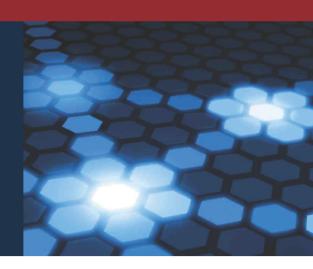
ECONOMIC DEVELOPMENTS
IN PORTUGUESE-SPEAKING
AFRICAN COUNTRIES AND TIMOR-LESTE
2011 | 2012





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FOREWORD

As in previous years, the publication 'Economic Developments in Portuguese-speaking African Countries and Timor-Leste' aims to contribute to a better knowledge of current economic conditions in the Portuguese-speaking African Countries and Timor-Leste, focusing both on key macroeconomic data and their economic and financial relations with Portugal.

Chapters II and III were prepared on the basis of information received up to the end of August 2012. In some cases, this information corresponds to preliminary data or estimates which may be revised.

We thank the entities contacted for their kind cooperation, in particular the Central Banks of Angola, Cape Verde, Mozambique and São Tomé and Príncipe, the national branch of the Banque Centrale des États de l'Afrique de l'Ouest (Central Bank of West African States) in Guinea-Bissau and the Central Bank of Timor-Leste. Their assistance was crucial in obtaining the information needed to prepare this report.

INTERNATIONAL ENVIRONMENT



Current environment and outlook

Throughout 2011 and 2012 the worldwide recovery continued, although the encouraging signs of late 2011 and early 2012 did not prove to be sustainable. The rebound slowed down in the second quarter of 2012 while uncertainties heightened, in a context of several risks pointing to a greater slowdown or even decline in activity. This dampening of world growth was broadly based across all regions (Chart I.1.).

Confidence in the global financial system has been decreasing and markets continue to experience strong volatility. This period is characterised by unusually high uncertainty, together with an unprecedented level of trade and financial interconnection and integration.

The crisis in the euro area continued to impact on the region, with output, both in this area and in Europe as a whole, contracting in the first half of 2012. The interconnection between the public, banking/financial and real sectors translated into sharp increases of risk premia in many member countries and financing costs for sovereigns and the private sector, therefore increasing pressure on an already fragile banking sector. Monetary and financial market fragmentation within the euro area deteriorated strongly, with investors shifting their asset portfolio in euro to investments in central and northern Europe. This contributed to a vicious circle of growing financing difficulties for the most vulnerable euro area countries. With a view to safeguarding monetary policy singleness and transmission mechanisms, affected by distortions in securities markets, on 6 September the ECB adopted a programme of outright transactions in secondary sovereign bond markets. A necessary condition for Outright Monetary Transactions is strict and effective conditionality attached to an appropriate European Financial Stability Facility/European Stability Mechanism (EFSF/ESM) programme. Such programmes can take the form of a full EFSF/ESM macroeconomic adjustment programme or a precautionary programme.

The US and Japan are facing marked medium-term fiscal consolidation needs and it is imperative that authorities design specific and reliable plans for such adjustment, ensuring agents' confidence and credibility. On the other hand, in the short term the US will have to reach an agreement as to policy measures for the 2013 budget (the 'fiscal cliff' issue) and/or possibly enact again legislation governing the lifting of the debt ceiling.

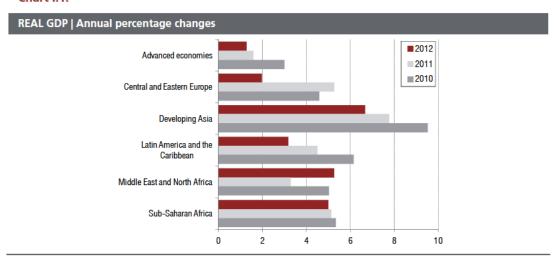
In the major advanced economies the fragile environment translates into the persistence of high unemployment rates, jointly with low investment levels. The effects of this environment are clearly visible in a slowdown in external trade of goods and services.

Emerging economies face the current global uncertainty climate and a clear decline in external demand. China was particularly affected, with consequences for the Asian economies as a whole, due to the strong interconnection of these countries' industrial chains, which have deepened over the last decade. As this region has already achieved high financial integration with the major advanced economies, the spillover effects have extended to financial markets, namely stock exchanges. Greater external exposure rendered the region more sensitive to international financial tensions and may even have passed through to exchange rates (e.g. recent yen appreciation). This environment, associated with more moderate pressures on prices, has allowed many countries to change the monetary policy stance, so as to support activity. The outcome of these policy changes has not yet been felt. On the other hand, the slight economic slowdown in China, and more generally in Asia, has had repercussions on financial markets, especially in emerging and commodity exporting developing countries.

Latin America also decelerated in the first half of 2012. As in Asia, monetary policy started to be more accommodative and expansionary. Growth is expected to recover in 2013, driven by greater buoyancy in Brazil. In the past decade Latin America benefited from strong demand for commodities, such as

metals, by China, whose development model was highly intensive in investment, and very dependent on imported commodities. An abrupt transition of Chinese domestic demand from investment to private consumption would have a considerable impact on the region.

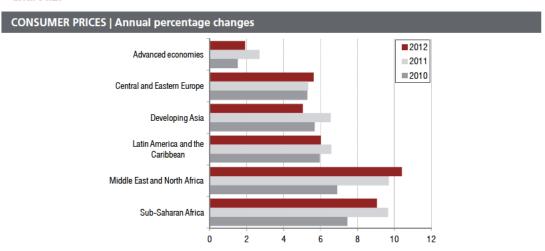
Chart I.1.



Source: IMF, World Economic Outlook Database, October 2012.

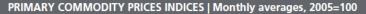
The recent economic slowdown was accompanied by a decline in inflation, across virtually all regions, reversing the upward trend in prices observed in 2011. In parallel, the stabilisation of commodity prices, following years of strong increases, also contributed to the recent easing of inflationary pressures. This allowed many advanced, emerging and developing economies to cut interest rates or adopt other less restrictive measures (Chart I.2. and I.3.).

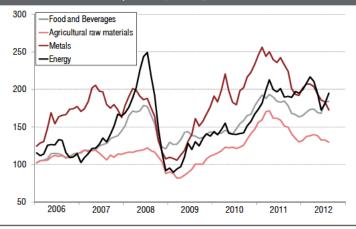
Chart I.2.



Source: IMF, World Economic Outlook Database, October 2012.

Chart I.3.

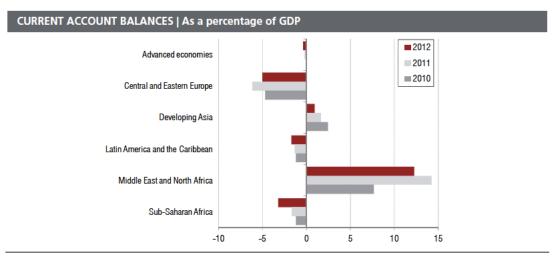




Source: IMF, Primary Commodity Prices tables (www.imf.org).

Following the 2008 crisis significant progress was achieved in reducing global external imbalances. This process requires enhanced saving in countries with external deficits and a strengthening of domestic demand and greater exchange rate flexibility in surplus countries. Oilexporting Middle Eastern countries were the main exception, with their surpluses increasing in 2011, as a result of strong demand and high prices. (Chart I.4.)

Chart I.4.



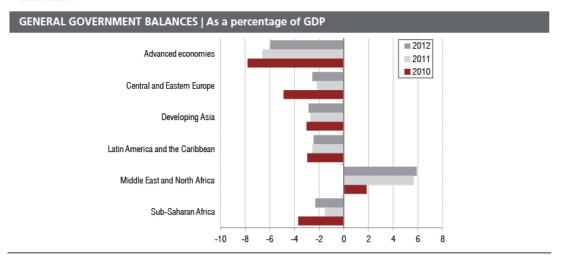
Source: IMF, World Economic Outlook Database, October 2012.

After a period of fiscal stimulus, in the wake of the 2008 crisis, in 2011 public sector deficits declined across all regions (although performances differed from country to country). This trend was reversed in 2012 in some regions. (Chart I.5.).

Developments and outlook by groups of countries

During the past year, the US has shown quite a moderate growth pace, of around 2%, employment remained below pre-crisis levels and the housing market remains weak, although showing signs of stabilisation. In comparison with previous cycles, the recent rebound in the US is the slowest since the Great Depression of the 1930s, which given its systemic importance, has an impact on global activity and trade.

Chart I.5.



Source: IMF, World Economic Outlook Database, October 2012.

Monetary policy remained accommodative. Uncertainty about fiscal policy in the near future hinders forecasts and may even account for the cautious behaviour of companies with regard to recruitment and investment. Current legislation will lead to strong fiscal contraction in the next year, as a result of the ending of several tax cuts and automatic reductions envisaged on the expenditure side. However, some tax cuts may be extended for one more year.

In *Japan* the rebuilding impetus that followed the March 2011 tsunami will tend to lose momentum in the near future. In fact, the policy package adopted after the earthquake boosted the Japanese economy, although with no visible effects on the unemployment rate. The floods in Thailand in late 2011 brought renewed difficulties to the Asian supply chain, undermining Japanese exports. In 2012 investment weakened, possibly due to growing uncertainty about the global outlook.

The *euro area* grew by 1.4% in 2011, but is likely to experience a minor recession in 2012. Monetary policy remained accommodative. The ECB cut key interest rates in November and December 2011 by a total of 50 basis points. In July 2012 there was a further 25 basis-point reduction: the rate on the marginal lending facility was cut to 1.50% and the rates on the main refinancing operations and the deposit facility to 0.75% and 0.00% respectively. As already mentioned, due to disruptions in the monetary policy transmission process within the Eurosystem, on 6 September the ECB launched a non-standard measure, defining the rules of a programme of outright transactions in secondary sovereign bond markets. Euro area fiscal policies are strict, especially in countries with financial programmes and high deficits.

The EU has pushed forward with governance reforms, including the fiscal compact (within the scope of the intergovernmental Treaty signed in March by 25 Member States), the banking recapitalisation process, the Treaty establishing the European Stability Mechanism and efforts to support growth and competitiveness through structural reforms. Agreements emerging from the Summit held on 29 June envisage the creation of a banking union, although there are still many issues to resolve.

The slowdown in *emerging and developing economies* extended to Asia, Latin America and Central and Eastern Europe. Russia and the Middle East saw more positive developments. Russia benefited from

high prices for the main commodities, good crops and strong emigrants' remittances. Energy-importing countries from the Community of Independent States decelerated markedly.

In the Middle East and Northern Africa differences between oil exporting and importing countries widened. In the latter, social instability translated into abrupt drops in tourism and foreign direct investment. Oil-exporting countries stepped up their growth pace (except for Iran).

As mentioned above, Asia and Latin America were affected by the weak advanced economies at the trade and financial level. Despite the more moderate pace than in 2010, emerging and developing Asian countries grew by 7.6% in 2011. Growth in Latin America and the Caribbean, which had shown signs of overheating in 2010, moderated significantly in 2011: This slowdown was partly the, result of restrictive measures adopted to contain inflationary pressures, an easing that continued in 2012. Employment in the region has been rising sustainably and commodity-exporting countries are growing at their potential rate or even slightly above it.

Sub-Saharan Africa

Sub-Saharan Africa expanded by more than 5% in 2010 and 2011, a rate likely to continue in 2012. Institutional progress in the past decade and the greater robustness of macroeconomic fundamentals provided these countries with leeway to respond to the external shocks of the past few years. The diversification of exports to new markets, namely in Asia, reduced their exposure to fragile demand by advanced countries and the high commodity prices benefited exporters of these products and investment in mining and quarrying. However, the region was undermined by a reduction in foreign direct investment by advanced economies, in particular Europe.

Banking systems showed strong resilience to financial turbulence episodes. Possible pressures on liquidity, credit quality and profitability arose from indirect channels, chiefly the impact of the crisis on external trade.

Oil exporting countries as a whole continued to grow strongly, by approximately 6% in 2012 (6.3% in 2011), fostered in some countries, such as Angola, by a rise in energy production capacity. Simultaneously, in many of these countries – Angola and Nigeria are good examples – the non-oil sector has been evolving at a record pace in the past few years.

In the polar opposite scenario, some low-income countries were affected by extreme drought. However, most of these countries have been growing robustly.

Average-income countries, in particular South Africa, have suffered a greater impact from the financial crisis in Europe, with a decline in foreign direct investment and foreign demand.

Despite the progress in reducing poverty, the region has recorded slow progress in terms of the Millennium Development Goals. Tension and recession in advanced economies may compromise grant flows for the next few years.

ECONOMIC DEVELOPMENTS IN PORTUGUESE-SPEAKING AFRICAN COUNTRIES AND TIMOR-LESTE

ANGOLA

CAPE VERDE

GUINEA-BISSAU

MOZAMBIQUE

SÃO TOMÉ AND PRÍNCIPE

TIMOR-LESTE

ANGOLA

AREA: 1,246,700 KM²

CAPITAL CITY: Luanda

POPULATION: 19.7 MILLION

(2011; source: UN)

CURRENCY: Kwanza

The slowdown in inflation to historical lows and the maintenance of economic growth at a relatively robust pace trending upwards have shaped recent macroeconomic developments.

There was also a substantial strengthening of the fiscal and external position, due to an upturn in oil revenues and the adequate implementation of the IMF adjustment programme, which was successfully completed in February 2012.

The macroeconomic adjustment programme agreed at the end of 2009 between the Angolan authorities and the IMF (involving funding to the amount of USD 1.4 billion, i.e. the largest amount ever provided by this institution to any Sub-Saharan country) was successfully completed in February 2012. Indeed, the substantial fiscal and external imbalances – indirectly induced by the international crisis – that had led to a severe domestic liquidity crisis and, therefore, to the need for an adjustment programme, have been fully corrected. The programme's satisfactory completion has manifestly resulted from a broadly successful implementation of economic policy measures prescribed in the programme, but also largely benefited from the contribution of increased oil revenue – reflecting the upward trend (and stabilisation at high levels) in international oil prices since 2009.

Table II.1.1.

MAIN ECONOMIC INDICATORS						
	2009 Est.	2010 Est.	2011 Prog.	2011 Est.	2012 Prog.	2013 Prog.
Real GDP (annual rate of change)	2.4	3.4	6.4	3.1	6.8	5.0
Inflation (year-on-year rate of change)	14.0	15.3	10.8	11.4	9.6	7.5
Broad money (annual rate of change)	21.5	7.1	37.8	34.0	14.7	38.1
Current account (as a percentage of GDP)	-10.0	9.0	-4.8	10.8	7.3	4.4
Overall fiscal balance (as a percentage of GDP)	-7.4	5.5	4.5	10.3	2.4	1.7
External debt (as a percentage of GDP)	20.0	21.6	19.9	19.8	19.5	20.4

Sources: Banco Nacional de Angola, Ministry of Finance of Angola and IMF.

These developments in the world oil market resulted in a considerable improvement in Angola's terms of trade (nearly 50%, in cumulative terms, during 2010-2011), which generated surpluses that sustained domestic demand throughout the adjustment period. Therefore, the pace of expansion in economic activity continued to be relatively robust between 2009 and 2011, although below the previous levels – also due to a drop in oil production (which is now being reversed). In turn, developments have been clearly positive as regards nominal stabilisation, particularly since mid-2011 – with year-on-year inflation falling over thirteen consecutive months up to August 2012, when it dropped to 9.9% (i.e. single-digit levels for the first time since a comprehensive price liberalisation reform was implemented, over 20 years ago).

The nominal increase in oil exports amounted to 33% in 2011 (on top of a 24% increase in the previous year), while imports of goods and services recovered from falls in 2010, but at a more subdued pace than exports. This led to further significant strengthening in the external position, which was reflected in the balance of payments, and, ultimately, resulted in a marked recovery of foreign exchange reserves. These reserves are now comfortably higher than external debt (which actually declined as a percentage of GDP, for the first time since 2007), providing considerable leeway for Banco Nacional de Angola to intervene in the foreign exchange market.

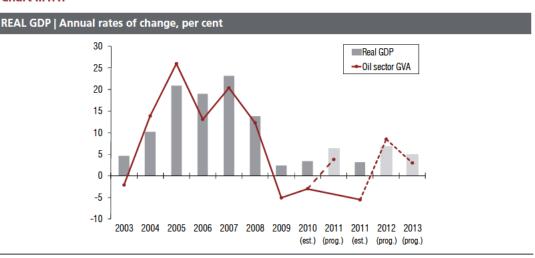
Such interventions continue to be the central bank's main instrument when pursuing its price stabilisation goals and have now been supplemented by a new monetary policy framework, following the recent introduction of several innovations. Indeed, liquidity expansion in the economy accelerated in 2011 (although it would then slow down substantially in the first half of 2012), despite the dampening effect of a strong contraction in net claims on government. This reflected the marked fiscal consolidation over the 2010-2011 period (amounting to 17.7 percentage points of GDP), largely sustained by the increase in oil revenue but also a considerable expenditure restraint, despite the fiscal space created by that increase.

П

II.1.2. DEMAND, OUTPUT AND PRICES

The Angolan economy has managed to sustain relatively robust real growth rates over the past few years, particularly taking into account the international crisis (and the domestic liquidity crisis, which largely resulted from it). The pace of growth estimated for the three-year period 2009-2011 was, however, much more subdued than in previous years, which benefited from a "peace dividend" and an increase in oil revenue (driven by quantity and price effects). It also remained below the pace of growth initially envisaged for each of those three years – as was the case in 2011, with an original forecast of 6.4% and a current estimate of 3.1% (see Chart II.1.1.). These economic growth levels are, in fact, practically in line with the best available estimates for population growth (around 3% per year, on average, during the period 2006-2010). This means that there have probably been no real gains in GDP per capita since 2008.

