7	10.5	7.5	0.3	-0.5	-1.3	-1.9	-3.0	-2.8
Of which: oil related	0.0	0.2	0.7	0.1	0.1	0.1	0.1	0.0	0.0
Private Transfers (Net)	**7.0**	**8.8**	**9.0**	**10.4**	**11.8**	**13.1**	**14.2**	**15.4**	**16.6**
Official Transfers (Net)	**50.0**	**63.8**	**55.5**	**84.1**	**77.3**	**53.7**	**56.1**	**59.0**	**57.9**
Of which : Project grants (excluding HIPC grants)	36.3	43.3	35.9	46.6	46.6	33.0	35.9	38.8	37.7
Nonproject grants	12.4	18.0	15.9	33.8	27.3	17.4	17.4	17.4	17.4
HIPC Initiative-related grants	1.3	2.61	3.74	3.8	3.4	3.4	2.9	2.8	2.8
Current Account Balance									
Including official transfers	-69.0	-78.4	-84.4	-63.2	-49.8	-52.4	-48.6	-50.8	-55.0
Excluding official transfers	-119.0	-142.3	-140.0	-147.4	-127.2	-106.2	-104.7	-109.7	-112.9
Capital and Financial Account Balance	**56.8**	**85.0**	**61.7**	**63.1**	**57.6**	**59.1**	**61.0**	**69.4**	**71.5**
Capital transfer	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	56.8	85.0	61.7	63.1	57.6	59.1	61.0	69.4	71.5
Foreign Direct Investment	69.1	105.6	67.8	59.2	51.9	52.9	58.4	62.4	68.7
Portfolio Investment (net)	2.0	0.0	-0.5	-2.0	0.0	0.0	0.0	0.0	0.0
Oil signature bonuses	0.4	4.9	4.1	5.8	5.4	6.0	6.5	7.1	7.6
Other investment (net)	-14.6	-25.4	-9.6	0.1	0.4	0.2	-3.9	-0.1	-4.9
Assets	-15.7	-25.1	0.3	0.3	0.1	0.1	0.1	0.1	0.1
Public sector liabilities (net)	0.4	-0.6	20.5	19.5	-1.6	-0.2	-0.9	2.0	7.4
Project loans	2.3	3.4	12.9	7.7	7.5	16.2	16.1	18.4	22.0
Program loans	0.0	0.0	0.0	16.7	3.0	0.0	0.0	0.0	0.0
Other loans	0.0	0.0	11.8	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.9	-4.0	-4.3	-4.9	-12.1	-16.4	-17.0	-16.4	-14.6
Of which : HIPC Initiative-related grants	-1.1	-2.3	-3.3	-3.4	-3.1	-3.1	-2.6	-2.6	-2.6
Private sector liabilities (net)	0.6	0.3	-30.4	-19.7	1.9	0.3	-3.1	-2.1	-12.4
Commercial banks	-4.4	0.3	-35.9	-7.0	-6.5	-6.2	-5.3	-5.4	0.0
Private capital	5.0	0.0	5.5	-12.7	8.3	6.6	2.3	3.2	-12.4
Errors and Omissions	-5.5	-25.0	-2.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	**-17.7**	**-18.4**	**-25.4**	**-0.1**	**7.8**	**6.6**	**12.4**	**18.7**	**16.5**
Financing	17.7	18.4	25.4	-5.2	-16.0	-12.3	-18.1	-18.7	-16.5
Change in official reserves, excl. IMF and NOA (increase= -)	9.0	16.0	27.4	-1.1	-11.6	-5.5	-10.7	-11.5	-9.3
Use of Fund resources (net)	5.1	4.5	-1.1	-1.5	-2.7	-4.9	-5.4	-5.0	-4.9
Disbursements	5.1	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments (incl. MDRI repayment)	0.0	-0.6	-1.1	-1.5	-2.7	-4.9	-5.4	-5.0	-4.9
National Oil Account (increase = -)	2.9	-2.1	-0.9	-2.5	-1.6	-1.9	-2.0	-2.2	-2.3
Exceptional financing (IMF CCRT)	0.6	...	...	...	...	...	...	...	...
Prospective Financing	...	...	...	**55.8**	**38.5**	**23.1**	**23.0**	**17.4**	**17.4**
Prospective nonproject grants and concessional loans	...	...	...	50.5	30.3	17.4	17.4	17.4	17.4
ECF disbursements	...	...	...	5.3	8.2	5.7	5.7	0.0	0.0
Memorandum Items:									
Current account balance (percent of GDP)									
Including official transfers	-13.1	-14.4	-12.3	-7.9	-5.5	-5.2	-4.4	-4.2	-4.3
Excluding official transfers	-22.5	-26.1	-20.5	-18.4	-14.0	-10.4	-9.5	-9.2	-8.7
Debt service ratio (percent of exports) [1]	3.0	6.2	4.3	6.4	10.8	12.3	11.5	9.9	8.2
Gross international reserves (face value) [2]									
Millions of U.S. dollars	62.5	59.2	42.9	48.1	68.7	71.7	82.4	87.7	91.0
Months of imports of goods and services	2.9	2.7	1.7	2.0	2.9	2.9	3.1	3.1	3.1
Months of imports of goods and nonfactor services[3]	4.6	3.5	2.4	2.8	4.1	4.1	4.4	4.4	4.4

Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections.

[1] Percent of exports of goods and nonfactor services.

[2] Gross international reserves as defined in the TMU.

[3] Imports of goods and services excluding imports of investment goods and technical assistance.

Table 3b. São Tomé and Príncipe: Balance of Payments, 2021–29

(In Percent of GDP)

	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
Trade Balance	**-25.9**	**-32.4**	**-27.0**	**-24.8**	**-20.7**	**-17.4**	**-16.5**	**-16.4**	**-16.0**
Exports, f.o.b.	3.9	4.0	3.5	5.9	4.9	4.6	4.4	4.5	4.6
Cocoa	1.9	1.4	1.5	3.4	2.4	2.1	2.1	2.1	2.3
Palm oil	1.1	1.4	0.8	0.8	0.8	0.8	0.8	0.8	0.7
Re-export	0.4	0.9	1.0	1.5	1.5	1.6	1.4	1.4	1.3
Imports, f.o.b.	-29.8	-36.4	-30.5	-30.7	-25.6	-22.0	-20.9	-20.9	-20.5
Food	-7.0	-6.4	-6.3	-6.3	-5.7	-5.3	-5.1	-4.9	-4.8
Petroleum products	-8.6	-9.4	-9.5	-7.7	-5.1	-4.2	-4.0	-3.9	-3.8
Non-oil investment goods	-5.6	-6.6	-4.8	-5.2	-4.8	-3.5	-3.0	-3.4	-3.3
Oil sector related investment goods	-7.1	-9.9	-4.0	-5.3	-4.4	-4.3	-4.3	-4.2	-4.2
Other	-1.6	-4.1	-5.8	-6.2	-5.6	-4.7	-4.4	-4.5	-4.5
Services and Income (Net)	**2.1**	**4.7**	**5.3**	**5.0**	**5.5**	**5.7**	**5.7**	**6.0**	**5.9**
Exports of nonfactor services	11.5	13.8	12.4	12.2	11.9	11.9	11.9	12.0	11.9
Of which : travel and tourism	6.8	8.7	8.9	8.6	8.4	8.3	8.3	8.5	8.4
Imports of nonfactor services	-10.0	-11.0	-8.3	-7.2	-6.4	-6.1	-5.9	-5.8	-5.7
Factor services (net)	0.5	1.9	1.1	0.0	-0.1	-0.1	-0.2	-0.3	-0.2
Of which: oil related	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Private Transfers (Net)	**1.3**	**1.6**	**1.3**	**1.3**	**1.3**	**1.3**	**1.3**	**1.3**	**1.3**
Official Transfers (Net)	**9.5**	**11.7**	**8.1**	**10.5**	**8.5**	**5.3**	**5.1**	**4.9**	**4.5**
Of which : Project grants (excluding HIPC grants)	6.9	7.9	5.2	5.8	5.1	3.2	3.2	3.2	2.9
Nonproject grants	2.4	3.3	2.3	4.2	3.0	1.7	1.6	1.5	1.3
HIPC Initiative-related grants	0.2	0.5	0.5	0.5	0.4	0.3	0.3	0.2	0.2
Current Account Balance									
Including official transfers	-13.1	-14.4	-12.3	-7.9	-5.5	-5.2	-4.4	-4.2	-4.3
Excluding official transfers	-22.5	-26.1	-20.5	-18.4	-14.0	-10.4	-9.5	-9.2	-8.7
Capital and Financial Account Balance	**10.8**	**15.6**	**9.0**	**7.9**	**6.3**	**5.8**	**5.5**	**5.8**	**5.5**
Capital transfer	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	10.8	15.6	9.0	7.9	6.3	5.8	5.5	5.8	5.5
Foreign Direct Investment	13.1	19.3	9.9	7.4	5.7	5.2	5.3	5.2	5.3
Portfolio Investment (net)	0.4	0.0	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0
Oil signature bonuses	0.1	0.9	0.6	0.7	0.6	0.6	0.6	0.6	0.6
Other investment (net)	-2.8	-4.7	-1.4	0.0	0.0	0.0	-0.4	0.0	-0.4
Assets	-3.0	-4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector liabilities (net)	0.1	-0.1	3.0	2.4	-0.2	0.0	-0.1	0.2	0.6
Project loans	0.4	0.6	1.9	1.0	0.8	1.6	1.5	1.5	1.7
Program loans	0.0	0.0	0.0	2.1	0.3	0.0	0.0	0.0	0.0
Other loans	0.0	0.0	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.4	-0.7	-0.6	-0.6	-1.3	-1.6	-1.5	-1.4	-1.1
Of which : HIPC Initiative-related grants	-0.2	-0.4	-0.5	-0.4	-0.3	-0.3	-0.2	-0.2	-0.2
Private sector liabilities (net)	0.1	0.1	-4.4	-2.5	0.2	0.0	-0.3	-0.2	-1.0
Commercial banks	-0.8	0.1	-5.3	-0.9	-0.7	-0.6	-0.5	-0.4	0.0
Private capital	0.9	0.0	0.8	-1.6	0.9	0.6	0.2	0.3	-1.0
Errors and Omissions	**-1.0**	**-4.6**	**-0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**-3.3**	**-3.4**	**-3.7**	**0.0**	**0.9**	**0.7**	**1.1**	**1.6**	**1.3**
Financing	3.3	3.4	3.7	-0.6	-1.8	-1.2	-1.6	-1.6	-1.3
Change in official reserves, excl. IMF and NOA (increase= -)	1.7	2.9	4.0	-0.1	-1.3	-0.5	-1.0	-1.0	-0.7
Use of Fund resources (net)	1.0	0.8	-0.2	-0.2	-0.3	-0.5	-0.5	-0.4	-0.4
Disbursements	1.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Oil Account (increase = -)	0.6	-0.4	-0.1	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2
Exceptional financing (IMF CCRT)	0.1	…	…	…	…	…	…	…	…
Prospective Financing	…	…	…	**7.0**	**4.2**	**2.3**	**2.1**	**1.5**	**1.3**
Prospective nonproject grants and concessional loans	…	…	…	6.3	3.3	1.7	1.6	1.5	1.3
ECF disbursements	…	…	…	0.7	0.9	0.6	0.5	0.0	0.0
Memorandum Items:									
Debt service ratio (percent of exports) [1]	3.0	6.2	4.3	6.4	10.8	12.3	11.5	9.9	8.2
Gross international reserves (face value) [2]									
Millions of U.S. dollars	62.5	59.2	42.9	48.1	68.7	71.7	82.4	87.7	91.0
Months of imports of goods and services	2.9	2.7	1.7	2.0	2.9	2.9	3.1	3.1	3.1
Months of imports of goods and nonfactor services [3]	4.6	3.5	2.4	2.8	4.1	4.1	4.4	4.4	4.4

Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections.

[1] Percent of exports of goods and nonfactor services.

[2] Gross international reserves as defined in the TMU.

[3] Imports of goods and services excluding imports of investment goods and technical assistance.

Table 4. São Tomé and Príncipe: Summary Accounts of the Central Bank, 2021–29

(Millions of New Dobra)

	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
Net Foreign Assets	**1,156**	**772**	**629**	**450**	**1,226**	**1,392**	**1,836**	**2,100**	**2,284**
Claims on nonresidents	2,490	2,220	2,006	2,304	3,079	3,245	3,689	3,953	4,138
Official foreign reserves	1,920	1,845	1,386	1,591	2,127	2,242	2,548	2,731	2,858
Other foreign assets	570	376	620	712	952	1,004	1,141	1,223	1,280
Liabilities to nonresidents	-1,334	-1,448	-1,377	-1,853	-1,853	-1,853	-1,853	-1,853	-1,853
Short-term liabilities to nonresidents[1]	-688	-797	-748	-1,328	-1,452	-1,471	-1,472	-1,333	-1,198
Other foreign liabilities	-646	-652	-629	-525	-401	-383	-382	-520	-655
Net Domestic Assets	**999**	**1,348**	**1,245**	**1,337**	**748**	**644**	**202**	**-142**	**-518**
Net domestic credit	917	958	1,275	1,275	999	612	95	-433	-1,010
Claims on other depository corporations	198	198	467	467	467	467	467	467	467
Net claims on central government	575	608	656	656	358	-29	-546	-1,073	-1,651
Claims on central government	1,050	1,547	1,486	1,486	1,189	892	595	297	0
Liabilities to central government	-475	-939	-831	-831	-831	-921	-1,141	-1,371	-1,651
Claims on other sectors	144	152	153	153	173	173	173	173	173
Other items (net)	82	390	-31	61	-251	33	107	291	492
Base Money (M0)	**2,156**	**2,120**	**1,874**	**1,787**	**1,974**	**2,037**	**2,038**	**1,958**	**1,767**
Currency issued	524	541	546	521	575	593	594	570	515
Bank reserves	1,632	1,579	1,328	1,267	1,399	1,443	1,444	1,388	1,252
Of which: domestic currency	1,361	1,457	1,254	1,170	1,261	1,300	1,279	1,212	1,070
Of which: foreign currency	271	122	74	96	138	144	165	176	182
Memorandum Items:									
Gross International Reserves (face value, US$ millions)[2]	62.5	59.2	42.9	48.1	68.7	71.7	82.4	87.7	91.0
Months of imports of goods and services	2.9	2.7	1.7	2.0	2.9	2.9	3.1	3.1	3.1
Months of imports of goods and nonfactor services[3]	4.6	3.5	2.4	2.8	4.1	4.1	4.4	4.4	4.4
Percent of ARA metric	94	86	55	64	93	93	100	100	100
Gross international reserves (face value, US$ millions) incl. commercial banks reserves	75.0	64.5	46.3	52.4	74.9	78.1	89.8	95.6	99.1
Months of imports of goods and services	3.5	2.9	1.8	2.2	3.1	3.2	3.4	3.4	3.4
Months of imports of goods and nonfactor services[3]	5.6	3.9	2.6	3.1	4.5	4.5	4.8	4.8	4.8
Percent of ARA metric	112	94	59	70	101	102	109	109	109
Net international reserves (face value, US$ millions)[4]	30.8	14.8	-12.6	-11.5	0.1	5.6	16.4	27.8	37.1
Months of imports of goods and services	1.4	0.7	-0.5	-0.5	0.0	0.2	0.6	1.0	1.3
Months of imports of goods and nonfactor services[3]	2.3	0.9	-0.7	-0.7	0.0	0.3	0.9	1.4	1.8
Net foreign assets in months of imports of goods and services of the current year	3.0	1.5	1.3	0.8	2.3	2.6	3.3	3.5	3.6
National Oil Account (stock, US$ millions)	13.6	15.7	16.6	19.2	20.8	22.7	24.7	26.9	29.2
Commercial banks reserves in foreign currency (US$ millions)	12.5	5.3	3.3	4.3	6.2	6.4	7.4	7.9	8.2
Base money (annual percent change)	12.7	-1.7	-11.6	-4.6	10.4	3.2	0.1	-3.9	-9.8

Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections.

[1] The Central Bank's short-term liabilities to nonresidents includes the country's liability to the IMF.

[2] Gross international reserves as defined in the TMU.

[3] Imports of goods and services excluding imports of investment goods and technical assistance.

[4] Net international reserves as defined in the TMU.

Table 5. São Tomé and Príncipe: Monetary Survey, 2021–29

(Millions of New Dobra)

	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
Net Foreign Assets	**1,286**	**903**	**1,564**	**1,357**	**2,178**	**2,392**	**2,885**	**3,202**	**3,441**
Net foreign assets of the BCSTP	1,156	772	629	450	1,226	1,392	1,836	2,100	2,284
Net foreign assets of other depository corporations	129	131	935	907	952	1,000	1,050	1,102	1,157
Net Domestic Assets	**1,946**	**2,678**	**2,207**	**2,418**	**2,189**	**2,318**	**2,031**	**1,717**	**1,528**
Net domestic credit	2,765	2,930	2,664	2,164	2,139	1,987	1,592	1,191	748
Net claims on central government	706	1,201	1,354	877	653	320	-202	-730	-1,312
Claims on central government	1,773	2,678	2,668	2,668	2,370	2,128	1,831	1,534	1,236
Liabilities to central government	-1,067	-1,477	-1,313	-1,791	-1,717	-1,808	-2,033	-2,264	-2,548
Claims on other sectors	2,059	1,729	1,310	1,287	1,485	1,667	1,794	1,921	2,060
Other items (net)	-818	-252	-457	254	51	331	439	526	780
Broad Money (M3)	**3,232**	**3,581**	**3,771**	**3,775**	**4,367**	**4,710**	**4,916**	**4,919**	**4,969**
Local currency liabilities included in broad money (M2)	2,513	2,911	2,492	2,834	3,278	3,536	3,691	3,693	3,731
Money (M1)	2,203	2,586	2,202	2,524	2,919	3,148	3,286	3,288	3,322
Currency outside depository corporations	417	444	476	435	499	535	555	552	553
Transferable deposits in dobra	1,786	2,143	1,726	2,089	2,419	2,613	2,731	2,737	2,768
Other deposits in dobra	310	325	290	311	359	388	405	405	409
Foreign currency deposits	719	670	940	941	1,088	1,174	1,225	1,226	1,238
Memorandum Items:									
Velocity (ratio of GDP to M3; end of period)	3.4	3.5	4.1	4.8	4.7	4.8	5.0	5.4	5.8
Money multiplier (M2/M0)	1.5	1.7	2.0	2.1	2.2	2.3	2.4	2.5	2.8
Base money (12-month growth rate)	12.7	-1.7	-11.6	-4.6	10.4	3.2	0.1	-3.9	-9.8
Claims on other resident sectors (12-month growth rate)	-5.0	-16.0	-24.2	-1.8	15.4	12.3	7.6	7.1	7.2
Claims on other resident sectors (percent of GDP)	18.8	13.6	8.5	7.2	7.3	7.4	7.3	7.2	7.2
Broad money (12-month growth rate)	-2.7	10.8	5.3	0.1	15.7	7.9	4.4	0.1	1.0
Eurorization ratio	25.5	21.3	31.8	...	...	...	...	...	...

Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections.

Table 6. São Tomé and Príncipe: Financial Soundness Indicators, 2019–24

(Percent)

	2019 Dec.	2020 Dec.	2021 Dec.	2022 Dec.	2023 Mar.	2023 Jun.	2023 Sep.	2023 Dec	2024 Mar	2024 Jun
Capital Adequacy										
Regulatory capital to risk-weighted assets	28.5	29.2	31.7	50.0	37.9	31.8	34.7	34.5	36.4	34.4
Percentage of banks (out of total number) with regulatory										
... greater or equal to 10 percent	100.0	80.0	80.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
... between 6 and 10 percent	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
... below 6 percent minimum	0.0	20.0	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital (net worth) to assets	18.9	18.1	18.1	18.7	19.3	17.8	20.1	18.6	20.0	18.6
Deposits with banks below 6 percent capital to assets										
... (in millions of dobras)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
... (percent of deposits)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
... (percent of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Asset Quality										
Foreign exchange loans to total loans	8.4	7.8	7.9	3.6	4.3	3.8	3.1	3.3	3.4	3.0
Past-due loans to gross loans	28.1	32.3	30.1	9.4	11.4	12.2	12.8	13.9	12.6	12.6
Non-performing loans/total credit										
Nonperforming loans/credit (IFRS definition)	26.7	29.6	28.6	8.1	9.3	10.3	10.6	11.9	10.0	10.3
Watch-listed loans	1.4	2.6	1.6	1.3	2.1	1.9	2.2	2.0	2.6	2.3
Provision as percent of past-due loans	83.8	77.7	86.8	60.2	56.9	57.4	56.7	64.7	55.1	62.4
Earnings and Profitability										
Return on assets	-0.2	0.8	1.6	2.8	0.7	1.0	1.8	2.2	1.0	1.2
Return on equity	-1.4	4.8	9.8	14.2	3.1	5.0	9.0	11.4	5.1	6.3
Expense (w/ amortization & provisions)/income	108.0	101.2	90.0	85.3	75.6	83.5	80.3	82.2	68.0	81.3
Liquidity										
Liquid assets/total assets	40.1	47.7	52.2	49.9	53.5	49.3	48.6	53.0	52.7	55.1
Liquid assets/short term liabilities	51.6	59.6	68.1	65.2	70.4	63.6	71.2	68.9	69.8	71.3
Loan/total liabilities	51.3	47.2	40.7	36.0	32.0	30.5	33.4	32.2	32.0	32.2
Foreign exchange liabilities/total liabilities	25.5	22.6	24.3	20.6	27.5	22.4	31.4	28.5	31.5	27.5
Loan/deposits	59.5	65.2	72.8	40.2	36.0	34.6	37.5	35.4	35.7	37.9
Sensitivity to Market Risk										
Foreign exchange liabilities to shareholders funds	109.0	102.8	110.4	89.9	115.2	103.5	125.3	124.9	125.7	120.7

Sources: São Tomé and Príncipe authorities' data and IMF staff estimates.

Table 7. São Tomé and Príncipe: External Financing Requirements and Sources, 2024–29
(Millions of U.S. dollars)

	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
Gross Financing Requirements	**-154.9**	**-153.6**	**-133.0**	**-137.8**	**-142.7**	**-141.6**
Current account, excluding official transfers	-147.4	-127.2	-106.2	-104.7	-109.7	-112.9
Exports, f.o.b.	46.9	44.7	47.0	48.6	53.4	59.0
Imports, f.o.b.	-245.0	-233.5	-224.1	-231.1	-249.9	-265.4
Services and income (net)	40.3	49.9	57.8	63.6	71.3	76.9
Private transfers	10.4	11.8	13.1	14.2	15.4	16.6
Financial account	-6.4	-14.8	-21.2	-22.4	-21.5	-19.4
Scheduled amortization	-4.9	-12.1	-16.4	-17.0	-16.4	-14.6
IMF repayments	-1.5	-2.7	-4.9	-5.4	-5.0	-4.9
Change in net external reserves (- = increase)	-1.1	-11.6	-5.5	-10.7	-11.5	-9.3
Available Funding	**99.1**	**115.1**	**109.9**	**114.8**	**125.3**	**124.3**
National Oil Fund (net)	3.2	3.7	4.1	4.5	4.9	5.3
Oil signature bonuses	5.8	5.4	6.0	6.5	7.1	7.6
Saving (- = accumulation of oil reserve fund)	-2.5	-1.6	-1.9	-2.0	-2.2	-2.3
Expected disbursements	58.1	57.5	52.5	54.8	60.0	62.5
Project grants	46.6	46.6	33.0	35.9	38.8	37.7
Multilateral HIPC interim assistance	3.8	3.4	3.4	2.9	2.8	2.8
Concessional loans	7.7	7.5	16.2	16.1	18.4	22.0
Project loans	7.7	7.5	16.2	16.1	18.4	22.0
Program loans	0.0	0.0	0.0	0.0	0.0	0.0
Private sector (net)	37.8	53.8	53.3	55.4	60.4	56.4
Total Financing Gap (+)	**55.8**	**38.5**	**23.1**	**23.0**	**17.4**	**17.4**
Prospective Financing 1/	**55.8**	**38.5**	**23.1**	**23.0**	**17.4**	**17.4**
ECF disbursements	5.3	8.2	5.7	5.7	0.0	0.0
World Bank	13.0	17.0	7.0	7.0	7.0	7.0
African Development Bank	10.7	5.4	5.4	5.4	5.4	5.4
Other multilateral and bilateral grants	10.1	5.0	5.0	5.0	5.0	5.0
Other multilateral and bilateral concessional loans	16.7	3.0	0.0	0.0	0.0	0.0

Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections.

[1] Of the prospective financing amounts, some are pending approval. For 2024, budget support grants from the AfDB (US$5.3 million), the WB (US$8 million), DRC (US$2 million), and a budget support loan from Portugal (EUR 15 million) have already been disbursed.

Table 8. São Tomé and Príncipe: Indicators of Capacity to Repay the Fund, 2024–38

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Fund Obligations Based on Existing Credit (millions of SDRs)															
Principal	0.8	2.0	3.6	4.2	4.5	4.4	3.1	1.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Fund Obligations Based on Existing and Prospective Credit (millions of SDRs)															
Principal	0.8	2.0	3.6	4.2	4.5	4.4	4.3	3.6	3.6	3.7	3.7	2.5	1.5	0.6	0.0
Charges and interest	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Total Obligations Based on Existing and Prospective Credit															
Millions of SDRs	1.6	2.8	4.3	4.9	5.2	5.1	5.0	4.3	4.4	4.4	4.4	3.2	2.2	1.4	0.7
Millions of U.S. dollars	2.1	3.7	5.8	6.6	7.1	6.9	6.8	5.8	5.9	6.0	6.0	4.4	3.0	1.8	1.0
Percent of exports of goods and services	1.5	2.4	3.5	3.7	3.6	3.2	3.0	2.4	2.3	2.2	2.0	1.4	0.9	0.5	0.3
Percent of debt service [1]	23.2	22.3	28.2	31.9	36.1	39.5	41.6	40.9	42.2	46.4	46.3	36.5	25.2	17.1	9.2
Percent of quota	10.9	18.7	29.3	33.2	35.3	34.5	33.9	28.9	29.4	29.9	29.9	21.8	14.9	9.1	4.9
Percent of gross international reserves [2]	4.5	5.4	8.1	8.0	8.0	7.6	8.0	6.2	5.5	5.5	5.5	4.0	2.7	1.6	0.9
Percent of GDP	0.3	0.4	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.2	0.1	0.1	0.0
Outstanding Fund Credit															
Millions of SDRs	27.7	31.8	32.4	32.4	27.9	23.5	19.2	15.7	12.0	8.3	4.6	2.1	0.6	0.0	0.0
Millions of U.S. dollars	36.9	42.6	43.5	43.6	37.6	31.7	25.9	21.1	16.2	11.2	6.2	2.9	0.9	0.0	0.0
Percent of exports of goods and services	25.6	27.8	26.0	24.3	19.1	14.9	11.3	8.6	6.2	4.1	2.1	0.9	0.3	0.0	0.0
Percent of debt service [1]	400.7	256.9	210.3	210.3	192.6	182.2	159.6	149.9	116.4	87.4	48.4	23.9	7.3	0.0	0.0
Percent of quota	187.4	214.6	218.7	218.9	188.4	158.8	129.8	105.8	81.3	56.3	31.3	14.3	4.3	0.0	0.0
Percent of gross international reserves [2]	76.8	62.0	60.7	52.9	42.9	34.9	30.7	22.7	17.4	10.3	5.8	2.6	0.8	0.0	0.0
Percent of GDP	4.6	4.7	4.3	3.9	3.1	2.5	1.9	1.4	1.0	0.7	0.3	0.1	0.0	0.0	0.0
Net Use of Fund Credit (millions of SDRs)	3.2	4.0	0.6	0.0	-4.5	-4.4	-4.3	-3.6	-3.6	-3.7	-3.7	-2.5	-1.5	-0.6	0.0
Disbursements	4.0	6.1	4.2	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.8	2.0	3.6	4.2	4.5	4.4	4.3	3.6	3.6	3.7	3.7	2.5	1.5	0.6	0.0
Memorandum Items:															
Exports of goods and services (millions of U.S. dollars)	144.4	153.1	167.7	179.8	197.2	212.9	228.7	244.4	260.5	276.7	292.8	307.5	323.0	339.2	356.3
Debt service (millions of U.S. dollars)	9.2	16.6	20.7	20.7	19.5	17.4	16.3	14.1	13.9	12.9	12.9	11.9	11.8	10.6	10.6
Quota (millions of SDRs)	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8
Gross international reserves [2]	48.1	68.7	71.7	82.4	87.7	91.0	84.4	93.1	107.4	108.6	108.4	109.6	111.1	112.5	114.0
GDP (millions of U.S. dollars)	799	911	1,018	1,107	1,196	1,293	1,396	1,501	1,606	1,711	1,813	1,922	2,028	2,139	2,257

Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections.