Chart II.1.1.



Sources: Banco Nacional de Angola and IMF.

The main factor behind that performance, which was positive but worse than expected, is the persistence of oil production difficulties – partly associated with the life cycle of various major exploration blocks. This led to falls in the sector's output over the last three years, culminating in a 5.5% contraction in 2011, in real terms, when originally a 3.8% expansion had been anticipated (see Chart II.1.1). The Angolan production of crude oil had, in fact, reached peaks of over 1.9 million barrels per day (mbd) in mid-2008 (and again in early 2010), after five years of strong expansion that turned the country into the second largest oil producer in Africa, following Nigeria (Algeria was overtaken in 2006 and Libya in 2007). Henceforth, however, a gradually decreasing trend in production set in, reaching a low point in June 2011, when average values of approximately 1.5 mbd were recorded.

From June 2011 onwards, oil production levels recovered somewhat and, in August 2012, rose to a more than two-year high: around 1.8 mbd. This rebound was associated with the drilling of new wells, which resulted in an annual net increase of 12% in the number of active wells (to 1,476 at the end of 2012, according to data from OPEC, to which Angola belongs). The Angolan oil sector's future prospects (including gas exploration) have, in fact, developed favourably – particularly due to the expected development of the pre-salt¹ oil (which will probably mean a significant increase in Angolan oil reserves, currently estimated by OPEC at around 10.5 billion barrels) and also the launch of natural gas

¹ This means that petroleum deposits are not only offshore, but also under a salt layer (similarly to Brazil, for instance) — several kilometres below the ocean surface

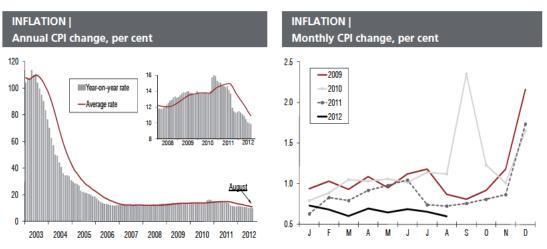
It is therefore estimated that the oil sector will grow further, in real terms, as early as 2012 – and, even, that it will exceed the pace of expansion seen in the rest of the economy, for the first time since 2005. Indeed, the growth of Angola's economy, as a whole, during the real retrenchment of that sector (2009-2011) was naturally due to non-oil activities, mainly geared towards domestic demand – which, in turn, was sustained thanks to the surpluses generated by a substantial improvement in terms of trade (i.e. mainly the effect resulting from the international oil price hikes since the lows in 2008).

production (even though its proved reserves are relatively modest - around 0.19% of the world's total,

Non-oil activities should also continue to benefit from factors such as the renewed public investment push and the settlement of domestic arrears (i.e. government expenditure arrears, which have hampered the smooth functioning of local companies). These factors are particularly beneficial to sectors such as construction and electricity and water, with already sharper real growth during the 2009-2011 period (even though construction has clearly slowed down over that period, due to issues such as the above mentioned arrears). That positive performance was then mirrored by agriculture, which, however, should now suffer from less favourable weather conditions.

Chart II.1.2. Chart II.1.3.

compared with 0.71% in the case of oil).



Source: Banco Nacional de Angola.

With regard to nominal stabilisation, recent results already reflect some clear and significant progress, by contrast to Angola's economic growth performance over the past few years – which was undoubtedly considerable, mainly given the domestic and external environment, but fell short of expectations (and of the needs stated by the Angolan authorities' themselves). In fact, the pace of inflation has slowed down in a gradual and sustained manner since late 2010, anchored on exchange rate stability – as well as, ultimately, a policy of fiscal consolidation (facilitated by the increase in revenues but based also on expenditure restraint) and a stricter monetary policy (which was relatively tight up to mid-2011, but became more accommodative as inflation slowed down).

The Angolan economy is, therefore, currently enjoying its strongest period in over twenty years, as regards pricing behaviour (i.e. since a comprehensive price liberalisation reform was implemented) – as illustrated by several indicators: the best profile ever in terms of monthly price index changes, whose series starts in 1990 (see Chart II.1.3.); 13 consecutive monthly falls in annual average inflation (see Chart II.1.2.); the smallest cumulative change in CPI-Luanda over the first eight months of any year (5.4%); finally, and most notably, the first time that year-on-year inflation fell to single-digit figures (August 2012: 9.9%).

This shows that the substantial cut in subsidies on domestic fuel prices in September 2010 only had a temporary impact (with relevant first-, second- and third-round effects on the CPI). In fact, discounting the seasonal effect of price increases towards the end of 2011 (which is typical during the holiday period), inflation seems to have begun a favourable trend, which should make it possible, in particular, to meet the goals established for December 2012. As for a lengthening of the disinflationary process to levels closer to those in major external partners (which would have positive effects in terms of price-competitiveness), it will undoubtedly depend on the maintenance of fiscal and monetary rigour, but also, to some extent, the Angolan authorities' efforts to overcome several constraints traditionally identified on the supply side (from logistics to competition issues).

II.1.3. EXTERNAL ACCOUNTS

The macroeconomic adjustment process launched by the Angolan authorities at the end of 2009, in the context of the IMF-supported programme, yielded particularly significant results on the external side, with a substantial correction of imbalances that started in 2010, intensifying in 2011 and consolidating in 2012. These favourable developments were clearly reflected in the balance of payments, most notably the sizeable trade and current account surpluses (see Table II.1.2.), as well as their consequence: gross foreign exchange reserves amounting to USD 32.6 billion in June 2012, which is equivalent to 8.9 months of imports of goods and services estimated in 2011 (compared with 7.8 months at the end of 2011 and 3.8 months in 2009).

Table II.1.2.

BALANCE OF PAYMENTS As a percentage of GDP								
	2009 Est.	2010 Est.	2011 Prog.	2011 Est.	2012 Prog.	2013 Prog.		
Current account	-10.0	9.0	-4.8	10.8	7.3	4.4		
Trade balance	24.0	41.1	27.6	45.2	39.5	33.6		
Exports	53.9	61.3	55.7	64.7	59.5	54.4		
of which: Oil exports	52.5	59.8	54.0	63.3	<i>58.3</i>	53.1		
Imports	-29.9	-20.2	-28.2	-19.5	-20.0	-20.8		
Services and income	-33.5	-31.6	-31.9	-33.9	- <i>31.7</i>	-28.8		
of which: Debt interest	-0.7	-0.6	0.0	-0.7	0.0	0.0		
Dividends and profits	-8.1	-9.1	0.0	-10.8	0.0	0.0		
Current transfers	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4		
Capital and financial account	3.9	-1.7	6.2	-2.5	-4.1	-1.7		
of which: Foreign direct investment	2.9	-5.5	3.2	-2.5	-2.7	0.5		
Overall balance	-6.1	7.3	1.4	8.3	3.3	2.6		

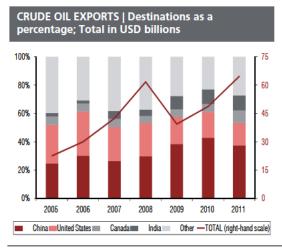
Sources: Banco Nacional de Angola and IMF.

This substantial adjustment resulted, in part, from an effort to curb government expenditure, which was reflected in a moderation in imports (particularly imports of goods in 2010). Paramount to this process were, however, very favourable developments in terms of trade in 2010 and 2011: gains amounting to 19.6% and 24.1% respectively (by contrast with a 28.3% decrease in the previous year). In turn, terms of trade mainly reflected an upward trend (and maintenance of high levels) in international oil prices since 2009: OPEC's reference price reached a peak of USD 140.73 per barrel in July 2008, fell to a low of USD 33.36 at the end of 2008, ended 2009 at USD 77.16, reached USD 106.84 towards the end of 2011 and stood at USD 109.68 on 28 September 2012. This price effect offset a continued fall in oil production since 2008, thus making it possible for oil exports to reach a new nominal peak in 2011

Chart II.1.5.

5

Chart II.1.4.



MERCHANDISE IMPORTS | Origins as a percentage; Total in USD billions 80% 20 60% 15 40% 10

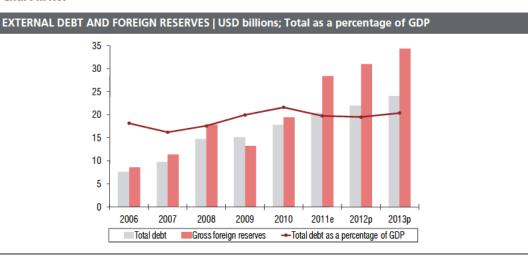
2005 2006 2007 2008 2009 2010 2011 ■ Brazil ■ China United States Other -TOTAL (right-hand scale Portugal

Sources: Banco Nacional de Angola and IMF.

With regard to destination countries for Angolan oil, a tendency towards diversification arose (see Chart II.1.4.), given that both the United States and China (the main customer since 2007) lost ground in favour of several partners with smaller shares – including Portugal, which moved from 0.5% of the total in 2009 to 2.4% in 2011. In fact, the Portuguese position was also strengthened in terms of imports of goods (see Chart II.1.5.), with its share recovering further in 2011 (after a low in 2009). This was particularly significant against a background of declining shares for the remaining major suppliers (except for the United States), which also suggests a tendency towards diversification.

20%

Chart II.1.6.



Sources: Banco Nacional de Angola and IMF.

Following a sudden drop in 2010, which reflected the initial impact of the adjustment, imports of goods recovered in the following year, but did not reach (not even in nominal terms) their 2008 and 2009 levels (whereas further, albeit more subdued, increases are now expected due to an upturn in consumption and the investment in areas such as pre-salt oil). Turning to current invisibles, 2011 saw П

much more marked changes from the previous year across all main debit items, most notably the largest one – dividends and profits (particularly in the oil sector), with a nominal increase of 48.2%.

With regard to financial operations, net direct investment remained in negative territory in 2011, for the second year in a row, reflecting a slowdown in inflows (which, however, will now tend to be gradually reversed) and particularly an increase in investment abroad by Angolan residents. By contrast, loan disbursements strengthened further, which led external debt to a new peak at the end of 2011, in both absolute and nominal terms. However, this was not the case as a percentage of GDP, given that this indicator fell for the first time in four years (in contrast to developments in foreign exchange reserves – see Chart II.1.6.).

II.1.4. PUBLIC FINANCES

The Angolan adjustment programme was largely based on the advancement of fiscal consolidation, which is seen as a key element for the correction of macroeconomic imbalances generated by the impact of the international crisis. This consolidation process was greatly facilitated by favourable international oil price developments, with a very positive impact on the State's oil revenue (corresponding to 78% of total revenues, on average, in the 2007-2011 period). As such, this oil revenue contributed significantly to a strengthening of the fiscal position between 2009 and 2011: a total adjustment equivalent to 17.7 percentage points of GDP (in terms of the overall balance on a commitment basis – see Table II.1.3.).

Table II.1.3.

BUDGET EXECUTION As a percentage of GDP									
	2009 Est.	2010 Est.	2011 Budg.	2011 Est.	2012 Budg.	2012 Proj.	2013 Prog.		
Total revenue	34.6	43.5	40.2	49.1	34.5	44.9	41.3		
of which: Oil revenue	24.2	33.0	30.3	39.3	23.5	34.4	29.7		
Total expenditure	41.9	37.9	35.6	38.8	32.1	38.8	39.6		
Current expenditure	29.5	28.3	26.5	30.1	23.7	29.8	29.6		
Compensation of employees	11.1	9.4	10.3	9.0	9.7	9.7	10.6		
Goods and services	6.4	8.2	8.1	10.6	7.8	10.6	10.6		
Interest	1.7	1.2	1.8	1.0	1.0	1.0	1.0		
Transfers and subsidies	10.3	9.5	6.4	9.5	5.1	8.4	7.4		
Capital expenditure	12.4	9.7	9.1	8.7	8.5	9.0	10.0		
Overall balance (commitment basis)	-7.4	5.5	4.5	10.3	2.4	6.1	1.7		

Sources: Banco Nacional de Angola, Ministry of Finance of Angola and IMF.

It should be noted, however, that this adjustment was more marked than if it had merely resulted from the fiscal space created by higher oil revenue (which increased from 24.2% of GDP in 2009 to 39.3% in 2011). In fact, the authorities' commitment to fiscal consolidation was made particularly clear by expenditure retrenchment (with expenditure dropping by 3.1 percentage points of GDP during that two-year period) and non-oil revenue-enhancing measures. It follows that, in particular, the deficit excluding oil revenue, as a percentage of non-oil GDP, is likely to have dropped in 2010 to its lowest level since the beginning of the millennium. Also noteworthy was a settlement of arrears to suppliers (mainly completed in 2011), which had reached approximately 9% of GDP in 2009, causing at that time significant disruptions to the smooth functioning of the economy.

On the basis of projections prepared towards the middle of the year (which may yet prove to be conservative, given developments in the third quarter), fiscal prospects for 2012 indicate that the fiscal

position has strengthened further, with the projected overall surplus standing at 6.1% of GDP – compared with an initially budgeted 2.4% of GDP. As such, the phenomenon observed in 2011 (and in previous years) should occur again, i.e. a deliberately prudent budgeting of oil revenue – a traditional practice with Angolan authorities, which regard it as a precautionary measure within the budgetary procedure. The effect is that the said revenues greatly exceed that initially budgeted: they are estimated at 142% in 2011 and projected at 147% in 2012 (see Chart II.1.7.).

Chart II.1.7.

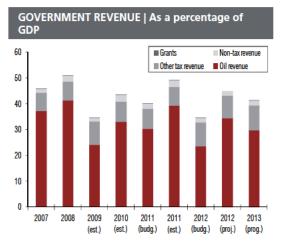
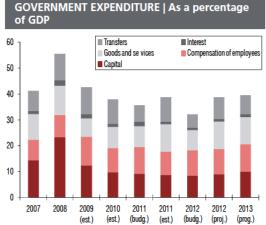


Chart II.1.8.



Sources: Banco Nacional de Angola, Ministry of Finance of Angola and IMF.

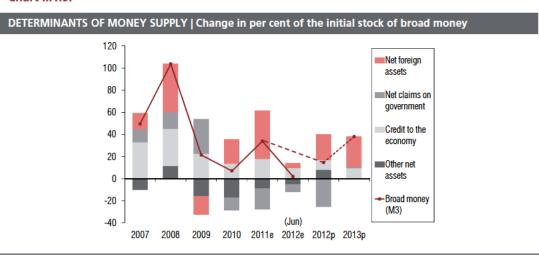
Turning to expenditure, the fiscal perimeter now includes a number of quasi-fiscal operations by public enterprises (mostly Sonangol). Adopted within the framework of regular monitoring procedures of the programme with the IMF, this reclassification (for now, regarding only the post-2006 period) resulted in a significant change to the overall size and structure of spending. It therefore seems that containment started as early as 2009, with a sharp drop in investment allocation (Chart II.1.8.) – continuing, more slowly, over the following two years (as a percentage of GDP), whereas a gradual recovery is now projected. By contrast, current expenditure restraint took place mainly in 2010 and reversed during the following year, with the fiscal space created by the increase in oil revenue giving ample leeway for budgetary implementation – particularly as regards such items as goods and services or transfers and subsidies.

II.1.5. MONETARY AND EXCHANGE RATE CONDITIONS

Angola's monetary policy framework was substantially altered in late 2011, with the adoption of several innovations allowing monetary policy, as implemented by Banco Nacional de Angola, to gain depth, sophistication and potential effectiveness. This applies in particular to the establishment of a Monetary Policy Committee (meeting monthly, within the framework of Banco Nacional de Angola) and the introduction of a reference interest rate (which signals the policy stance adopted by the monetary authority), the LUIBOR (Luanda Interbank Offered Rates, released on a daily basis for a number of maturities, on the basis of interbank rates), the new standing facilities for liquidity absorption and provision and the new open market operations (with diverse characteristics). This gave rise to a more comprehensive and complex structure, which complements regular intervention in the foreign exchange market by Banco Nacional de Angola, in order to influence the kwanza/US dollar (reference currency) exchange rate — the preferred instrument used by the central bank in the pursuance of its price stabilisation objectives.

In fact, the slowing inflation pace as of mid-2011 led Banco Nacional de Angola to adopt a more accommodative monetary policy stance. A downward trend thus emerged across its various intervention rates (ranging from the rediscount rate to standing facility rates), as well as rates on central bank bills – and also rates on Treasury bills (in both cases, to financial repression levels, i.e. below inflation). This trend also spread to deposit interest rates, but not to lending interest rates (Chart II.1.10.), which seems to reflect a recovery in credit demand, as seen in the accelerating pace of credit expansion in 2011 and the first half of 2012.

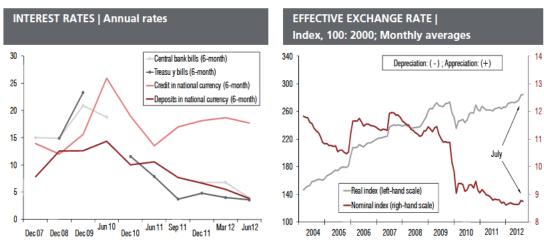
Chart II.1.9.



Sources: Banco Nacional de Angola and IMF.

Developments in credit to the economy, together with a considerable strengthening of foreign assets, had a significant expansionary effect on liquidity in 2011, despite the moderating influence of net claims on government (Chart II.1.9.). By contrast, the behaviour of broad money in the first half of 2012 was much more restrained – but did not prevent, turning to its components, a further advance in deposits in national currency (whose share of the total was over 50% for the first time in the millennium). Actually, the increased confidence in the kwanza came hand in hand with its appreciation, in real effective terms – which has already offset the impact of a marked nominal depreciation in 2009, then favourable to the price-competiveness of the Angolan economy (Chart II.1.11.).

Chart II.1.10. Chart II.1.11.



Source: Banco Nacional de Angola

MAIN ECONOMIC INDICATORS	5								
Units 2008 2009 20		2010	2010 2011		2012		2013		
	Offics	Est.	Est.	Est.	Prog.	Est.	Prog.	Est.	Prog.
OUTPUT AND PRICES									
Nominal GDP	AOK billions	6,316	5,989	7,580	8,879	9,724	10,897		11,753
	EUR billions	57.2	54.3	62.1		74.4			
	USD billions	84.2	75.7	82.5	90.0	103.7	112.7		118.0
Real GDP	annual % change	13.8	2.4	3.4	6.4	3.1	6.8		5.0
Oil sector	annual % change	12.3	-5.1	-3.0	3.8	-5.5	8.5		3.0
Other sectors	annual % change	15.0	8.3	7.8	8.1	8.5	6.0		6.1
Inflation (CPI-Luanda)	y-o-y % change	13.2	14.0	15.3	10.8	11.4	9.6	9.9 <i>Aug</i>	7.5
	avg. % change	12.5	13.7	14.5	12.0	13.5	10.8	10.9 Aug	8.6
PUBLIC FINANCES									
Total revenue	% of GDP	50.9	34.6	43.5	40.2	49.1	34.5		41.3
Oil revenue	% of GDP	41.2	24.2	33.0	30.3	39.3	23.5		29.7
Total expenditure ^(a)	% of GDP	55.4	41.9	37.9	35.6	38.8	32.1		39.6
Current expenditure	% of GDP	32.1	29.5	28.3	26.5	30.1	23.7		29.6
Capital expenditure	% of GDP	23.3	12.4	9.7	9.1	8.7	8.5		10.0
Overall balance (commitment basis)	% of GDP	-4.5	-7.4	5.5	4.5	10.3	2.4		1.7
Overall balance (cash basis)	% of GDP	-5.6	-8.6	5.5	-1.2	11.9	2.4		1.7
MONEY AND CREDIT									
Net foreign assets	annual % change	43.7	-23.8	50.4	10.2	71.0	29.3	41.1 Jun	30.6
Credit to the economy	annual % change	66.8	55.4	25.8	39.0	28.6	15.1	29.7 Jun	15.9
Broad money (M3)	annual % change	103.9	21.5	7.1	37.8	34.0	14.7	20.0 Jun	38.1
INTEREST RATES									
Credit in national cur. ^(b) (180 d)	annual rate	12.0	15.6	19.0		18.1		17.7 Jun	1
Deposits in national cur. (180 d)	annual rate	12.5	12.6	10.0		6.7		3.8 Jun	
Deposits in foreign cur. (180 d)	annual rate	4.8	4.9	7.2		2.7		2.4 Jun	
Central bank bills (63 d)	annual rate	14.1	20.6	10.0		7.2		3.2 Jun	
Treasury bills (182 d)	annual rate	14.9	23.3	11.6		4.8		3.6 Jun	
Treasury bonds ^(c) (3-year)	annual rate	2.3	5.5	7.0		7.0		7.3 Jun	,
BALANCE OF PAYMENTS									
Exports (current USD)	annual % change	44.0	-36.1	23.9	-0.9	32.6	0.0		-4.3
Imports (current USD)	annual % change	53.6	8.0	-26.4	52.1	21.4	11.6		8.5
Trade balance Current account	% of GDP	51.0	24.0	41.1	27.6 -4.8	45.2	39.5		33.6
Foreign reserves (gross)	% of GDP USD millions	8.5	-10.0 13,238	9.0	-4.8	10.8	7.3	32,624 Jun	4.4
EXTERNAL DEBT	USD IIIIIIUIIS	17,911	13,230	19,444		20,333	31,031	32,024 Juli	34,410
	FUD millions	10.005	10.020	12 441		14.000			
Total external debt	EUR millions USD millions		10,839		17 000	14,698	21 077		24.072
	% of GDP	17.6	20.0	17,859 21.6	17,900	19.8	19.5		24,072 20.4
Debt service	% of exports	3.1	10.6	7.4	7.3	6.5	19.5		20.4
EXCHANGE RATES	10 OI EVHOLIS	۱.د	10.0	7.4	1.3	0.5			
Bilateral rate EUR / AOK	average rate	110.3	110.3	122.0		130.8		118.3 Jul	,
Bilateral rate USD / AOK	average rate	75.0	79.1	91.8		93.8		95.4 Jul	
Nominal EERI [appreciation: +] (d)	annual % change	-3.0	-5.4	-13.3		-4.9		-0.7 Jul	
Real EERI [appreciation: +]	annual % change	4.2	8.1	-3.1		3.6		7.5 Jul	
	annuai /0 Ghanye	4.2	0.1	۱.ر-		5.0		7.5 JUI	

Sources: Banco Nacional de Angola, Ministry of Finance of Angola, IMF and Banco de Portugal calculations.

Notes: (a) Includes, for all years shown, current and capital expenditure incurred by state-owned enterprises (mainly Sonangol) and now included in the budget (quasi-fiscal operations); (b) Credit granted to enterprises; (c) Bonds issued in AOK but indexed to the USD/AOK exchange rate; (d) Effective exchange rate index (EERI), calculated on the basis of exchange rates applied to the currencies of the four major trading partners over the period 2005/2009.

Table A.II.1.2.

GROSS DOMESTIC PRODUCT Current price	s, billions	of kwan	zas				
	2008	2009	2010	201		2012	2013
	Est.	Est.	Est.	Prog.	Est.	Prog.	Prog.
Primary sector	4,055	3,326	4,213		5,638		
Agriculture, fishing and related products	420	611	746		909		
Mining and quarrying	3,635	2,715	3,467		4,730		
Oil and gas	3,569	2,662	3,396		4,641		
Other (incl. diamonds)	66	54	71		89		
Secondary sector	627	821	1,075		1,346		
Manufacturing	303	364	464		584		
Electricity and water	5	7	10		11		
Construction	319	450	602		751		
Tertiary sector	1,480	1,694	2,103		2,509		
Trade and tradable services	1,104	1,240	1,555		1,896		
Non-tradable services	376	454	548		613		
GROSS DOMESTIC PRODUCT (at factor costs)	6,162	5,841	7,392		9,493		
Indirect taxes and subsidies	154	147	188		231		
GROSS DOMESTIC PRODUCT (market prices)	6,316	5,989	7,580	8,879	9,724	10,897	11,753
Memo items:							
Nominal GDPmp (EUR billions)	57.2	54.3	62.1		74.4		
Nominal GDPmp (USD billions)	84.2	75.7	82.5	90.0	103.7	112.7	118.0
Nominal GDPmp (in Kz, % annual change)	36.2	-5.2	26.6	17.1	28.3	12.1	7.9
Real GDP (% annual change)	13.8	2.4	3.4	6.4	3.1	6.8	5.0
Oil sector	12.3	-5.1	-3.0	3.8	-5.5	8.5	3.0
Other sectors	15.0	8.3	7.8	8.1	8.5	6.0	6.1

Sources: Banco Nacional de Angola, IMF and Banco de Portugal calculations.

Table A.II.1.3.

CONSU	JMER PRICE INDEX I	Per cent			
		Monthly	Cumulative	Year-on-year	Average
		change	change	change	change
		[1]	[2]	[3]	[4]
2000	December		268.4	268.4	325.0
2001	December		116.1	116.1	152.6
2002	December		105.6	105.6	109.0
2003	December		76.6	76.6	98.2
2004	December		31.0	31.0	43.5
2005	December		18.5	18.5	23.0
2006	December		12.2	12.2	13.3
2007	December		11.7	11.7	12.2
2008	December		13.2	13.2	12.5
2009 2010	December		14.0	14.0	13.7
2010	December December		15.3 11.4	15.3 11.4	14.5 13.5
2011		0.8	0.8	13.8	13.8
2010	January February	0.8	1.7	13.7	13.8
	March	1.0	2.8	13.8	13.8
	April	1.0	3.8	13.7	13.8
	May	1.1	4.9	13.9	13.8
	June	1.0	6.0	13.7	13.8
	July	1.1	7.2	13.7	13.8
	August	1.1	8.4	14.0	13.8
	September	2.4	10.9	15.7	13.9
	October	1.2	12.3	16.1	14.2
	November	1.0	13.4	15.9	14.4
	December	1.6	15.3	15.3	14.5
	December (prog.)			13.0	15.0
2011	January	0.6	0.6	15.1	14.6
	February	0.8	1.5	15.1	14.7
	March	0.8	2.3	14.8	14.8
	April	0.9	3.2	14.6	14.8
	May	1.0	4.2	14.5	14.9
	June	1.0	5.3	14.6	14.9
	July	0.7	6.1	14.1	15.0
	August	0.7	6.9	13.7	14.9
	September	0.8	7.7	11.9	14.6
	October	0.8	8.5	11.4	14.2
	November	0.9	9.5	11.3	13.8
	December	1.7	11.4	11.4	13.5
	December (prog.)			10.8	12.0
2012	January	0.7	0.7	11.5	13.2
	February	0.7	1.4	11.3	12.9
	March	0.6	2.0	11.1	12.6
	April	0.7	2.7	10.9	12.3
	May	0.6	3.4	10.5	11.9
	June	0.7	4.1	10.1	11.6
	July	0.7	4.8	10.0	11.2
	August	0.6	5.4	9.9	10.9
	December (prog.)			9.6	10.8
2013	December (prog.)			7.5	8.6

Sources: Banco Nacional de Angola, IMF and Banco de Portugal calculations.

Notes: [1] month (n) / month (n-1); [2] month (n) / previous December; [3] month (n) / month (n) of the previous year; [4] last 12 months / previous 12 months.

Table A.II.1.4.

BALANCE OF PAYMENTS USD millions							
	2008	2009	2010	20	11	2012	2013
	Est.	Est.	Est.	Prog.	Est.	Prog.	Prog.
1. Current account	7,195	-7,572	7,421	-4,320	11,181	8,277	5,170
Merchandise	42,932	18,168	33,928	24,804	46,859	44,485	39,647
Exports (f.o.b.)	63,914	40,828	50,595	50,154	67,088	67,059	64,144
Oil sector	62,457	39,803	49,352	48,591	65,591	65,704	62,700
of which: crude oil	61,666	39,271	48,629	47,913	64,539	64,779	61,718
Diamonds	1,210	814	976	1,238	1,205	1,037	1,110
Other	247	212	267	325	291	318	334
Imports (f.o.b.)	-20,982	-22,660	-16,667	-25,350	-20,228	-22,574	-24,497
Oil sector	-5,713	-4,326		-5,596		-5,269	-5,441
Other	-15,269	-18,546		-19,753		-17,305	-19,056
Services and income	-35,527	-25,369	-26,069	-28,702	-35,203	-35,690	-34,013
Services (net)	-21,810	-18,546	-17,898	-19,480	-23,102	-24,302	-23,068
Credit	330	623	857	705	530	670	724
Debit	-22,139	-19,169	-18,754	-20,185	-23,632	-24,972	-23,792
of which: Transportation and travel	-3,975	-4,288	-3,237		-4,046		
Construction	-5,007	-4,676	-4,643		-5,704		
Technical assistance	-7,592	-7,114	-6,158		-8,147		
Income (net)	-13,718	-6,823	-8,172	-9,222	-12,101	-11,388	-10,945
of which: Interest on public debt	-508	-504	-477		-744		
Dividends and profits	-13,185	-6,130	-7,525		-11,151		
Current transfers (net)	-210	-370	-438	-422	-475	-518	-464
2. Capital and financial accounts	61	2,956	-1,411	5,566	-2,582	-4,592	-2,050
Capital transfers (net)	12	4	1	0	0	1	3
Foreign direct investment (net)	-891	2,199	-4,568	2,919	-2,582	-3,077	597
of which: Inflows	16,581	11,673	12,157		10,535		
Medium and long-term loans	3,833	561	2,454	2,217	3,355	1,213	2,154
Disbursements	5,277	4,377	5,730	5,862	6,955		
Scheduled amortisation	-1,443	-3,817	-3,276	-3,645	-3,600		
Other capital (incl. items in transit, errors and omissions)	-2,893	192	702	430	-3,355	-2,729	-4,804
3. Overall balance: [1 + 2]	7,256	-4,616	6,010	1,246	8,599	3,685	3,120
4. Financing	-7,256	4,616	-6,010	-1,700	-8,599	-3,685	-3,120
Change in official reserves (net) [increase: -]	-6,673	4,631	-6,101	-1,700	-9,054	-3,685	-3,120
Exceptional financing	-583	-15	91	0	455	0	0
5. Financing gap	0	0	0	-454	0	0	0
Memo items:							
Trade balance (as a percentage of GDP)	51.0	24.0	41.1	27.6	45.2	39.5	33.6
Current account (as a percentage of GDP)	8.5	-10.0	9.0	-4.8	10.8	7.3	4.4

Sources: Banco Nacional de Angola, IMF and Banco de Portugal calculations.

EXTERNAL DEBT AND FOREIGN RESERVE	S USD mi	llions					
	2008	2009	2010	20	11	2012	2013
			Est.	Prog.	Est.	Prog.	Prog.
1. Net foreign assets	19,750	12,628	18,425		30,461	37,895	48,909
of which: foreign reserves (gross)	17,911	13,238	19,444		28,393	31,031	34,416
2. Total external debt (including arrears)	14,800	15,125	17,859	17,900	20,497	21,977	24,072
Commercial	8,504	9,002	10,698		12,653		
Banking	7,680	8,114	9,863		11,915		
Enterprises	824	888	835		739		
Official bilateral	5,917	5,386	5,833		6,215		
Official multilateral	379	738	1,329		1,629		
Memo items:							
Net foreign assets (% of GDP)	23.5	16.7	22.3		29.4	33.6	41.4
Gross foreign reserves (% of GDP)	21.3	17.5	23.6		27.4	27.5	29.2
Total external debt (% of GDP)	17.6	20.0	21.6	19.9	19.8	19.5	20.4

Sources: Banco Nacional de Angola, IMF and Banco de Portugal calculations.

Table A.II.1.6.

MERCHANDISE EXPORTS Products,	, USD m	illions ;	Destin	ations,	as a pe	rcentag	e of tot	al
	2005	2006	2007	2008	2009	2010	2011	2005 to 2011
					Est.	Est.	Est.	Est.
TOTAL EXPORTS	24,109	31,862	44,396	63,914	40,828	50,595	67,088	
Crude oil	22,583	29,929	42,352	61,666	39,271	48,629	64,539	
Refined oil products and gas	271	554	652	792	532	722	1,052	
Diamonds	1,092	1,155	1,182	1,210	814	976	1,205	
Other	163	225	211	247	212	267	292	
EXPORTS BY DESTINATION (a)								
South Africa	1.5	1.8	3.9	4.1	3.2	3.1	2.6	3.1
Canada	6.0	5.5	5.9	5.2	5.4	5.8	8.7	6.2
China	24.8	30.1	26.4	29.7	38.5	42.8	37.5	33.7
United States	27.2	31.4	24.0	23.3	19.0	18.1	15.9	21.6
France	7.9	3.5	5.2	5.0	7.6	3.7	3.2	4.9
India	2.3	2.0	5.5	4.3	9.4	10.1	10.7	7.0
Portugal	0.1	0.0	1.0	0.8	0.5	1.8	2.4	1.1
Taiwan	4.0	5.2	4.2	2.5	2.9	4.8	8.2	4.7
Other	26.1	20.5	24.0	25.1	13.5	9.8	10.8	17.7

Sources: Banco Nacional de Angola, IMF and Banco de Portugal calculations.

Note: (a) Crude oil exports only.

Table A.II.1.7.

MERCHANDISE IMPORTS Products,	USD mi	llions ;	Origin	s, as a p	ercenta	age of t	otal	
	2005	2006	2007	2008	2009	2010	2011	2005 to 2011
					Est.	Est.	Est.	Est.
TOTAL IMPORTS	8,353	8,778	13,662	20,982	22,660	16,667	20,228	
of which: SNA (a)	4,147	5,664	8,590	14,828	22,548	16,667	20,228	
Consumer goods	5,101	5,229	7,898	12,109	13,271	10,746		
Intermediate goods	867	1,027	1,657	2,566	2,770	2,190		
Capital goods	2,386	2,522	4,107	6,308	6,620	4,888		
IMPORTS BY ORIGIN								
South Africa	9.6	8.7	6.6	5.7	3.9	4.0	3.8	5.0
Belgium	5.7	4.8	5.0	4.5	6.4	7.3	6.0	5.9
Brazil	7.9	8.7	7.7	8.2	6.2	5.1	4.2	6.3
China	6.8	9.6	4.3	10.0	7.4	8.5	7.6	7.9
United States	5.7	6.4	11.0	9.1	10.7	7.4	8.2	8.9
Portugal	18.3	18.5	19.3	17.7	14.0	14.5	15.4	15.9
United Kingdom	3.9	3.4	4.8	3.6	4.4	5.1	2.9	4.0
Other	42.0	39.8	41.3	41.3	46.9	48.1	52.0	46.2

Sources: Banco Nacional de Angola, IMF and Banco de Portugal calculations.

Note: (a) Data from the National Customs Service of Angola.

Table A.II.1.8.