[1] After HIPC and MDRI debt relief. Including IMF repurchases and repayments in total debt service.

[2] Gross international reserves as defined in the TMU.

Table 9. São Tomé and Príncipe: Schedule of Disbursements Under the Proposed ECF Arrangement, 2024–27

Availability Date	Disbursement Conditions	SDR Amount	Percent of Quota[1]
12/19/24	Board approval of arrangement.	3,964,286	26.79
04/01/25	Observance of continuous and end-December 2024 PCs and completion of the first review.	3,964,286	26.79
10/01/25	Observance of continuous and end-June 2025 PCs and completion of the second review.	2,114,286	14.29
04/01/26	Observance of continuous and end-December 2025 PCs and completion of the third review.	2,114,286	14.29
10/01/26	Observance of continuous and end-June 2026 PCs and completion of the fourth review.	2,114,286	14.29
04/01/27	Observance of continuous and end-December 2026 PCs and completion of the fifth review.	2,114,286	14.29
10/01/27	Observance of continuous and end-June 2027 PCs and completion of the sixth review.	2,114,284	14.29
	Total	18,500,000	125.00

Source: International Monetary Fund.

1/ The total percent of quota adds up to 125.03 as a result of rounding.

Annex I. A Brief Stock-Taking of the 2019–23 ECF

1. The 2019-23 ECF arrangement was approved in October 2019. The program aimed to reduce debt vulnerabilities, alleviate balance of payment pressures, restore fiscal and external sustainability over the medium-term, promote sustainable and inclusive growth, and provide a positive signal to other stakeholders.

2. Progress under the 2019-23 ECF arrangement was uneven due to low capacity, fragility, and election cycles. These challenges were aggravated by exogenous shocks, namely the COVID-19 pandemic, spillovers from the war in Ukraine, and widespread flooding which damaged critical infrastructure in 2021-22. The authorities had a good track record of meeting QPCs, with only four breaches throughout the first five program reviews. The QPC on the domestic primary balance was missed for the June 2020 test date, which coincided with the start of the COVID-19 pandemic. The authorities also missed the June 2021 QPC on net international reserves. Finally, they missed the continuous zero ceiling on new external payment arrears on two occasions. However, these arrears were quickly cleared. All other QPCs were met during the first five program reviews, resulting in a substantially better track record under the 2019-23 ECF than under the 2012-15 and 2015-18 ECFs (see Annex I in the 2019 Staff Report). Nevertheless, overspending, particularly during election years, and large losses by the state-owned electricity company EMAE kept public debt high, while a narrow tax base and poor tax administration kept fiscal revenues low. Growth, averaging 3.7 percent during the program, was insufficient to significantly reduce poverty and unemployment, especially for the country's large young population. Differences in economic outturns relative to projections at program approval were driven not only by program performance but also by the COVID-19 pandemic (Annex Table 1).

Annex I. Table 1. São Tomé and Príncipe: Key Economic Indicators

	2019	2020	2021	2022	Average (2019-2022)
Real GDP growth (in percent)					
2019 ECF program approval	2.7	3.5	4.0	4.5	3.7
Outturn	2.0	2.6	1.9	0.2	1.7
Domestic primary balance (in percent of GDP)					
2019 ECF program approval	-2.1	-1.7	-0.8	0.1	-1.1
Outturn	-1.9	-3.2	-2.5	-5.7	-3.3
Tax revenue (in percent of GDP)					
2019 ECF program approval	12.5	13.0	13.8	14.8	13.5
Outturn	12.7	13.2	12.1	10.6	12.2
GIR (in months of next year's imports)					
2019 ECF program approval	3.3	3.6	3.9	4.2	3.7
Outturn	2.9	3.9	2.9	2.7	3.1
Public debt (in percent of GDP)					
2019 ECF program approval	94.2	93.8	91.3	87.6	91.7
Outturn	101.3	95.1	88.1	88.2	93.2

Sources: São Tomé and Príncipe authorities' data and IMF staff estimates and projections.

3. The record on structural reforms was weaker, with policy measures set as structural benchmarks rarely implemented on time, and more typically implemented partially, with delays, after being escalated to prior actions, or after being rescheduled (Annex Table 2). Nevertheless, the structural conditionality under the 2019-23 ECF supported the technical preparations for the VAT, some improvements in fiscal transparency, curbing fuel price subsidies, as well as some improvements in STP's legislative and institutional framework. Those included the first national strategy on women's economic empowerment and financial inclusion, progress on new central bank and financial institutions laws, and bank stress tests.

4. Program performance deteriorated after the fifth ECF Review, which coincided with the runup to the September 2022 parliamentary elections. Four out of five end-June 2022 QPCs were missed, some of them by large margins. Structural reforms targeted for the sixth ECF Review were also delayed.

Lessons learned from the 2019-23 ECF arrangement include:

- **The political cycle remains the most important driver of program performance.** Upcoming elections derailed the final reviews of both the 2015-18 ECF and the 2019-23 ECF.
- **Given STP's fragility, a more parsimonious and targeted approach to structural conditionality is justified.** In addition, structural benchmarks should continue to be tightly integrated with CD planning. The table with structural benchmarks now routinely indicates CD needs for every proposed structural measure.
- **Continuous follow-through remains critical, given that many reforms require more than one program cycle to be implemented.** As Annex Table 1 illustrates, all structural reforms that were not implemented in the 2019-23 ECF arrangement will carry over to the proposed new ECF. The reopening of the Resident Representative's office in 2022 has improved communications and is expected to improve the traction of IMF policy advice—and ultimately program performance.

Annex I. Table 2. São Tomé and Príncipe: Status of Structural Benchmarks from 2019–23 ECF

Structural Benchmark	Status
Strengthening Public Finances	
1. Adopt a VAT law.	Met.
2. Implement key reform measures for EMAE.	A continuous SB for the first 3 reviews that was never met. Ultimately converted from a continuous SB to an SB requiring the implementation of specific measures by a specific date. Proposed ECF will continue with this approach.
3. Start implementing a VAT communication plan.	Met.
4. Issue TORs and a work timeline for the VAT IT consultant.	Implemented with a delay.
5. Implement a VAT public information campaign.	Implemented after being escalated to a prior action.
6. Introduce the VAT.	Rescheduled to the 6th review but not implemented. Implemented in June 2023 as a prior action for the proposed ECF.
7. Adjust fuel prices.	A continuous SB that was met in the early program reviews but not the later ones. Proposed ECF will incorporate this as a prior action and a monthly SB.
8. Publish public procurement information.	A continuous SB that was implemented, although always partially, with delays, or after being escalated to a prior action. Proposed ECF will incorporate this as an MEFP commitment.
9. Publish beneficial ownership information for public procurement contracts.	Implemented, although partially in some reviews or with delays in others. The new ECF includes an SB on a new procurement law which will remove legal barriers on the publication of beneficial ownership information.
Enhancing Monetary Policy and Financial Stability	
10. Submit to Parliament an amended BCSTP organic law.	Rescheduled several times. Ultimately implemented as a prior action for the 4th review. The new government has decided to restart the process. Now a structural benchmark for the 1st review of the proposed ECF.
11. Submit to Parliament a revised Financial Institutions law.	Rescheduled several times. Ultimately the revised law was submitted to the Council of Ministers as a prior action for the 5th review. The new government has decided to restart the process. Now a structural benchmark for the 1st and 2nd reviews of the proposed ECF.
12. Tighten monetary policy by issuing CDs.	Not met in the 1st review, as it was disrupted by the pandemic. Met in the 4th review. Now a prior action for the proposed ECF and also a monthly SB.
13. Implement AQR recommendations including on asset classification and provisioning.	Not met. Disrupted by the pandemic. Implemented in 2022.
14. To support effective on-site and off-site supervision, implement a bank rating model, upgrade banking regulation, and train staff on its effective enforcement.	Not met. Disrupted by the pandemic. Included in the new MEFP as a reform commitment.
15. Establish a collateral registry.	Not met. Disrupted by the pandemic. Law and implementing regulations now in place. Technical work ongoing, with help from the WB.
16. Conduct bank stress tests.	Rescheduled to the 4th review when it was implemented with a delay.
Facilitating Business Activities and Energy Efficiency	
17. Submit to the IMF the national strategy on women's economic empowerment and financial inclusion.	Met.
18. Develop a plan to remove the country from the EU's Air Safety blacklist.	Rescheduled several times. Included in the new ECF as an SB for the 2nd review.
19. Roll out the LED lightbulb program.	Rescheduled several times. Near completion now.

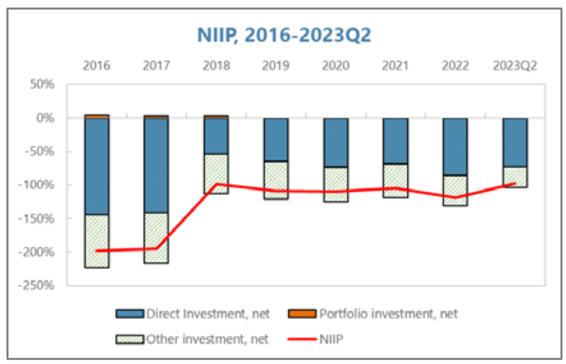
Annex II. External Sector Assessment

Overall Assessment: *The external position of São Tomé and Príncipe in 2023 was substantially weaker than the level implied by fundamentals and desirable policy settings, based on the results of the IMF's EBA-lite current account model and REER model.*[1] *The current account (CA) deficit narrowed somewhat in 2023, mainly due to contained imports driven by FX shortages. The CA deficit is projected to improve significantly in 2024, driven by high cocoa prices and large increases in official transfers. The currently inadequate level of international reserves poses significant risks. Over the medium-term, a further small improvement in the CA deficit is projected, mainly due to declining fuel imports and fiscal consolidation, leading to a gradual improvement of the net international investment position (NIIP) over the medium-term.*

Potential Policy Responses: *The pegged exchange rate regime has anchored inflation well in STP, a small and fragile island economy heavily dependent on imports. The proposed program, therefore, centers around policies that will rebalance the external position over the medium-term, while maintaining the peg. Short-term measures and planned reforms in the energy sector will reduce the demand for fuel imports. Structural reforms to strengthen competitiveness (especially of the tourism sector), diversify the economy, boost exports, and improve the efficiency of implementing externally-funded projects to avoid disbursement delays will also help to strengthen the external position. The front-loaded fiscal consolidation will increase fiscal space, reduce debt, correct external imbalances, support the currency peg, and help to build up higher reserve buffers over the medium-term. Maintaining financial stability will support the external rebalancing by strengthening the CA and NIIP, while envisaged financial reforms will reduce financial sector vulnerabilities.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) has improved from a low of -198 percent of GDP in 2016, to -120 percent of GDP in 2022 and -93 percent of GDP in 2023Q2.[2] The narrowing between 2022 and 2023Q2 was mainly driven by a decline in gross liabilities, reflecting lower direct investment (mainly in oil exploration) and debt liabilities. Gross assets also declined from 38 percent of GDP in 2022 to 28 percent of GDP in 2023Q2, mainly due to lower reserve assets. Under the baseline scenario, the NIIP is projected to gradually improve over the medium-term on the back of lower CA deficits relative to nominal GDP.



Assessment. External vulnerabilities have declined somewhat with the strengthening in the NIIP. The NIIP-to-GDP ratio improved in 2023Q2 compared to 2022, reflecting lower direct investment liabilities from oil exploration activities and lower debt liabilities. The NIIP remains broadly sustainable, but vulnerabilities remain given its large size. The projected reduction in the CA deficits suggest that the NIIP-to-GDP ratio will improve at a moderate pace over the medium-term.

2022 (% GDP)	NIIP: -120	Gross Assets: 38	Debt Assets: 26	Gross Liab.: 158	Debt Liab.: 77
2023Q2 (% GDP)	NIIP: -93	Gross Assets: 28	Debt Assets 20	Gross Liab.: 122	Debt Liab.: 55

[1] The external sector assessment is based on staff's estimates.

[2] 2023Q2 is the latest available data for the IIP. The authorities are working with IMF TA to improve the coverage and quality of IIP data. The NIIP is projected to reach -108 percent of GDP by the end of 2023.

Current Account

Background. The overall CA deficit narrowed to 12.3 percent of GDP in 2023, from 14.4 percent of GDP in 2022. This was mainly driven by the trade balance with declining imports of goods and nonfactor services (including due to FX shortages), notwithstanding continued high fuel imports and reduced official transfers that contributed to a still high CA deficit. The strong fiscal contraction in 2023 was a significant factor in reducing domestic imbalances, thereby contributing to a decrease in the CA deficit. This trend is expected to play a role in narrowing the CA deficit further in 2024. The CA deficit is projected to narrow sharply to 7.9 percent of GDP in 2024, driven mainly by high cocoa prices and a significant increase in official transfers, as lower fuel imports are more than offset by higher non-fuel imports.

São Tomé and Príncipe: EBA-lite Model Results, 2023

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**-12.3**	
Cyclical contributions (from model) (-)	0.2	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-12.6**	
CA Norm (from model) 2/	**-6.7**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-6.7**	
CA Gap	**-5.9**	**-8.8**
o/w Relative policy gap	7.4	
Elasticity	-0.2	
REER Gap (in percent)	**27.2**	**41.0**

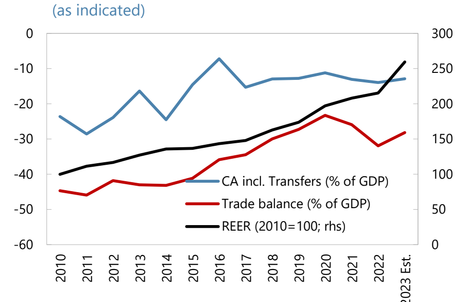
1/ Based on the EBA-lite 3.0 methodology.
2/ Cyclically adjusted, including multilateral consistency adjustments.

Assessment. The EBA-lite CA model estimates the CA norm at -6.7 percent of GDP and the adjusted CA at -12.6 percent of GDP in 2023, after adjusting for cyclical contributions. The CA gap is -5.9 percent of GDP. The significant unexplained component indicates that the CA gap might largely reflect structural factors not captured by the model, which may be contributing to the economy's competitiveness challenges. Using the EBA-lite REER model implies a CA gap of -8.8 percent of GDP, but the model is not a great fit. Based mainly on the CA model, IMF staff assesses the CA gap to be around -5.9 percent of GDP, consistent with an assessment that the external position is substantially weaker than the level warranted by fundamentals and desirable policy settings in 2023.

Real Exchange Rate

Background. In 2023, the real effective exchange rate (REER), based on CPI, appreciated by 22.1 percent relative to its 2022 average. Since the introduction of the exchange rate peg to the euro in January 2010, the REER has appreciated by 163 percent, as the gradual disinflation process did not close the inflation differential with trading partners. The peg has helped to reduce average inflation to 8.5 percent during 2010-2021, around half its rate during the previous decade. However, inflation increased significantly in 2022 and 2023, with average annual inflation at 18 and 21.2 percent, respectively. Inflation in 2022 was driven mainly by food prices and monetary financing of the fiscal deficit, while 2023 was dominated by idiosyncratic supply-side factors and notwithstanding tighter monetary and fiscal policies. Inflation has remained higher than in the Euro Area, contributing to the REER appreciation. Average Euro Area inflation was 2.2 percent in 2010-23, compared to 10.2 percent in STP.

Current Account Balance and REER
(as indicated)



Assessment. The EBA-lite REER model indicates an overvaluation of 41 percent in 2023. The REER gap derived from the IMF staff's CA gap assessment, with an estimated elasticity of -0.2, implies that the real exchange rate was overvalued by 27.2 percent. Based on results of the EBA-lite CA model and the REER model, staff estimates the REER gap to range between 27 percent and 41 percent in 2023. The REER overvaluation can lead to vulnerabilities such as trade imbalances, loss of export competitiveness, foreign exchange pressure, and inflationary risks. To restore balance and maintain stability, policy measures should prioritize strengthening the currency anchor through credible monetary policy, diversifying the economy, coordinating fiscal and monetary policies, and enacting structural reforms to boost productivity and competitiveness.

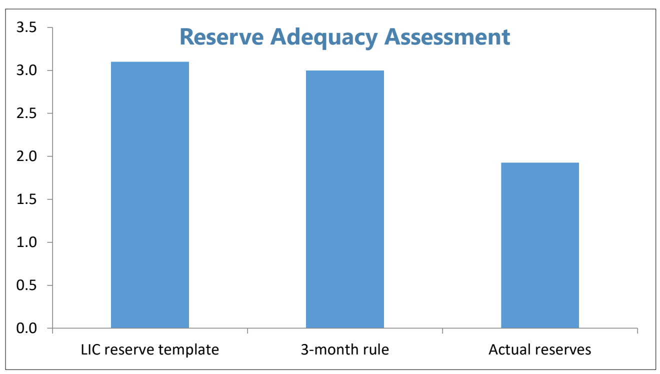
Capital and Financial Accounts: Flows and Policy Measures

Background. Estimated net capital and financial inflows declined to 9 percent of GDP in 2023, compared to inflows of 15.6 percent of GDP in 2022, mainly reflecting reduced net FDI inflows after completion of another round of oil exploration activities. Net capital and financial inflows are expected to decline to 7.9 percent of GDP in 2024. Temporary measures can help strengthen the reserve position, with recent changes to operationalize export repatriation and surrender requirements, as well as a planned measure to reduce the maximum amount of foreign exchange in cash that residents can take out of the country without reporting.

Assessment. With the sizable external debt of the public sector, STP remains exposed to financial market risks. Sustained financial market volatility could increase vulnerability. Implementing financial reforms would be important to ensure financial stability.

FX Intervention and Reserves Level

Background. Gross international reserves (GIR) declined to US$42.9 million (around 1.7 months of projected imports) in 2023. GIR are expected to increase slightly to around US$48.1 million (2 months of projected imports) by end-2024, mainly reflecting the challenges in foreign exchange reserve accumulation due to high fuel imports. Financial support from development partners catalyzed by the proposed ECF would help to finance part of the country's external financing needs.



Assessment. STP needs to build stronger international reserve buffers given the persistence and magnitude of shocks it faces as a small and fragile low-income country (LIC) with a pegged exchange rate regime. The country's 2023 level of GIR was inadequate compared to the benchmarks. GIR corresponded to 1.9 months of current imports in 2023, lower than the standard metric of 3 months of imports. The IMF LIC reserve metric, also known as the ARA metric for credit-constrained countries, which balances the benefits and opportunity costs of holding reserves, suggests that the optimal reserves metric for STP is 3.1 months of imports. This result takes into consideration country specificities, such as being a small state, having an exchange rate peg, and having an IMF-supported arrangement. Furthermore, STP has access to extra reserve buffers in the form of exceptional access to deposits at the National Oil Account (NOA) and a contingent credit line from Portugal which can be activated if reserves fall below 3 months of imports (the authorities have taken advantage of it). There are significant risks to international reserves, given pressures from high demand for fuel imports. Significant short-term FX liabilities including FX reimbursement commitments to commercial banks and other potential short-term drains could add more stress on reserves.

Annex III. Risk Assessment Matrix[1]

Sources of Risks	Likelihood of Risk	Expected Impact of Risk	Policy Responses
External Risks			
Commodity price volatility	High Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	High Higher energy prices would have negative spillovers on the non-energy sector, slowing growth. They could lead again to frequent power outages and could also impact fiscal revenues, explicit subsidies, and budget implementation. Higher commodity prices would add to inflationary pressures, with second-round effects on non-food inflation.	• Accelerate structural reforms in the energy sector and implement credible medium-term revenue-based fiscal consolidation to support investor confidence. • Improve the cost efficiency of electricity generation and distribution to reduce fuel imports. • Continue implementing the fuel pricing formula to avoid explicit subsidies.
Global growth slowdown	Medium Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs.	Medium Slower global growth would have a negative impact on tourism and export demand, thereby slowing growth and deteriorating the external position.	• Continue economic diversification and boost export potential. • Accelerate structural reforms to support investor confidence and overcome growth constraints.
Deepening geoeconomic fragmentation	High Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	Medium Deeper geoeconomic fragmentation would have a negative impact on tourism, FDI, and export demand, thereby slowing growth and deteriorating the external position.	• Accelerate structural reforms to support investor confidence and overcome growth constraints. • Continue economic diversification and boost export potential.
Delays in donor disbursements	High Frequent delays in donor disbursements related to delays in project implementation and/or donor coordination issues.	High The country heavily depends on external support, and delayed disbursements would undermine growth and exacerbate loss of international reserves.	• Improve coordination on externally-financed projects to avoid delays. • Build up fiscal and reserve buffers.

[1]The Risk Assessment Matrix shows events that could materially alter the baseline path. The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline. ("Low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more.) The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Sources of Risks	Likelihood of Risk	Expected Impact of Risk	Policy Responses
Climate change	Medium Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment.	High Natural hazards and climate change could cause severe economic damage. They could cause loss of human life and livelihoods, negatively impact agriculture and infrastructure, make transport even more difficult, and accelerate emigration.	• Improve climate and disaster resilience in agriculture, transport, tourism, energy, and urban development. • Strengthen food security, cash transfers, and food support programs. • Build up fiscal and reserve buffers.
Domestic Risks			
Social discontent	High High inflation, real income loss, spillovers from conflicts (including migration), and worsening inequality stir social unrest, drive populist policies, and increase resistance to reforms, especially in the context of polarized or disputed elections. This exacerbates imbalances and weakens growth prospects, leading to policy uncertainty and market repricing.	Medium Social tensions could cause economic disruptions and political instability. However, the security and political situation of STP has been relatively stable, so the impact is likely to be moderate.	• Continue targeting the vulnerable population by ensuring adequate access to healthcare and social assistance, including cash transfer and food support programs. • Continue diversifying the agriculture and tourism sectors.
Fiscal policy slippages	Medium Pressures on fiscal revenues and spending due to delays in reforms.	High Delays in fiscal consolidation and pressures on debt sustainability.	• Continue revenue mobilization reforms and focus on pro-poor priority spending. • Implement PFM, cash management, and budget execution reforms. • Implement regular pump price adjustment for petroleum products. • Implement reforms of SOEs, particularly EMAE. • Identify fiscal measures to create additional fiscal space. • Ensure transparency of fiscal spending through governance reforms.
Limited implementation capacity	High Weak capacity and weak absorption of technical assistance in a context of fragility and an ambitious reform agenda.	Medium Slower pace of reform implementation.	• Continued delivery of well-tailored hands-on CD with in-person missions. • Strengthen absorption of TA through improved coordination mechanisms at ministerial levels. • Continued governance and transparency reforms.

Sources of Risks	Likelihood of Risk	Expected Impact of Risk	Policy Responses
Systemic financial instability	Medium High interest rates and risk premia and asset repricing amid economic slowdowns and elevated policy uncertainty (including from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	Low Continued high NPLs could further dent credit growth. Banking regulation could overlook financial stability risks. Reduced profitability and capital adequacy, negatively affecting financial intermediation.	• Increase provisions and capital to absorb losses. • Maintain prudential standards. • Discuss loan reprofiling for clients with strong business models.
Stronger-than-expected impact of fiscal consolidation	Medium Negative impact from large and frontloaded fiscal consolidation on aggregate demand.	Medium Fiscal consolidation could reduce growth more than expected and delay the recovery further.	• Mitigate the negative effect, focusing on pro-poor spending. • Continue economic diversification and boost export potential. • Accelerate structural reforms to overcome growth constraints.

Annex IV. Enhanced Safeguards

1. The size of STP's *de facto* senior debt plus other multilateral debt as a share of total external debt is projected to be about 38 percent at program initiation in 2024 and is projected to increase to 75 percent over the medium-term under baseline projections (Annex Table 1). In 2023, debt held by institutions afforded preferred creditor status—the IMF, World Bank, and other major development banks—accounted for 25.4 percent of external debt. Adding debt held by other multilaterals brings the total to around 40 percent of external debt in 2023. Risks coming from this exposure are mitigated by the envisaged fiscal consolidation and revenue mobilization reforms. To lower the risk of debt distress, the program proposes a QPC on non-concessional borrowing and an IT on the present value of new external borrowing. Measures for improving debt coverage and transparency are also envisaged.

2. STP's Capacity to Repay (CtR) indicators are above the interquartile range for other PRGT borrowers. As shown in Annex Figure 1, this is the case in four areas throughout the forecast period, including total Fund credit outstanding relative to gross international reserves, total debt service to the Fund relative to revenues excluding grants, exports of goods and services, and PPG external debt service. The other two CtR indicators are above the interquartile range compared to other PRGT borrowers only in the early forecast years. STP has some of the largest peaks among PRGT countries for Fund credit outstanding and total debt service to the Fund. This highlights the elevated CtR risks already flagged in ¶42 of the main text.

3. One of the main objectives of STP's request for an ECF-supported program is to reduce debt vulnerabilities, including those stemming from the pandemic. STP is assessed to be in debt distress, due to prolonged unsettled external arrears of around 1.6 percent of GDP. The debt-service-to-export ratio remains just below the threshold, illustrating the high vulnerability to shocks and sensitivity of the assessment to macroeconomic assumptions. Weaker than expected export growth and higher fuel import needs could exacerbate the already severe burden on external balances and put debt sustainability at risk. Moreover, the baseline of the PV of the PPG debt-to-GDP ratio also breaches the threshold, but after discounting the government's debt to ENCO and EMAE's debt and arrears to ENCO it declines below its threshold after 2025. The proposed ECF program is designed to reduce debt vulnerabilities through the implementation of strong macroeconomic policies and continued reforms, including energy sector reforms, fiscal consolidation, revenue mobilization, and growth-enhancing structural reforms. The authorities should be cautious in their external financing activities to carefully balance debt sustainability concerns with the country's investment needs. External financing in the form of highly concessional loans and grants should continue to be prioritized.