GOVERNMENT OPERATIONS Billions										
	2008	2009	2010		2011			2012		2013
	Est.	Est.	Est.	Budg.	Est.	l.e. ^(a)	Budg.	Proj.	l.e. ^(a)	Prog.
1. Total revenue	3,217	2,069	3,295	3,565	4,776	134.0	3,761	4,892	130.1	4,852
Tax revenue	3,070	1,988	3,094	3,387	4,528	133.7	3,564	4,696	131.8	4,624
Oil revenue	2,602	1,449	2,500	2,691	3,817	141.8	2,560	3,753	146.6	3,492
Non-oil revenue	468	539	594	696	711	102.2	1,004	943	93.9	1,132
Non-tax revenue	145	79	199	176	246	139.8	196	196	99.9	227
Grants	2	2	2	2	2	95.0	0	0	0.0	1
2. Total expenditure ^(b)	3,499	2,510	2,876	3,164	3,774	119.3	3,501	4,223	120.6	4,653
Current expenditure	2,029	1,767	2,143	2,353	2,928	124.4	2,578	3,242	125.7	3,478
Compensation of employees	543	665	714	914	877	96.0	1,061	1,061	100.0	1,242
Goods and services	718	383	619	716	1,031	144.0	850	1 153	135.7	1,241
Debt interest	123	103	90	158	94	59.5	111	111	99.6	121
Domestic	14	24	27	104	56	53.8	70	70	99.9	90
External	109	79	63	54	38	70.4	41	41	99.3	31
Transfers and subsidies	646	615	720	565	926	163.9	557	917	164.7	874
Capital expenditure	1,470	743	733	811	846	104.3	922	981	106.4	1,175
3. Overall balance (commitment basis) [1-2]	-281	-441	419	401	1,002		260	669		199
4. Change in arrears (net)	-71	-75	-1	-506	152		0	0		0
Domestic ^(c)	-83	-39	-1	-506	152		0	0		0
External interest	12	-36	0	0	0		0	0		0
5. Overall balance (cash basis) [3 + 4]	-352	-516	418	-105	1,154		260	669		199
6. Financing	352	516	-418	105	-1,154		-260	-669		-199
Oil signature bonuses	0	0	0	0	0		0	145		0
External financing (net)	314	95	-15	259	-94		64	-59		-21
Disbursements	446	380	154		186		266	266		253
Amortisation	-131	-269	-138		-135		-203	-203		-174
Government deposits abroad		-16	-31		-145			-122		-100
Domestic financing (net)	38	421	-403	-154	-1,060		-324	-755		-178
Bank financing	-456	681	-321		-780		0	-551		-178
Non-bank financing	494	-260	-82		-280		-324	-204		0
Memo items:										
Overall balance, commitment basis (% of GDP)	-4.5	-7.4	5.5	4.5	10.3		2.4	6.1		1.7
Excluding oil revenue	-45.6	-31.6	-27.5	-25.8	-28.9		-21.1	-28.3		-28.0

Sources: Banco Nacional de Angola, Ministry of Finance (Angola), IMF and Banco de Portugal calculations.

Notes: (a) Level of budget execution (%); (b) Includes, for all years shown, current and capital expenditure incurred by state-owned enterprises (mainly Sonangol) and now included in the budget (quasi-fiscal operations); (c) Net of changes in arrears to suppliers (expenditure) and changes in Sonangol's arrears to the Treasury (revenue).

Table A.II.1.9.

MONETARY SURVEY Billions of kwanzas												
	2008	2009	2010	2011				2012			2012	2013
	Dec	Dec	Dec	Dec	Dec	2011/2010	010	Jun	Jun 12 / Dec 11	Dec11	Dec	Dec
				Prog.	Est.	[1]	[2]	Est.	[1]	[2]	Prog.	Prog.
Net foreign assets	1,481	1,129	1,698	1,871	2,902	71.0	44.1	3,059	5.4	4.3	3,754	4,904
Net foreign assets, USD billions	20	13	18		30	65.3		32	5.3		38	49
Banco Nacional de Angola	1,314	1,127	1,683	1,704	2 568	52.5	32.4	2,960	15.3	10.7	3,019	3,399
Net international reserves	1,315	1,128	1,605	1,706	2 485	54.8	32.3	2,881	15.9	10.8	2,845	3,219
Gross reserves	1,343	1,183	1,792		2 705	51.0	33.5	3,111	15.0	11.1		
Gross reserves, USD billions	18	13	19		28	46.0		33	14.9		31	34
Short-term liabilities	-28	-55	-186		-220	18.0	-1.2	-230	4.4	-0.3		
Other foreign assets (net)	<u>-</u>	-5	78	-2	82	5.0	0.1	79	-4.4	-0.1	174	180
Commercial banks	167	2	14	167	335	2238.4	11.7	66	-70.5	-6.4	735	1 505
Net domestic assets	616	1,419	1,031	1,888	755	-26.8	-10.1	670	-11.2	-2.3	439	887
Domestic credit (net)	594	1,728	1,782	2,397	1,748	-1.9	-1.2	1,853	0.9	2.9	1,142	1,595
Claims on general government (net)	-263	396	106	29	-407	-485.3	-18.8	-661	62.3	6.9-	-1,340	-1,282
Credit to the economy	828	1,332	1,676	2,330	2,156	28.6	9.71	2,514	16.6	8.6	2,482	2,877
Other domestic assets (net)	22	-309	-751	-509	-994	-32.2	-8.9	-1,183	-19.0	-5.2	-703	-708
Total assets	2,097	2,548	2,728	3,760	3,657	34.0	34.0	3,729	2.0	2.0	4,193	5,791
Broad money (M3)	2,097	2,548	2,728	3,760	3,657	34.0	34.0	3,729	2.0	2.0	4,193	5,791
Money and quasi-money (M2)	1,417	2,304	2,626	3,459	3,506	33.5		3,641	3.8		4,043	5,641
Money	1,235	1,635	1,700	2,322	2,151	26.5		1,848	-14.1			
Currency in circulation	126	170	172	164	500	21.6		175	-16.2		237	325
Demand deposits	1,109	1,466	1,528	2,158	1,942	27.0		1,673	-13.9			
in national currency	511	609	733		926	30.4		806	-5.0		1,088	1,490
in foreign currency	298	857	795		986	23.9		765	-22.4			
Quasi-money	182	699	976	1,137	1,356	46.4		1,793	32.2			
Time deposits in national currency	42	260	409		296	45.7		843	41.4			
Time deposits in foreign currency	140	409	517		759	46.9		949	25.0			
Repurchase agreements	089	244	102	301	151	47.6		88	-41.5		150	150

Sources: Banco Nacional de Angola, IMF and Banco de Portugal calculations.

Notes: [1] Percent changes from the end of the previous year; [2] Changes in percent of the initial stock of broad money (expansion/contraction determinants).

Table A.II.1.10.

INTEREST RATES Annual rates, p	er cent								
	2008	2009	2010	2011	2011	2011	2011	2012	2012
	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun
Deposits									
(in national currency)									
Demand deposits	2.95	2.56	2.44	2.70	0.04	0.12	5.79	2.75	0.24
Time deposits									
Up to 90 days	8.67	12.06	8.18	7.87	7.60	3.97	4.32	4.14	3.25
91-180 days	12.54	12.59	9.99	11.67	10.56	7.67	6.67	5.50	3.82
181-365 days	7.51	11.62	6.81	6.17	10.24	3.32	5.55	5.86	3.56
Over 1 year	5.81	4.62	1.65	6.58	7.24	7.12	8.58	7.31	5.85
(in foreign currency)									
Demand deposits	0.18	0.95	0.08	0.03	0.05	0.00	2.00	0.08	0.00
Time deposits									
Up to 90 days	4.72	4.05	2.32	2.34	2.91	2.31	2.38	2.36	2.39
91-180 days	4.84	4.91	7.15	3.42	3.52	2.53	2.68	3.06	2.36
181-365 days	4.10	5.78	2.73	2.48	3.68	3.70	3.72	3.35	3.25
Over 1 year	5.14	5.95	1.12	1.09	1.36	1.48	3.88	3.49	5.23
Credit (to enterprises)									
(in national currency)									
Up to 180 days	11.98	15.62	18.96	19.21	13.47	16.99	18.09	18.66	17.68
181-365 days	10.71	19.39	18.23	21.24	17.82	19.05	15.98	15.64	17.16
Over 1 year	10.52	19.02	23.74	26.07	23.57	18.05	17.70	18.13	18.52
(in foreign currency)									
Up to 180 days	9.14	11.32	14.84	9.71	8.40	10.08	10.17	10.82	12.09
181-365 days	8.11	9.90	8.72	12.71	11.60	12.00	10.03	10.52	12.53
Over 1 year	7.84	8.57	9.86	9.61	13.83	10.62	10.42	10.69	10.71
BNA intervention rates									
Rediscount	19.57	30.00	25.00	25.00	20.00	20.00	20.00	20.00	20.00
Reference rate							10.50	10.25	10.25
Standing facilities									
Liquidity provision facility							12.50	12.00	11.75
Overnight deposit facility							2.00	2.00	1.50
Open market operations									
Liquidity provision					16.25	15.45	15.45	12.00	
Liquidity absorption					7.75	4.79	5.22	5.00	
Central bank bills									
14 days			7.00						
28 days	13.86		8.50	7.18					
63 days	14.09	20.56	9.99	8.62	8.40	5.59	7.18	6.77	3.21
91 days	14.59		10.82						
182 days	14.89	20.88					6.80	6.80	3.94
364 days	14.94								
Treasury bills									
63 days		21.44							
91 days	14.59		10.82	10.00	8.34	3.58	3.94	3.91	3.29
182 days	14.89	23.28	11.55	10.59	7.87	3.74	4.82	4.01	3.57
364 days			13.69	12.41	9.00	4.76	5.18	4.56	3.68
Treasury bonds ^(a)									
1 year		4.46							
2 years		4.96						7.00	7.00
3 years	2.32	5.46	7.00	7.00	7.00	7.00	7.00	7.25	7.25
4 years		6.46	7.00			7.25	7.25	7.50	
5 years			7.00		7.75	7.75	7.75	7.75	
6 years					8.00	8.00	8.00		
Memo item:									
Inflation (year-on-year rate of change)	13.18	14.00	15.30	14.76	14.58	11.91	11.38	11.12	10.11
	, 5.10	, 7.00	, 5.50	, ,,, 0	, 7.50	, 1.51	, 1.50	11.12	

Source: Banco Nacional de Angola (BNA).

Notes: (a) Treasury bonds issued in kwanzas but indexed to the USD/AOK exchange rate.

Table A.II.1.11.

EVCUANCE BATES	I Avenue votes			
EXCHANGE RATES				(a) (b)
	EUR / AOK	USD / AOK	EERI	
			Nominal	Real
2000	9.02	9.89	100.00	100.00
2001	19.58	21.84	45.45	112.68
2002	41.21	43.34	22.74	116.98
2003	83.98	74.35	12.91	129.34
2004	103.56	83.36	11.33	157.98
2005	108.91	87.24	10.75	179.92
2006	100.79	80.38	11.54	213.65
2007	105.11	76.71	11.66	233.85
2008	110.33	75.03	11.31	243.75
2009	110.32	79.06	10.69	263.53
2010	122.04	91.85	9.27	255.46
2011	130.77	93.77	8.81	264.66
2010 January	128.68	89.70	9.40	246.06
February	124.32	90.23	9.40	246.68
March	123.54	90.92	9.37	248.57
April	125.65	93.56	9.12	243.90
May	119.40	92.93	9.16	247.53
June	113.07	92.57	9.35	256.17
July	116.45	92.57	9.35	258.56
August	120.01	92.30	9.24	257.43
September	116.90	90.64	9.48	269.63
October	127.26	92.15	9.15	262.37
November		92.30	9.06	260.90
December	121.82	92.33	9.17	267.43
2011 January	123.46	92.89	9.08	264.92
February	127.25	93.25	8.98	262.06
March	129.93	93.27	8.96	262.24
April	133.83	93.27	8.90	262.02
May	135.32	93.28	8.79	260.79
June	134.47	93.29	8.82	264.26
July	133.94	93.31	8.80	264.89
August	133.62	93.34	8.80	266.14
September	131.55	93.99	8.69	263.80
October	129.23	94.92	8.72	266.71
November		95.20	8.62	266.15
December	126.46	95.27	8.65	271.52
2012 January	122.87	95.29	8.70	272.79
February	125.72	95.30	8.67	273.14
March	126.28	95.31	8.64	272.56
April	125.95	95.32	8.64	273.98
May	123.44	95.34	8.64	276.46
June	119.04	95.35	8.78	283.80
July	118.30	95.37	8.74	284.65

Sources: Banco Nacional de Angola and Banco de Portugal calculations.

Notes:

(a) Effective exchange rate index (EERI, nominal and real), calculated on the basis of official exchange rates applied to the currencies of the four main trading partners over the period 2005/2009; (b) An increase/decrease in the EERI (nominal or real) corresponds to an appreciation/depreciation of the kwanza.

CAPE VERDE

AREA: 4,033 KM²

CAPITAL CITY: Praia

POPULATION: 507 thousand

(2011; source: UN)

CURRENCY: Cape Verde escudo

Domestic investment dynamics and buoyant tourism contributed to sustained economic growth. In the absence of significant inflationary pressures, persistently adverse external conditions continued to exert pressure on public and external accounts.

Monetary policy was geared towards safeguarding the euro peg.

M

II.2.1. SUMMARY

The protracted international crisis – particularly in EU countries – and domestic investment dynamics affected macroeconomic developments in Cape Verde in 2011 and have been determinant throughout 2012. Continued weak economic conditions in many of Cape Verde's main economic partners have resulted in smaller inflows from abroad, with grants and foreign direct investment suffering in particular, exerting pressure on public accounts and the balance of payments. Nevertheless, both domestic investment dynamics and buoyant tourism have helped sustain economic growth at 5% in 2011 and a projected 4.3% in 2012.

Table II.2.1.

MAIN ECONOMIC INDICATORS									
	2009	2010	2011 Est.	2012 Prog.					
Real GDP (annual percentage change)	3.7	5.2	5.0	4.3					
Inflation (average percentage change)	1.0	2.1	4.5	2.1					
(y-o-y percentage change)	-0.4	3.4	3.6	2.3					
Broad money (percentage change)	3.3	5.9	3.6	1.9					
Current account (% of GDP)	-15.6	-12.9	-15.0	-11.7					
Official reserves (months of imp.)	4.2	4.2	3.2	3.1					
Fiscal balance (% of GDP)	-6.2	-11.0	-8.8	-9.8					
Public debt (% of GDP)	76.4	80.9	84.0						
External	45.8	50.9	55.7						
Domestic	30.6	30.0	28.4						
of which: TCMF ^(a)	9.2	8.6	7.4						

Sources: IMF. BCV. Ministry of Finance and NSO of Cape Verde.

(a) Títulos Consolidados de Mobilização Financeira (consolidated financial Note:

mobilisation securities).

In 2011 these constraints had the strongest impact on the external accounts. The current account deteriorated due to an increase in capital goods and energy imports, in spite of growth in tourism receipts, exports of goods and emigrant remittances. Also reflecting the decrease in foreign direct investment and capital transfers, foreign reserves dropped to 3.2 months of imports of goods and services in 2011 (4.2 in 2010).

In response to a decline in reserves – particularly marked until the third quarter of the year – Banco de Cabo Verde tightened its monetary policy stance by amending the minimum reserve system, limiting recourse to the liquidity provision facility and increasing its reference interest rate. Against a background of negligible inflationary pressures, monetary expansion stood at 3.6% at the end of 2011, despite having accommodated increased credit to the economy and net claims on general government.

The State's increasing recourse to domestic borrowing results from a growing need for funding, including taking on the domestic component of the public investment programme's financing. Despite slowing down in 2011, this investment effort exerted pressure on public debt, which amounted to 77% of GDP (excluding Títulos Consolidados de Mobilização Financeira (consolidated financial mobilisation securities)), and sustained the government deficit at high levels (close to 9% of GDP), in spite of expenditure restraint measures introduced throughout the year in response to a lower-than-expected collection of certain taxes and a marked decrease in grants.

The continuation of the investment programme has driven developments throughout 2012, maintaining pressure on public accounts (the deficit almost doubled year-on-year in the first half of the year), which



were already affected by an increase in interest paid and a decrease in revenue from taxes on goods and services (in particular VAT) and grants (just 15% of budget up to June). External public debt also continued to grow at a fast pace, reaching 57.9% of GDP at the end of the second quarter (55.7% of GDP in 2011).

Disbursements for investment projects with external financing have contributed to improvements in the financial account of the balance of payments (despite a continued decline in foreign direct investment). Together with favourable developments in the current account (increased exports of goods and services and containment of imports), this has increased foreign reserves, which in June covered 3.5 months of the imports of goods and services expected for the year. An increase in both Banco de Cabo Verde's net foreign assets and net claims on general government has accelerated monetary expansion, thereby easing pressures on the banking system's liquidity.

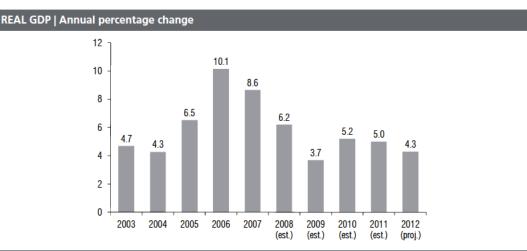
According to the debt sustainability analysis presented by the International Monetary Fund (IMF) and the World Bank in January 2012, the continued fast pace of external public debt accumulation and uncertainty about the overall economic environment are increasing Cape Verde's macroeconomic vulnerability. However, a projected gradual decrease in the public investment programme and the characteristics of the existing external debt (long maturities and a high degree of concessionality) mitigate risks in the near term.

At the start of 2012, Cape Verde ended the programme agreed with the IMF under the Policy Support Instrument. The country faced some difficulties in meeting two of the established financial targets (regarding Banco de Cabo Verde's net domestic assets and international reserves). Nevertheless, the IMF gave a positive assessment to the programme's performance, as several fiscal and monetary measures taken by the authorities brought the programme back on track. Since Cape Verde has not signed a new programme, its relationship with the IMF is expected to be based on surveillance through consultations under Article IV of its Articles of Agreement.

II.2.2. DEMAND, OUTPUT AND PRICES

Despite slightly slowing down, economic growth in Cape Verde remained robust in 2011. Provisional data for 2011 point to economic activity growing by 5.0% in real terms (i.e. just 0.2 p.p. below the 2010 estimate).

Chart II.2.1.



Sources: Banco de Cabo Verde, National Statistics Office of Cape Verde and IMF.

In 2011 real domestic product growth is expected to have been mainly supported by tourism (direct tourism receipts accounted for 18.4% of GDP), following an increase in demand for tourism in Cape Verde probably related to continued political instability in traditional North African destinations. Trade, transportation and fishing are also estimated to have made a positive contribution in 2011.

The marked increase in imports (investment-related goods and services) is expected to have had an impact on the economic slowdown of 2011. Investment appears to have been the main driving force behind the Cape Verdean economy, specifically business investment (transports, electricity, gas and water, in particular) and buoyant exports of goods (specifically fishing products) and services (in particular tourism, as mentioned above).

Current projections point to a further economic slowdown in 2012 (output is expected to increase by 4.3% in real terms). This decrease in the pace of economic growth is expected to mirror developments in private consumption (a deceleration in emigrant remittances, public wage moderation and an expected containment of consumer credit).

Chart II.2.2.

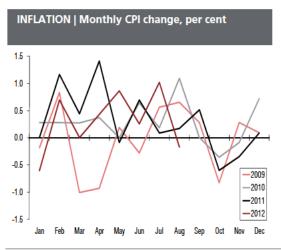
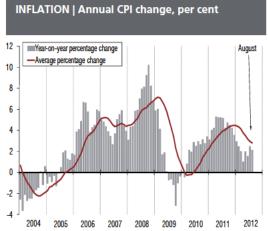


Chart II.2.3.



Sources: Banco de Cabo Verde and National Statistics Office of Cape Verde.

In 2011 average inflation continued the upward trend which started in March 2010, reflecting developments in international food and oil prices. This affected domestic prices for food, fuel and some services (particularly transportation). Average inflation reached 4.5% in December, more than doubling from 2.1% at the end of 2010.

However, year-on-year inflation began a downward trend in June 2011, as international prices stabilised, which was particularly visible in a slowdown in food price growth. Year-on-year inflation continued to decline until April 2012, before resuming an upward trend, driven by a recovery in food prices.

Projections by international institutions point to inflation remaining close to 2% towards the end of the current year, although recent oil price surges have led Banco de Cabo Verde to consider that average inflation may stand between 3.5% and 4.5% at the end of 2012.

П

II.2.3. EXTERNAL ACCOUNTS

In 2011 Cape Verde's external accounts deteriorated markedly, as a result of both a persistently unfavourable external environment and the impact of investment dynamics on the balance of payments, given its high import content. In 2011 the current account deficit exceeded €200 million, reaching 15.0% of GDP (12.9% in 2010), mainly due to strong growth in imports of goods (23%, compared with the previous year) and a decrease in official current transfers (37%).

Table II.2.2.

BALANCE OF PAYMENTS As	s a percer	ntage of	GDP	
	2009	2010	2011	2012
		Est.	Est.	Prog.
Current account balance	-15.6	-12.9	-15.0	-11.7
Trade balance	-42.3	-41.1	-44.5	-39.0
Exports	5.8	8.2	11.1	12.0
Imports	-48.1	-49.2	-55.6	-51.0
Services	10.0	12.4	13.8	14.6
of which: Tourism receipts	16.5	15.9	18.4	19.0
Income	-2.7	-4.7	-3.1	-2.9
Current transfers	19.4	20.4	18.8	15.6
of which: Remittances	8.0	7.5	8.9	8.4
Capital and financial account	15.9	18.6	13.2	11.4
Capital account	2.9	2.4	0.7	0.6
Financial account	13.0	16.2	12.6	10.8
Errors and omissions	-0.7	-4.0	0.4	0.0
Overall balance	-0.4	1.6	-1.4	-0.3

Sources: IMF and Banco de Cabo Verde.

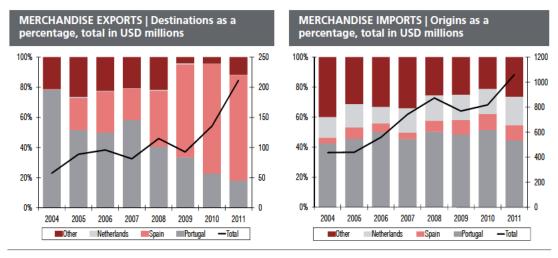
Developments in imports were driven by a stronger investment programme (which was mostly reflected in increased imports of capital goods) and higher fuel costs (which resulted from growing and continued high international oil prices). The decline in official current transfers resulted from difficulties in unlocking financial support in the form of grants to the State budget.

Exports of goods increased significantly in 2011 (49%, compared with 2010), in particular re-exports and fishing products, thereby contributing to the containment of the trade deficit growth at 18%, compared with 2010, reaching 44% of GDP.

In addition, the services balance improved as a result of strong growth in tourism receipts (26%, compared with 2010), while the income balance improved following a decrease in outflows from the distribution of dividends to foreign investors (compared with an extraordinary distribution in 2010). Private current transfers also increased significantly, growing by 18% in 2011, in particular emigrant remittances. Currency inflows from remittances from the Cape Verdean diaspora increased by 29%, in comparison with 2010, accounting for 8.9% of GDP, due to more dynamic inflows from Portugal, France and the Netherlands (accounting for 77% of the increase as a whole).

Similarly to the current account, the capital and financial account worsened in 2011, declining by 22% compared with 2010. Smaller inflows in capital transfers (-70%), foreign direct investment (-22%) and disbursement of loans to the State (-3%) contributed to this decrease.

Chart II.2.4. Chart II.2.5.



Source: Banco de Cabo Verde

The combined effect of a worsened current account deficit and a decrease in the capital and financial account resulted in a negative overall balance of almost €19 million, which eroded foreign reserves. Banco de Cabo Verde's net foreign assets decreased by around €33 million both to finance the balance of payments' overall deficit and to settle arrears on trade credits (€14 million).

Preliminary data for the period from January to June 2012 are in line with projections, pointing to a reduction in the current account deficit – supported by increased exports of goods and contained imports – and further growth in exports of services (again from tourism). Albeit at a slower pace, emigrant remittances (still mostly from EU countries) continue to follow an upward trend, although private transfers are declining as a whole. Projections point to an external current deficit of 11.7% of GDP in 2012.

Foreign direct investment fell strongly year-on-year in the first half of 2012 (just 9% of foreign direct investment expected for the year). This reduction was partly offset by an increase in the State's external financing, resulting in a slight decrease in the capital and financial account surplus. This was nevertheless sufficient to finance a smaller current account deficit, thereby increasing Cape Verde's foreign reserves by almost €27 million.

II.2.4. PUBLIC FINANCES

The 2011 budget execution was characterised by lower-than-budgeted revenue, inducing the authorities to take measures to contain current expenditure and investment. Grants saw a significant drop (decreasing by 56%, compared with 2010), due to the financial crisis observed in some of the main donor countries.

Authorities responded by restricting both current expenditure (frozen appropriations and restrictions on goods and services) and the investment programme (by cutting some projects not considered a priority). The fiscal deficit thus decreased more than initially expected, accounting for 8.8% of GDP at the end of 2011 (compared with 11.0% in 2010). Following the containment of current expenditure, the current account balance increased further, from 2.0% of GDP in 2010 to 3.2% at the end of 2011.

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Table II.2.3.

BUDGET EXECUTION As a percentage of GDP									
	2009	2010	2011	2012					
		Est.	Est.	Budg.					
Total revenue	29.5	28.7	25.0	24.8					
Current revenue	23.6	21.9	22.2	22.4					
Taxes	20.1	19.0	19.6	19.6					
Grants	5.9	6.9	2.8	2.5					
Transf. f/ state owned enterprises	0.0	0.0	0.0	0.0					
Total expenditure	35.6	39.5	33.8	34.8					
Current expenditure	21.2	19.9	19.0	19.6					
Interest	1.5	1.6	1.5	1.5					
Public investment programme	14.4	19.6	14.8	15.1					
Non-financial assets	0.1	0.2	0.0	-0.1					
Current balance	2.4	2.0	3.2	2.7					
Overall balance	-6.2	-11.0	-8.8	-9.8					

Sources: IMF and Ministry of Finance of Cape Verde.

As a result of developments in grants, total government revenue declined by 5% in 2011, compared with the previous year, while current revenue grew by around 11%. Developments in current revenue benefited from strong collection of taxes on goods and services (growth of 15%), in particular VAT and consumption taxes, as a result of an increase in the volume of imports and both oil and food prices. Income tax collection (in particular, corporate income tax, reflecting rather buoyant economic activity) and taxes on international transactions (as a result of increased import duties) also made a positive contribution.

Chart II.2.6.

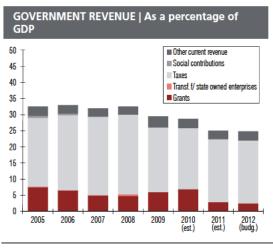
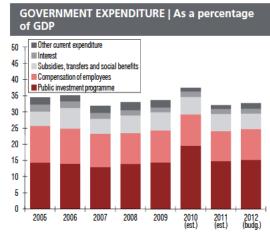


Chart II.2.7.

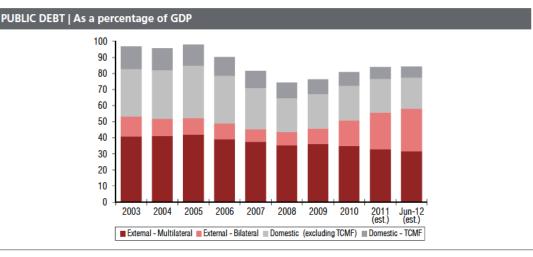


Sources: Ministry of Finance of Cape Verde and IMF.

On the expenditure side, the containment of the public investment programme resulted in an execution of just 81% of budgeted amounts, which nevertheless accounted for almost 15% of GDP. Measures on current expenditure focused mainly on goods and services (specifically travel and subsistence expenses). Compensation of employees (recruitment in security and education), social benefits (pensions and sickness, maternity and family benefits) and subsidies (payments to political parties regarding general elections, payments to presidential candidates and the tariff deficit of Electra, the electricity and water company) registered increases.

As usual, the State's funding needs in 2011 (arising from the budget deficit but also driven by loans to state owned enterprises) were covered with recourse to external borrowing (accounting for 86% of the total). However, the Cape Verdean Treasury issued bills in order to meet working capital needs and cover the domestic component of the public investment programme. As a result, the stock of public debt grew by more than 13% in 2011, in particular external debt (specifically, at a bilateral level, the use of Portuguese credit lines), but also domestic debt with the banking sector.

Chart II.2.8.



Sources: Banco de Cabo Verde, Ministry of Finance of Cape Verde and IMF.

The 2012 budget pointed to a slight rise in the overall deficit, still driven by the public investment programme and a small increase in current expenditure (mainly compensation of employees and other current expenditure), as well as a further decrease in grants.

The budget execution of the first half of 2012 shows a slippage of the deficit, which doubled year on year. An acceleration in the public investment programme and interest payments and a drop in revenue from grants (budget execution of 15%) and some tax classes (in particular VAT, with a budget execution of only 39%) have both contributed to this slippage. The authorities have already introduced some corrective measures focusing on the containment of expenditure in order to reach a deficit below budget. In addition, public debt continued to grow (9% up to June 2012), particularly external debt and debt arising from the use of Portuguese credit lines.

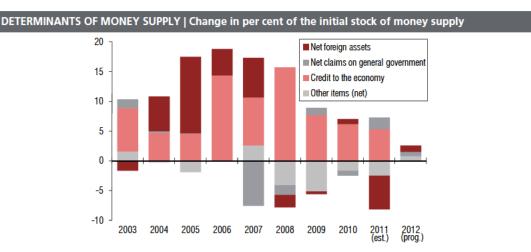
II.2.5. MONETARY AND EXCHANGE RATE CONDITIONS

The deteriorating external conditions affected Cape Verde's monetary developments in 2011, exerting pressure on foreign reserves. Banco de Cabo Verde's net foreign assets declined by around €33 million in the past year, dropping to 3.2 months of imports of goods and services in 2011 (compared with 4.2 months in 2010). This decline also passed through to monetary expansion, which was contained at 3.6% in 2011, compared with 5.9% in 2010).

The State's higher financing needs were nevertheless met, reflected in a rise in net credit to general government (12%, compared with 2010). This resulted mostly from an increase in credit from the banking system through the net issuance of Treasury bonds and Treasury bills (with allotment rates close to 6% and 4% respectively). In addition, credit to the economy remained considerably dynamic in 2011 (growing by 13%), both as a result of the usual demand from households (the highest share, in Ш

particular for house purchase) and demand from a few sectors (in particular, transports and communication and social and personal service activities).

Chart II.2.9.



Sources: Banco de Cabo Verde and IMF.

Throughout 2011 Banco de Cabo Verde strove to respond to negative developments. The monetary authority amended the minimum reserve system by widening the reserve base (with effect from June 2011) and increasing the reserve ratio to 18% (in January 2012). It also restricted recourse to its liquidity provision facility, penalised its repeated use (in December 2011), and increased its reference interest rate on *Titulos de Regularização Monetária* (monetary regularisation securities) to 5.75% in January 2012 (and consequently the associated standing facilities corridor).

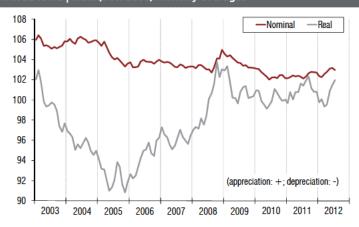
Taking into account the public sector's increased recourse to domestic financing, the liquidity of the banking system appears to have decreased, resulting in systematic use of Banco de Cabo Verde's liquidity provision facilities (in particular until November 2011) and a reanimated interbank money market (particularly from May 2011).

The monetary programme initially developed for 2012 pointed to a further deceleration in the pace of monetary expansion (to 2%), associating a slight improvement in the banking system's net foreign assets with some recourse by the State to banking sector financing. Developments up to July show a much higher than expected increase in the banking system's net foreign assets, particularly through Banco de Cabo Verde's accumulation of foreign reserves. Net claims on general government have been increasing and are the main factor behind the rise in total net domestic credit, as credit to the economy has stagnated somewhat due to tighter credit standards applied by the banks.

These factors point to easing pressures on banking system's liquidity, which is visible in a recovery of investments in central bank bills (an outstanding amount of CVE 3.2 billion at the end of July 2012, compared with zero at the end of January 2012).

As for means of payment, emigrant deposits accelerated (year-on-year growth rates of around 9% in the first months of 2012), reverting to the dynamics seen at the start of 2007. A moderate increase in deposit rates on longer maturities and a widening of the spread vis-à-vis Euribor rates are likely to have contributed to this acceleration. By contrast, currency in circulation (7.2% of broad money in December and just 6.6% in July 2012) and resident demand deposits in national currency have been decreasing more sharply, although the latter recovered slightly in 2012.

EFFECTIVE EXCHANGE RATE | Index,100: 2000, monthly averages



Sources: Banco de Cabo Verde and Banco de Portugal calculations.

According to the Financial Stability Report published by Banco de Cabo Verde in June 2012, although banking activity grew somewhat in 2011, a rise in operating costs and impairment losses in the banks' asset portfolio resulted in a slight deterioration in profitability (7.9%) and solvency (the solvency ratio nevertheless stood at 13.97%, considerably above the minimum regulatory requirement of 10%). Strong exposure both to the real estate sector and a small number of counterparties remains the main source of vulnerability in banking activity. In addition, the quality of the credit portfolio has deteriorated somewhat and reserves have decreased slightly.

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Table A.II.2.1.