Annex IV. Table 1. São Tomé and Príncipe: Debt Composition[1]
(In US$ million, unless otherwise indicated)

	2022 Est.	2023 Est.	2024 Proj.	2025 Proj.
Total	**481.3**	**524.6**	**548.1**	**555.8**
External Debt	**221.2**	**244.5**	**288.5**	**303.0**
Multilateral creditors [2]	86.5	97.2	110.5	127.9
o/w IMF	33.6	32.6	36.4	41.7
o/w World Bank	11.1	11.0	11.0	11.0
o/w ADB/AfDB/IADB	19.3	18.7	19.3	23.0
Other Multilaterals	22.4	34.9	43.8	52.1
Bilateral Creditors	134.7	147.3	177.9	175.2
o/w Paris Club	5.1	5.1	5.1	5.1
o/w Non-Paris Club	119.6	120.4	151.0	148.3
Commercial creditors	10.0	21.8	21.8	21.8
Domestic Debt	**260.1**	**280.2**	**259.7**	**252.8**
Memorandum Items:				
Collateralized debt[3]	0.0	0.0	0.0	0.0
Nominal GDP	545.9	684.3	799.2	911.5
Multilateral Debt				
Multilateral Debt	86.5	97.2	110.5	127.9
Percent of External Debt	39.1	39.7	38.3	42.2
Percent of GDP	15.8	14.2	13.8	14.0
o/w IMF and WB	44.8	43.6	47.4	52.7
Percent of External Debt	20.2	17.8	16.4	17.4
Percent of GDP	8.2	6.4	5.9	5.8
o/w ADB/AfDB/IADB	19.3	18.7	19.3	23.0
Percent of External Debt	8.7	7.6	6.7	7.6
Percent of GDP	3.5	2.7	2.4	2.5
o/w other Multilaterals	22.4	34.9	43.8	52.1
Percent of External Debt	10.1	14.3	15.2	17.2
Percent of GDP	4	5	5	6

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

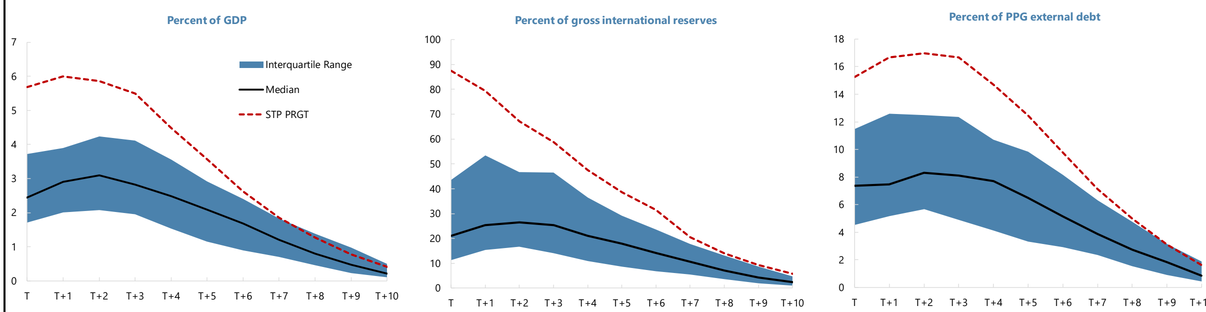
2/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

3/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

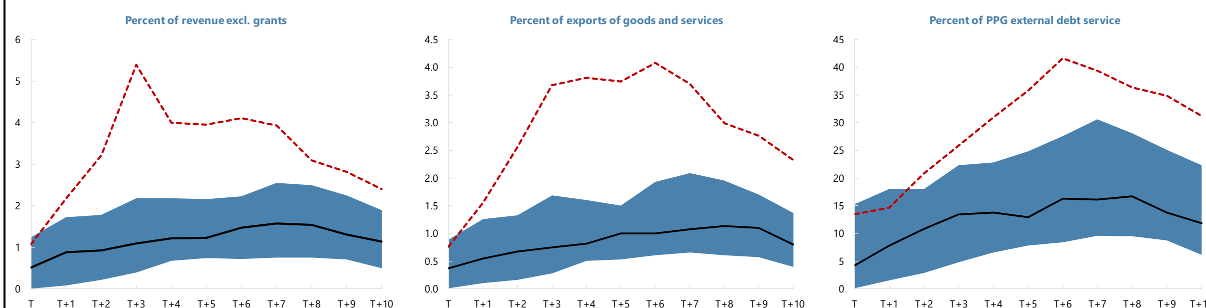
Annex IV. Figure 1. São Tomé and Príncipe: Capacity-to-Repay Indicators Compared to Upper Credit Tranche Arrangements for PRGT Countries[1]

(In percent of the indicated variable)

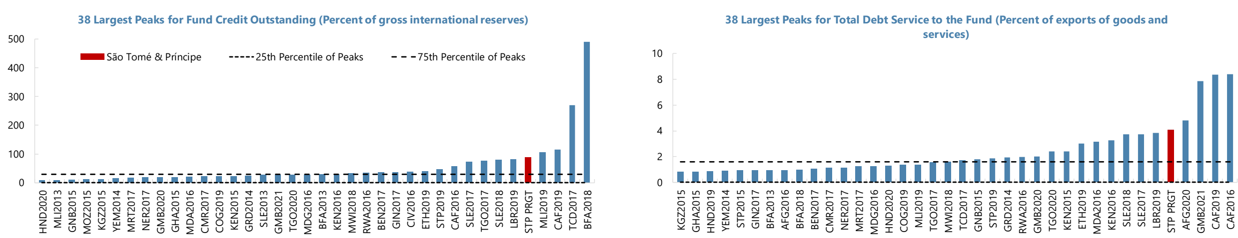
A. Total Fund Credit Outstanding



B. Total Debt Service to the Fund



C. Largest Peaks



Notes:
1) T = date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2013 and 2023.
4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
5) Comparator series is for PRGT arrangements only and runs up to T+10.
6) Debt service obligations to the Fund reflect prospective payments, including for the current year.
7) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.

Annex V. Capacity Development

1. **Recent capacity development (CD) activities have been well integrated with Fund-supported program priorities.** STP is an active user of technical assistance (TA) and benefits from training resources. Recent CD activities have focused on: (i) implementing tax policy reforms and strengthening revenue administration; (ii) enhancing Public Financial Management (PFM) systems; (iii) strengthening oversight of SOEs and identification and analysis of fiscal risks stemming from SOEs; (iv) improving banking regulation, supervision, and reforming bank resolution; (v) reforming central bank governance and operations; and (vi) strengthening macroeconomic statistics.

2. **CD has helped STP progress in several macro-critical areas**. Key achievements include: adopting the VAT law and preparing for VAT implementation, implementing the fuel pricing mechanism to limit fuel subsidies and manage fiscal risks, enhancing macro-fiscal forecasting and incorporating medium-term fiscal projections into the budget cycle, designing an SOE performance report to identify fiscal risks stemming from SOEs, drafting the central bank organic law and the financial institutions law, adopting risk-based supervision, strengthening macroeconomic statistics, and improving the transparency of public procurement processes. Also, revised GDP estimates with a new base year (2019) are being finalized with CD support.

3. **Going forward, CD activities will continue to focus on macro-critical reform areas**:

- **Tax Policy and Revenue Administration.** Enhance revenue mobilization by supporting the new VAT, comprehensively assessing STP's tax system, and modernizing revenue collection practices to create fiscal space for social and capital spending.
- **Public Financial Management.** Improve PFM, particularly budget preparation and execution, expenditure controls, and SOE oversight. Assess current public investment management practices with a Public Investment Management Assessment (PIMA), including the new climate change module.
- **Debt Management.** Promote debt sustainability by improving debt management.
- **Central Bank Operations.** Strengthen central bank governance. Improve monetary policy and reserve management.
- **Statistics.** Improving the quality of statistics, in particular real and external sector statistics.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431, USA
São Tomé, December 5, 2024

Dear Managing Director Georgieva:

A new government led by Prime Minister Patrice Émery Trovoada took office in November 2022 in the Democratic Republic of São Tomé and Príncipe following parliamentary elections. It intends to continue strengthening the relationship with the International Monetary Fund (IMF) to implement far-reaching economic reforms to unleash the country's growth potential.

Economic conditions are challenging, as noted in the attached Memorandum of Economic and Financial Policies (MEFP). Long-standing socio-economic vulnerabilities were further compounded by the COVID-19 pandemic, persistent energy shortages, a decline in imported agricultural inputs, the floods, and a sharp increase in global food and fuel prices following the start of the war in Ukraine. As a result, in 2022 and 2023 growth slowed to 0.2 and 0.4 percent, respectively, down from the average of about 4 percent in the decade before the pandemic. After rising to 25.5 percent year-on-year (y/y) in January 2023, inflation has slowly decelerated, reaching 12 percent in August 2024.

The government hereby requests a new 40-month IMF-supported arrangement under the Extended Credit Facility (ECF) to support our medium-term economic reform program for 2024-28. Our key objective is to generate sustainable, faster, and more inclusive growth to create jobs, significantly reduce poverty, and improve the living standards of our population. To this end, as explained in our Recovery and Stabilization Plan, the government is committed to restoring macroeconomic stability, which is key to economic development and growth. The government also requests that the IMF Executive Board extend by one year its approval of the measures giving rise to exchange restrictions.

Despite significant social and economic challenges, we are committed to implementing fiscal consolidation to address the current external and internal imbalances. In our view, fiscal consolidation is fundamental to manage excess domestic demand under a pegged exchange rate regime. We are mobilizing domestic revenue efficiently and equitably by expanding the revenue base, particularly by having introduced a value added tax (VAT). This will ensure adequate resources for boosting growth and providing public services, including social protection, health, education, and the maintenance of public infrastructure. We will also rationalize public expenditure so that state employment does not crowd out private economic activities. We believe that these efforts will create the fiscal space for the implementation of growth-enhancing development programs, thus helping to put public debt on a downward trajectory. In addition to fiscal consolidation, we will address the current crisis in the energy sector and further tighten liquidity conditions to reduce balance of payments pressures. This should also help support the removal of exchange restrictions in the near term. The government will prioritize policies to strengthen fiscal transparency and address governance weaknesses to reduce vulnerabilities to corruption, reduce contingent liabilities from SOEs, strengthen financial stability, and promote inclusive growth to reduce poverty. The government also views the economic empowerment of women as essential to promoting inclusive growth. We will strengthen the central bank and advance the implementation of safeguards assessment recommendations.

To help achieve the objectives of this program, the government requests financial assistance through a 40-month arrangement under the Extended Credit Facility (ECF), covering the period 2024 to 2028, in the amount of SDR 18,500,000 (125 percent of quota), to be disbursed in seven installments, with the first disbursement equivalent to SDR 3,964,286 (or approximately 26.8 percent of quota) upon approval of the arrangement by the IMF Executive Board. We intend to use the entire IMF financing as a buffer to boost São Tomé and Príncipe's international reserve position. To monitor progress in implementing our reform agenda, the program includes a set of periodic and continuous performance criteria, indicative targets, prior actions, and structural benchmarks outlined in the MEFP and the Technical Memorandum of Understanding (TMU).

As a sign of our commitment to the program, we will implement eight prior actions before Board consideration of the ECF arrangement. The Council of Ministers will adopt a 2025 budget in line with program parameters. We introduced the VAT with a main rate of 15 percent. We will revise the current Decree Law on the fuel price adjustment mechanism to remove elements of discretion from fuel price adjustments. We reduced banks' estimated excess reserves in local currency through the issuance of BCSTP Certificates of Deposits below STN 200 million. We amended the 2017 BCSTP regulation on exchange rate coverage to eliminate the waiver of eligibility requirements for fuel imports. We have adjusted fuel prices in order to eliminate subsidies in the aggregate. We will raise the weighted average electricity tariff by 20 percent, while preserving or enhancing the progressivity of the tariff structure. In addition, to boost reserves, we enacted implementing regulations for the existing export repatriation and surrender requirements.

The government believes that the policies contained in the attached MEFP are adequate to achieve the objectives of the program, but it is prepared to take further measures that may become appropriate for this purpose. We will consult the IMF in advance on the adoption of these measures and regarding revisions to the policies contained in the MEFP, in accordance with IMF policies on such consultations. We will also consult in advance with IMF staff on the terms of possible external borrowing to ensure that such borrowing does not jeopardize debt sustainability and is in line with the IMF's debt limits policy. We shall provide timely information necessary for monitoring economic developments and the implementation of policies defined in the program as agreed in the TMU, or upon request. Furthermore, we are committed to (i) not introducing or intensifying any exchange restrictions; (ii) not introducing or imposing import restrictions; (iii) not introducing or modifying multiple currency practices; and (iv) not concluding bilateral payment agreements in violation of Article VIII of the Articles of Agreements. All of these will be continuous performance criteria under the ECF arrangement.

In line with its commitment to transparency and accountability, the government authorizes the IMF to publish this letter, its attachments, and the related staff report, including placement of these on the IMF website in accordance with IMF procedures, following the IMF Executive Board's approval of the request.

Sincerely yours,

/s/

Mr. Patrice Émery Trovoada
Prime Minister

/s/
Mr. Ginésio Valentim Afonso da Mata
Minister of Planning and Finance

/s/
Mr. Américo D' Oliveira Ramos
Governor
Central Bank of São Tomé and Príncipe

Attachments:
1. Memorandum of Economic and Financial Policies (MEFP)
2. Technical Memorandum of Understanding (TMU)

Attachment I. Supplementary Memorandum of Economic and Financial Policies for 2024-28

INTRODUCTION

1. **This Memorandum of Economic and Financial Policies (MEFP) outlines the main objectives of the government of São Tomé and Príncipe's economic reform program for 2024-28,** for which the government is seeking support from the International Monetary Fund (IMF) through a new 40-month arrangement under the Extended Credit Facility (ECF). The new ECF arrangement succeeds the one that was approved by the IMF Executive Board in October 2019 and expired in early February 2023 without completing the last review. The program aims to lay the foundation for stronger, more inclusive growth, and to catalyze financial support from bilateral and multilateral partners. The ECF arrangement addresses the immediate pressure on the balance of payments through energy sector reforms and fiscal consolidation, while bolstering social protection and supporting women's empowerment and participation in the formal labor market.

2. **This MEFP reviews recent economic developments and performance**. Furthermore, it assesses the economic outlook and risks, and presents our macroeconomic policies for 2024 and beyond.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

3. **The economy faces pressing constraints, with slowing growth and elevated inflation**. Year-on-year inflation accelerated to 25.5 percent in January 2023, largely due to high global food and fuel prices and monetary financing of the fiscal deficit. Helped by the decline in global food prices and tight liquidity conditions, and despite the VAT's launch in June 2023, inflation declined to 12 percent in August 2024. These factors, along with low international reserves, energy shortages, and the floods in 2021-22, contributed to a slowdown of real GDP growth to 0.2 percent in 2022 and 0.4 percent in 2023.

4. **The decline in Gross International Reserves (GIR) over recent years highlights the pressing financial challenges faced by the economy, driven by low external grants and increased financing needs.** GIR at face value declined from around US$59 million (equivalent to 2.7 months of next year's imports) at the end of 2022 to around US$43 million (1.7 months of imports) by the end of 2023. GIR further decreased to about US$38 million by the end of August 2024. In market value, this represents a drop from around US$47 million at the end of 2022 to about US$32.5 million at end-2023, while declining further to US$27.5 million (1.1 months of imports) by August 2024. This trend reflected low external grants and larger-than-expected financing needs, mainly due to strong oil import demand and required upfront payments for fuel. As a result of recent disbursements from bilateral and multilateral partners, the estimated GIR at face value increased to approximately US$53 million by mid-October, according to our daily data. This increase comes just in time for a series of imported fuel shipments and other external financing needs anticipated for the remainder of 2024.

5. Fiscal consolidation in 2023 progressed faster than expected due to spending restraint. The domestic primary deficit (commitment basis) reached 0.9 percent of GDP in 2023 compared to a deficit of 1.8 percent of GDP targeted in the budget. Stronger than expected consumption taxes following the VAT introduction offset a shortfall in import taxes from a later-than-expected resumption of payments by ENCO. Domestic primary spending was 0.6 percent of GDP lower than budgeted, mainly due to lower capital expenditures and a lower wage bill.

6. The current account deficit declined to around 12 percent of GDP in 2023 from around 14 percent of GDP in 2022. The trade deficit decreased to 27 percent of GDP in 2023, from around 32 percent of GDP in 2022, due to a decline in imports of goods and nonfactor services. High fuel imports, foreign outflows, and a decline in external financing added to the difficult BOP situation.

7. São Tomé and Príncipe (STP) remains in debt distress, due to prolonged unsettled external arrears of around 1.6 percent of GDP. This includes the unresolved regularization of STP's post-HIPC arrears to Angola, Brazil and Equatorial Guinea. Additionally, significant arrears from EMAE to its suppliers reflect the severe liquidity constraints of the public sector. The high level of external debt and debt service obligations also adds to those burdens. However, we believe that STP still possesses the capacity to repay these arrears over time and that debt remains sustainable. STP continues to actively seek rescheduling agreements with its creditors and to explore more concessional loans or grants from other countries or institutions.

8. While credit to the economy continued to fall in 2024, the pace of decline decelerated to 15.5 percent at mid-2024, as banks remained hesitant to lend in the precarious economic environment. New regulations implemented in 2022 have reduced system-wide NPLs to 10 percent in Q2 2024, from a pandemic peak of about 34 percent in Q3 2020. Provisioning accounted for 62.4 percent of past due loans at mid-2024.

9. As the government is committed to implementing far-reaching reforms, the outlook will improve over the medium term. The economy is projected to recover gradually from last year's disruptions and delays in project execution this year growing by 0.9 percent in 2024. As externally-financed projects are implemented and tourism recovers, we expect growth to rebound to 4 percent on average in 2025-27, supported by infrastructure investment, exports of palm oil and cocoa (as access to fertilizer imports normalizes), and stronger tourism potential. Average inflation is projected to decline somewhat but would remain elevated at 14 percent in 2024, reflecting the adverse effect of higher electricity prices, FX shortages, emigration (which has reduced skilled workers), and shipping disruptions arising from geopolitical tensions. Average inflation is projected to decelerate to 8.9 percent in 2025, and gradually ease to 5 percent over the medium term as structural reforms take hold and supply bottlenecks are addressed. We expect EMAE reforms to reduce imbalances in the sector and oil imports over time. Increased supply of reliable lower-cost electricity would also promote economic activity.

POLICY OBJECTIVES FOR 2024-28

Our policy objectives are centered on: i) pursuing fiscal consolidation, which is the key instrument for addressing the high debt and for reining in domestic demand under a pegged exchange rate, complemented by an end to monetary financing of the budget and a tighter monetary policy; (ii) strengthening fiscal transparency and addressing governance weaknesses to reduce vulnerabilities to corruption, as well as reducing contingent liabilities from SOEs; (iii) strengthening financial stability; and (iv) unlocking growth potential by encouraging domestic food production, reforming the energy sector, fostering the tourism sector, adapting to climate change, and empowering women.

A. Restoring Fiscal Sustainability and Reducing Debt Vulnerabilities

10. We are committed to an ambitious and front-loaded fiscal adjustment which is critical to ensure sustainability and address protracted BOP pressures. We will target an improvement in the domestic primary balance (commitment basis) of 2.9 percent of GDP over 2024-27, while ensuring that priority social spending is protected. The adjustment will be 0.4 percent of GDP in 2024 and 1.5 percent of GDP in 2025.

11. We have already demonstrated our commitment to fiscal consolidation. In 2023, we achieved a fiscal tightening of 4.8 percent of GDP relative to 2022, implementing measures on the revenue and expenditure side. On the revenue side, we introduced the VAT with a main rate of 15 percent in June 2023 (**prior action (PA) 2**, Table 2). In addition, a lower VAT rate of 7.5 percent applies to essential food products, water, and electricity. We also introduced an excise tax on alcohol, tobacco, and other products considered harmful to public health and safety. Furthermore, we introduced a new 30 percent personal income tax bracket. These measures created the fiscal space to exempt from customs duties certain basic products (milk, beans, rice, wheat flour, vegetable cooking oil, sugar, spaghetti, salt, soap, and feminine hygiene products). On the expenditure side, we phased out one-off election-related expenditures and contained the wage bill to 7.8 percent of GDP in 2023. We have ended monetary financing of the fiscal deficit.

12. The government is committed to achieve a domestic primary balance (commitment basis) of -0.5 percent of GDP in 2024 and 1 percent of GDP in 2025. The 2024 target will be achieved mainly by spending restraint, while containing revenue losses. As foreign exchange shortages and a weak economy are weighing heavily on tax revenue, we are reducing non-priority operational spending. In a very constrained environment, we ensured that the budget includes a modest increase in the nominal wage bill, which unfortunately could not keep up with inflation in 2024. Furthermore, we have ramped up our efforts to collect tax arrears. Moreover, we will follow best practices regarding the treatment of Treasury bills in the budget—the stock of Treasury bills and related interest payments will be fully accounted for in the budget. To meet the 2025 target, we will double-down on our efforts to mobilize domestic revenues by consolidating the VAT. This will include strengthening revenue administration (see paragraphs 17-18), reinforcing import tax collections (see paragraph 18), and introducing a new environmental tax on packaging materials for imports and on fuel products to partially compensate for their negative externalities. Furthermore, we will enhance our efforts to collect tax arrears and prevent future occurrences. This will involve implementing source withholding of personal income taxes for public institutions receiving government transfers, as well as signing MoUs with SOEs and key public institutions to clear tax arrears and prevent recurrence. The Council of Ministers will adopt a 2025 budget in line with program parameters (**PA1**, Table 2).

13. Over the medium term, we will continue fiscal consolidation and will aim for a domestic primary surplus of 2.0 percent of GDP by 2027 on a commitment basis. On the revenue side, this will be underpinned by gradual improvements in revenue administration, particularly for the VAT, and other revenue mobilization efforts. To guide this process, we will prepare a domestic revenue mobilization plan, with IMF TA, based on a comprehensive assessment of our tax regime and revenue administration capabilities. In this context, with IMF TA, we will also conduct a comprehensive reassessment of our fuel taxation regime, including the VAT exemption on fuel products. On the spending side, we will contain the wage bill to 8.4 percent of GDP.

14. We have prepared a contingency plan in case of slippages in our fiscal adjustment strategy. First, we could restrict new hiring and promotions in the public sector in order to generate savings on the wage bill. Second, we would contain all non-essential expenditure. Third, we could revisit the exemption from customs duty for certain basic products.

15. To cushion the impact on the most vulnerable households, we will monitor an indicative target on pro-poor spending and will implement targeted social assistance programs. We will carefully analyze and consider the distributional impact of reforms under the program and potential risks to social stability. With World Bank support, we are strengthening and expanding the coverage of the existing cash transfer program for vulnerable households (the Vulnerable Families Program). We have already increased the number of beneficiaries to 5,000 families since June 2024. The government's National School Feeding and Health Program (PNASE) covers 50,000 schoolchildren (close to 25 percent of the country's total population) and aims to provide hot meals to children in proper sanitary conditions. With World Bank support, we also continue to develop our Unique Social Registry, which now includes socio-demographic data on over 8,000 households, representing more than 39,000 individuals. In November 2023, we published the first Statistical Bulletin on Social Protection and we will continue publishing it regularly going forward.

16. We will conduct a wage bill reform to strengthen public service delivery while containing the wage bill. Our objective is to develop a public workforce that maximizes public sector efficiency and productivity in a fiscally sustainable manner and without distorting the overall labor market. To that end, we will draft a government wage reform strategy and an action plan for the medium-term to: (i) enhance compensation decisions; (ii) implement measures to attract and retain staff; and (iii) strengthen payroll data as well as coordination and communication among public agencies to enhance wage bill control. We will seek donor support to start conducting functional reviews. Furthermore, we will strengthen the role of the Public Administration Directorate (Direcção Geral de Administração Pública, DGAP) in coordinating workforce plans by ensuring that DGAP: (i) has an adequate mandate; (ii) receives enough information from ministries in a timely manner; and (iii) has adequate resources. Moreover, using the outcome of the public sector census, we are currently in the process of cleaning the payroll system of potential irregularities, such as duplicate records when workers move between ministries. To avoid the non-transparent accumulation of public debt, the government will, as conditions allow, gradually phase out the agreements with commercial banks that require them to finance wage payments to public employees.

17. We will work to consolidate the reform of consumption taxes. While the introduction of the VAT and excise taxes have improved the efficiency of our tax system, there are still opportunities to improve their effectiveness. We will enforce more tightly compliance with invoicing obligations, a fundamental tool for VAT compliance and antifraud strategies, and consider the introduction of an advance payment on goods imported for final consumption. Likewise, with the greater availability of electronic information from the SIT-IVA and e-Factura systems, we will take actions to ensure on-time VAT filing and payment, follow up with taxpayers with past due obligations, work collaboratively with the Customs Directorate (Direção Geral das Alfândegas, DGA) to control VAT exemptions, and undertake focused reviews and audits of taxpayers who present inconsistencies in self-assessed sales and purchases. To ensure the integrity of the VAT invoice management tool (E-Factura), we implemented the following measures:

- We imposed penalties to all taxpayers not submitting invoice information to E-Factura.
- Together with billing software providers and accountants, we implemented an information campaign among all VAT taxpayers on the importance of reported VAT invoices for them and their customers.
- We notified twice all VAT taxpayers who have not reported invoice data to the Tax Directorate (Direção dos Impostos, DI) during the first half of 2023.

18. We will strengthen tax and customs administration. We consider the introduction of the VAT as the starting point of a more comprehensive institutional reform to ensure the DI and DGA follow international good practices. In this regard, we will extend the good practices adopted for administering the VAT to all other taxes. Therefore, with international donor support, we will complete the computerization of tax and customs operations by scaling the SIT-IVA system to allow the paperless administration of all taxes. Similarly, we will complete the SYDONIA system with all its functionalities to achieve better calculation, collection, and control of import taxes. The DI will adopt a more risk-based differentiation framework for managing tax compliance, which will require adjustments to its by-laws, refinements to its organizational structure, a new set of strategic and operational performance goals, access to additional information from third parties, and greater transparency and accountability practices. Since September 2023, the DI has a dedicated unit for large taxpayers that will support revenue collection efforts. The DGA will implement a modernization program that will include the acquisition of non-invasive inspection equipment, additional international cooperation and exchange of information, and the hiring of additional personnel.

19. The government will strengthen the fiscal policy framework. We recognize that efforts are needed to improve macro-fiscal forecasting. Moreover, we will strengthen budget forecasts, execution, cash management, and analysis of fiscal risks, as well as the reconciliation of budget execution data with financing. We published our first fiscal risk report and plan to institute this as a regular annual report. We will conduct a PIMA assessment, including the new climate change module, to improve the planning and efficiency of public investment programs, with help from IMF TA. The government will also implement the commitment control mechanism for all spending units. We will ensure that all central government spending units start registering all commitments in the IFMIS (SAFE-e) by end-2024. We will improve coordination within the MoF and with other ministries. Going forward, we will reorganize the MoF, following a comprehensive diagnostic, including a review of staffing levels.

20. We will strengthen fiscal transparency and address governance weaknesses to reduce vulnerabilities to corruption. The government will continue to publish on the website of the Ministry of Finance and Planning (MoF): (i) adjudication notices of public procurement contracts, as required by the Procurement Law (no. 8/2009, articles 29-2, 44-1, and 70-1); (ii) all signed public procurement contracts above the threshold for requiring prior authorization from the Court of Auditors as per the Organic Law and Procedures of the Court of Auditors (no. 11/2019); and (iii) the ex-post validation of delivery of the contracts. We submitted the draft of the new Procurement Law to Parliament in December 2023, which incorporates provisions for the collection and publication of beneficial ownership information for companies awarded public procurement contracts, supported by WB and IMF TA in 2021-22. We will finalize the revisions to the Procurement Law, which will be enacted by the President of the Republic by end-March 2025 (**structural benchmark, SB2**). The Court of Auditors published the audit report for COVID-related spending in 2021. Moreover, the Court published audits of fiscal accounts (*Conta Geral do Estado*) for 2020 and 2021. The 2022 audit is under way, and the Court will publish audits of fiscal accounts for 2023 by end-June 2025 (**SB3**). We will address key recommendations from the audits in a timely manner. We will protect the autonomy and independence of the Court of Auditors. The Court of Auditors will support an independent assessment of the 2023 amendments to the CoA Organic Law by the INTOSAI Development Initiative. We will monitor outcomes under the Temporary Law on Investment Incentives (in effect since September 2023), and will revisit the legislation annually. Finally, we will move ahead with our reform agenda on anti-corruption by building independent governance institutions to effectively implement key frameworks, such as asset declarations and public access to information. We will also publish power purchase and concession agreements together with the underlying contracts.