MAIN ECONOMIC INDICATORS									
WAIN ECONOMIC INDICATORS		2008	2009	2010	20	11		2012	
	Units	2000	Est.	Est.	Prog.	Est.	Prog.	Es	t.
									-
OUTPUT AND PRICES	FUD WILL	4.070	4.450	4 255	4.250	4 270	4 400		
GDP m.p.	EUR millions	1,079	1,152	1,255	1,358	1,370	1,488		
Inflation (ODI)	real % change	6.2	3.7	5.2	5.6	5.0	4.3	2.2	4 .
Inflation (CPI)	y-o-y % change	6.7	-0.4	3.4	2.3	3.6	2.3		Aug.
	avg % change	6.8	1.0	2.1	2.1	4.5	2.1	2.8	Aug.
PUBLIC FINANCES	0/ . (000	22.5	20.5	20.7	20.2	25.0	240		
Total revenue	% of GDP	32.5	29.5	28.7	29.2	25.0	24.8		
Grants	% of GDP	4.8	5.9	6.9	5.7	2.8	2.5		
Total expenditure Overall balance (commitment basis)	% of GDP % of GDP	34.9 -1.8	35.6 -6.2	39.5 -11.0	39.6 -10.3	33.8 -8.8	34.8 -9.8		
Excluding grants	% of GDP	-6.6	-12.1	-17.8	-16.0	-11.6	-12.3		
Domestic debt					-10.0		-12.5	26.2	lun
of which: TCMF ^(a)	% of GDP % of GDP	30.7 9.6	30.6 9.2	30.0 8.6		28.4 7.4		26.3	Jun. Jun.
	% of GDF	9.0	9.2	0.0		7.4		0.0	Juii.
MONEY AND CREDIT	A 1 0/ b	0.4	7.0	4.5	42.5	42.2	4.4	44.2	11 (D
Claims on general government (net)	9	-8.1	7.0	-4.5	12.5	12.2	4.1		Jul. ⁽¹⁾ Jul. ⁽¹⁾
Credit to the economy	Annual % change	28.7	11.8	10.6	7.2	13.3	-0.8		Jul. (f)
Broad money (M3) INTEREST RATES (b)	Annual % change	7.9	3.3	5.9	9.7	3.6	1.9	2.5	Jul.
One-year deposits ^(c)	Annual rate	4.15	4.14	4.53		4.22		4.22	
Rediscount	Annual rate	7.50	7.50	7.50		7.50		9.75	
Liquidity provision	Annual rate	8.25	8.25	7.25		7.25		8.75	
Treasury bills (91 days)	Annual rate	3.40	3.59	4.00		4.10		4.13	May
BALANCE OF PAYMENTS									
Exports (current UDS)	Annual % change	41.3	-19.1	46.0	20.9	56.0	19.7		
Imports (current USD)	Annual % change	17.9	-12.0	6.2	11.2	29.5	1.2		
Current account	% of GDP	-15.5	-15.6	-12.9	-10.5	-15.0	-11.7		
Excluding official transfers	% of GDP	-22.1	-21.1	-19.3	-16.1	-18.6	-14.4		
Current and capital accounts	% of GDP	-13.8	-12.8	-10.5	-8.9	-14.3	-11.1		
Net international reserves	months of imports ^(e)	4.0	4.2	4.2	4.2	3.2	3.1	3.6	Jul.
EXTERNAL DEBT									
Total	EUR millions	470.5	527.9	638.8		762.5		861.9	Jun.
	% of GDP	43.6	45.8	50.9		55.7		57.9	Jun.
	% of exports ^(e)	97.3	128.6	131.8		134.3		137.5	Jun.
Debt service	% of exports ^(e)	4.6	5.5	4.7		2.1		3.9	Jun.
EXCHANGE RATES (averages)									
Nominal CVE/EUR	average rate	110.3	110.3	110.3	110.3	110.3	110.3	110.3	Aug.
Nominal CVE/USD	average rate	75.3	79.4	83.3	80.5	79.3	78.2	89.1	
Nominal EERI (Index, 100: 2000) (d)	Annual % change	0.0	0.3	-1.3		0.0			Jul. (1)
Real EERI (Index, 100: 2000) (d)	Annual % change	3.7	1.3	-0.9		0.9		1.2	Jul. (1)

Sources Banco de Cabo Verde, Ministry of Finance of Cape Verde, IMF and Banco de Portugal calculations.

Notes: (a) Titulos Consolidados de Mobilização Financeira (consolidated financial mobilisation securities); (b) Monthly averages (corresponding to December for annual figures); (c) Average of other monetary institutions; (d) Effective exchange rate index (EERI), calculated on the basis of official exchange rates applied to the currencies of Cape Verde's four main trading partners over the period 2005/09 (appreciation: +; depreciation: -); (e) Imports and exports of goods and services; (f) Change from the previous December.

GROSS DOMESTIC PRODUCT Curren					
	2008 Est.	2009 Est.	2010 Est.	2011 Est.	2012 Proj.
Primary sector	7,481	11,901			
Agriculture, livestock and forestry	6,580	10,859			
Fishing	902	1,042			
Secondary sector	19,296	21,712			
Industry and energy	7,969	9,997			
Construction	11,327	11,715			
Tertiary sector	75,413	85,458			
Trade	20,029	22,369			
Hotels and restaurants	4,684	5,700			
Transports and communication	22,512	24,028			
Banking and insurance	6,113	7,735			
Housing	6,336	7,251			
Public administration	12,549	14,774			
Other services	3,189	3,602			
Banking services ^(a)	-5,292	-6,056			
Taxes on imports	13,369	14,054			
GROSS DOMESTIC PRODUCT (m.p.)	118,949	127,069	138,355	151,049	164,129
Consumption	116,164	128,949	139,630	158,393	168,457
Public	16,648	19,099	21,200	21,003	22,110
Private	99,516	109,849	118,430	137,390	146,347
Investment	55,430	49,684	52,160	55,133	55,147
Gross fixed capital formation	55,430	49,684	52,160	55,133	55,147
Changes in inventories	0	0	0	0	(
Domestic demand	171,594	178,633	191,790	213,526	223,604
Exports of goods and services	25,819	21,919	25,895	30,321	33,481
Overall demand	197,413	200,552	217,685	243,846	257,086
Imports of goods and services	78,464	73,483	79,330	92,797	92,957
Memo items:					
Gross domestic savings	2,786	-1,880	-1,275	-7,344	-4,328
Nominal GDPmp (EUR millions)	1,078.8	1,152.4	1,254.7	1,369.9	1,488.5
Nominal GDPmp (USD millions)	1,578.9	1,600.8	1,661.3	1,905.3	2,100.0
GDP deflator (annual percentage change)	4.4	3.0	3.5	4.0	4.2
Nominal GDP (annual percentage change)	10.9	6.8	8.9	9.2	8.7
Real GDP (annual percentage change)	6.2	3.7	5.2	5.0	4.3

Sources: Banco de Cabo Verde, IMF and Banco de Portugal calculations.

Table A.II.2.2.

Notes: (a) Estimate corresponding to the value of intermediate banking services used by the remaining branches of activity.

Table A.II.2.3.

CONS	UMER PRICE INDEX Pe	r cent		
		Monthly change [1]	Year-on-year change [2]	Average change
2001	Dagambar		4.14	[3]
2001 2002	December December		4.14 2.98	3.35 1.88
2002	December		-2.28	1.19
2003	December		0.61	-1.89
2005	December		1.80	0.40
2006	December		5.81	4.85
2007	December		3.97	4.40
2008	December		6.69	6.78
2009	December		-0.37	0.98
2010	December		3.43	2.08
2011	December		3.58	4.47
2010	January	0.28	0.09	0.52
	February	0.28	-0.46	0.00
	March	0.28	0.83	-0.26
	April	0.37	2.15	-0.22
	May	0.00	1.96	-0.22
	June	0.64	2.90	0.02
	July	0.18	2.51	0.28
	August	1.09	2.96	0.58
	September	0.00	2.67	0.91
	October	-0.36	3.16	1.44
	November	-0.09	2.78	1.76
	December	0.72	3.43	2.08
	December (proj.)		2.22	1.47
2011	January	0.00	3.14	2.33
	February	1.16	4.05	2.71
	March	0.44	4.22	3.00
	April	1.41	5.31	3.26
	May	-0.09	5.22	3.53
	June	0.70	5.27	3.73
	July	0.09	5.17	3.95
	August	0.17	4.22	4.06
	September	0.52	4.76	4.23
	October	-0.60	4.50	4.34
	November	-0.34	4.24	4.46
	December	0.09	3.58	4.47
2012	December (proj.)		4.50	4.60
2012	January	-0.61	2.95	4.45
	February	0.70	2.48	4.32
	March	0.00	2.03	4.13
	April	0.43	1.04	3.77
	May	0.86	2.00	3.50
	June	0.26	1.55	3.19
	July	1.02	2.50	2.97
	August	-0.17	2.15	2.80
	December (proj.)		2.30	2.09

Sources: Banco Central de Cabo Verde and Banco de Portugal calculations.

In January 2008, a new consumption structure and a new basket of goods and services were adopted to calculate the CPI, on the basis of the Family Income and Expenditure Survey conducted from October 2001 to October 2002.

^[1] month (n) / month (n-1); [2] month (n) / month (n) of the previous year; [3] last 12 months /previous 12 months.

Table A.II.2.4.							
BALANCE OF PAYMENTS CVE millions							
	2009	2010		2011		20	12
	Est.	Est.	Proj.	1st half	Est.	Proj.	1st half
1. CURRENT ACCOUNT	-19,878	-17,879	-15,655	-15,681	-22,615	-19,179	-8,427
Trade balance	-53,735	-56,822	-60,062	-32,924	-67,197	-63,992	-28,308
Exports (f.o.b.) ^(a)	7,365	11,282	13,187	7,006	16,759	19,775	8,457
Imports (f.o.b.)	-61,100	-68,104	-73,249	-39,930	-83,956	-83,768	-36,765
Services	12,703	17,132	22,398	8,603	20,830	23,964	13,254
Exports	37,883	42,174	47,839	20,827	45,833	49,341	25,690
of which: Transports	11,083	14,877		5,788	11,920		6,785
Tourism	20,913	22,023	25,083	12,162	27,848	31,106	15,774
Imports		•	-25,442	-12,224		-25,377	-12,436
of which: Transports	-10,010	-8,472		-4,390	-8,944		-4,254
Tourism	-5,236	-4,838	F 012	-2,443	-4,578	4 772	-1,815
Income	-3,442	-6,480	-5,913	-3,737	-4,713	-4,773	-3,292
Exports	1,776	1,170			629		332
of which: Extra. interest from contrib. TF ^(b)	0	0		_	0		0
Income from the TF (b) (previous year)	467	518	486	0	486	373	0
Imports	-5,218 -548	-7,650 -667	-784	-417	-5,342 -852	-863	-3,624 -674
of which: Interest on scheduled public debt Current transfers	24,596	28,290	27,922	12,377	-652 28,464	25,623	9,919
Official transfers	6,894	8,789	8,454	2,250	5,515	4,417	2,426
Private transfers	17,702	19,501	19,468	10,127	22,949	21,207	7,493
of which: Emigrant remittances	10,195	10,336	11,212	5,897	13,369	13,707	6,543
2. CAPITAL AND FINANCIAL ACCOUNT	20,209	25,671		12,011	19,943		9,565
Capital account	3,670	3,311	17,417 2,288	368	985	18,736 950	691
Capital transfers	3,670	3,311	2,288	368	985	950	691
of which: Debt relief	3,070	0,311	2,200	0	963	930	091
Grants to the TF (b)	0	0	0	0	0	0	0
	_						
Financial account Direct investment	16,539	22,360	15,128	11,643	18,958	17,786	8,874 624
	9,491	9,282	9,524	5,256	7,275	6,998	
of which: Privatisation receipts to the TF ^(b) Portfolio investment	0 451	0	0	0	0	0	0 -22
Other transactions	6,597	13,078	5,604	6,387	11,683	10,787	-22 8,272
of which: Disburs. of loans to general gov.	8,248	16,488	16,871	7,001	15,987	10,707	8,569
Disbursements to the TF (b)	0,240	0,400	10,071	7,001	0		0,505
Scheduled amortisation	-1,945	-1,832	-1,875	-874	-1,815		-953
Transfers to the TF (b)	0	0	1,075	0	0		0
3. ERRORS AND OMISSIONS	-901	-5,539	0	-3,752	591	-36	1,769
4. OVERALL BALANCE: (1)+(2)+(3)	-569	2,253	1,761	-7,422		-479	2,907
5. FINANCING	569	-2,253	-1,761	7,422	2,082	479	-2,907
Change in international reserves (increase: -)	444	-2,233	-1,761	7,566	3,676	479	-2,931
Exceptional financing	125	-68	0	-144	-1,594	0	2,331
of which Drawings from ACC Facility (c)	0	0	0	0	0	0	0
Reimbursements of ACC Facility (c)	0	0	0	0	0	0	0
Change in arrears (increase: +)	125	-68	0	-144	-1,594	0	24
6. FINANCING GAP (d): (4)+(5)	0	0	0	0	0	0	0
Memo items:			_	_		_	_
Current account (% of GDP)	-15.6	-12.9	-10.4		-15.0	-11.7	
Current and capital account (% of GDP)	-12.8	-10.5	-8.8		-14.3	-11.1	
International reserves (in months of imports) (e)	4.2	4.2	4.2	3.0	3.2	3.1	3.5
international reserves (in months of imports)	4.2	4.2	4.2	3.0	3.2	5.1	3.3

Sources Banco de Cabo Verde, IMF and Banco de Portugal calculations.

Table A.II.2.4.

Notes: (a) Includes sales of fuel to ships and re-exports; (b) Offshore fund (Trust Fund) to support the conversion of domestic debt; (c) Foreign exchange cooperation agreement (*Acordo de Cooperação Cambial*) between Portugal and Cape Verde; (d) Net lending (+)/net borrowing (-) (e) Net external assets of Banco de Cabo Verde and imports of goods and services in the year.

Table A.II.2.5.

MERCHANDISE EXPORTS Destinations as a percentage of total exports									
	2004	2005	2006	2007	2008	2009	2010	2011	2004 to 2011
Germany	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Netherlands	0.2	0.6	0.6	0.2	0.5	0.5	0.3	0.2	0.4
Portugal	78.3	51.6	49.8	58.3	40.6	33.5	22.7	18.0	37.9
Spain	0.3	21.3	27.3	20.9	37.1	61.8	72.6	70.2	46.6
United States	19.4	12.3	1.4	1.4	0.4	1.2	1.6	0.5	3.3
Other	1.7	14.1	20.9	19.2	21.4	3.1	2.8	11.1	11.8
Total exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Banco de Cabo Verde, IMF and Banco de Portugal calculations.

Table A.II.2.6.

MERCHANDISE IMPORTS Origins as a percentage of total imports									
	2004	2005	2006	2007	2008	2009	2010	2011	2004 to 2011
Brazil	4.6	8.0	6.4	6.3	5.7	4.5	3.7	2.7	4.9
Germany	0.9	0.7	1.1	1.4	1.6	2.3	0.4	0.5	1.1
Netherlands	13.7	15.7	11.2	16.3	17.0	16.7	16.8	19.1	16.3
Portugal	42.5	45.6	50.2	45.2	50.3	48.3	51.4	44.7	47.5
Spain	3.8	7.6	5.6	4.5	7.3	9.8	10.6	9.9	7.8
United States	13.2	2.7	1.4	1.2	0.9	1.0	1.6	0.9	2.2
Other	21.2	19.6	24.1	25.1	17.3	17.3	15.4	22.0	20.1
Total imports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Banco de Cabo Verde, IMF and Banco de Portugal calculations.

Table A.II.2.7.

PUBLIC DEBT CVE millions							
	2006	2007	2008	2009	2010	2011	Jun-12
					Est.	Est.	Est.
TOTAL EXTERNAL DEBT	47,535	48,664	51,880	58,210	70,433	84,074	95,042
Multilateral creditors	38,171	40,391	42,248	46,185	48,274	49,777	51,863
Bilateral creditors	9,364	8,273	9,632	12,026	22,159	34,297	43,179
Government	6,444	5,608	7,375	9,846	13,369	18,131	20,392
Other	2,920	2,665	2,257	2,179	8,790	16,166	22,786
TOTAL DOMESTIC DEBT	40,311	38,991	36,492	38,820	41,466	42,870	43,153
of whi Treasury bills	7,351	4,285	3,005	1,730	600	1,550	1,174
Treasury bonds	20,578	21,207	20,182	23,870	27,369	28,609	29,299
Banking system	19,543	16,082	13,421	14,379	15,162	17,236	15,821
Non-banking system	9,379	11,520	11,682	12,752	14,356	14,482	16,112
TCMF ^(a)	11,389	11,389	11,389	11,690	11,948	11,153	11,219
				(% of GDP)			
Total external debt	48.8	45.4	43.6	45.8	50.9	55.7	57.9
Total domestic debt (excluding TCMF)	29.7	25.7	21.1	21.4	21.3	21.0	19.5
TCMF	11.7	10.6	9.6	9.2	8.6	7.4	6.8
Total domestic debt (including TCMF)	41.4	36.4	30.7	30.6	30.0	28.4	26.3
			(% of exports	s of goods and	d services)		
Total external debt	113.3	105.9	97.3	128.6	131.8	134.3	137.5
Medium and long-term debt service	5.9	5.1	4.6	5.5	4.7	2.1	3.9

Sources: Banco de Cabo Verde, Ministry of Finance of Cape Verde, IMF and Banco de Portugal calculations.

Note: (a) Títulos Consolidados de Mobilização Financeira (consolidated financial mobilisation securities).

Table A.II.2.8.

GOVERNMENT OPERATIONS CVE r	nillions								
	2009	2010	_	201	1	_	_	2012	_
		Est.	Budg.	Ist half	Est.	I.e. (a)	Buda.	1st half	Le. (a)
1. TOTAL REVENUE	37,522	39,725	43,725	17,428	37,746	86.3	40,737	16,415	
1.1. Current revenue	29,985	30,239	35,147	16,268	33,547	95.4	36,709	15,824	22.0
Taxes	25,530	26,241	29,633	14,285	29,563	99.8	32,092	13,689	
Income taxes	8,061	7,892	8,907	4,366	8,661	97.2	9,698	4,583	
Taxes on goods and services	11,081	12,015	13,646	6,628	13,840		15,121	5,941	39.3
of which: VAT	9,747	10,521	11,948	5,597	11,603	97.1	12,756	5,032	39.4
Taxes on international trans.	5,438	5,634	6,227	2,862	6,228	100.0	6,227	2,801	45.0
Other taxes	951	701	854	428	835	97.8	1,046	364	34.8
Social contributions	46	42	31	15	37	116.2	12	9	72.4
Other revenue	4,409	3,956	5,483	1,968	3,947	72.0	4,604	2,126	46.2
1.2. Grants	7,536	9,486	8,577	1,160	4,199	49.0	4,028	591	14.7
1.3. Transf. f/ state owned enterp. ^(b)	0	0	0	0	0		0	0	
2. TOTAL EXPENDITURE (6)	45,287	54,657	59,261	22,175	51,043	86.1	57,037	24,485	42.9
2.1. Current expenditure ^(d)	26,931	27,497	31,665	14,054	28,676	90.6	32,209	13,805	42.9
Compensation of employees	12,571	13,323	15,172	6,731	13,929	91.8	15,729	7,004	44.5
Goods and services	2,554	2,806	3,331	933	2,559	76.8	3,354	884	26.4
Interest	1,861	2,173	2,523	1,108	2,256	89.4	2,470	1,556	63.0
of which: Domestic debt	1,271	1,460	1,505	692	1,404	93.3	1,410	872	61.9
External debt	547	699	988	417	852	86.2	1,000	684	68.4
Subsidies	845	752	947	406	,	107.7	439	180	40.9
Transfers	3,713	3,873	4,105	1,879	3,723	90.7	4,037	1,491	36.9
Social benefits	2,504	2,893	3,211	1,583	3,339	104.0	3,328	1,624	48.8
Other expenditure	2,883	1,677	2,376	733	1,601	67.4	2,852	566	19.9
of which: Scholarships	388	455	457	0.434	465	101.8	465	226	48.6
2.2. Investment programme	18,356	27,161	27,596	8,121	22,367	81.1	24,828	10,680	43.0
3. NON-FINANCIAL ASSETS: (3.1-3.2)	120	248	-120	31	16	 25.7	-149	3	
3.1. Purchase of non-financial assets	138	252	161	33	58	35.7	135	3	2.1
3.2. Sale of non-financial assets	18	4	281	2	42	15.0	284	_	0.0
4. CURRENT BALANCE: (1.1-2.1)	3,055	2,742	3,482	2,214	4,871		4,500	2,019	
5. OVERALL BAL. excl. grants: (1-2-3-1.2)				-5,938	-17,512		-20,179	-8,664	
6. OVERALL BALANCE: (1-2-3)	-7,886	-15,180	-15,416	-4,778	-13,313		-16,151	-8,072	
(commitment basis)									
7. CHANGE IN ARREARS	0	17	0	27	50		0	116	
7.1. External	0	0	0	0	0		0	0	
7.2. Domestic	0	17	0	27	50		0	116	
8. OVERALL BALANCE: (6+7) (cash basis)	-7,886	-15,163	-15,416	-4,751	-13,263		-16,151	-7,957	
9. FINANCING	7,886	15 163	15,416	6 860	13,263		16,151	11,418	
9.1. Financial assets	-836	-849	-3,980	-1,692			-3,115	-1,439	
Loan repaym. to state ow. enterp.		-649 29	-3,960 25	-1,092	-3,151 31		-3,113	-1,439	
Loans to state owned enterprises	-860	-862	-3,955	-1,651	-3,135		-2,138	-1,374	
Shares and other equity	0	-15	-50	-41	-46		-1,000	-64	
9.2. Financial liabilities	8,721	16,012	19,396	8,552	16,414		19,265	12,856	
External (net)	6,301	14,524	14,903	6,127	14,172		15,283	8,417	
Disbursements	8,248	16,498	16,818	7,001	15,987		16,866	9,339	
Amortisation	-1,947	-1,975	-1,915	-874	-1,815		-1,582	-922	
Domestic (net)	2,420	1,489	4,493	2,425	2,242		3,982	4,440	
Banking system	1,233		2,932	3,532	2,194		1,008	2,793	
Other	1,188	2,335	1,561	-1,107	48		2,974	1,647	
10. FIN. GAP/DISCREPANCY ^(e) : (8+9)	0	0	0	2,109	0		0	3,461	
Sources: Banco de Caho Verde Ministry of Finance	on of Canal	Vordo IME	and Danas a	do Dortugal	aalaulatian				

Sources: Banco de Cabo Verde, Ministry of Finance of Cape Verde, IMF and Banco de Portugal calculations.

Notes: (a) Level of budget execution (%); (b) Share of capital expenditure of public enterprises (usually to finance infrastructures related to the activities of these enterprises); (c) Includes expenditure on arrears and expenditure that is not classified; (d) Includes values to settle in 2011 and 2012; (e) Net borrowing (+)/net lending (-).



Table A.II.2.9.

MONETARY SURVEY CVE millions															
	2008	2009	2010	2010/2009	600	2011	_	2011/2010	2010	2012	2012p/2011	/2011	2012	2012	2012
	Est.	Est.	Est.	[1]	[2]	Prog.	Est.	[1]	[5]	Prog.	[1]	[2]	May	June	July
FOREIGN ASSETS (net)	28,924	28,442	29,417	3.4	6.0	31,065	23,060	-21.6	-5.7	24,327	5.5	1.1	23,200	28,397	28,889
Foreign assets	31,184	31,064	33,686	8.4	2.5		26,810	-20.4	-6.2				31,102	30,874	31,550
Banco de Cabo Verde	30,903	30,445	32,505	8.9	2.0		28,837	-11.3	-3.3				30,444	31,772	32,442
Net foreign assets	30,686	30,242	32,427	7.2	2.1	34,188	28,752	-11.3	-3.3	28,272	-1.7	-0.4	30,355	31,683	32,352
Other assets (net)	217	203	78	-61.8	-0.1		98	10.1	0.0				89	89	06
Commercial banks	281	619	1,181	6.06	0.5		-2,028	I	-2.9				658	-897	-892
Medium and long-term liabilities	-2,260	-2,622	-4,269	62.8	-1.6		-3,750	-12.2	0.5				-7,902	-2,477	-2,660
DOMESTIC ASSETS (net)	73,165	77,010	82,259	8.9	5.0	91,394	92,603	12.6	9.3	93,550	1.0	9.0	93,011	89,850	89,658
Total domestic credit	84,224	93,324	100,343	7.5	6.7	108,547	113,465	13.1	11.8	113,502	0.0	0.0	113,963	115,877	115,966
Net claims on general government	17,551	18,784	17,938	-4.5	-0.8	20,172	20,131	12.2	2.0	20,954	4.1	0.7	21,222	22,925	22,389
of which: on Central government	908'9	7,528	5,709	-24.2	-1.7		8,375	46.7	2.4				9,220	10,879	10,460
investment in TCMF (a)	11,038	11,339	11,597	2.3	0.2		10,802	-6.9	-0.7				10,858	10,869	10,880
Credit to the economy	66,673	74,540	82,406	10.6	7.5	88,375	93,334	13.3	9.8	92,548	-0.8	-0.7	92,740	92,952	93,577
Public enterprises	282	189	174	-7.7	0.0		206	190.0	0.3				212	263	322
Private sector	66,390	74,351	82,231	10.6	7.5		92,829	12.9	9.5				92,528	92,689	93,255
Credit to NMFI	0	0	0	1	1	0	0	ŀ	ı	0	1	1	0	0	0
Other items (net)	-11,059	-16,314	-18,084	-10.8	-1.7	-17,153	-20,862	-15.4	-2.5	-19,952	4.4	0.8	-20,952	-26,027	-26,307
TOTAL ASSETS	102,089	105,452	111,676	5.9	ł	122,460	115,663	3.6	I	117,877	1.9	ł	116,211	118,247	118,547
BROAD MONEY	680	105,452	111,676	5.9	5.9		115,663	3.6	3.6	117,877	1.9	1.9	116,211	118,247	118,547
Base money	25,952	26,830	25,922	-3.4	:	28,818	24,439	-5.7	1				27,936	28,311	30,139
Currency in circulation	8,713	8,362	8,514	1.8	1		8,376	-1.6	-0.1				7,277	7,203	7,828
Demand deposits in national currency	33,458	31,505	35,057	11.3	+		31,120	-11.2	-3.5				30,598	31,956	31,121
Quasi-money	59,918	65,585	68,105	3.8	1		76,166	11.8	7.2				78,336	79,089	79,599
TOTAL LIABILITIES	102,089	102,089 105,452	111,676	5.9	1	122,460 115,663	115,663	3.6	ł	117,877	1.9	ł	116,211	116,211 118,247	118,547
Total on low trade of some Day of the sound because of	sitalisation land	0													

Source: Banco de Cabo Verde, IMF and Banco de Portugal calculations.

Notes: (a) Offshore fund (Trust Fund) to support the conversion of domestic debt by issuing Titulos Consolidados de Mobilização Financeira (consolidated financial mobilisation securities).

[1] Change from the end of the previous year; [2] Change in per cent of the initial stock of money supply (expansion/contraction determinants).

INTEREST RATES Annual I	ates, per	cent							
	2006	2007	2008	2009	2010	2011	2012	2012	2012
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Jul.
Lending rates									
7-30 days	8.53	12.84	11.59	12.99	13.91	8.96	12.09	10.48	15.81
31-90 days	9.64	9.79	11.80	12.09	11.55	9.24	8.76	15.82	14.12
91-180 days	10.51	10.78	10.17	11.26	11.80	9.04	9.63	9.63	9.79
181 days - 1 year	8.14	9.83	9.33	9.30	9.04	8.97	9.53	9.68	9.47
1 - 2 years	12.43	11.81	11.82	10.69	10.08	10.07	9.56	9.72	9.65
2 - 5 years	12.29	12.03	11.15	10.84	10.05	9.93	10.04	10.28	10.27
5 - 10 years	11.35	10.71	10.27	10.20	10.23	9.52	9.45	9.63	9.64
Over 10 years	10.92	10.77	10.43	10.12	9.83	9.22	9.33	9.30	9.30
Overdraft	15.34	16.04	15.38	14.95	15.72	15.98	16.64	17.07	17.23
Deposit rates									
Residents									
7 - 30 days	4.28	4.10	3.06	3.01	2.94	2.91	2.99	3.99	3.01
31 - 90 days	3.15	3.05	2.83	3.40	3.39	3.41	3.37	4.21	3.47
91 - 180 days	3.81	3.69	3.85	4.26	4.10	4.07	4.12	3.74	4.08
181 days - 1 year	4.28	4.16	4.15	4.14	4.53	4.22	4.16	4.21	4.22
1 - 2 years	4.29	4.17	4.19	4.47	4.14	4.59	4.64	4.82	4.83
Non-residents									
7 - 30 days	2.86	2.25	2.21	1.62	2.98	2.98	2.91	3.35	2.91
31 - 90 days	3.36	3.56	3.81	1.81	2.88	3.13	3.08	4.44	2.95
91 - 180 days	3.63	3.99	3.99	3.52	3.92	3.76	3.91	3.75	3.87
181 days - 1 year	4.12	4.31	4.19	3.96	3.91	3.98	4.09	3.99	4.05
1 - 2 years	4.23	4.08	4.14	4.59	4.66	4.72	4.87	5.05	4.93
Emigrants									
7 - 30 days	3.28	3.70	3.42	3.49	3.49	3.49	3.49	5.19	3.50
31 - 90 days	3.48	3.41	3.43	3.48	3.51	3.52	3.51	5.18	3.50
91 - 180 days	4.14	4.20	4.13	4.08	4.10	4.22	4.23	4.13	4.17
181 days - 1 year	4.56	4.33	4.32	3.71	4.14	4.17	4.17	4.15	4.16
1 - 2 years	4.53	4.36	4.25	4.44	4.93	4.99	5.05	5.26	5.25
Reference rates									
BCV instruments									
Rediscount	8.50	8.50	7.50	7.50	7.50	7.50	9.75	9.75	9.75
Liquidity provision	7.50	7.50	8.25	8.25	7.25	7.25	8.75	8.75	8.75
Liquidity absorption	1.00	1.00	2.75	2.75	1.75	1.75	3.25	3.25	3.25
Treasury bills									
91 days	3.00		3.40	3.59	4.00	4.10			
182 days	3.00	3.49				4.19		4.25	
364 days	3.06	3.49					4.25		
Memo item:									
Inflation (y-o-y % change)	5.81	3.97	6.69	-0.37	3.43	3.58	2.03	1.55	2.50

Sources: Banco de Cabo Verde (BCV) and Banco de Portugal calculations.

Notes: Lending and deposit rates shown refer to effective interest rates by calculating average rates weighted by the amounts of $credit/investments\ regarding\ lending/deposit\ operations\ applied\ to\ residents,\ non-residents\ and\ emigrants.$

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Table A.II.2.11.

	GE RATES Average r		(-)	
			EERI ^(a)	
		CVE/USD	Index, 100:	
			Nominal	Real
	2001	123.21	101.59	100.4
	2002	117.26	103.41	100.2
	2003	97.80	105.53	99.6
	2004	88.74	105.91	95.6
	2005	88.65	104.42	92.3
	2006	87.93	103.67	94.3
	2007	80.62	103.47	96.
	2008	75.34	103.46	99.7
	2009	79.38	103.75	101.0
	2010	83.28	102.45	100.
	2011	79.28	102.43	101.0
2010	2011	75.20	102.43	101.0
2010	laaaa	==	400 ***	
	January	77.11	103.11	100.9
	February	80.51	103.05	100.9
	March	81.20	102.75	99.8
	April	82.53	102.53	99.
	May	87.45	102.28	99.
	June	90.25	102.03	99.4
	July	86.67	102.21	99.8
	August	85.43 84.71	102.24	101.0 100.7
	September October	79.41	102.17 102.48	100.
	November	80.54	102.48	99.9
	December	83.53	102.14	100.0
2011	December	05.55	102.14	100.0
2011	January	82.79	102.14	99.6
	February	80.83	102.14	100.7
	March	78.26	102.42	100
	April	76.50	102.31	100.0
	May	76.78	102.39	100.
	June	76.69	102.30	101.6
	July	77.23	102.12	101.4
	August	76.92	102.31	101.5
	September	79.90	102.66	102.3
	October	80.62	102.78	101.
	November	81.21	102.74	100.8
	December	83.58	102.73	100.8
2012				
	January	85.58	102.38	99.
	February	83.47	102.26	100.0
	March	83.51	102.57	99.3
	April	83.77	102.80	99.
	May	86.01	103.10	100.8
	June	88.02	103.19	101.4
	July	89.69	102.96	101.9
	August	89.05	103.04	-

Sources: Banco de Cabo Verde and Banco de Portugal calculations.

Notes: (a) Effective exchange rate index (EERI), calculated on the basis of official exchange rates applied to the currencies of Cape Verde's four main trading partners over the period 2005-2009 (appreciation: +; depreciation: -).

GUINEA-BISSAU

AREA: 36,125 KM²

CAPITAL CITY: Bissau

POPULATION: 1.6 million

(2011; source: UN)

CURRENCY: CFA franc

growth above the average of previous years, on
the back of buoyant cashew exports,
its predominant product.
Inflation has continued to fall since the middle of
the previous year.
In 2012 growth is expected to decelerate, against

In 2011 Guinea-Bissau experienced economic

a background of uncertainty in the country.

П

The political instability experienced since April has affected developments in Guinea-Bissau in 2012, interrupting the relative stability of previous years.

This stability had contributed to relatively high economic growth rates (4.5% and 5.3% in 2010 and 2011 respectively), some improvement in public finance management and access to the Multilateral Debt Relief Initiative (MDRI), by the International Monetary Fund (IMF) and the World Bank, which significantly reduced Guinea-Bissau's external debt. A programme with the IMF under the Extended Credit Facility (ECF) had also been ongoing since 2010. This programme was projected to end in 2013 and was aimed at strengthening the macroeconomic progress achieved to date.

Economic developments were particularly buoyant in 2011, as good cashew production (Guinea-Bissau's predominant export) and high cashew prices resulted in substantial export growth. This was the main factor behind a significant variation in output (which recorded the highest growth rate of the last decade).

Under the budget preparation, growth for 2012 was expected to stand at 2.5%, which is now unlikely in light of the economic impact of the instability observed in April.

Table II.3.1.

II.3.1. SUMMARY

MAIN ECONOMIC INDICATORS				
	2009	2010 Est.	2011 Est.	2012 Proj.
Real GDP (annual rate of change)	3.4	4.5	5.3	2.5
Inflation (average annual rate of change)	-2.8	2.3	4.8	3.3
Broad money (annual rate of change)	6.8	29.6	39.1	-8.1
Current account (% of GDP)	-5.7	-8.3	-1.6	-4.7
Fiscal balance (% of GDP)	3.7	-0.2	-1.9	-1.0
External debt (% of GDP)	121.9	19.1	17.5	17.8

Sources: BCEAO branch in Guinea-Bissau and IMF.

The main sector behind Guinea-Bissau's economy continues to be the primary sector (accounting for around 48% of output in 2011). In addition to subsistence goods, cashew production is particularly relevant in the agricultural sector (traditionally representing more than 80% of exports, and accounting for an even higher share in 2011).

As for the public accounts, progress was made to contain current expenditure (helped by a significant decrease in interest payments, as a result of the debt relief). This progress was nevertheless offset by a decrease in grants that has been observed since 2009. The budget deficit (which worsened from 0.2% of GDP in 2010 to 1.9% in 2011) was expected to improve in 2012, but this seems unlikely after the instability observed since April.

Price developments have been favourable. Prices began decelerating after a surge from June 2010 to mid-2011 and continued decelerating throughout 2012 (a year-on-year rate of 1.9% in June, compared with more than 7% in the same period a year earlier).

As regards external accounts, buoyant exports (cashew nuts) offset an increase in imports in 2011 and even resulted in markedly positive developments in the current account balance (by contrast with the



initial forecasts which pointed to a worsening of the balance). Capital flows reverted to their usual pattern, after the changes of 2010 (associated with debt relief).