21. Cautious borrowing and the fiscal adjustment in our program would help place public debt on a downward path. We will rely on grant financing and borrow only on concessional terms. We will strive to keep external debt disbursements below 2 percent of GDP and limit contracting of new loans to 3 percent of GDP per year. These parameters will be adjusted as debt vulnerability evolves. Under our program, public debt would be on a firm downward trajectory, supported by our commitment to fiscal consolidation and energy sector reforms. To preserve public debt sustainability, our objectives are to: (i) reduce the present value of total PPG debt, after discounting EMAE's and the central government's debt and arrears to ENCO, to below the DSA benchmark associated with the country's weak debt-carrying capacity (35 percent of GDP) by 2025; and (ii) keep or reduce the external PPG debt stock and debt service ratios below the DSA threshold values throughout the projection horizon. That said, we recognize that public debt sustainability remains subject to large risks that are beyond our control. We will continue to engage actively with bilateral creditors to regularize post-HIPC arrears. At least for the duration of the program, we will maintain the status of ENCO's debt to Sonangol as external commercial debt.

22. The government is implementing measures to strengthen debt management. We will develop a medium-term public debt management strategy and start preparing an annual borrowing plan, with support from a debt advisor. In addition, with the support from the World Bank, we are developing a debt database that will report detailed debt statistics, as well as improve our capacity to perform debt service projections and risk analyses. Moreover, to improve public debt management and lower refinancing risks from the current use of T-bills, we have introduced domestic marketable government bonds, with IMF TA.

B. Managing Fiscal Risks from Loss-Making SOEs

23. We will resume the application of the fuel price adjustment mechanism with price smoothing to prevent implicit fuel subsidies, contain fiscal risks, and reduce pressure on reserves. In February 2023, we increased retail prices for gasoline and diesel by 8.5 and 20 percent, respectively, to bring them closer in line with international markets. In May 2023, given lower international oil prices, the government reduced gasoline and diesel prices by around 3 percent but raised kerosene prices by around 12 percent. In March 2024, the government further raised kerosene prices by around 11 percent to bring them closer in line with international markets. To remove elements of discretion from fuel price adjustments, Decree Law No. 07/2018 will be amended (**PA3**). We have adjusted fuel prices in order to eliminate subsidies in the aggregate (**PA6**). Going forward, the government will apply the fuel price adjustment mechanism and publicize the outcome every month (**SB1**).

24. After years of mismanagement, the electricity sector is described by high losses (technical and non-technical), low bill collection rates, electricity tariffs falling short of cost recovery, and overstaffing. Between March 2021 and end-2023, the country was experiencing daily shortages of electricity, caused by depreciation and lack of maintenance of our diesel-based electricity generators. This situation reversed in early 2024, after a foreign private investor installed five new electricity generators. However, electricity tariffs have not been adjusted since 2007 and fall short of cost recovery by 70 percent. Progress in installing meters, capping consumption, improving collection rates, and improving EMAE's management has been slow and limited.

25. The government is committed to the comprehensive reform strategy for the energy sector, which aims to address the current crisis. The strategy is centered on implementing the Least Cost Development Plan (LCDP) and the Management Improvement Plan (MIP), in order for EMAE to achieve full cost recovery. The strategy includes four interlocking objectives: increase electricity generation capacity (with a shift towards more sustainable sources), contain consumption, enhance the efficiency in EMAE's operations by reducing losses and increasing collection rates, and improve the design of the electricity tariff structure in the country.

26. Our near-term actions will continue to focus on addressing the crisis in the electricity sector:

- We established a high-level crisis committee, chaired by the Prime Minister, to oversee reform progress.
- We will raise the weighted average electricity tariff by 20 percent **(PA7)**.
- To limit non-technical losses, we have started enforcing the law according to which stealing electricity is a crime.
- To boost bill collection rates, we rescinded the decree law that prevents EMAE from cutting service to non-paying institutional clients.
- We will start publishing EMAE's key performance indicators every quarter (**SB9**) starting with Q4 of 2024.
- By end-December 2025 we will prepare a time-bound restructuring plan for EMAE with the objective of achieving financial viability (**SB10**). The plan will cover financial, operational, and organizational/workforce restructuring, including overhaul of management and governance.
- We will also implement other measures listed in Text Table 1.

27. We are committed to improving the financial oversight of SOEs. In this regard, we will create and staff a dedicated SOE unit within the MoF by end-2024 which will monitor fiscal risks posed by the largest SOEs. To enhance SOE transparency and accountability, we will adopt an SOE ownership strategy in 2025.

Text Table 1. São Tomé and Príncipe: Key Actions and Timeline for EMAE/Energy Sector, 2023-25

Measure	Status or Target Date
1. Establish a high-level crisis committee, chaired by the Prime Minister, to oversee reform progress.	Completed
2. To limit non-technical losses, start enforcing existing law according to which stealing electricity is a crime.	Completed
3. EMAE to continue to develop arrears clearance plans with non-public sector customers.	Ongoing
4. Raise the weighted average electricity tariff by 20 percent, while preserving or enhancing the progressivity of the tariff structure.	December 2024
5. Start publishing key performance indicators for EMAE.	Quarterly, starting with Q4 of 2024
6. Rescind Decree Law No. 18/2020 which prevents EMAE from cutting service to non-paying institutional clients.	Completed

7. Adopt policies and operationalize measures to boost EMAE cashflow management.	December 2024
8. Roll out the gradual installation of electricity meters in stages, as follows: • Phase 1: 3,000 consumption meters for large clients (hotels, companies, government agencies, embassies, etc.). • Phase 2: 200 high tension meters to be installed in the distribution network to monitor production, distribution, and upstream distribution losses. • Phase 3: 16,000 residential meters for small clients (households).	Phase 1: End-December 2024 Phases 2 and 3: End-March 2025
9. Prepare a time-bound restructuring plan for EMAE. The plan will cover financial, operational, and organizational/workforce restructuring, including overhaul of management and governance.	December 2025
10. Implement various fuel control measures, such as installing cameras, weighing and coloring of diesel, and installing fuel meters.	June 2025
11. Adopt regulations that allow for small-scale distributed energy systems to increase penetration of renewable energy.	June 2025
12. Draft and adopt an updated least cost power development plan to reduce the reliance on thermal generation and scale up renewables.	June 2025
13. Select a concessionaire for the operation and maintenance of the electricity distribution system.	July 2025

C. Monetary Policy, Foreign Exchange Reserves, and Financial Stability

28. Continued fiscal consolidation will be complemented by tightening monetary policy to encourage savings in dobra and to reduce pressure on foreign exchange reserves. Given the ineffective lending channel, the adverse effect of the policy on the macro economy is expected to be limited. The BCSTP reduced banks' estimated excess reserves in local currency to below STN 200 million through the issuance of BCSTP Certificates of Deposits (CDs) at variable rates (**PA4**). This should drain further excess liquidity from the system and allow interest rates to increase. The BCSTP has set an initial target on core (non-food and non-fuel) inflation of 3 percent (the long-term average) and will continue to maintain banks' estimated excess reserves in local currency below STN 200 million through the issuances of CDs until the 6-month moving average of y/y core inflation declines below 3 percent (**SB4**). The BCSTP will also start offering 6-month and 12-month CDs, in addition to the current 1-month and 3-month ones, to help remove the structural excess liquidity when it accumulates in the system. In months in which estimated excess reserves are below the STN 200 million threshold, the central bank's Monetary Policy Committee could consider offering small amounts of CDs in order to test the market and extract the underlying price signal. We will improve liquidity monitoring and forecasting through stronger coordination with the MoF. To ensure effective monetary policy implementation and to protect BCSTP's financial autonomy, the government and the BCSTP will form a joint working group and will develop a BCSTP recapitalization strategy, by end-June 2025, following the transition to the International Financial Reporting Standards (IFRS). The BCSTP will request Fund TA in this area.

29. We will continue implementing near- and medium-term structural measures to boost reserves. To protect international reserves, we amended Article 7(2) of BCSTP's 2017 regulation on exchange rate coverage to eliminate the waiver of eligibility requirements for fuel imports, even in times of crisis (**PA5**). We will also implement a package of fiscal and energy sector measures to reduce fuel demand, as mentioned elsewhere in this document. To boost the central bank's FX cashflow and strengthen reserves as well as the FX position of the banking system, we are introducing capital flow management measures. In this context, we have already enacted implementing regulations for the existing export repatriation and surrender requirements (**PA8**). We have also implemented a requirement for commercial banks to surrender 25 percent of their other foreign exchange receipts to the BCSTP. As these would be temporary, implemented during a crisis, and part of a comprehensive policy strategy to tackle the underlying imbalances, they would not substitute for the warranted macroeconomic adjustment. We will gradually phase out these measures once the crisis abates and reserves are restored to adequate levels. In addition, we will lower the limit on the maximum amount of foreign exchange in cash that residents can take out of the country without declaration. The government will also mobilize external (grant) financing and ensure timely disbursements. The BCSTP will prepare and submit to Fund staff a detailed assessment of the FX market by end-June 2025 (**SB6**). In the medium term, as detailed in Section D below, ongoing plans to expand the economy's productive base (centered around tourism, agriculture, and fisheries) and efforts to reduce reliance on oil imports via electricity sector reforms will gradually increase reserve buffers. In addition, we are committed to rebuilding our SDR balances as part of our foreign exchange reserves, including by receiving program disbursements in SDRs, which would generate significant interest savings for the country.

30. The BCSTP is committed to sound governance and transparency. The recent update safeguards assessment found that limited progress has been made in strengthening the safeguards framework of the BCSTP since the 2019 assessment. At the same time, capacity constraints remain a key challenge, and independent board oversight needs to be established. Progress towards the implementation of IFRS has been slow and the BCSTP's financial position is weakened by significant prior monetary financing to the government and legacy debts.

31. The BCSTP will implement the recommendations from the update safeguards assessment:

- A sound BCSTP Organic Law is critical for strengthening the BCSTP, and so is ensuring its autonomy, appropriate governance arrangements, including independent board oversight, as well as providing for objectives, functions, and respective powers. The revision in close consultation with IMF staff of the BCSTP Organic Law by Parliament, and subsequent enactment by the President of the Republic, and its publication remain an urgent priority, to be completed by end-January 2025 (**SB5**).

- By end-2024, the BCSTP will sign a memorandum of understanding with the government that specifies the parties' roles and responsibilities in servicing obligations associated with the FX swap derivative instrument contracted in May 2023, including costs to be borne by the government. We are also committed to addressing other legacy government debt and will finalize an MoU between MoF and BCSTP by end-January 2025 to this end.

- The BCSTP has updated its investment policy to re-assess the appropriateness of currency allocation limits and enhance reporting to include risk parameters, risk limits, and market values of the securities portfolio.
- We have finalized the FY2022 audit, while the FY2023 audit is near completion, and we will work on resolving recurring audit modifications. The BCSTP also commits to bringing the audit cycles to a timely completion, to avoid the backlog of audits seen in recent years. In addition, we commit to implementing other safeguards recommendations, such as strengthening the internal audit function by end-December 2024.
- The BCSTP will implement Fund TA recommendations on the transition to full IFRS implementation, and will report and publish by April 2026 the FY2025 financial statements under IFRS. In this context, the BCSTP will strengthen the accounting function, provide IFRS technical training, and adopt a medium-term capacity building strategy for the recruitment and professional certification of staff.

32. We will continue to strengthen banking supervision and remain committed to implementing measures to safeguard the soundness of the banking sector. To support effective on-site and off-site supervision, the BCSTP will implement a bank rating model, upgrade banking regulation, and train staff on its effective enforcement. The BCSTP will also continue implementing regular stress-testing exercises. Our new Financial Institutions Law is expected to strengthen the legal framework for bank regulation and supervision, including on matters such as bank authorization, change in ownership, corporate governance of banks, major acquisitions, related party transactions, exposure risks, and respective powers, responsibilities, and functions of the BCSTP. We will submit this draft law (in close consultation with IMF staff advice) to the Council of Ministers by end-June 2025 **(SB7)** and to Parliament by end-December 2025 (**SB8**). While the law and the implementing regulations for the credit registry are already in place, we are continuing our work to operationalize the registry, with help from the WB. Next, we will prepare a blueprint that will inform the operational and administrative functions of the system, and we will develop the software. Moreover, the national authorities will continue their efforts to expedite the liquidation of Banco Privado, Energy Bank, and Banco Equador. The BCSTP will also continue to implement its National Financial Inclusion Strategy.

33. We will preserve the country's membership in the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) by engaging with the GIABA Secretariat and staying current on membership contributions. Losing GIABA membership exposes our country to a public listing by the Financial Action Task Force (FATF), which would cause reputational damage and potential loss of correspondent banking relationships. We will pay the remaining amount of the overdue membership fees by end-2024.

34. In March 2022, the IMF Executive Board granted temporary approval of exchange restrictions. The one-year approval expired at end-March 2023. Given the current balance of payment issues, we are requesting an approval of exchange restrictions for one year. The efforts to boost reserves listed above will support the removal of the restrictive measures in the near term.

D. Structural Reforms for Job-Rich, Inclusive, and Blue Growth

35. The government will develop a comprehensive reform strategy to boost private sector-led growth. This strategy will focus on developing human capital, building infrastructure, reforming the energy sector (as discussed above), expanding transportation links and domestic food production, and improving the business environment. We are working towards strengthening the legal and judicial systems which are fundamental to fostering growth. The government is also working to ensure greater trade integration, through the ratification of the AfCFTA Agreement, to help exporters compete in international markets. We will also update the tourism sector strategy, with World Bank support, by mid-2025.

36. We recognize the criticality of removing the country from the European Union's Air Safety blacklist to facilitate the recovery of the tourism sector and exports. We will develop a strategic plan to remove airlines certified in the country from the EU's Air Safety blacklist by end-December 2025 (**SB11**). Specific measures will include enhancing air safety regulations and procedures, providing training to INAC and ENASA staff, and improving airport infrastructure (construction of a cargo terminal, runway expansion, fencing the airport area, enhancing firefighting facilities). We are also undertaking a program with the international civil aviation organization (ICAO) to support regulatory reforms and training with milestones defined for the next 18 months. In addition, we are updating laws and regulations to bring them in line with EU guidelines and providing training to staff.

37. We will strengthen the country’s resilience to climate change and protect our natural resources. Climate change primarily affects our country through rising temperatures and sea levels, coastal erosion, and changing precipitation patterns—all of which damage agriculture, fisheries, and tourism. We have started drafting the Fourth National Communication Report on Climate Change to comply with the UNFCC obligations.

38. The government will also promote women’s economic empowerment. We will publish data about gender disparities in access to education, healthcare, and financial services, as well as in labor market outcomes (including labor force participation rates, unemployment rates, wages, access to managerial positions) by end-2024. We will also continue implementing our Financial Inclusion Strategy, focusing on improving women’s financial access, fostering financial digitalization, and improving financial literacy. Moreover, the government, in collaboration with relevant partners such as the UNDP, IMF, and the World Bank, will also evaluate and update the 2019 National Strategy for Gender by mid-2025.

Improving Economic Statistics and Capacity Development

39. We are continuing to improve economic data, which is currently constrained by lack of capacity. We will strengthen macroeconomic statistics, particularly leading indicators of economic activity. We are also working on improving our balance of payments statistics, including recording imports related to petroleum exploration FDI and refining the estimation of tourism receipts, with the help of IMF TA. We are also working on improving our fiscal data and reporting, expanding the coverage of fiscal and debt data to include more SOEs, and producing fiscal financing data consistent with above-the-line data.

40. Continued hands-on technical assistance is essential to build capacity. We appreciate the Fund's continued intensive CD efforts. Given limited staff capacity, on-the-job training is especially important and valuable. Our medium-term capacity development strategy includes enhancing domestic revenue mobilization; improving public financial management, public investment management, public wage bill management, and debt recording; and strengthening the financial sector's legal and regulatory framework.

PROGRAM MONITORING

41. Our program is fully funded over the medium term. We have obtained financing commitments from our external partners, including firm assurances for the next 12 months and good prospects for the duration of the program. Over the medium term, we will continue to work with our partners to ensure we receive financing that will fully cover the financing gap for the remainder of the program.

42. The program will be monitored through semi-annual reviews of the quantitative performance criteria, indicative targets, and structural benchmarks in the attached Tables 1 and 3. These are defined in the attached Technical Memorandum of Understanding (TMU), which also sets out the reporting requirements under the ECF arrangement. The first semi-annual review will be based on data and performance criteria at end-December 2024 and should take place on or after April 1, 2025. The second semi-annual review will be based on data and performance criteria at end-June 2025 and is expected to take place on or after October 1, 2025. The third semi-annual review will be based on data and performance criteria at end-December 2025 and is expected to take place on or after April 1, 2026.

Table 1. São Tomé and Príncipe: Performance Criteria and Indicative Targets for 2024-25

(Millions of Dobra, Cumulative from Beginning of Year, Unless Otherwise Specified)

	2024	2025			
	PC	IT	PC	IT	PC
	Dec.	March	June	Sep.	Dec.
Performance Criteria:					
1. Floor on the domestic primary balance (cash basis)	-172	-20	64	93	147
2. Ceiling on the change in the stock of gross central bank claims on the central government	0	0	0	0	0
3. Floor on net international reserves of the central bank (face value, US$ millions) [1, 2]	1.2	1.3	-4.3	-8.6	11.5
4. Ceiling on the accumulation of central government's new external payment arrears (US$ millions) [3, 4]	0	0	0	0	0
5. Ceiling on the contracting or guaranteeing of new non-concessional external debt by the central government or the BCSTP (in nominal value, US$ millions) [4, 5]	0	0	0	0	0
6. Ceiling on the disbursement of non-concessional external debt to the central government or the BCSTP (in nominal value, US$ millions) [4, 5]	0	0	0	0	0
7. Not to: (i) impose or intensify exchange restrictions; (ii) introduce or modify multiple currency practices; (iii) conclude bilateral payments agreements that are inconsistent with Article VIII; or (iv) impose or intensify import restrictions for balance of payments reasons.	Continuous				
Indicative Targets:					
8. Ceiling on the change in the stock of central government's domestic expenditure arrears	-82	0	0	-23	-47
9. Floor on pro-poor expenditures	680	192	385	577	770
10. Floor on tax revenue (cash basis)	1,955	574	1,248	1,998	2,815
11. Ceiling on the present value of new external borrowing contracted or guaranteed by the central government or the BCSTP with original maturity of more than one year (US$ millions)	23.1	3.9	7.9	11.8	15.7
Memorandum Items:					
12. Budget support grants (US$ millions)	33.8	0.0	0.0	0.0	27.3
13. Concessional program loans (US$ millions)	16.7	3.0	3.0	3.0	3.0
14. Budget transfers from the NOA (US$ millions)	3.3	3.8	3.8	3.8	3.8
15. Net international reserves of the central bank (market value, US$ millions) [2]	-19.4	-18.1	-23.7	-28.0	-7.9

Sources: São Tomé and Príncipe authorities; and IMF staff estimates and projections.

[1] The floor will be adjusted upward or downward according to definitions in the TMU.

[2] Excluding the National Oil Account (NOA) at the Central Bank and commitments to commercial banks. The floor applies to cumulative flows from the beginning of the year.

[3] The term "central government" is defined in the TMU, which excludes the operations of state-owned enterprises.

[4] This criterion will be assessed as a continuous performance criterion.

[5] Only applies to debt with a grant element of less than 35 percent.

Table 2. São Tomé and Príncipe: Prior Actions

Measure	Macroeconomic Rationale	Status
1. Council of Ministers to adopt a 2025 budget in line with program parameters.	To communicate a credible plan for fiscal adjustment.	Pending.
2. Introduce the Value Added Tax with a main rate of 15 percent.	To strengthen domestic revenue mobilization.	Implemented.
3. Enact and publish amendments to Decree Law No. 07/2018, in consultation with Fund staff, to remove elements of discretion from the fuel price adjustment mechanism, by stipulating monthly reviews of fuel prices whose outcome will be communicated to the public.	To eliminate fuel subsidies.	Pending.
4. The BCSTP to reduce estimated excess reserves in local currency below STN 200 million through the issuance of BCSTP Certificates of Deposits.	To reduce excess liquidity, tighten monetary policy, and support the peg to the euro.	Implemented.
5. Amend Article 7(2) of BCSTP's 2017 regulation on foreign exchange coverage to eliminate the waiver of eligibility requirements for fuel imports.	To reduce pressures on international reserves.	Implemented.
6. Adjust fuel prices in order to eliminate subsidies for gasoline, diesel, and kerosene in the aggregate.	To eliminate fuel subsidies.	Implemented.
7. Raise the weighted average electricity tariff by 20 percent, while preserving or enhancing the progressivity of the tariff structure.	To reduce electricity fuel consumption and the corresponding financing gap.	Pending.
8. Enact implementing regulations for the existing export repatriation and surrender requirements.	To reduce pressures on international reserves.	Implemented.

Table 3. São Tomé and Príncipe: Structural Benchmarks

Measure	Timing	Macroeconomic Rationale	TA Involved	Reform Depth
A. Fiscal Measures and Public Financial Management				
1. Implement monthly reviews (and adjustments, if necessary) of domestic fuel prices, consistent with the automatic fuel price adjustment mechanism in the amended Decree Law No. 07/2018.	Monthly	To prevent a build-up of fuel subsidies going forward.	No TA involved.	High
2. President to enact the new Public Procurement law that enables the collection and online publication of beneficial ownership information for companies awarded public procurement contracts.	March 2025	To increase the efficiency and transparency of public procurement.	No TA involved.	High
3. The Court of Auditors to publish online the audits of the government's annual financial statements (*Conta Geral do Estado*) for 2023.	June 2025	To increase fiscal transparency and accountability.	No TA involved.	Medium
B. Monetary Policy and Financial Stability				
4. The BCSTP to maintain estimated excess reserves in local currency below STN 200 million through the issuance of Certificates of Deposits until the 6-month moving average of y/y core inflation declines below 3 percent.	Monthly	To reduce excess liquidity, tighten monetary policy, and support the peg to the euro.	No TA involved.	Medium
5. Enact and publish the Organic Law for the BCSTP, in line with IMF advice incorporating safeguards assessment recommendations.	January 2025	To improve central bank autonomy, governance, and accountability.	TA needed.	High
6. The BCSTP to prepare and submit to Fund staff a detailed assessment of the FX market in STP, including an analysis of FX flows and exchange rates in formal and informal markets.	June 2025	To strengthen reserve buffers and safeguard the pegged exchange rate.	TA needed.	Low
7. Submit to the Council of Ministers the draft Financial Institutions Law, strengthening the legal framework for bank regulation and supervision, as well as prudential requirements for banks, including on matters such as bank authorization, change in ownership, corporate governance of banks, major acquisitions, related party transactions, exposure risks, and respective powers, responsibilities, and functions of the BCSTP, in line with IMF staff advice.	June 2025	To modernize the legal framework for the banking sector.	IMF TA ongoing.	High

Table 3. São Tomé and Príncipe: Structural Benchmarks (concluded)

8. Submit to Parliament the draft Financial Institutions Law, strengthening the legal framework for bank regulation and supervision, as well as prudential requirements for banks, including on matters such as bank authorization, change in ownership, corporate governance of banks, major acquisitions, related party transactions, exposure risks, and respective powers, responsibilities, and functions of the BCSTP, in line with IMF staff advice.	December 2025	To modernize the legal framework for the banking sector.	IMF TA ongoing.	High
C. Energy Efficiency and Structural Bottlenecks				
9. Publish online key performance indicators for EMAE.	Quarterly, starting with Q4 of 2024	To strengthen transparency in the electricity sector.	With World Bank support.	Low
10. Prepare a revised time-bound restructuring plan for EMAE. The plan will cover financial, operational, and organizational/workforce restructuring, including overhaul of management and governance.	December 2025	To achieve financial viability for EMAE.	With World Bank support.	Low
11. Develop a plan to remove airlines certified in the country from the EU's Air Safety blacklist. Measures include enhancing air safety regulations and procedures, providing training to INAC and ENASA staff, and improving airport infrastructure (runway expansion, fencing the airport area, enhancing firefighting facilities).	December 2025	To facilitate growth in the tourism sector.	With World Bank support.	Low

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) contains definitions of the quantitative performance criteria, indicative targets, memorandum items, and structural benchmarks in Tables 1 and 3**, which are attached to the Memorandum of Economic and Financial Policies for 2024-28. Unless otherwise specified, all quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from the beginning of each calendar year.

2. **The program exchange rates will be the rates at end-2023,** specifically 22.22630 dobras per U.S. dollar, 24.5 dobras per euro, 29.829485 dobras per SDR, and 29.829485 dobras per UA.

DEFINITIONS

3. **The terms "external debt" and "domestic debt" shall be defined on a residency basis.**

4. **Central government is defined to comprise all governmental departments, offices, establishments, and other bodies that are agencies or instruments of the central authority of São Tomé and Príncipe.** The central government does not include the operations of state-owned enterprises and all other sectors that have administrative and financial autonomy.

5. **Debt is defined as in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 16919-(20/103) of the Executive Board (October 28, 2020).** Debt will be understood to mean a current, i.e., not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time. These payments will discharge the principal and/or interest liabilities incurred under the contract.

6. **Government domestic revenue** (excluding oil revenue) comprises all tax and non-tax revenue of the government (in domestic and foreign currencies), with VAT revenue in net terms (excluding refunds), and exclude: (1) foreign grants; (2) the receipts from the local sale of in-kind grants (e.g., crude oil received from Nigeria, food aid, etc.); (3) any gross inflows to the government on account of oil signature bonus receipts as well as accrued interest on the National Oil Account (NOA), and (4) any inflows related to the government's financing of fuel imports. Revenue will be measured on a cash basis as reported in the table of government financial operations prepared by the Directorate of Budget and the Directorate of Treasury in the Ministry of Planning and Finance (MoF).

7. **Domestic primary expenditure (cash basis)** comprises all government spending assessed on a commitment basis (*compromisso*), adjusted for the net variation in domestic spending arrears (excluding commitments/payments to ENCO related to the fuel price differential), excluding: (1) expenditure financed with external concessional project loans and project grants; (2) the cost assumed by the budget to pay off small depositors following the liquidation of Banco Equador; (3) interest payments; and (4) any expenditures related to the government's financing of fuel imports.

Reporting of government domestic expenditure will be based on the table of government financial operations prepared by the Directorate of Budget and the Directorate of Treasury in the MoF. All expenditures financed by budget support grants and budget support loans are treated as part of domestic primary spending, with no exceptions.

Text Table 1. São Tomé and Príncipe: Official External Program Support

	2024	2025 *H1*	2025	2026 *H1*	2026	2027 *H1*	2027	Currency
Projected budgetary support grants								
World Bank	13.0	0.0	17.0	0.0	7.0	0.0	7.0	million US dollars
European Union	1.8	0.0	1.8	0.0	1.8	0.0	1.8	million euros
African Development Bank	8.0	0.0	4.0	0.0	4.0	0.0	4.0	million UA
Other	8.2	0.0	3.0	0.0	3.0	0.0	3.0	million US dollars
Projected concessional program loans	16.7	3.0	3.0	0.0	0.0	0.0	0.0	million US dollars
IMF ECF program	4.0	4.0	6.1	2.1	4.2	2.1	4.2	million SDR

Sources: STP authorities, AFDB, WB, EU and Fund staff estimates.

PERFORMANCE CRITERIA

8. **Floor on the domestic primary balance (DPB, cash basis).** This performance criterion refers to the difference between government domestic revenue (excluding oil revenue, namely inflows to the NOA, and VAT refunds) and domestic primary expenditure (cash basis). To control spending, the MoF will not approve borrowing by any public entity in the central government other than the Treasury. Accordingly, for the purpose of program monitoring, borrowing by any public entity other than the Treasury recorded in the monetary survey as loans to the central government will be added as additional expenditure in calculating the DPB (excluding all sectors that have administrative and financial autonomy). For reference, the domestic primary balance based on **hypothetical outturns** would be -256 million dobras, broken down as follows:

Text Table 2. São Tomé and Príncipe: Domestic Primary Balance
(Millions of Dobra)

I	Total Revenue (=1+2)	2,177
I.A	***of Which: Government Domestic Revenue (=I –2.1)***	**2,085**
1	Tax revenue	1,780
2	Nontax revenue	397
2.1	*of which: oil revenue*	92
II	Total Domestic Expenditure (=4+5+6)	2,344
II.A	***Of which: Domestic Primary Expenditure (=II –4.2)***	***2,231***
4	Current expenditure	2,281
4.1	Personnel costs	1,214
4.2	Interest due	113
4.3	Goods and services	297
4.4	Transfers	431
4.5	Other current expenditure	225
5	Domestic capital expenditure	42
5.1	Financed by the Treasury	42
5.2	Financed by privatization proceeds (sale of state assets)	0
6	HIPC Initiative-related capital expenditure	21
III	**Domestic Primary Balance, commitment basis (= I.A–II.A)**	**-147**
IV	**Change in the stock of domestic expenditure arrears**	**-109**
V	**Domestic Primary Balance, cash basis (= III+IV)**	**-256**

Sources: STP authorities; and Fund staff estimates.

9. Ceiling on the change in the stock of gross central bank claims on the central government. This performance criterion refers to the stock of all outstanding claims on the central government held by the BCSTP. The relevant data will be reported monthly by the BCSTP to IMF staff. This ceiling is cumulative from the beginning of each calendar year or from December 1, 2024, whichever is later.

10. Floor on net international reserves (NIR) of the BCSTP. The floor applies to cumulative flows from the beginning of the year. The NIR of the BCSTP are defined as **reserve assets** of the BCSTP minus **reserve liabilities** including short-term bilateral liabilities with a remaining maturity of one year or less, FX reimbursement commitments to commercial banks, and all liabilities to the IMF. All assets that are not fully convertible nor readily available to nor controlled by the BCSTP (i.e., NOA's balances at the BCSTP and assets that are pledged or otherwise encumbered, including but not limited to the HIPC umbrella SDR account, assets used as collateral or guarantees for third-party liabilities, and assets which are the counterpart to FX reserve requirement liabilities to commercial banks) will be excluded from the definition of **reserve assets**. Securities other than shares (i.e., Portuguese bonds) will be valued at their original nominal issue price. **Reserve liabilities** are defined as all FX-denominated liabilities to residents and nonresidents. All values are to be converted to U.S. dollars at the "buy" market exchange rates prevailing at the test date. For illustrative purposes, the table below presents a **hypothetical calculation** for NIR:

Text Table 3. São Tomé and Príncipe: International Reserves
(Millions of Dobra)

I	***Reserve Assets***	**945**
	Cash	25
	Demand deposits	179
	Term deposits (excl. National Oil Account)	0
	Securities other than shares	855
	Valuation adjustments on securities	-42
	Reserve position in the Fund	0
	SDR holdings	3
	minus Banks' reserves denominated in foreign currency	0
	minus Banks' guaranteed deposits denominated in foreign currency	74
II	***Reserve Liabilities***	**1224**
	Short-term bilateral liabilities	22
	Liabilities to the IMF	726
	FX reimbursement commitments to commercial banks	476
III	**Net International Reserves (NIR) (=I - II)**	**-279**
IV	***Net Other Foreign Assets***	**-9**
	Other foreign assets	620
	Medium and long-term liabilities (including SDR allocation)	629
	Net Foreign Assets (III+IV)	**-288**
	Memorandum Items:	
	National Oil Account (NOA)	**366**
	"Buy" market exchange rate (Dobras/US$)	22.04
	NIR in million US$ (at the "buy" market exchange rate)	**-12.6**

Sources: STP authorities and Fund staff calculations.

11. Ceiling on the contracting or guaranteeing of new non-concessional external debt by the central government or the BCSTP. This continuous performance criterion covers the contracting or guaranteeing of new external debt of any maturity (including overdraft positions but excluding short-term import-related and supplier credits) by the central government or the BCSTP. Debt is considered non-concessional if it includes a grant element less than 35 percent. The grant element is the difference between the nominal value of the debt and its net present value, expressed as a percentage of the nominal value. The ceiling applies to the nominal value of all new non-concessional external debt. The net present value of debt is calculated by discounting the stream of debt service payments at the time of contracting. The discount rate used for this purpose is 5 percent. A debt is considered contracted on the signature date of the contract, unless it is specified in the contract that it becomes effective upon ratification by parliament. In this case, debt is considered contracted upon ratification by parliament. This performance criterion does not apply to IMF resources. Debt in the process of being rescheduled or restructured is excluded from this ceiling to the extent that such non-concessional debt is used for debt management operations that improve the overall public debt profile. The government should consult with IMF staff before contracting or guaranteeing any new debt obligations. This ceiling is cumulative from the beginning of each calendar year or from December 1, 2024, whichever is later.

12. Ceiling on the disbursement of non-concessional external debt to the central government or the BCSTP. This continuous performance criterion applies for the same definition of debt as in paragraph 11 above. This ceiling is cumulative from the beginning of each calendar year or from December 1, 2024, whichever is later.

13. Ceiling on the accumulation of new external payment arrears by the central government. This is a continuous performance criterion. New external payment arrears by the central government consist of external debt service obligations (principal and interest) that have not been paid at the time they are due, as specified in the contractual agreement, subject to any applicable grace period. This performance criterion does not apply to arrears resulting from the nonpayment of debt service for which a clearance framework has been signed by the debtor and creditor before the relevant payment becomes due, or for which the government has sought rescheduling or restructuring as of end-November 2024. This ceiling is cumulative from the beginning of each calendar year or from December 1, 2024, whichever is later.

INDICATIVE TARGETS

14. Ceiling on the change in the stock of central government's domestic expenditure arrears. Domestic expenditure arrears are expenditure commitments to domestic suppliers (of goods, services, labor, etc.) recognized by the government as being past due. This excludes commitments/payments to ENCO related to the fuel price differential.

15. Floor on pro-poor expenditure refers to government outlays within domestic primary expenditure, both current and capital, that have a direct effect on reducing poverty in the following sectors: education, health, social security and assistance, housing and community services, culture and sport, fuel and energy, and agriculture and fisheries.

Text Table 4. São Tomé and Príncipe: Economic Classification of Pro-Poor Expenditures

Code	Economic classification of current expenditure	Education	Health	Social Security and Assistance	Housing and Community Services	Culture and Sport	Fuel and Energy	Agriculture and Fisheries
310000	Personnel Expenses	x	x					
331210	Specialty Durable Goods	x	x					
331290	Other Durable Goods	x	x					
331120	Fuels and Lubricants[1]	x	x					
331130	Foodstuffs, Food[1] and Accommodation	x	x					
331140	Specialized Current Consumable Materials (Specific to Each Sector)	x	x					
331190	Other Consumer Non Durable Goods	x	x					
332110	Water and Energy Services	x	x					
332120	Communication Services	x	x					
332130	Health services	x	x					
332220	Maintenance and Conservation Services	x	x					
353900	Other Miscellaneous Current Expenses	x	x	x				
352200	Transfers to non-profit institutions (private)		x	x				
352310	Retirement Pension and Veterans		x	x				
352320	Family Benefit		x	x				
352330	Scholarships	x						
352390	Other Current Transfers to Families		x	x				
353100	Unemployment Fund		x	x				
Code	**Economic classification of capital expenditure**							
411110	Feasibility Study and Technical Assistance	x	x	x	x	x	x	x
411120	Procurement and Construction of Real Estate	x	x	x	x	x	x	x
411200	Rehabilitation Works and Facilities	x	x	x	x	x	x	x
411300	Means and Equipments of Transportation	x	x	x	x	x	x	x
411400	Machinery and Equipment	x	x	x	x	x	x	x
411900	Other Fixed Capital Goods	x	x	x	x	x	x	x
412000	Stocks	x	x	x	x	x	x	x

Source: Diário da Republica de São Tome e Principe No. 21 - May 7, 2008, pages 12-13.

[1] Expenditures on fuels and lubricants (*combustíveis e lubrificantes*) that are affected for administrative purposes are excluded. Likewise, food (*alimentação*) and clothing and shoes (*roupas e calçados*) supplied to administrative staff are excluded.

16. **Floor on tax revenue (cash basis).** Tax revenue includes direct and indirect taxes, as well as the recovery of tax arrears and additional collection efforts, excluding VAT refunds (at the moment of payment).

17. **Ceiling on the present value of new external borrowing contracted or guaranteed by the central government or the BCSTP with original maturity of more than one year.** This indicative target applies to the present value of all new external debt contracted or guaranteed by the central government or the BCSTP, including commitments contracted or guaranteed for which no value has been received. Debt is defined as in paragraph 5 above. The present value (PV) of new external debt is calculated by discounting the future stream of payments of debt service (principal and interest) due on this debt on the basis of a discount rate of 5 percent and taking account of all aspects of the debt agreement including the maturity, grace period, payment schedule, upfront commissions, and management fees. The guarantee of a debt arises from any explicit legal obligation of the government to service a debt in the event of nonpayment by the debtor (involving payments in cash or kind). The ceiling excludes: (i) loans stemming from the restructuring or rescheduling of external debt; (ii) central government securities issued in domestic currency, placed in the domestic primary or secondary markets, and held by nonresidents; (iii) debt contracted from the IMF, World Bank and AfDB; (iv) short-term trade credits for imports; and (v) central bank debt issuance and foreign exchange swaps for the purposes of monetary policy or reserves management.

USE OF ADJUSTERS

18. The floor on net international reserves (NIR) of the BCSTP will be adjusted upward (downward) by the deviations upward (downward) of budget support grants and program loans from projected levels. Differences between actual and projected budget support grants and program loans in dobra, will be converted to U.S. dollars at the program exchange rate and aggregated from the beginning of the current calendar year to the test date. Budget support grants include in-kind aid when the products are sold by the government and the receipts are used to finance a budgeted spending item.

19. The floor on net international reserves (NIR) of the BCSTP will be adjusted upward (downward) by the deviations upward (downward) of budget transfers from the NOA from projected levels. Differences between actual and projected budget transfers from the NOA in dobra, will be converted to U.S. dollars at the program exchange rate and aggregated from the beginning of the current calendar year to the test date.

STRUCTURAL BENCHMARKS

20. Implement monthly reviews (and adjustments, if necessary) of domestic fuel prices, consistent with the automatic fuel price adjustment mechanism in the amended Decree Law No. 07/2018. The monthly reviews will eliminate subsidies for gasoline, diesel, and kerosene. The outcome of the review will be communicated to the public via a press release to be issued by the 30th day of each month. The press release will explain how the review's outcome follows from the automatic fuel price adjustment mechanism in the amended decree law.

21. President to enact the new Public Procurement law. The new law should enable the collection and online publication of beneficial ownership information for companies awarded public procurement contracts, in line with IMF staff advice. The law will be published in the Official Gazette.

22. The Court of Auditors to publish online the audits of the government's annual financial statements (*Conta Geral do Estado*) for 2023. The audits should contain a report on the reliability of the statements and be published on the Court of Auditor's webpage.

23. The BCSTP to maintain banks' estimated excess reserves in local currency below STN 200 million through the issuance of Certificates of Deposits until the 6-month moving average of y/y core inflation declines below 3 percent. This monthly structural benchmark will be met in month *t* when at least one of the following three conditions is met: (i) the 6-month moving average of y/y core inflation in month *t-1* is below 3 percent; (ii) estimated excess reserves in local currency in month *t* are below 200 million; or (iii) actual excess reserves in local currency in month *t* are below 200 million. For example, if month *t* is March, then month *t-1* would be February. For the purposes of this TMU, the best available forecast for excess reserves in local currency in month *t* is given by excess reserves in month *t-1* plus the stock of Certificates of Deposits maturing in month *t* minus the net issuance of Treasury Bills and Treasury Bonds planned by the authorities in month *t*. The planned net issuance amounts would need to be published on the BCSTP's website ahead of month *t*.

24. Enact and publish the Organic Law for the BCSTP, in line with IMF advice. The law should Incorporate recommendations from safeguards assessments to improve central bank autonomy, governance, and accountability. The law will be published in the Official Gazette.

25. The BCSTP to prepare and submit to Fund staff a detailed assessment of the FX market in STP, including an analysis of FX flows and exchange rates in formal and informal markets. The report should also discuss how banks transact with their retail and corporate clients, exchange bureaus, the BCSTP, and with each other through the day and at what exchange rate.

26. Submit to the Council of Ministers the draft Financial Institutions Law. The new law should strengthen the legal framework for bank regulation and supervision, as well as prudential requirements for banks, including on matters such as bank authorization, change in ownership, corporate governance of banks, major acquisitions, related party transactions, exposure risks, and respective powers, responsibilities, and functions of the BCSTP, in line with IMF staff advice.

27. Submit to Parliament the draft Financial Institutions Law. The new law should strengthen the legal framework for bank regulation and supervision, as well as prudential requirements for banks, including on matters such as bank authorization, change in ownership, corporate governance of banks, major acquisitions, related party transactions, exposure risks, and respective powers, responsibilities, and functions of the BCSTP, in line with IMF staff advice.

28. Publish key performance indicators for EMAE. The KPIs to be published online include: quantities of diesel consumed by EMAE plants, quantities of diesel consumed by other plants, energy generated by EMAE by source, energy generation by other suppliers by source, number of clients, number of clients without meters, quantity of electricity billed, billed electricity (MWh), revenue collected (MWh). Those will be published within 90 days from the end of each quarter. The first set of KPIs should cover Q4 of 2024 and be published by end-March 2025.

29. Prepare a revised time-bound restructuring plan for EMAE. The plan will cover financial, operational, and organizational/workforce restructuring, including overhaul of management and governance. This structural benchmark will be met when the authorities share with IMF staff the draft plan.

30. Develop a plan to remove airlines certified in the country from the EU's Air Safety blacklist. The plan should include measures enhancing air safety regulations and procedures, providing training to INAC and ENASA staff, and improving airport infrastructure (runway expansion, fencing the airport area, enhancing firefighting facilities). This structural benchmark will be met when the authorities share with IMF staff the draft plan.

DATA REPORTING

31. The following information will be provided to IMF staff (through the resident representative's office) for the purpose of monitoring the program:

1) **Fiscal Data.** The Directorate of Treasury and Directorate of Budget at the MoF will provide the following information to IMF staff within 20 days after the end of each month for the monthly data and within 20 days after the end of quarter for the quarterly data, except for data on the public investment program (PIP) which will be provided three months after the end of each quarter:

- monthly data on central government operations for revenues, expenditure, and financing, including detailed description of net earmarked resources (*recursos consignados*), on commitment (*compromisso*) and cash basis (*caixa*);
- monthly data on net credit to the government by the BCSTP, recorded account by account in a format fully compatible with the monetary accounts of the BCSTP;
- detailed monthly data on tax and nontax revenues;
- detailed monthly data on domestically financed capital expenditure on commitment (*compromisso*) and cash basis (*caixa*);
- monthly data on domestic arrears by type and by creditor;
- monthly data on official external program support (non-project);
- quarterly data on the execution of the PIP by source of financing;
- quarterly data on the Treasury-funded capital expenditures by ministry compared to budgeted amounts; and
- quarterly pro-poor expenditure.

2) **Monetary Data.** The BCSTP will provide IMF staff the monetary data within 20 days after the end of each month, unless specified otherwise below:

- daily data on exchange rates by the end of each week;
- daily monetary data of the BCSTP by the end of each week, with the following details:
    - o daily liquidity management table, including base money (in dobras) and currency in circulation (Folha1 of daily monetary data file);
    - o daily net international reserve position (Folha1 of daily monetary data file/ Base Monetária of monthly file Sao Tome and Principe Financial Corporations);
- weekly data on parallel exchange rates by the end of each week (monthly data available from June 2023 onwards);
- weekly data on foreign exchange inflows to the BCSTP stemming from implementation of export surrender requirements;

- monthly Monetary Survey (the BCSTP and commercial Banks, file Sao Tome and Principe Financial Corporations), with the following details:
  - balance sheet data of BCSTP (in IMF report form 1SR, with requested memorandum items);
  - central bank survey (1SG worksheet);
  - data on reserve position in the Fund, SDR holdings, Fund credit and loans outstanding, allocations of SDR (in worksheet "Fund Accounts" of the monthly file Sao Tome and Principe Financial Corporations);
  - consolidated balance sheet data of other depository corporations (in IMF report form 2SR worksheet);
  - market value of securities of central bank (worksheets Valoracoes/Controlo reservas);
  - consolidated depository corporations survey (in IMF survey 3SG worksheet);
  - monetary aggregates (in IMF report form 5SR worksheet);
  - BCSTP and market interest rates (in IMF report form 6SR) and monthly central bank reference rate and average bank lending rate (in 6SR NOVO worksheet);
  - NOA flows data (in 1SR NOVO worksheet);
  - central bank foreign exchange balance (ER-01R worksheet);
- monthly actual foreign exchange cashflow data (detailed inflows and outflows);
- quarterly NIR Projections table "Projeccao RIL" updated for the next 12 months with "entradas programadas" and "despesas";
- monthly data on stocks of BCSTP's commitments to sell FX to commercial banks and the associated repayment schedules;
- detailed data on Certificates of Deposits' and T-bills' auctions on the 3rd day after each auction;
- monthly data on excess reserves and required reserves on the 11th day after the end of each month (file Reservas_EXC_DEE); and
- quarterly data on financial soundness indicators (new standardized FSI Excel file), together with quarterly data on individual bank assets, with bank name and share of total assets in banking system, within 30 days after the end of each quarter.

3) **Debt Data.** The Directorate of Treasury at the MOF will provide IMF staff the following information within two months after the end of each quarter:

- monthly data on amortization and interest on external debt: by creditor and classified into paid, scheduled (file PROJECÇÃO 2024-2035), in arrears, or subject to debt relief/rescheduled;

- quarterly data on disbursements for foreign-financed projects and program support loans;
- quarterly data on public debt stock; and
- annual data on future borrowing plans (file Future Borrowing Plan).

4) **Real sector statistics.** The following data will be provided to IMF staff:

- monthly data on consumer price index within 20 days after the end of each month;
- annual actual gross domestic product (GDP) and annual actual GDP deflator data (provided by INE) within 3 months after the end of each year; and
- updated medium-term GDP projections by sector and medium-term GDP deflator projections (provided by the Macro Fiscal Unit in the PIB_Taxa in Quadro Macro Economico_cenário programa file) within six weeks after the end of each semester.

5) **External sector data.** The BCSTP will provide the following data to IMF staff:

- monthly data on imports and exports of goods within 30 days after the end of each month;
- quarterly data on tourist arrivals within 45 days after the end of each quarterly; and
- quarterly data on balance of payments and international investment position within 3 months after the end of each quarter.

6) **Fuel data.** The GAMAP will provide the following data to IMF staff:

- data on the latest petroleum price structures and submission of new pricing structures (within a week of fuel shipment arrival) (files Analise da estrutura de preço_and DADOS ENCO);
- quarterly data on implicit arrears to ENCO due to retail fuel prices eventually not covering import costs, distribution margins, and applicable taxes (file DADOS ENCO 2023) within 20 days after the end of each quarter; and
- quarterly data from ENCO on flows and stocks of debt and payments to and from the government and EMAE, as well as on EMAE's arrears to ENCO (file DIVIDA ESTADO Vs EMAE Vs ENCO), within 20 days after the end of each quarter.

7) **Electricity and water data**. The EMAE will provide the following data to IMF staff:

- monthly data on volumes and values of electricity and water consumption by type of entities (file Dados de consumo.Energia.1ºT) within 30 days after the end of each quarter.

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF SÃO TOMÉ AND PRÍNCIPE

REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

December 6, 2024

Approved By
Costas Christou and Anna Ivanova (IMF), and Manuela Francisco and Hassan Zaman (IDA)

Prepared by the staff of the International Monetary Fund and the International Development Association.

São Tomé and Príncipe: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*In debt distress*
Overall risk of debt distress	*In debt distress*
Granularity in the risk rating	*Sustainable*
Application of judgement	*No*

São Tomé and Príncipe (STP) remains in debt distress, due to prolonged unsettled external arrears of around 1.6 percent of GDP at end-2023. Nevertheless, staff assesses that the country has the capacity to repay the external arrears over time. The recovery of exports and fiscal consolidation will help lower debt risks. Two external debt indicators temporarily breach their respective thresholds under the baseline. Specifically, the present value (PV) of debt-to-exports ratio breaches its threshold through 2027, and the debt service-to-exports ratio breaches the threshold from 2025 to 2028. These breaches are attributed to the large amount of external debt and debt service obligations. The PV of total public and publicly guaranteed (PPG) debt—after accounting for the concessional terms of utility company EMAE's and central government's debt and arrears to the country's fuel supplier ENCO—is projected to temporarily breach the benchmark (35 percent of GDP) associated with a weak debt-carrying capacity through 2024. [1] *As public debt remains on a downward trajectory, predicated on the authorities' commitment to reform EMAE, borrow externally at a measured pace, and implement fiscal consolidation and energy sector reforms, public debt sustainability is preserved but subject to large risks, which have increased since the last DSA, with an elevated likelihood of contingent liabilities materializing.*

[1] The thresholds are determined by the Composite Indicator (CI). São Tomé and Príncipe's CI score based on the October 2024 World Economic Outlook (WEO) and the 2023 World Bank Country Policy Institutional Assessment (CPIA) data is 2.453, corresponding to a *weak* debt-carrying capacity.

PUBLIC DEBT COVERAGE

1. **For the purposes of the DSA for São Tomé and Príncipe (STP), PPG debt includes the central government, the central bank, and EMAE's debt,[2,3] and the public-sector debt coverage is comprehensive albeit not yet complete (Text Table 1).[4]** EMAE (*Empresa de Agua e Electricidade*, the state-owned utility company) has been accumulating arrears over the years to its fuel supplier ENCO (*Empresa Nacional de Combustíveis e Óleos*), totaling 29 percent of GDP at end-2023, which are included in PPG debt for DSA purposes.[5] Contingent liabilities associated with the other three state-owned enterprises (SOEs)—ENAPORT, ENASA, and *Correios*—are estimated at 2 percent of GDP at the end-2023, and are included in the analysis based on the latest TA mission data. The DSA uses the residency-based definition of external debt. The use of the currency criterion would trigger substantial differences in results as EMAE's debt and arrears to ENCO are denominated in USD and are classified as domestic debt.

Text Table 1. São Tomé and Príncipe: Public Debt Coverage Under the Baseline Scenario[1,2]

	Subsectors of the Public Sector	Subsectors Covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

Sources: IMF and World Bank staff.

[1] Includes the large loss-making utility company EMAE.

[2] The recent IMF STA technical assistance mission confirmed that the social security fund and extra budgetary funds are not covered in the debt stock reporting. The authorities are working to improve the coverage.

2. **Contingent liabilities are captured in the contingent liabilities stress test (Text Table 2)**. Additional potential liabilities from other SOEs are assumed at 2 percent of GDP. Contingent liabilities from financial markets are set at their default value of 5 percent of GDP. In addition, the

[2] The DSA includes the concessional terms of the restructuring of EMAE's debt to the country's fuel supplier ENCO. EMAE and ENCO restructured debt worth US$104.4 million in 2019, with fixed annual payments, no interest, and a grant element of over 80 percent. ENCO is a private company owned by Sonangol, an Angolan state-owned oil company, which holds 77.6 percent of its capital, and by the STP government, which holds about 16 percent of its capital. ENCO, although majority-owned by an Angolan SOE, is registered domestically.

[3] Consistent with the previous DSA, pre-HIPC initiative arrears to Italy (US$24.3 million) are excluded. A disputed debt with Nigeria (US$30 million) is excluded in the baseline.

[4] Note that in the 2022 DSA, "other elements in the general government" were part of the PPG debt coverage. Recent TA has found that PPG debt does not yet have a comprehensive coverage of those elements. As a result, Text Table 1 has been updated to reflect this.

[5] These arrears have created serious liquidity constraints for ENCO, which in turn has been accumulating significant arrears to Sonangol, until recently the main provider of fuel imports for ENCO. Sonangol stopped supplying fuel on credit in early 2023. ENCO's debt and arrears to Sonangol are private external debt, treated as a contingent liability in the DSA (see Text Table 2). See "Assessing Fiscal Risks and its Implications for the Energy Sector and Climate Considerations" (a 2022 Selected Issues Paper) for a more detailed analysis.

contingent liabilities stress test includes disputed debt of US$30 million (4.4 percent of GDP at end-2023) owed to Nigeria. The authorities maintain that its repayment was conditional on oil revenues, which have no near-term prospect of materializing. Estimated fines of US$12.4 million (1.8 percent of GDP) imposed by the Permanent Court of Arbitration after its ruling on STP's seizure of a Maltese ship in 2013 are also included in the shock. The PV of EMAE's estimated annual availability payments under phase one of the power purchase agreement with a Turkish company has been incorporated into the stock of contingent liabilities. A planned IFC solar project is also likely to involve annual availability payments and the estimated PV of those payments was also included in the contingent liabilities. Pre-HIPC arrears are excluded. Finally, the two versions of the contingent liabilities shock also include different assumptions on a potential government takeover of ENCO's external debt and arrears to Sonangol, which totaled an estimated US$261.4 million (38.2 percent of GDP) in 2023.

Text Table 2. São Tomé and Príncipe: Coverage of the Contingent Liabilities' Stress Test

1	**The country's coverage of public debt**	Central government, central bank, and government-guaranteed debt.			
		Default		**Used for the Analysis**	**Reasons for Deviations from the Default Settings**
2	**Other elements of the general government not captured in 1.**	0	percent of GDP	68 for the external and public DSA; 36 for a customized shock for public DSA	To be prudent, the combined contingent liabilities shock for the public and external DSA includes the loan under dispute from Nigeria (4.4 percent of 2023 GDP), the Permanent Court of Arbitration fine (1.8 percent of GDP), ENCO's complete debt and arrears to Sonangol (38.2 percent of GDP),[2/] the estimated PV of EMAE's annual availability payment to Tesla STP (15 percent of 2023 GDP) and for the IFC solar project (9 percent of 2023 GDP). The customized contingent liabilities shock for the public DSA differs in assuming that the government will take over only its share (16 percent) of ENCO's debt and arrears (6.1 percent of GDP).[3/]
3	**SOE's debt (guaranteed and not guaranteed by the government)** [1/]	2	percent of GDP	2	
4	**PPP**	35	percent of PPP stock	0	The PPP project is pre-HIPC and is excluded from the DSA analysis.
5	**Financial market (the default value of 5 percent of GDP is the minimum value)**	5	percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)	75 percent of GDP for the external DSA and public DSA; alternative shock of 43 percent of GDP for the public DSA.			

[1/] The default shock of 2 percent of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1).

[2/] By including the full size of ENCO's debt and arrears to its parent company Sonangol, the extreme shock of a public takeover of ENCO's total debt to Sonangol is captured.

[3/] The customized contingent liabilities shock illustrates the estimated potential burden on the government finances from taking over 16 percent of ENCO's debt to Sonangol. This scenario is shown as pink dotted lines in Figure 2.

Sources: IMF and World Bank staff.

BACKGROUND

A. Debt

3. **Total PPG debt was 77 percent of GDP in 2023, including external debt of 36 percent of GDP (Text Table 3).** Total PPG debt is projected to decline to around 69 percent of GDP in 2024, with external debt of 36 percent of GDP (Table 2). The external debt level in 2024 reflects the consolidated historical debt amount with Angola (US$67.9 million) based on the technical agreement between the two countries which is pending finalization. PPG debt includes the debt and arrears of the state-owned utility company EMAE to its fuel supplier ENCO, which rose from US$43 million in 2015 to US$197 million in 2023 (29 percent of GDP or 38 percent of total PPG debt). The expansion of the electricity distribution network, the associated large losses, and low bill collection rates are key drivers behind the rise in PPG debt. The large stock of arrears of EMAE to its supplier also reflects severe liquidity constraints in the public sector. Staff assesses that STP has the capacity to repay these arrears over time, as long as the authorities reform EMAE and continue to borrow externally at concessional terms.

Text Table 3. São Tomé and Príncipe: Decomposition of Public Debt and Debt Service by Creditor, 2022-24[1,2,3]

	Debt Stock (end of period)						Debt Service					
	2022			2023			2022	2023	2024	2022	2023	2024
	(In US$ mil)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ mil)*	*(Percent total debt)*	*(Percent GDP)*	*(In US$ mil)*			*(Percent GDP)*		
Total	**481.3**	**100.0**	**88.2**	**524.6**	**100.0**	**76.7**	**9.5**	**7.5**	**19.9**	**1.7**	**1.1**	**2.5**
External	**221.2**	**46.0**	**40.5**	**244.5**	**46.6**	**35.7**	**6.0**	**5.4**	**12.7**	**1.1**	**0.8**	**1.6**
Multilateral creditors[2]	**86.5**	**18.0**	**15.8**	**97.2**	**18.5**	**14.2**	3.3	4.4	5.4	0.6	0.6	0.7
IMF	33.6	7.0	6.2	32.6	6.2	4.8	0.6	1.9	2.6	0.1	0.3	0.3
World Bank	11.1	2.3	2.0	11.0	2.1	1.6	0.4	0.3	0.4	0.1	0.0	0.0
AFDB	19.3	4.0	3.5	18.7	3.6	2.7	1.2	1.1	1.2	0.2	0.2	0.2
Other Multilaterals	22.4	4.6	4.1	34.9	6.7	5.1	1.2	1.0	1.2	0.2	0.2	0.1
o/w: BADEA	14.0	2.9	2.6	14.6	2.8	2.1	0.2	0.2	0.2	0.0	0.0	0.0
o/w : IFAD	4.7	1.0	0.9	4.6	0.9	0.7	0.4	0.4	0.4	0.1	0.1	0.1
o/w: OPEC	2.6	0.5	0.5	2.4	0.5	0.4	0.5	0.4	0.4	0.1	0.1	0.0
o/w: EIB	1.0	0.2	0.2	13.3	2.5	1.9	0.0	0.0	0.2	0.0	0.0	0.0
Bilateral Creditors	**134.7**	**28.0**	**24.7**	**147.3**	**28.1**	**21.5**	2.7	1.0	5.6	0.5	0.1	0.7
Paris Club	5.1	1.1	0.9	5.1	1.0	0.7	0.1	0.1	0.1	0.0	0.0	0.0
o/w: Belgium	0.8	0.2	0.1	0.8	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0
o/w: Brazil	4.3	0.9	0.8	4.3	0.8	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Non-Paris Club	119.6	24.9	21.9	120.4	22.9	17.6	2.6	0.0	5.5	0.5	0.0	0.7
o/w: Angola	52.7	10.9	9.7	52.7	10.0	7.7	0.8	0.0	2.0	0.1	0.0	0.3
o/w: Portugal	52.6	10.9	9.6	54.3	10.4	7.9	1.8	0.0	3.5	0.3	0.0	0.4
o/w: Other	14.3	3.0	2.6	13.4	2.5	2.0						
Commercial creditors	10.0	2.1	1.8	21.8	4.2	3.2	0.0	0.0	1.8	0.0	0.0	0.2
o/w: China	10.0	2.1	1.8	10.0	1.9	1.5	0.0	0.0	0.0	0.0	0.0	0.0
o/w: Afreximbank	0.0	0.0	0.0	11.8	2.2	1.7	0.0	0.0	1.8	0.0	0.0	0.2
Domestic	**260.1**	**54.0**	**47.6**	**280.2**	**53.4**	**40.9**	**3.5**	**2.1**	**7.2**	**0.6**	**0.3**	**0.9**
T-Bills	31.7	6.6	5.8	38.6	7.4	5.6						
Bonds	0.0	0.0	0.0	2.0	0.4	0.3						
Other debt and arrears	228.4	47.5	41.8	239.6	45.7	35.0						
o/w : EMAE to ENCO	181.5	37.7	33.3	196.7	37.5	28.7						
o/w : others	46.9	9.7	8.6	42.9	8.2	6.3						
Memo Items:												
Collateralized debt[4]	0.0		0.0	0.0		0.0						
o/w: Related	0.0		0.0	0.0		0.0						
o/w: Unrelated	0.0		0.0	0.0		0.0						
Contingent liabilities	106.5		22.4	106.5		15.6						
o/w: Public guarantees	0.0		0.0	0.0		0.0						
o/w: Other explicit contingent liabilities	0.0		0.0	0.0		0.0						
Nominal GDP	546			684.3			546	684	799			

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.
2/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)
3/ The debt with Nigerian is disputed so it is not included in the DSA.
4/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4. **STP continues to engage actively with bilateral creditors to regularize post-HIPC arrears, with the amounts remaining unchanged.** In total, such arrears stood at 1.6 percent of 2023 GDP (US$10.8 million), including to Angola (US$4.8 million), Brazil (US$4.3 million), and Equatorial Guinea (US$1.7 million). An agreement with the Brazilian government has been reached and is pending ratification by the Brazilian Senate. The government has also actively sought debt rescheduling agreements with Equatorial Guinea through correspondence and high-level meetings and has made some progress with technical steps completed. Further negotiations are expected to resume soon. The negotiations with Angola are also ongoing, with most of the technical details regarding consolidation of historical debt and arrears agreed, pending final agreement between the two governments. These post-HIPC arrears are reflected in the debt stock. The government has continued its efforts to clear the stock of arrears to private suppliers, which declined to US$37.2 million in 2023 (5.4 percent of GDP). Text Table 4 provide details on the situation with arrears.

Text Table 4. São Tomé and Príncipe: Arrears and Disputed Debt
(As of End-2023)

Type	Description	DSA Treatment
Pre-HIPC legacy arrears (8.8 percent of GDP)	STP has pre-HIPC legacy arrears to Italy (US$24.3 million). The consolidated debt and arrears to Angola are included based on technical agreement which is pending finalization. STP is making its best effort to reach an agreement consistent with the representative Paris Club agreement. In 2017, STP was able to secure debt relief for pre-HIPC legacy arrears to China of US$18.4 million.	Not included in the DSA on the assumption of expected forgiveness.
Post-HIPC bilateral arrears (1.6 percent of GDP)	STP has post-HIPC arrears to Angola (US$4.8 million), Brazil (US$4.3 million), and Equatorial Guinea (US$1.7 million). The negotiations with Equatorial Guinea and Angola are progressing well, with technical steps completed, pending the final signed agreements. An agreement with the Brazilian government was reached and is pending ratification by the Brazilian Senate. These arrears are the result of weak debt management, and staff assesses that STP has the capacity to repay them over time.	Included in the baseline scenario at end-2021.
Arrears to private suppliers (5.4 percent of GDP)[1/]	STP has arrears to private suppliers including the telecom company CST (US$5.7 million), EMPRESAS (US$5.3 million), fuel price differentials (US$7.2 million), and other private suppliers (mostly construction companies). In total, arrears to suppliers amount to US$37.2 million (including US$12.4 million to external private suppliers).	Included in the baseline scenario.
Disputed debt (4.4 percent of GDP)	A loan from Nigeria in the amount of US$30 million was excluded from the debt stock, as there is no signed contract with repayment conditions between the two countries. Nonetheless, the authorities acknowledged the receipt of the funds which were spent, as evidenced by budget documents. This loan was extended as an advance on oil revenues in the context of the joint development zone between these two countries, but this project has stalled. According to STP's authorities, this loan is under dispute since it should only be repaid in case oil revenues materialize.	Included in the contingent liability stress tests for both the public DSA and external DSA.

[1/] This reflects the latest actual data compilations by the authorities for 2023, updating previous staff projections. Based on the latest compilations from the authorities, the stock of domestic arrears was US$52.7 million in 2021, US$47.7 million in 2022, and US$37.2 million in 2023.

5. **The external borrowing plan is summarized in Text Table 5 below and assumes concessional loans to cover financing needs**. Total disbursements of external borrowing are estimated at US$35.6 million in 2024 and US$24.2 million in 2025, including US$16.7 million in 2024 and US$3 million in 2025 in concessional loans from Portugal and the AfDB, respectively, and the new ECF arrangement (US$5.2 million in 2024 and US$8 million in 2025). The new borrowing is expected to close the external financing gap and finance fuel imports. Remaining financing needs—

except for the residual BOP financing gap—are expected to be covered by domestic debt financing, mainly T-bills, with a projected interest rate of 4 percent.

Text Table 5. São Tomé and Príncipe: Summary Table on External Borrowing Program for Central Government

	Volume of new debt in 2024		Present value of new debt in 2024	
	USD million 1/	Percent	USD million 1/	Percent
	71.2	**100.0**	**46.3**	**100.0**
External Debt	**35.6**	**100.0**	**23.1**	**100.0**
Concessional debt, of which	35.6	100.0	23.1	100.0
Multilateral debt	15.5	43.5	10.1	43.5
Bilateral debt	20.1	56.5	13.1	56.5
Other	0.0	0.0	0.0	0.0
Non-concessional debt, of which 2/	0.0	0.0	0.0	0.0
Commercial terms	0.0	0.0	0.0	0.0
Domestic Debt	**35.7**	**50.1**	**23.2**	**50.1**
T-bill	29.7	41.6	19.3	41.6
Bonds	6.0	8.4	3.9	8.4
Uses of debt financing				
Infrastructure	16.0	45.0	10.4	45.0
Budget Financing	19.6	55.0	12.7	55.0
Memorandum items				
Indicative projections				
Year 2025	24.2		15.7	
Year 2026	34.0		22.1	

1/ Projection of disbursements for debts that have been effectively contracted. The current value of the debt is estimated with a grant element of 35 percent and applying a discount rate of 5 percent.
2/ This also reflects the fact that STP is subject to a zero non-concessional borrowing ceiling under the Sustainable Development Finance Policy of the World Bank.

B. Macroeconomic Forecast

6. The macroeconomic assumptions have been updated (Text Table 6):

- **Growth and inflation over the medium term** (**Text Table 6):** After growing on average by only 1.3 percent over the last four years, dragged down by the COVID-19 pandemic and other shocks, real GDP is expected to gradually recover, growing at 0.9 percent in 2024 and accelerating to 3.1 percent and 4.8 percent in 2025 and 2026, respectively. Afterwards, growth is projected to converge to 3.4 percent over the long term. The recovery will be supported by increased infrastructure investment, a strong rebound in the tourism sector, and a boost in exports of palm oil and cocoa, particularly as access to fertilizers normalizes, which is expected to enhance agricultural productivity. Public investment increased significantly in recent years, driven by pandemic-related policies, while the surge in private investment in 2022 was primarily fueled by oil exploration activities. The decline in the long-term growth rate, compared to the previous DSA, reflects the expected slowdown in both public and private investment relative to earlier projections. Inflation, which remains a key concern, is anticipated to continue its downward trend, reaching 10.9 percent by end-2024, despite the increase in electricity tariffs. In the medium-term, inflation is expected to decline as global prices stabilize, and the projected average is 3.8 percent over the long term.

- **External sector over the medium term:** Exports are expected to accelerate over the medium term, as a tourism strategy is implemented with World Bank support, and the sector is boosted gradually by improvements in infrastructure, a new international payment system (currently expected to be completed in about three years), and a new tourism school. Cocoa and palm oil exports are also expected to contribute to export growth given the high quality of STP-made cocoa, together with the recovery in direct exports to Europe. Annual export growth is projected at 7.5 percent in the long term. The projected current account deficit over the long term is smaller than in the last DSA, at 4.2 percent of GDP compared to 8 percent before, reflecting mainly reduced demand for oil imports due to short-term measures and energy sector reforms. FDI inflows are expected to be lower over the long run (5.1 percent in the long term compared to 10.6 percent before), reflecting more conservative projections for oil-related FDI. Since most FDI is concentrated in oil exploration, the lower FDI trajectory is not expected to have a significant impact on other sectors, especially tourism, in the future.

Text Table 6. São Tomé and Príncipe: Macroeconomic Assumptions

	Historical		Forecast	
	Sep 2022 DSA 1/	Last 4 years	Sep 2022 DSA 1/	This DSA
	2017-20	2020-23	2021-41	2024-44
Real GDP growth (percent)	3.0	1.3	3.7	3.4
Inflation (percent average)	4.3	13.0	3.0	3.8
Domestic primary balance (percent of GDP) 2/	-4.7	-1.8	-0.4	0.7
Grants (percent of GDP)	8.9	9.9	7.4	4.3
FDI (percent of GDP)	6.6	12.5	10.6	5.1
USD export growth (percent)	-11.3	10.6	9.9	7.5
USD import growth (percent)	-1.8	9.4	6.5	5.0
Current account balance, including grants (percent of GDP)	-12.2	-12.7	-8.0	-4.2
Current account balance, excluding grants (percent of GDP)	-21.3	-22.7	-15.9	-8.5

[1] IMF Country Report No. 22/306

[2] The domestic primary balance has an expanded coverage compared to the staff report, as it includes the fiscal balance of EMAE.

- **Fiscal sector over the medium term:** The domestic primary balance (with expanded coverage compared to the staff report to include EMAE) is expected to average 0.7 percent of GDP over the long term, an improvement compared to the average deficit of 0.4 percent in the last DSA, due to stronger medium term fiscal consolidation efforts at the central government level. Medium-term fiscal consolidation will be supported by the recently introduced VAT, strengthening of revenue administration, and other revenue mobilization efforts. Energy sector reforms, including the application of the fuel price adjustment mechanism to prevent explicit fuel subsidies, will also help contain fiscal risks. It is assumed that fiscal deficits will be financed domestically or with concessional external loans.

7. **The realism tool outputs compare the projections to cross-country experiences and to STP's own history (Figures 3 and 4).** Drivers of debt dynamics suggest some changes in the

decomposition of debt-creating flows, compared to recent history. The decomposition of debt-creating flows indicates that the projected contribution of the current account deficit excluding FDI to external debt accumulation will switch signs, as a result of projected improvements in current account balances over the medium term, driven by energy sector reforms that reduce demand for oil imports. For total public debt, lower primary deficits than in the past will be key drivers of public debt dynamics.

C. Country Classification and Determination of Scenario Stress Tests

8. **The country's debt carrying capacity is assessed to remain weak under the Composite Index, as in the September 2022 DSA**. Based on the latest (October 2024) WEO macroeconomic indicators and the World Bank's 2023 Country Policy and Institutional Assessment (CPIA), the country's Composite Indicator (CI) score is 2.453 (Text Table 7), below the lower cut-off value of 2.69, indicating a weak debt-carrying capacity rating. The new CI score reflects macroeconomic variables, such as real GDP growth, remittances, reserves, and world growth, in addition to the CPIA. The applicable thresholds for the ratios of PV of PPG external debt relative to GDP and exports are 30 percent and 140 percent, respectively. The benchmark for the PV of total PPG debt is 35 percent of GDP. The thresholds for PPG external debt service are 10 percent of exports and 14 percent of revenue.

Text Table 7. São Tomé and Príncipe: Classification of Debt Carrying Capacity

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Weak	Weak	Weak	Weak
	2.453	2.613	2.675

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

9. **The DSA incorporates the costs and risks of natural disasters in the tailored natural disaster stress test.** STP is vulnerable to natural disasters driven by climatic factors. Floods frequently affect the island nation with heavy rainfalls, which could cause soil erosion and landslides, increase the risk of waterborne diseases, and decrease crop production. The tailored stress test assumes a one-off natural disaster shock of 10 percent of GDP to the external PPG debt-GDP ratio in

the second year of the projection period, with an associated real GDP growth shock of 1.5 percent of GDP and an associated export growth shock of 3.5 percent of GDP.[6]

DEBT SUSTAINABILITY

A. External Debt Sustainability

10. External debt is in debt distress, with high vulnerability to shocks and changing macroeconomic assumptions, but it is still assessed to be sustainable under the program's baseline scenario (Figure 1 and Table 1). Risks to external debt are considerable and have increased since the last published DSA. Under the baseline, the external PPG debt-to-GDP ratio remains under the threshold. The two export related debt burden indicators breach the thresholds. The PV of external PPG debt-to-exports ratio is projected to exceed the 140 percent threshold, due to the elevated level of external debt, but is expected to follow a decreasing trajectory and fall below the threshold by 2028. Risks to debt service are protracted, as the debt-service-to-exports ratio is forecasted to breach the 10 percent threshold from 2025 to 2028 and is expected to remain at a high level thereafter. The breach is driven mainly by the projected debt service on the US$11.8 million non-concessional loan from Afreximbank, disbursed in 2023. The debt service-to-revenue ratio remains below the threshold value of 14 percent throughout the projection horizon. The improvement of the solvency and liquidity indicators over the medium term reflects fiscal consolidation, cautious external borrowing, economic growth, and sustained exports. The positive medium-term macroeconomic outlook helps to support debt sustainability, as growth is projected to recover and average 3.4 percent over the medium term, supported by better infrastructure and a stronger tourism potential. Policies to support exports and fiscal consolidation are essential to maintain debt sustainability. Measures to achieve the authorities' domestic primary balance targets include the VAT, broader domestic revenue mobilization efforts, improved management of the wage bill and investment projects, and containing non-essential administrative spending. In addition, electricity sector reforms combined with continued implementation of the fuel price adjustment mechanism would help contain fiscal and debt risks.[7]

11. While external PPG debt is sustainable under the baseline scenario, stress tests indicate that the space to absorb shocks is constrained. (Figure 1 and Table 3). The solvency indicators breach their threshold values under the most extreme shocks. For the debt-to-GDP ratio, the most extreme scenario is the combined contingent liabilities shock (see description in Text Table 2). As the likelihood of contingent liabilities materializing is elevated, with ENCO's external arrears to Sonangol representing the main risk, it is important that the authorities develop plans to deal with

[6] The results of the analysis (Tables 3-4) indicate that by the end of 2027 a natural disaster shock may increase the PV of public debt to GDP from 46 percent of GDP under the baseline scenario to 52 percent of GDP under the stress-test scenario. The PV of external debt to GDP will increase from 23 percent of GDP under the baseline scenario to 28 percent of GDP under the stress-test scenario.

[7] Resolving energy sector inefficiencies requires a multi-pronged reform approach. Key measures include: i) implementing measures to contain EMAE's losses such as installing new meters, improving payment discipline, adjusting electricity tariffs, and fostering a transition to renewable energy sources; ii) relying on the fuel price adjustment mechanism and aligning retail fuel prices with international markets to prevent explicit fuel subsidies; and iii) strengthening targeted social transfer programs for the most vulnerable, supported by development partners.

contingent liabilities and arrears. Commodity prices, especially fuel prices, are a significant risk factor driving contingent liabilities—energy sector reforms remain a critical mitigating policy. The most extreme shock for the PV of debt-to-exports and debt service-to-exports ratios is an export shock, which leads to breaches of the respective thresholds through the entire projection horizon (though declining over time). This underscores the importance of promoting exports, fiscal consolidation, and energy sector reforms.

B. Public Debt Sustainability

12. Total PPG debt is deemed sustainable under the baseline, after discounting EMAE's and the central government's debt and arrears to ENCO and accounting for essential fiscal and energy sector reforms (Figure 2 and Table 2).[8] Under the baseline, the PV of PPG debt is projected to be on a downward trajectory but will remain above the 35 percent sustainability threshold through 2029. Taking into account the concessional terms of EMAE's and the central government's debt to ENCO based on the 2019 repayment agreement (shown as black dashed line in Figure 2), the PV of PPG debt is projected to fall below the DSA sustainability threshold of 35 percent in 2025, before gradually declining to around 14 percent of GDP by 2034. Like the solvency indicators, liquidity ratios also improve over time reflecting higher exports and revenues. Public debt is sustainable but subject to large risks, as public debt remains on a downward trajectory, predicated on the authorities' commitment to continue fiscal consolidation, implement energy sector reforms, and borrow externally only on concessional terms at a measured pace. To preserve debt sustainability, it would also be important to develop an ambitious plan to gradually strengthen STP's debt-carrying capacity. Should downside risks materialize, and the debt situation deteriorate, additional fiscal efforts and a financing mix geared towards more grants and highly concessional borrowing would be needed to safeguard debt sustainability.

13. All three ratios for total PPG debt are most vulnerable to a combined contingent liabilities shock (Figure 2 and Table 4). Under such a shock, the three ratios would rise in the near term before declining gradually in the medium to long term. The high public debt service-to-revenue ratio under the combined contingent liabilities shock indicates substantial liquidity risks. The customized combined contingent liabilities shock (see Text Table 2, shown as dotted pink lines in Figure 2) is a smaller shock than the combined contingent liabilities shock by design, though it is also a more likely event. It also implies that the debt level would rise above its benchmark. Given that EMAE's arrears to ENCO are denominated in foreign currency, STP's public debt is also subject to currency risk (these arrears are treated as domestic debt given the residency-based definition).

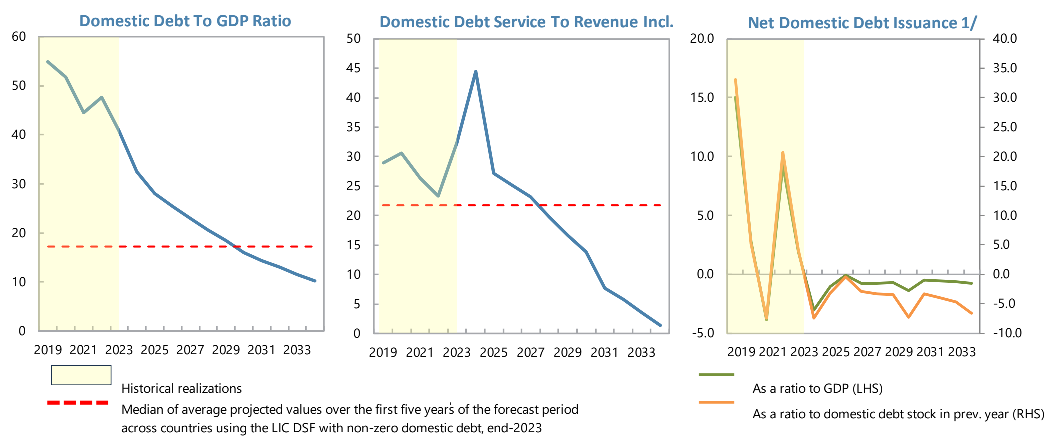
[8] The authorities are implementing a comprehensive reform strategy for the electricity sector, supported by the World Bank, to address the crisis in the sector and achieve full cost recovery for EMAE. The strategy focuses on shifting the generation mix towards renewable sources, reducing consumption, improving operational efficiency, and reforming the electricity tariff structure. Immediate actions include a 20 percent increase in the weighted average tariff (while enhancing the progressivity of the tariff structure), enforcement of the law against electricity theft, the installation of prepaid meters, and measures to improve bill collections. The authorities are also replacing incandescent bulbs with LEDs and will start publishing EMAE's key performance indicators on a quarterly basis. Moreover, by end-2025 the authorities will present a time-bound restructuring plan for EMAE to achieve financial viability.

The stress tests on public debt highlight the importance of managing contingent liabilities and implementing energy sector reforms to mitigate risks.[9]

14. Reflecting EMAE's debt and arrears owed to ENCO, domestic debt risks are projected to remain elevated in the medium term (Text Figure 1). Both the solvency and liquidity indicators for domestic debt are above their median values across peers, driven by the substantial amount of debt between EMAE to ENCO. EMAE should continue implementing the 2019 repayment agreement with ENCO and clearing arrears to mitigate risks associated with domestic debt. The projected decline in domestic debt is driven by the economic recovery and fiscal consolidation, both of which are expected to reduce financing needs over the medium term. Real interest rates are a key driver of debt dynamics, as they influence borrowing costs and the overall debt trajectory. As inflation is expected to decline only gradually from current elevated levels, while the government continues to be able to borrow at contained nominal rates, the implied real interest rate is negative, which also helps ease the burden of domestic debt in the near term. The sharp decrease in domestic debt service in 2025 is due to the government's decision to start issuing medium-term bonds in 2024, while they had previously relied only on short-term T-bills. This shift toward domestic debt with longer maturities will help reduce liquidity risks and allow for more stable and manageable repayment schedules.

Text Figure 1. Sao Tome & Principe: Indicators of Domestic Public Debt, 2019-2034

(Percent)



Borrowing Assumptions (average over 10-year	Value
Shares in new domestic debt issuance	
Medium and long-term	12%
Short-term	88%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	-1.1%
Avg. maturity (incl. grace period)	2
Avg. grace period	1
Domestic short-term debt	
Avg. real interest rate	-1.0%

Sources: Country authorities; and staff estimates and projections.
1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

[9] The risk of additional contingent liabilities accumulating and/or materializing in the future is relatively contained. Most contingent liabilities are related to the energy sector, and the current DSA has already included substantial provisions for those. If anything, the risks here are on the downside—that is, the stock of contingent liabilities could be lower—given the energy sector reforms planned under the program.

DEBT DISTRESS QUALIFICATION AND CONCLUSIONS

15. São Tomé and Príncipe remains in debt distress, as in the previous DSA. This is due to the unresolved regularization of STP's post-HIPC arrears to Angola, Brazil and Equatorial Guinea, which total approximately 1.6 percent of GDP. Additionally, significant arrears from EMAE to its suppliers reflect the severe liquidity constraints of the public sector. The high level of external debt and debt service obligations also adds to those burdens. However, staff assess that STP still possesses the capacity to repay these arrears over time and that debt remains sustainable. STP continues to actively seek rescheduling agreements with its creditors and to explore more concessional loans or grants from other countries or institutions.

16. While São Tomé and Príncipe is assessed to be in debt distress for both external and overall public debt, its debt remains sustainable. However, risks to debt sustainability have increased. The weak debt-carrying capacity implies low thresholds for debt burden indicators, with two export-related debt indicators breaching the threshold. This increases debt vulnerability and makes it very sensitive to macroeconomic assumptions. Weaker than expected export growth and higher fuel import needs could exacerbate the already severe burden on external balances and put debt sustainability at risk. However, the breaches are not significant, the PV of the external debt-to-GDP ratio and the debt service-to-revenue ratio both remain below their thresholds, and the PV of public debt-to-GDP ratio (after discounting the government's debt to ENCO and EMAE's debt and arrears to ENCO) declines below its threshold in 2025. Therefore, debt is still assessed as being sustainable.

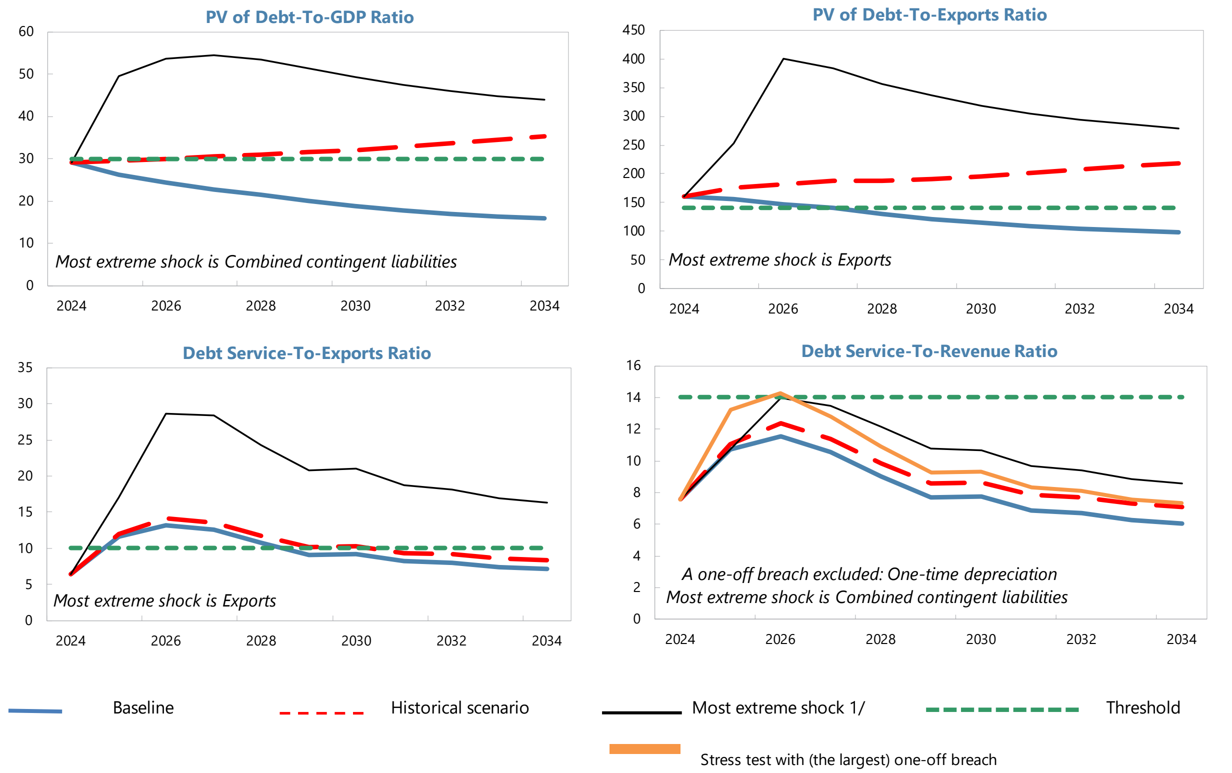
17. Risks around the baseline are substantial. Stress tests indicate that STP's debt is especially vulnerable to shocks to exports and combined contingent liabilities. A less severe but more likely customized contingent liabilities stress test also indicates significant risks as the impact on public debt indicators would be high. The economic outlook is also subject to significant downside risks, including delayed energy sector reforms, lower donor support, renewed energy shortages and commodity price volatility, as well as a global growth slowdown and deepening geoeconomic fragmentation. Furthermore, the implementation of highly ambitious fiscal revenue measures over the medium-term, including some that have not yet been identified, poses risks to the outlook. However, key external debt ratios are expected to decline below their thresholds over the medium term.

18. Overall, the DSA highlights the importance of continuing fiscal reforms and maintaining strong policies to reduce debt-related risks and ensure debt sustainability. To enhance debt sustainability, STP should continue its fiscal consolidation efforts, including on domestic revenue mobilization, and implement energy sector reforms. Considering long-term climate risks, quantifying additional fiscal expenditure needs for climate-related investments and their potential consequences would be advisable. Promoting economic growth to support medium to long term debt sustainability is crucial, including efforts to diversify the economy, enhance export potential, improve the business climate to attract FDI, strengthen macroeconomic policies as envisaged under the program to support the exchange rate peg, and promote tourism and private sector-led growth. It is also important to continue strengthening public financial management and avoid the accumulation of new domestic arrears, including measures to improve macro-fiscal forecasting, strengthen cash management and expenditure controls, and update the arrears clearance plan to cover all domestic arrears. In addition, STP should rebuild foreign reserve buffers, clear existing arrears, and find new financing sources. External borrowing needs to be carefully planned to balance debt sustainability concerns against STP's large investment needs, which should be financed mostly with non-debt generating sources, such as grants.

AUTHORITIES' VIEWS

19. The authorities broadly agreed with the assessment. They are committed to continuing the effort to regularize long-standing external arrears. They also recognized the significant risk to debt sustainability from the large and persistent losses by EMAE—which have translated into large arrears to ENCO—and are committed to implementing energy sector reforms to achieve debt sustainability. They also pledge to borrow only on concessional terms and at a measured pace to reduce debt vulnerabilities over time.

Figure 1. São Tomé and Príncipe: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2024–2034



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	No	No
Commodity Prices 2/	n.a.	n.a.
Market Financing	n.a.	n.a.

"Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1%	1%
USD Discount rate	5%	5%
Avg. maturity (incl. grace period)	32	32
Avg. grace period	9	9

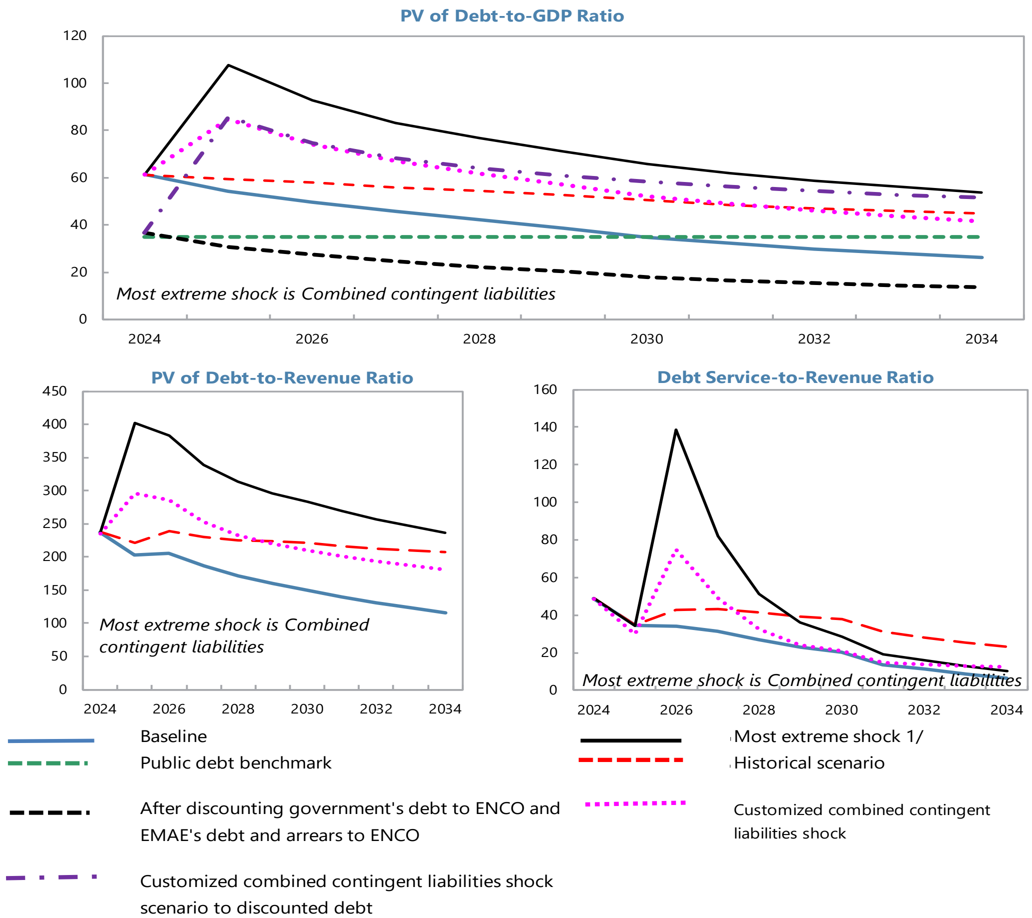
* All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. São Tomé and Príncipe: Indicators of Public Debt Under Alternative Scenarios, 2024–2034



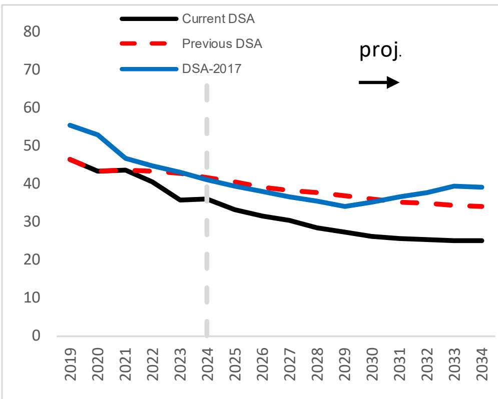
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	56%	60%
Domestic medium and long-term	5%	5%
Domestic short-term	39%	35%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
Avg. maturity (incl. grace period)	32	32
Avg. grace period	9	9
Domestic MLT debt		
Avg. real interest rate on new borrowing	-1.1%	-1.1%
Avg. maturity (incl. grace period)	2	2
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	-1.0%	-1.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.
Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

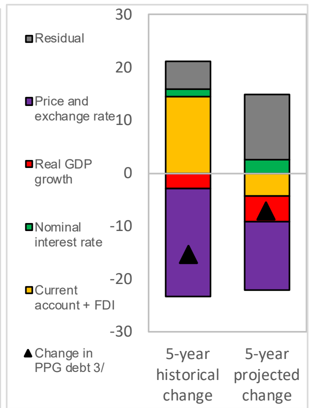
Figure 3. São Tomé and Príncipe: Drivers of Debt Dynamics – Baseline Scenario

External Debt

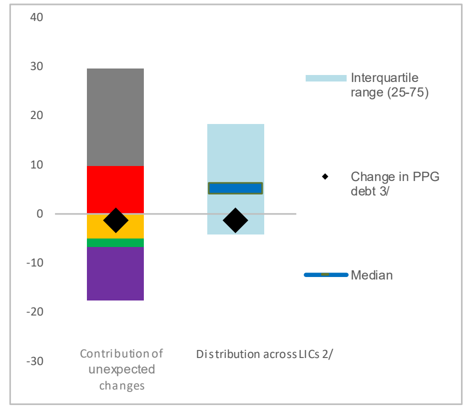
Gross Nominal PPG External Debt
(In Percent of GDP; DSA Vintages)



Debt-Creating Flows
(Percent of GDP)

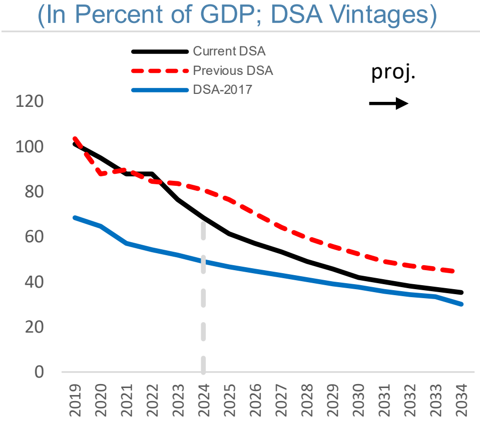


Unexpected Changes in Debt 1/
(Past 5 Years, Percent of GDP)

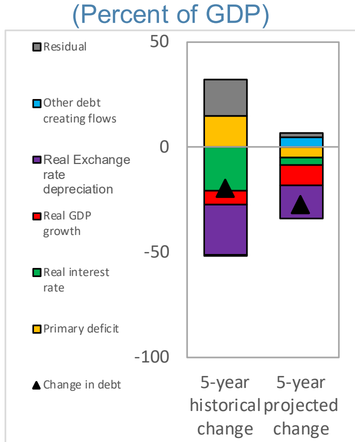


Public Debt

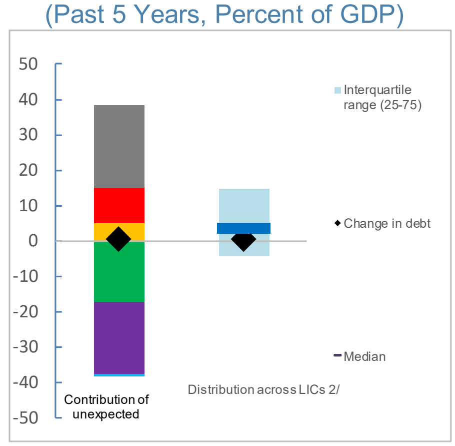
Gross Nominal Public Debt
(In Percent of GDP; DSA Vintages)



Debt-Creating Flows
(Percent of GDP)



Unexpected Changes in Debt 1/
(Past 5 Years, Percent of GDP)



1/ Difference between anticipated and actual contributions on debt ratios.

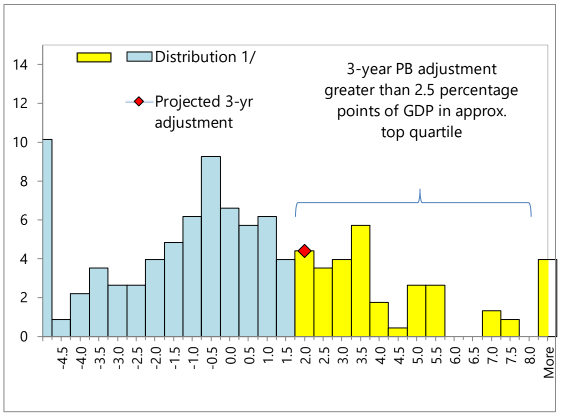
2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Sources: Country authorities; and staff estimates and projections.

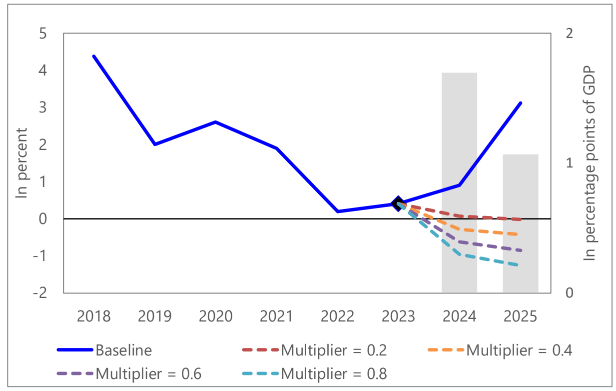
Figure 4. São Tomé and Príncipe: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage Points of GDP)



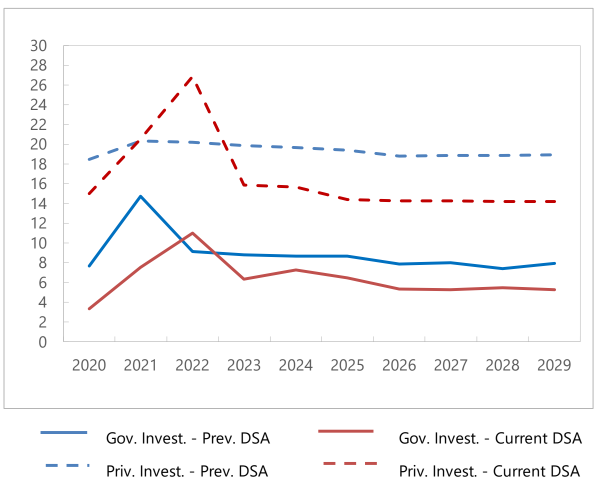
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

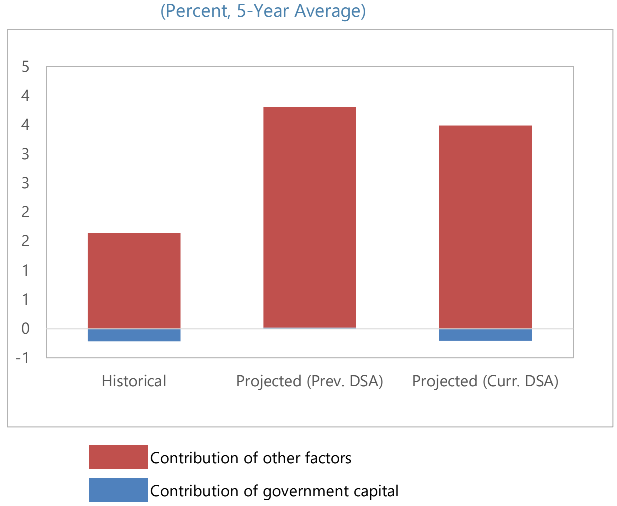


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP Growth
(Percent, 5-Year Average)



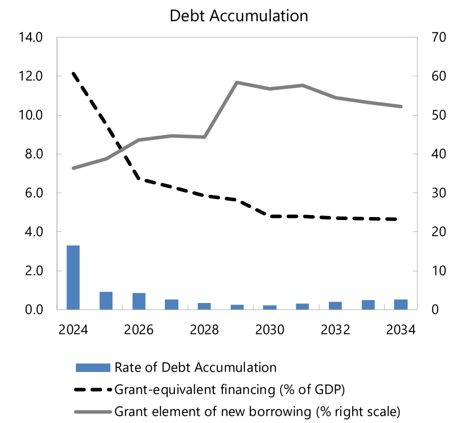
Sources: Country authorities; and staff estimates and projections.

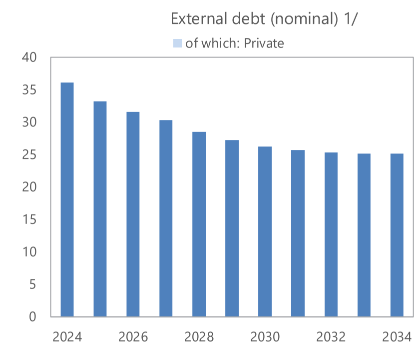
Table 1. São Tomé and Príncipe: External Debt Sustainability Framework, Baseline Scenario, 2022-2044

(In percent of GDP, unless otherwise indicated)

	Actual		Projections								Average 8/	
	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	40.5	35.7	36.1	33.2	31.6	30.3	28.5	27.3	25.1	22.2	49.3	28.6
of which: public and publicly guaranteed (PPG)	40.5	35.7	36.1	33.2	31.6	30.3	28.5	27.3	25.1	22.2	49.3	28.6
Change in external debt	-3.1	-4.8	0.4	-2.8	-1.6	-1.3	-1.7	-1.3	0.0	-2.2		
Identified net debt-creating flows	-6.4	-5.8	0.2	-1.2	-1.5	-2.1	-2.0	-2.0	-2.1	-1.8	-0.2	-1.8
Non-interest current account deficit	14.0	12.3	7.4	4.8	4.6	3.9	3.8	3.9	3.5	2.8	13.5	4.2
Deficit in balance of goods and services	29.6	22.9	19.8	15.2	11.6	10.6	10.2	9.8	8.5	7.8	29.7	11.0
Exports	17.8	15.9	18.1	16.8	16.5	16.2	16.5	16.5	16.2	15.6		
Imports	47.4	38.7	37.8	32.0	28.1	26.8	26.7	26.3	24.7	23.3		
Net current transfers (negative = inflow)	-13.3	-9.4	-11.8	-9.8	-6.6	-6.4	-6.2	-5.8	-4.9	-4.2	-15.3	-6.5
of which: official	-11.7	-8.1	-10.5	-8.5	-5.3	-5.1	-4.9	-4.5	-3.6	-3.0		
Other current account flows (negative = net inflow)	-2.3	-1.2	-0.6	-0.6	-0.4	-0.3	-0.1	-0.2	-0.2	-0.9	-0.9	-0.3
Net FDI (negative = inflow)		-9.9	-7.4	-5.7	-5.2	-5.3	-5.2	-5.3	-5.1	-4.0	-8.6	-5.5
Endogenous debt dynamics 2/	-1.0	-8.1	0.3	-0.4	-0.9	-0.7	-0.6	-0.5	-0.5	-0.6		
Contribution from nominal interest rate	0.4	0.1	0.5	0.6	0.6	0.5	0.4	0.4	0.3	0.3		
Contribution from real GDP growth	-0.1	-0.1	-0.3	-1.0	-1.4	-1.2	-1.0	-0.9	-0.8	-0.8		
Contribution from price and exchange rate changes	-1.3	-8.1	...	...	...	...	...	...	...	...		
Residual 3/	3.3	1.0	0.1	-1.6	-0.2	0.7	0.2	0.7	2.1	-0.5	-1.2	0.8
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators												
PV of PPG external debt-to-GDP ratio	...	30.5	29.0	26.2	24.2	22.8	21.4	20.0	15.9	12.7		
PV of PPG external debt-to-exports ratio	...	192.4	160.4	156.1	147.1	140.1	129.7	121.5	98.7	81.3		
PPG debt service-to-exports ratio	6.2	4.3	6.4	11.6	13.2	12.6	10.7	9.1	7.1	4.5		
PPG debt service-to-revenue ratio	7.1	4.4	7.6	10.7	11.5	10.5	9.0	7.7	6.1	4.2		
Gross external financing need (Million of U.S. dollars)	-23.2	20.9	8.9	10.0	16.0	7.2	4.8	0.9	-7.8	-15.4		
Key macroeconomic assumptions												
Real GDP growth (in percent)	0.2	0.4	0.9	3.1	4.8	4.1	3.5	3.5	3.5	3.5	2.7	3.4
GDP deflator in US dollar terms (change in percent)	3.1	24.9	15.8	10.6	6.5	4.5	4.4	4.5	2.4	1.8	7.3	5.7
Effective interest rate (percent) 4/	0.9	0.2	1.8	2.0	1.9	1.8	1.4	1.4	1.3	1.1	0.6	1.6
Growth of exports of G&S (US dollar terms, in percent)	18.5	12.0	33.0	6.0	9.6	7.2	9.7	8.0	5.8	5.3	12.9	9.7
Growth of imports of G&S (US dollar terms, in percent)	22.8	2.5	14.1	-3.6	-2.0	3.9	7.6	6.4	5.7	4.6	5.2	5.0
Grant element of new public sector borrowing (in percent)	...	...	36.3	38.8	43.7	44.6	44.4	58.3	52.2	35.0	...	49.1
Government revenues (excluding grants, in percent of GDP)	15.5	15.7	15.3	18.2	18.9	19.4	19.6	19.6	19.0	16.8	18.0	18.9
Aid flows (in Million of US dollars) 5/	72.1	80.3	109.5	88.8	78.0	85.9	82.9	83.8	101.6	91.1		
Grant-equivalent financing (in percent of GDP) 6/	...	...	12.1	9.5	6.7	6.3	5.8	5.6	4.6	2.9	...	6.3
Grant-equivalent financing (in percent of external financing) 6/	...	...	81.1	85.4	78.1	80.5	83.7	87.1	82.9	99.9	...	83.2
Nominal GDP (Million of US dollars)	546	684	799	911	1,018	1,107	1,196	1,293	1,813	3,104		
Nominal dollar GDP growth	3.3	25.4	16.8	14.0	11.7	8.7	8.1	8.1	6.0	5.4	10.2	9.3
Memorandum items:												
PV of external debt 7/	...	30.5	29.0	26.2	24.2	22.8	21.4	20.0	15.9	12.7		
In percent of exports	...	192.4	160.4	156.1	147.1	140.1	129.7	121.5	98.7	81.3		
Total external debt service-to-exports ratio	6.2	4.3	6.4	11.6	13.2	12.6	10.7	9.1	7.1	4.5		
PV of PPG external debt (in Million of US dollars)		209.0	231.6	239.0	246.7	252.0	255.8	258.7	289.0	393.0		
(PVt-PVt-1)/GDPt-1 (in percent)			3.3	0.9	0.8	0.5	0.3	0.2	0.5	-0.1		
Non-interest current account deficit that stabilizes debt ratio	17.1	17.1	7.0	7.7	6.2	5.2	5.6	5.1	3.5	5.0		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	Yes





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

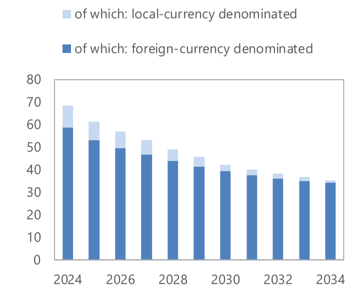
Table 2. São Tomé and Príncipe: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022-2044

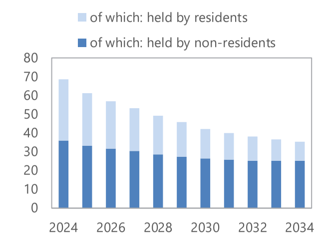
(In percent of GDP, unless otherwise indicated)

	Actual		Projections								Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public sector debt 1/	88.2	76.7	68.6	61.3	57.0	53.2	49.1	45.8	35.3	23.9	89.9	48.0
of which: external debt	40.5	35.7	36.1	33.2	31.6	30.3	28.5	27.3	25.1	22.2	49.3	28.6
Change in public sector debt	0.0	-11.5	-8.1	-7.3	-4.3	-3.9	-4.0	-3.3	-1.4	-2.3		
Identified debt-creating flows	-3.0	-14.9	-10.5	-8.5	-3.9	-3.4	-3.4	-2.9	-1.1	-1.4	-2.8	-3.8
Primary deficit	4.8	1.5	-0.1	-1.2	-0.3	-1.5	-1.9	-1.7	-0.3	-0.5	5.8	-0.9
Revenue and grants	27.2	23.8	25.8	26.7	24.2	24.5	24.5	24.0	22.6	19.7	29.0	24.0
of which: grants	11.7	8.1	10.5	8.5	5.3	5.1	4.9	4.5	3.6	2.9		
Primary (noninterest) expenditure	32.0	25.3	25.6	25.5	23.8	23.0	22.6	22.4	22.3	19.3	34.8	23.2
Automatic debt dynamics	-7.3	-17.6	-9.9	-6.9	-5.2	-3.7	-3.3	-3.1	-1.6	-0.9		
Contribution from interest rate/growth differential	-6.4	-5.4	-2.6	-2.7	-3.1	-2.5	-2.2	-2.0	-1.5	-0.9		
of which: contribution from average real interest rate	-6.3	-5.0	-2.0	-0.7	-0.3	-0.3	-0.4	-0.3	-0.2	0.0		
of which: contribution from real GDP growth	-0.2	-0.4	-0.7	-2.1	-2.8	-2.2	-1.8	-1.7	-1.2	-0.9		
Contribution from real exchange rate depreciation	-0.9	-12.2	...	...	...	...	...	...	...	...		
Denominator = 1+g	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0		
Other identified debt-creating flows	-0.4	1.2	-0.4	-0.3	1.7	1.8	1.8	1.8	0.9	0.0	-0.6	1.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	-0.4	-0.5	-0.4	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1	0.0		
Other debt creating or reducing flow (please specify)	0.0	1.7	0.0	0.0	2.0	2.0	2.0	2.0	1.0	0.0		
Residual	3.0	3.4	-4.9	-3.0	-2.5	-1.6	-1.7	-1.5	-0.5	-0.9	5.5	-1.7
Sustainability indicators												
PV of public debt-to-GDP ratio 2/	...	71.2	61.2	54.2	49.7	45.7	42.0	38.6	26.1	14.4		
PV of public debt-to-revenue and grants ratio	...	299.6	237.4	202.9	205.6	186.3	171.6	160.4	115.5	73.0		
Debt service-to-revenue and grants ratio 3/	...	...	49.0	34.5	34.2	31.6	27.0	22.8	6.5	-16.2		
Gross financing need 4/	11.8	9.9	12.1	7.7	9.6	8.0	6.4	5.6	2.0	-3.7		
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	0.2	0.4	0.9	3.1	4.8	4.1	3.5	3.5	3.5	3.5	2.7	3.4
Average nominal interest rate on external debt (in percent)	0.9	0.2	1.8	2.0	1.9	1.8	1.4	1.4	1.3	1.1	0.6	1.6
Average real interest rate on domestic debt (in percent)	-13.6	-17.8	-12.5	-7.6	-4.6	-3.3	-3.3	-3.4	-2.2	-12.6	-8.1	-4.4
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.3	-17.3	...	...	...	...	...	...	...	...	-3.3	...
Inflation rate (GDP deflator, in percent)	15.7	21.7	14.9	9.8	6.2	4.5	4.4	4.5	2.4	1.8	9.2	5.6
Growth of real primary spending (deflated by GDP deflator, in percent)	4.0	-20.5	2.1	2.6	-2.0	0.5	1.4	2.7	2.9	-1.6	0.6	2.2
Primary deficit that stabilizes the debt-to-GDP ratio 5/	4.7	13.0	7.9	6.1	4.0	2.4	2.1	1.7	1.1	1.8	9.5	2.9
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Memorandum Item												
Primary deficit with HIPC grants and without EMAE loss	2.3	-0.7	-2.6	-3.9	-2.4	-3.0	-2.7	-1.9	-0.5	-0.5	2.4	-1.8
EMAE loss	2.0	1.7	2.0	2.4	1.8	1.3	0.6	0.0	0.0	0.0	2.7	0.7

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central government, central bank, government-guaranteed debt. Definition of external debt is Residency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. São Tomé and Príncipe: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2024–2034

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of debt-to GDP ratio											
Baseline	29	26	24	23	21	20	19	18	17	16	16
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	29	30	30	**31**	**31**	**31**	**32**	**33**	**34**	**34**	**35**
B. Bound Tests											
B1. Real GDP growth	29	27	27	25	24	22	21	19	19	18	18
B2. Primary balance	29	30	**32**	**32**	**31**	29	28	27	26	25	24
B3. Exports	29	**30**	**33**	**31**	30	28	26	25	24	23	23
B4. Other flows 3/	29	**31**	**33**	**31**	30	28	26	25	24	24	23
B5. One-time 30 percent nominal depreciation	29	**32**	28	26	24	23	21	20	19	18	18
B6. Combination of B1-B5	29	**32**	**33**	**31**	30	28	26	25	24	23	23
C. Tailored Tests											
C1. Combined contingent liabilities	29	**50**	**54**	**54**	**53**	**51**	**49**	**47**	**46**	**45**	**44**
C2. Natural disaster	29	30	29	28	26	25	24	23	22	21	21
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	**160**	**156**	**147**	**140**	130	122	114	109	104	101	99
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**160**	**176**	**182**	**188**	**188**	**191**	**195**	**201**	**207**	**213**	**219**
B. Bound Tests											
B1. Real GDP growth	**160**	**156**	**147**	**140**	130	122	114	109	104	101	99
B2. Primary balance	**160**	**177**	**194**	**196**	**187**	**179**	**171**	**164**	**158**	**154**	**151**
B3. Exports	**160**	**253**	**401**	**384**	**357**	**337**	**319**	**305**	**294**	**286**	**280**
B4. Other flows 3/	**160**	**184**	**202**	**194**	**180**	**170**	**162**	**155**	**149**	**145**	**142**
B5. One-time 30 percent nominal depreciation	**160**	**156**	136	129	119	111	105	99	95	92	90
B6. Combination of B1-B5	**160**	**214**	**182**	**244**	**227**	**214**	**202**	**193**	**186**	**181**	**177**
C. Tailored Tests											
C1. Combined contingent liabilities	**160**	**295**	**325**	**335**	**323**	**312**	**301**	**291**	**283**	**276**	**271**
C2. Natural disaster	**160**	**181**	**177**	**173**	**163**	**155**	**148**	**143**	138	135	133
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	6	**12**	**13**	**13**	**11**	9	9	8	8	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	6	**12**	**14**	**14**	**12**	**10**	**10**	9	9	9	8
B. Bound Tests											
B1. Real GDP growth	6	**12**	**13**	**13**	**11**	9	9	8	8	7	7
B2. Primary balance	6	**12**	**14**	**14**	**12**	**10**	**10**	9	9	8	8
B3. Exports	6	**17**	**29**	**28**	**24**	**21**	**21**	**19**	**18**	**17**	**16**
B4. Other flows 3/	6	**12**	**14**	**14**	**12**	**10**	**10**	9	9	8	8
B5. One-time 30 percent nominal depreciation	6	**12**	**13**	**12**	**11**	9	9	8	8	7	7
B6. Combination of B1-B5	6	**14**	**19**	**19**	**16**	**14**	**14**	**12**	**12**	**11**	**11**
C. Tailored Tests											
C1. Combined contingent liabilities	6	**12**	**16**	**16**	**14**	**13**	**13**	**12**	**11**	**10**	**10**
C2. Natural disaster	6	**12**	**14**	**14**	**12**	10	**10**	9	9	8	8
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	8	11	12	11	9	8	8	7	7	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	8	11	12	11	10	9	9	8	8	7	7
B. Bound Tests											
B1. Real GDP growth	8	11	13	12	10	8	8	8	7	7	7
B2. Primary balance	8	11	12	11	10	9	9	8	8	7	7
B3. Exports	8	11	13	12	10	9	9	8	8	7	7
B4. Other flows 3/	8	11	12	11	10	8	8	8	7	7	7
B5. One-time 30 percent nominal depreciation	8	13	**14**	13	11	9	9	8	8	8	7
B6. Combination of B1-B5	8	11	13	12	11	9	9	8	8	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	8	11	14	13	12	11	11	10	9	9	9
C2. Natural disaster	8	11	12	11	9	8	8	7	7	7	6
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. São Tomé and Príncipe: Sensitivity Analysis for Key Indicators of Public Debt, 2024–2044

	Projections 1/																				
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
PV of Debt-to-GDP Ratio																					
Baseline	**61**	**54**	**50**	**46**	**42**	**39**	35	32	30	28	26	24	23	22	21	20	18	17	16	15	14
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2024-2034 2/	**61**	**59**	**58**	**56**	**54**	**53**	**50**	**49**	**47**	**46**	**45**	**44**	**43**	**43**	**42**	**42**	**41**	**41**	**41**	**40**	**40**
B. Bound Tests																					
B1. Real GDP growth	**61**	**56**	**56**	**53**	**50**	**47**	**43**	**41**	**39**	**38**	**37**	**36**	**35**	34	34	33	32	31	31	30	29
B2. Primary balance	**61**	**62**	**63**	**57**	**52**	**48**	**44**	**41**	**38**		34	32	30	29	27	26	24	22	21	20	18
B3. Exports	**61**	**57**	**57**	**52**	**49**	**45**	**41**	**38**	**36**	34	32	30	28	27	25	23	22	21	20	18	17
B4. Other flows 3/	**61**	**59**	**59**	**54**	**50**	**47**	**42**	**40**	**37**	**35**	33	31	30	28	26	25	23	21	20	19	18
B5. One-time 30 percent nominal depreciation	**61**	**60**	**53**	**48**	**43**	**38**	33	29	26	23	20	18	16	13	11	9	7	5	4	2	2
B6. Combination of B1-B5	**61**	**62**	**59**	**49**	**44**	**39**	35	32	29	27	25	24	22	21	20	18	17	16	15	13	12
C. Tailored Tests																					
C1. Combined contingent liabilities	**61**	**108**	**93**	**83**	**77**	**71**	**66**	**62**	**59**	**56**	**54**	**51**	**50**	**48**	**47**	**45**	**43**	**41**	**40**	**39**	**37**
C2. Natural disaster	**61**	**62**	**56**	**52**	**48**	**44**	**40**	**37**	35	33	31	29	28	27	26	24	23	21	21	19	18
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio																					
Baseline	237	203	206	186	172	160	149	139	131	123	115	108	104	99	94	88	83	78	75	73	73
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2024-2034 2/	237	222	239	230	225	223	221	216	213	210	207	205	205	204	204	204	204	204	204	213	223
B. Bound Tests																					
B1. Real GDP growth	237	209	227	211	199	191	183	176	170	165	160	156	154	152	150	146	143	140	139	142	146
B2. Primary balance	237	233	263	234	214	201	189	177	167	158	150	142	136	130	123	115	108	102	97	94	92
B3. Exports	237	213	235	214	198	186	175	165	155	147	140	132	126	119	113	106	99	93	89	87	86
B4. Other flows 3/	237	221	243	222	206	194	183	172	163	154	147	138	132	125	119	111	104	98	93	91	90
B5. One-time 30 percent nominal depreciation	237	229	223	197	177	161	145	129	116	103	91	79	70	61	52	42	33	25	19	12	8
B6. Combination of B1-B5	237	233	245	201	178	162	149	138	129	120	112	105	100	94	89	82	76	71	67	64	62
C. Tailored Tests																					
C1. Combined contingent liabilities	237	402	383	339	313	296	283	269	257	246	237	228	222	216	209	202	195	188	184	186	189
C2. Natural disaster	237	232	232	210	194	182	171	161	152	144	136	129	124	119	114	108	103	98	94	93	92
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio																					
Baseline	49	35	34	32	27	23	20	13	11	9	6	3	0	(1)	(3)	(5)	(7)	(9)	(11)	(13)	(16)
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2024-2034 2/	49	35	43	43	41	39	38	31	28	25	23	21	20	19	19	19	19	19	19	20	20
B. Bound Tests																					
B1. Real GDP growth	49	35	38	37	33	29	27	20	18	15	13	10	7	5	4	2	0	-2	-3	-5	-8
B2. Primary balance	49	35	50	54	38	28	24	16	13	10	8	5	3	2	0	-2	-4	-5	-7	-9	-13
B3. Exports	49	35	34	32	28	23	21	14	12	9	7	4	2	1	-2	-4	-6	-8	-9	-11	-15
B4. Other flows 3/	49	35	35	32	28	23	21	14	12	9	7	5	3	1	-1	-3	-6	-7	-9	-11	-15
B5. One-time 30 percent nominal depreciation	49	34	36	32	28	24	21	15	13	10	8	5	2	0	-2	-4	-6	-8	-10	-12	-16
B6. Combination of B1-B5	49	34	39	46	34	26	22	14	12	9	7	3	0	-1	-3	-5	-7	-9	-11	-13	-16
C. Tailored Tests																					
C1. Combined contingent liabilities	49	35	139	82	51	36	29	19	16	13	10	7	4	2	0	-2	-5	-6	-8	-10	-14
C2. Natural disaster	49	35	49	39	31	26	23	15	13	10	8	5	2	0	-2	-4	-6	-8	-9	-11	-15
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Statement by the Staff Representative on the Democratic Republic of São Tomé and Príncipe
December 19, 2024

This statement provides information that has become available since the staff report was finalized. This information does not alter the thrust of the staff appraisal.

1. **The authorities have completed the remaining three prior actions**. The Council of Ministers adopted the 2025 budget in line with program parameters (PA1). Furthermore, the authorities enacted and published amendments to Decree Law No. 07/2018 to remove elements of discretion from the fuel price adjustment mechanism (PA3). Finally, the authorities have raised the weighted average electricity tariff by at least 20 percent, while enhancing the progressivity of the tariff structure (PA7).

Statement by Mr. Regis N'Sonde, Mr. Mbuyamu Matungulu, and Mr. Kelvio Carvalho da Silveira on Democratic Republic of São Tomé and Príncipe

December 19, 2024

Introduction

1. On behalf of our São Toméan authorities, we express gratitude to the Executive Board, Management, and staff for their support of the country's economic reform agenda. The authorities deeply appreciate the efforts and constructive discussions over the last year, particularly on addressing the needed financing assurances in the context of their request for Fund support under the Extended Credit Facility (ECF).

2. Following a peaceful election in September 2022, a new government assumed office, committing to tackle longstanding vulnerabilities exacerbated by successive external shocks. These challenges were further intensified by the global repercussions of the war in Ukraine, declining international assistance, and reduced external financing availability. Despite these headwinds, the authorities have implemented ambitious reforms under their Recovery and Stabilization Plan, prioritizing macroeconomic stability, advancing the energy transition, and promoting sustainable and inclusive growth. However, their efforts faced additional strain in April 2023 when a major supplier ceased providing fuel on credit, aggravating foreign exchange shortages and creating a substantial gap in the balance of payments amid critically low international reserves.

3. In addressing the protracted economic challenges they face, the authorities are seeking the IMF Executive Board's approval of a 40-month Extended Credit Facility (ECF) arrangement amounting to SDR 18.5 million (125 percent of quota). Assistance under the ECF arrangement would provide crucial support for the authorities' medium-term economic reform program (2024–28) aimed at restoring macroeconomic stability notably through ambitious fiscal consolidation and determined energy sector reforms to address immediate balance of payments pressures. In this context, the authorities also request a one-year extension of approved measures resulting in exchange restrictions, emphasizing that these are

temporary and necessary in the context of the ongoing crisis. Going forward, the authorities underscore the critical importance of sustained engagement and support from the international community for their country given the unique challenges São Tomé and Príncipe (STP) faces as a small and fragile state.

4. To demonstrate their strong commitment to the program, the authorities undertook a significant fiscal adjustment of nearly 5-percentage points of GDP in 2023 and have implemented eight program prior actions, including the introduction of VAT, the complete elimination of fuel subsidies, and an increase in the weighted average electricity tariff by at least 20 percent, ahead of the Board’s consideration of their request for an ECF arrangement.

Recent Economic Developments and Outlook

5. São Tomé and Príncipe’s economy continues to face significant challenges arising from interconnected constraints, external shocks and persistent structural vulnerabilities, including high dependence on fuel imports and foreign exchange shortages. These factors have created a complex economic environment, hindering growth, driving inflation up, and straining the country’s financial position. Despite these obstacles, the government’s commitment to reforms and international support provides a foundation for recovery and sustainable development over the medium term.

6. Real GDP growth slowed significantly, reaching just 0.2 percent in 2022 and 0.4 percent in 2023, dragged down by energy shortages, delays in donor support, global economic shocks, and the lingering effects of suffered climate disruptions. Headline inflation peaked at 25.5 percent in January 2023 (y-o-y), driven by elevated global food and fuel prices and the monetary financing of fiscal deficits. By September 2024, headline inflation had moderated to 11.6 percent, supported by several factors. These include easing global food prices, tightened liquidity conditions, and the stabilization of the exchange rate (EUR and the Dobra) against the USD. Additional contributions came from the correction of speculative behavior by economic agents following the introduction of the VAT and Special Consumption Tax in June 2023, as well as the potential effect of emigration on demand. Notwithstanding the difficult context, the authorities’ fiscal consolidation efforts have exceeded expectations, with the domestic primary deficit narrowing from 5.7 percent of GDP in 2022 to 0.9 percent in 2023, underpinned by the introduction of VAT and enhanced disciplined spending. However, gross international reserves fell sharply, covering only 1.1 months of imports by August 2024, underscoring the country’s heightened external vulnerabilities. Reserves recovered slightly in October helped by appreciated new external disbursements. The external current account deficit improved modestly to 12 percent of GDP in 2023 from 14 percent in 2022 as imports declined, though high fuel demand and limited external financing continued to weigh on the balance of payments. Private sector credit remains weak, reflecting banks’ cautious lending amid ongoing economic uncertainties.

7. In November 2023, the government signed a Power Purchase Agreement to triple electricity generation capacity through phased installations of diesel generators, dual-fuel LNG/diesel generators, and solar panels. Phase one is already operational, addressing immediate energy needs, while subsequent phases aim to integrate solar energy, reducing reliance on fuel imports and supporting economic growth. The authorities have committed to diligent oversight to manage excess capacity, maintain affordability, and ensure alignment with broader energy sector reforms and climate resilience objectives. They have also strengthened the fuel price adjustment mechanism by removing elements of discretion through the enactment and publication of amendments to the related decree law.

8. The authorities broadly align with staff's medium-term outlook, projecting a gradual recovery with GDP growth rebounding to 0.9 percent in 2024 and averaging 4 percent annually between 2025 and 2027. The stronger economic activity is expected to be driven by infrastructure investments, a tourism revival, and export growth in palm oil and cocoa, as well as increase in efficiency and stabilization of electricity supply. Inflation, while moderating, is projected to remain elevated at 10.9 percent in 2024 due to high electricity costs, FX shortages, and structural challenges, before declining to 5 percent over the medium term. The authorities recognize the importance of sustaining fiscal adjustments and advancing energy sector reforms, particularly in the national utility EMAE, to address imbalances, stimulate economic activity, and improve long-term economic prospects. The 2025 budget also aligns with the program parameters. However, they acknowledge the challenges of balancing fiscal consolidation with social stability, as rising social tensions pose risks. The authorities also highlight potential downside risks from climate shocks and delayed or insufficient disbursements from development partners. Additionally, they are concerned about the potential negative impacts of São Tomé and Príncipe's graduation from Least Developed Countries (LDC) status in December 2024, which could result in the loss of preferential trade access, targeted development funding, and critical international support, hindering export diversification and sustained cooperation.

Policy Priorities for 2024 and Beyond

Fiscal Policy

9. The authorities have achieved significant progress in fiscal consolidation, even without an IMF-supported program, delivering a fiscal tightening of 4.8 percent of GDP in 2023 through a combination of revenue and expenditure measures. Key actions included the introduction of a VAT with differentiated rates, excise taxes on harmful goods, a new personal income tax bracket, and measures to contain the wage bill. These measures created fiscal space to reduce customs duties on essential goods and were reinforced by ending monetary financing of the fiscal deficit. Social safety nets were bolstered through cash transfer programs and school feeding initiatives to support vulnerable populations. Building on this progress, the government targets a domestic primary balance deficit of 0.5 percent of GDP in 2024, with a focus on enhancing spending restraint, reducing non-priority operational

expenditures, and increasing tax arrears collection despite ongoing economic challenges and foreign exchange shortages. For 2025, the authorities aim for a budget surplus of 1.0 percent of GDP, supported by VAT consolidation, improved import tax collections, introduction of environmental taxes on packaging and fuel, stricter tax compliance enforcement, and partnerships with SOEs and public institutions to resolve and prevent tax arrears.

10. Over the medium term, the government seeks to achieve a domestic primary surplus of 2.0 percent of GDP by 2027. To support this goal, the authorities plan to develop a domestic revenue mobilization strategy with IMF technical assistance, reassessing the tax regime and improving revenue administration through technology upgrades and institutional reforms. On the expenditure side, priorities include containing the wage bill, enhancing efficiency in public service delivery, and safeguarding pro-poor spending through targeted social assistance programs to protect vulnerable groups. A contingency plan is in place to address potential slippages, including restricting new hiring and revisiting customs exemptions. These efforts are underpinned by a commitment to transparency, stakeholder engagement, and support from international partners.

11. The authorities are focused on strengthening the fiscal policy framework by improving macro-fiscal forecasting, budget planning, execution, and cash management. These efforts are supported by regular fiscal risk reporting and improved public investment management, guided by recommendations from the upcoming Fund-supported Public Investment Management Assessment (PIMA). Governance reforms emphasize fiscal transparency, including the publication of procurement and concession agreements, revisions to the Procurement Law to require beneficial ownership disclosure, and preserving the autonomy of the Court of Auditors, which will continue auditing fiscal accounts and addressing related recommendations. Anti-corruption initiatives remain a priority, with a focus on building independent institutions to enforce asset declarations, enhance public access to information, and foster accountability.

12. Fiscal risks from loss-making SOEs, particularly in the energy sector, are being addressed through comprehensive reforms aimed at restoring financial sustainability and reducing reliance on subsidies. Key measures include strictly adhering to the fuel price adjustment mechanism to eliminate implicit subsidies, adjusting electricity tariffs, enforcing anti-theft laws, and improving bill collection. A restructuring plan for the national electricity utility, EMAE, is underway to address financial, operational, and governance challenges, while scaling up renewable energy production and reducing non-technical losses. To enhance SOE oversight, the government will establish a dedicated SOE unit and adopt an SOE ownership strategy in 2025 to improve transparency and accountability. These reforms aim to mitigate fiscal risks, strengthen SOE management, and support long-term fiscal consolidation.

Debt Management Policy

13. The authorities remain firmly committed to maintaining debt sustainability through prudent borrowing practices, fiscal adjustments, and a focus on securing grant financing and concessional loans. To address public debt vulnerabilities and ensure the sustainability of external debt, they are implementing critical structural fiscal reforms, including improvements in the energy sector and enhancements to public financial management systems. Despite these efforts, São Tomé and Príncipe continues to face debt distress, primarily due to longstanding unresolved external arrears, as emphasized in the latest Debt Sustainability Analysis (DSA). To overcome these challenges, the government is actively engaging with creditors in an open and transparent manner to regularize arrears and restructure outstanding debts. Complementing these initiatives, the government is developing a medium-term debt management strategy, formulating annual borrowing plans, and establishing a comprehensive debt database to improve transparency and oversight. Furthermore, the planned introduction of domestic marketable government bonds aims to reduce dependence on short-term instruments, diversify financing sources, and mitigate refinancing risks—ensuring a more stable and sustainable debt profile in the long term.

Monetary Policy, External Financing Gap, and Foreign Exchange Reserves

14. The authorities recognize the euro peg as a reliable anchor for São Tomé and Príncipe's monetary policy, supporting overall economic stability despite external vulnerabilities. However, the recent inflation surge, peaking at 25.5 percent in January 2023, widened the inflation differential with the Euro Area, placing pressure on the peg and international reserves. In response, the Banco Central de São Tomé e Príncipe (BCSTP) tightened monetary policy by issuing Certificates of Deposits (CDs), resulting in a steady rise in interest rates. These measures have lowered core inflation to 3.9 percent as of September 2024 (y-o-y), though it remains above the target of 3 percent. To further stabilize the economy and protect the peg, the BCSTP plans to maintain tight liquidity controls, introduce longer-term CDs, and collaborate with the government on a recapitalization strategy to safeguard its financial autonomy. Sustained and proactive measures will be critical to ensuring the peg's resilience and effectiveness.

15. The BCSTP is addressing governance and transparency challenges through comprehensive reforms highlighted in the recent safeguards assessment. Key priorities include enacting the Organic Law by January 2025 to enhance autonomy, governance, and independent board oversight, and transitioning to International Financial Reporting Standards (IFRS) by 2026. To support these goals, the BCSTP is strengthening its accounting functions, providing IFRS training, and implementing a capacity-building strategy for staff. Additional efforts include updating the investment policy to enhance risk management, resolving audit backlogs, and finalizing agreements with the government on FX swap obligations and legacy debts. These initiatives aim to improve financial integrity, operational transparency, and institutional governance.

16. The authorities are implementing a comprehensive strategy to address external financing gaps and strengthen foreign exchange reserves, focusing on reducing fuel imports as a major source of imbalances through the decarbonization plan of the energy sector. Near-term measures include transitioning to energy-efficient lighting, raising electricity tariffs, and advancing solar projects projected to meet nearly half of the country's electricity needs by 2025. Additional efforts include enforcing export repatriation requirements, channeling World Bank project grants through the central bank, and ensuring that fuel bunkering operations are self-financed. Collectively, these measures are expected to reduce external financing needs by US$85.8 million during 2024–2025. Temporary capital flow management measures, tighter FX regulations, and fiscal consolidation targeting lower import demand further support reserve accumulation. Eliminating central bank waivers for FX coverage on fuel imports is projected to reduce FX outflows by US$14 million annually, contributing to reserve stabilization and long-term sustainability.

Financial Sector Policies

17. The authorities are committed to strengthening financial stability through enhanced banking supervision and regulatory reforms. The Banco Central de São Tomé e Príncipe (BCSTP) is implementing a bank rating model, upgrading regulations, and conducting regular stress tests to monitor and mitigate risks. A new Financial Institutions Law, set for submission in 2025, will address key areas such as governance, risk management, and oversight, further bolstering the regulatory framework. Additional efforts include expediting the liquidation of insolvent banks and advancing the National Financial Inclusion Strategy to promote broader access to financial services. To preserve international credibility and avoid reputational risks, the authorities are ensuring São Tomé e Príncipe remains a member of the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) by settling overdue fees by the end of 2024. This commitment helps safeguard correspondent banking relationships and supports global financial integration.

Structural Reforms

18. The government's structural reform agenda also aims to foster private sector-led, inclusive, and environmentally sustainable growth, with a focus on job creation and resilience building. Key priorities include improving human capital, infrastructure, and the business environment, alongside advancing energy sector reforms, expanding transportation networks, and boosting domestic food production. Strengthening legal and judicial systems, ratifying the AfCFTA Agreement to enhance trade integration, and updating the tourism sector strategy by mid-2025 are integral to supporting exporters and revitalizing the tourism industry. Additionally, a strategic plan is underway to remove the country from the EU's Air Safety blacklist by mid-2025, with targeted actions such as upgrading air safety regulations, providing training to sector staff, and improving airport infrastructure to facilitate tourism recovery and enhance export competitiveness.

19. The government is also addressing climate change impacts, such as coastal erosion and changing precipitation patterns, which threaten agriculture, fisheries, and tourism. Efforts include drafting the Fourth National Communication Report on Climate Change to meet the United Nations Framework Convention on Climate Change (UNFCC) obligations and strengthening resilience to environmental challenges. In October 2024, São Tomé and Príncipe's authorities developed and presented a comprehensive decarbonization plan to development partners. The plan focuses on transitioning to renewable energy, modernizing transport, and promoting clean cooking, supported by strategic investments, regulatory reforms, and targeted financing to bolster economic resilience and sustainability. The World Bank has started engaging with São Tomé and Príncipe on preparation of the Country Climate and Development Report (CCDR) diagnostic, which will provide critical insights to help integrate climate change and the country's broader development objectives as well as inform reforms and policies under a potential IMF-supported Resilience and Sustainability Facility (RSF).

20. Furthermore, advancing women's economic empowerment remains a priority for the government. Plans include publishing gender disparity data, improving women's access to financial services, promoting digital financial literacy, and updating the 2019 National Strategy for Gender by mid-2025. These combined efforts aim to create a more inclusive, resilient, and sustainable growth model, leveraging São Tomé and Príncipe's unique geographic and economic potential while addressing key social and environmental challenges.

Conclusion

21. Based on their strong commitment to the proposed ECF-supported program, the prior actions already undertaken, and the financing assurances secured from development partners, the authorities of São Tomé and Príncipe seek the Executive Board's approval of their request for a new 40-month arrangement under the ECF. They also request the Board's approval of a one-year temporary retention of measures resulting in exchange restrictions under Article VIII, Section 2(a) of the IMF's Articles of Agreement, as these measures are necessary, temporary, and aimed at addressing balance of payments challenges. We would appreciate Executive Directors' favorable consideration of our authorities' requests.