2011 saw significant monetary growth (39%), mostly helped by higher net foreign assets (as a result of export growth) and credit to the economy. This monetary expansion continued in 2012, driven by credit developments. The banking sector has grown in importance, as attested by credit growth.

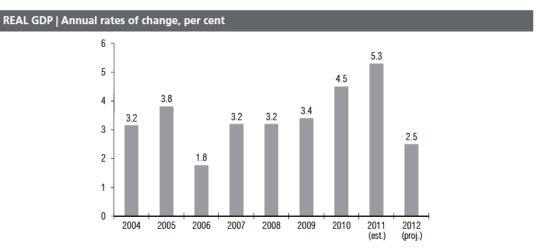
Expectations regarding economic developments in Guinea-Bissau in 2012 are naturally strongly affected by the uncertainty caused by political instability in April and the duration of its impact. In its most recent estimate, the IMF expected GDP to contract by 2.8%.

On the positive side, these events do not seem to have particularly affected price developments, which – contrary to 2008 – have not passed through to domestic prices the increases seen in the meantime in international oil and food prices. Guinea-Bissau's participation in the West African Economic and Monetary Union (WAEMU) has contributed to favourable price developments.

II.3.2. DEMAND, OUTPUT AND PRICES

In 2011 Guinea-Bissau's economy grew in line with Sub-Saharan Africa, posting a rate of change of 5.3% in real GDP, by contrast with most previous years, when Guinea-Bissau did not grow in tandem with the regional dynamics.

Chart II.3.1.



Sources: BCEAO branch in Guinea-Bissau and IMF.

Given the predominance of the primary sector in the economy (specifically cashew production, with India as its main export market) and the small weight of the country's regional economic integration (despite participating in the WAEMU), the potential positive effects of more buoyant neighbouring economies have not been seen in Guinea-Bissau.

Growth accelerated in 2011 (a real rate of change of 5.3%), mainly as a result of buoyant exports (agricultural products), but also consumption and investment (in particular private investment, despite its small relative share).

The tertiary sector (specifically the subsector 'trade, restaurants and hotels') was also rather dynamic, which resulted in the launch of a number of small tourism projects.

In 2012 economic activity is expected to decelerate somewhat, together with the negative impact of an increase in import prices (and the subsequent deterioration of terms of trade).

Chart II.3.2.

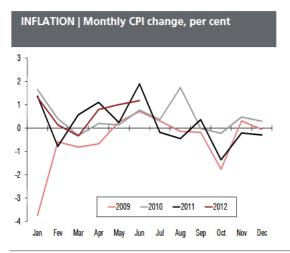
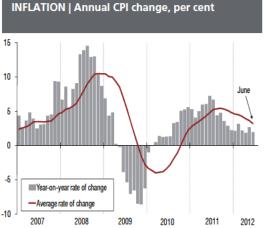


Chart II.3.3.



Sources: BCEAO branch in Guinea-Bissau and IMF.

In addition, prices were relatively subdued in 2011. After peaking in June (with a year-on-year rate of more than 7%), prices were more moderate in the second half of 2011 and throughout 2012 (see Charts II.3.2. and II.3.3.).

Contrary to 2008, when inflation rose sharply in Guinea-Bissau and practically the whole of Africa due to an increase in global energy and food prices, this time the pass-through of international price dynamics to domestic prices has been more moderate. These developments may be partially explained by the fact that rice is the main food product imported by Guinea-Bissau (the price of rice has not fluctuated as widely as that of most other agricultural products).

Average inflation in Guinea-Bissau had already decreased to 3.2% at the end of June 2012, standing very close to the upper limit established by the WAEMU convergence criterion (3%).

II.3.3. EXTERNAL ACCOUNTS

The trade and current account balances of Guinea-Bissau improved markedly in 2011, approaching equilibrium (-1.2 and -1.6% respectively). This improvement was the result of a significant rise in cashew exports (which increased by 100% and account for more than 95% of total exports).

Imports also increased, in particular food (mostly rice) and oil (in both cases more in terms of price than volume).

Dynamic cashew exports resulted from a very good harvest and a continued increase in cashew prices (more than 10% in 2011, on top of the increases of previous years). Although India remains the largest market of cashew exports (around 79% of the total), exports to Singapore were also significant in 2011 (around 13%) (see Chart II.3.4.).



Table II.3.2.

BALANCE OF PAYMENTS As a percenta	ge of GD	P		
	2009	2010 Est.	2011 Est.	2012 Proj.
Current account	-5.7	-8.3	-1.6	-4.7
Trade balance	-9.8	-8.2	-1.2	-4.4
Exports	14.7	14.8	24.3	18.7
Imports	-24.5	-23.0	-25.4	-23.1
Services and income	-7.8	-7.1	-8.1	-7.1
Current transfers	11.9	7.0	7.7	6.8
Capital and financial account	8.2	11.6	7.9	5.3
Net borrowing	0.0	-106.5	1.9	0.5
Capital transfers and FDI	8.3	116.8	6.3	5.0
Short-term capital, errors and omissions	0.4	1.3	-0.2	-0.2
Overall balance	2.5	3.4	6.4	0.6

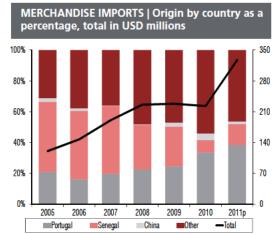
Sources: BCEAO branch in Guinea-Bissau and IMF.

On the import side, Guinea-Bissau also gained a new important trading partner, Vietnam, the country of origin of a considerable share of imported rice. Nevertheless, the largest volume of imports continues to come from Portugal (see Chart II.3.5.).

Chart II.3.4.

MERCHANDISE EXPORTS | Destination by country as a percentage, total in USD millions 300 100% 100% 250 80% 80% 200 60% 60% 150 40% 40% 100 20% 20% 50 0% 0% 2011p 2007 2010 2006 -Total ---Portugal India Portugal Singapore **■**Other

Chart II.3.5.



Sources: BCEAO branch in Guinea-Bissau and IMF.

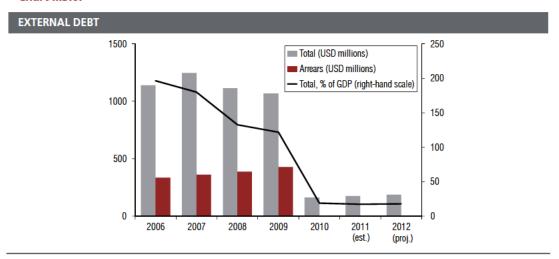
Current transfers (specifically official transfers associated with balance of payments support) increased compared with 2010, but still remain below the levels of previous years. The services and income balances were not very far from the averages seen in previous years.

In 2011, the capital and financial account recorded a surplus, which, although below 2010 (a year marked by debt relief), contributed to a positive overall balance (6.4% of GDP) and the subsequent increase in foreign assets.

Projections for 2012 point to a further increase in the current account deficit, resulting mostly from an expected decrease in the value of exports.

According to available data, external debt remained practically unchanged from the previous year (around USD 174 million in 2011, compared with USD 163 million in 2010). These are naturally much lower than previous figures, given that Guinea-Bissau benefited from significant debt relief under the MDRI in 2010, as previously mentioned.

Chart II.3.6.



Sources: BCEAO branch in Guinea-Bissau and IMF.

External debt accounted for around 17.5% of GDP at the end of 2011, compared with close to 200% in 2006 (see Chart II.3.6.)

II.3.4. PUBLIC FINANCES

Throughout 2011 Guinea-Bissau's authorities continued their efforts to improve tax revenue and contain government expenditure, which resulted in particular in a budget execution broadly close to 100% and an improvement in the tax revenue-to-GDP ratio (nevertheless below that of its neighbouring countries, which are also members of the WAEMU).

Despite these efforts, the value of non-tax revenue (specifically from fishing licenses) registered a decrease, which resulted in a worsening of the overall deficit (-1.9% of GDP in 2011) (see Table II.3.3.).

The management of public finances was being monitored by the IMF under the ECF programme. The third programme review took place in September 2011 and was broadly favourable. The fourth programme review (scheduled for the first half of 2012) was postponed due to the political events of April.

Over the past years, Guinea-Bissau's tax authorities have been faced with the challenge of keeping a broadly balanced budget (therefore avoiding recourse to domestic financing) against a background of lower grants (specifically direct budget support), following debt relief. In 2011 grants accounted for slightly more than 8% of GDP, while they were almost double that value in 2009.

Authorities have responded to this challenge by improving tax revenue, in particular by reducing customs exemptions and establishing priorities to prevent expenditure increases. In turn, infrastructure investment projects have been delayed due to the scarcity of resources (as seen in a declining capital expenditure-to-GDP ratio).

Table II.3.3.

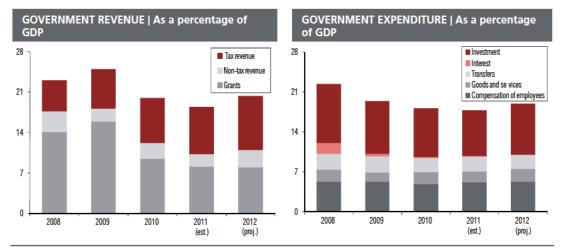
BUDGET EXECUTION As a percentage	of GDP			
	2009	2010 Est.	2011 Est.	2012 Proj.
Total revenue	25.0	20.0	18.9	17.3
Current revenue	9.1	10.5	10.3	12.4
Non-tax revenue	2.3	2.7	2.1	3.0
Tax revenue	6.8	7.8	8.2	9.3
Grants	15.9	9.4	8.1	8.0
Total expenditure	21.3	20.2	20.8	19.2
Current expenditure	12.1	11.6	12.3	12.4
Scheduled debt interest	0.5	0.2	0.1	0.1
Capital expenditure	9.2	8.6	8.0	8.9
Current balance	-3.0	-1.1	-2.0	0.0
Overall balance	3.7	-0.2	-1.9	-1.0

Sources: BCEAO branch in Guinea-Bissau and IMF.

The new guidelines for public finances in general and the budget are not known at the moment. Nevertheless, net claims on government have increased up to the end of June (last known figures), reverting to levels not seen since 2008.

The scarcity of resources and participation in the WAEMU markedly affect possible choices, since the rules governing the WAEMU limit monetary financing of the deficit.

Chart II.3.7. Chart II.3.8.



Sources: BCEAO branch in Guinea-Bissau and IMF.

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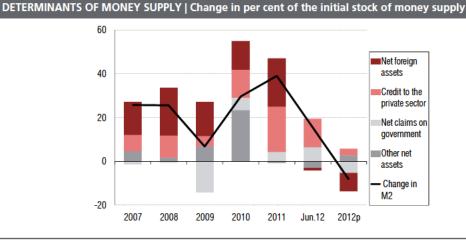
Money supply has been expanding markedly in Guinea-Bissau (39% in 2001, compared with 15% in the first half of 2012), helped by growth in net foreign assets (in 2011) and mostly by credit growth.

In 2011 net foreign assets grew as a result of buoyant exports and favourable developments in the capital and financial account, which did not continue in 2012. In turn, credit to the private sector and the general government has been increasing since 2010 and accelerated throughout 2012.

Up to now, strong monetary growth has not resulted in inflationary pressures. In fact, inflation has been on a downward path since mid-2011.

Demand for immediate means of payment (currency in circulation) has increased throughout 2012, accounting once again for more than 50% of the money supply.

Chart II.3.9.



Sources: BCEAO branch in Guinea-Bissau and IMF.

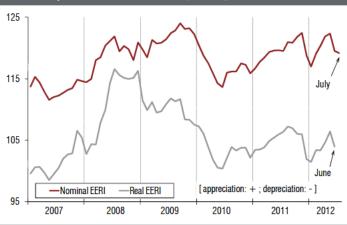
The monetary programme targets established at the end of 2011 under the ECF programme pointed to a strong moderation of credit and monetary expansion throughout 2012. Given developments over the year, these targets might now be compromised, were the expansionary stance of the previous year to remain in place. Money supply has already grown by more than 15% during the first half of the current year.

The current and the 2011 dynamics differ the most in developments in net foreign assets, which increased markedly in 2011, but decreased up to June 2012 (compared with December 2011).

The effective exchange rate (both nominal and real) registered a slight appreciation practically throughout the whole of 2011. It then reverted in the last months of 2011, returning to its previous levels during the first quarter of 2012.

Developments in the effective exchange rate (specifically in nominal terms) are strongly affected by developments in the Indian rupee (and to a lesser extent the Singapore dollar), given that Guinea-Bissau's remaining main trading partners also use the CFA franc (its neighbouring countries) or the euro (e.g. Portugal). These currencies are pegged, helping to make this a highly stable rate.

EFFECTIVE EXCHANGE RATE | Index, 100: 2000, monthly averages



Sources: BCEAO branch in Guinea-Bissau and IMF.

Taking into account Guinea-Bissau's economic structure and its pattern of external trade, exchange rate developments are not exactly the main factor behind the country's external trade flows. Developments in terms of trade (which are strongly dependent on developments in the prices of specific primary goods, such as oil, rice or cashews) are key to determining the sustainability of Guinea-Bissau's external accounts.

2.0 Jun^(d)

Table A.II.3.1.									
MAIN ECONOMIC INDICATORS									
	Units	2008	2009	2010	20	11		2012	
	Offics			Est.	Prog.	Est.	Prog.	Es	t.
OUTPUT AND PRICES									
Nominal GDP	EUR millions	589.9	595.3	645.4	675.5	717.3	761.8		
Real GDP	Annual % change	3.2	3.4	4.5	4.3	5.3	2.5		
Inflation (CPI)	Y-o-y % change	8.7	-6.3	5.6		2.2	5.0	1.9	Jun.
	Avg. % change	10.4	-2.8	2.3	4.0	4.8	3.3	3.2	Jun.
Public Finances									
Total revenue	% of GDP	23.1	25.0	20.0	21.6	18.9	17.3		
Total expenditure	% of GDP	23.9	21.3	20.2	22.6	20.8	19.2		
Overall balance	% of GDP	-0.8	3.7	-0.2	-1.0	-1.9	-1.0		
Overall balance without grants	% of GDP	-14.9	-12.2	-9.7	-9.5	-10.0	-8.9		
Money and credit									
Net claims on government	Annual % change	-16.6	-114.0	-353.4	158.3	183.3	-81.3	98.9	Jun
Credit to the economy	Annual % change	71.5	24.9	56.4	26.2	48.3	10.1	44.9	Jun
Broad money (M2)	Annual % change	25.5	6.8	29.6	6.0	39.1	-8.1	15.3	Jun
INTEREST RATES									
Deposit (1-year)	Annual rate	3.0	3.0	3.0		3.0		3.0	Jun.
Lending (1-year)	Annual rate	16.0	16.0	16.0		16.0		16.0	Jun
BALANCE OF PAYMENTS									
Exports f.o.b. (USD)	Annual % change	19.6	-5.1	4.0	18.6	93.4	-25.2		
Imports f.o.b. (USD)	Annual % change	53.4	1.0	-2.3	22.0	47.2	-40.1		
Current account	% of GDP	-3.3	-5.7	-8.3	-6.9	-1.6	-4.7		
Current acc. excl. official transf. (a)	% of GDP	-8.7	-13.0	-5.3	-9.8	-4.8	-6.4		
EXTERNAL DEBT									
Total stock	USD millions	1,114	1,068	163		174	189		
	% of GDP	132.7	121.9	19.1		17.5	17.8		
	% of exports ^(b)	915.2	857.7	135.9		71.3	102.9		
Debt service	% of exports ^(b)	34.5	16.0	766.4		0.2	0.3		
EXCHANGE RATES									
USD / CFA franc (official market)	Average rate	447.8	472.2	495.4		471.9		533.8	Jul.
Nominal EERI (Index, 100: 2000) (c)	Annual % change	4.8	2.2	-4.2		2.7		0.3	Jul.

Sources: BCEAO branch in Guinea-Bissau, IMF and Banco de Portugal calculations.

Annual % change

Real EERI (index: 100: 2000) (c)

Notes: (a) Official transfers exclude revenue from fishing licences; (b) Exports of goods and services; (c) Effective exchange rate index (EERI), calculated on the basis of official exchange rates applied to the currencies of Guinea-Bissau's four main trading partners over the period 2005/11; (d) Changes from the previous December.

9.7

-1.2

-6.3

1.9

Table A.II.3.2.

GROSS DOMESTIC PRODUCT Current price	es, billions o	of CFA franc	's		
enoss bonies her noboer current pile	2008	2009	2010	2011	2012
	2000	2003	2010	Est.	Proj.
Primary sector	179.4	170.4	189.9	212.7	223.3
Agriculture, forestry and fishing	179.4	170.4	189.9	212.7	223.3
Secondary sector	52.1	49.9	53.7	57.7	62.7
Industry ^(a)	49.0	46.7	48.7	52.1	56.7
Construction	3.1	3.2	5.0	5.6	5.9
Tertiary sector	140.5	150.8	156.3	174.3	186.3
Trade, restaurants and hotels	74.1	80.1	76.3	85.5	90.6
Transportation and communication	16.5	15.9	18.1	20.3	23.1
Public administration	33.6	40.5	46.3	51.3	54.4
Banking, insurance and other services	16.3	14.3	15.6	17.2	18.2
Gross Domestic Product (at factor costs)	372.0	371.1	399.9	444.6	472.3
Indirect taxes	14.9	19.4	23.5	25.9	27.4
Gross Domestic Product (market prices)	386.9	390.5	423.4	470.5	499.7
Consumption	413.5	429.3	458.8	474.1	518.8
Investment	23.5	24.6	28.1	33.8	34.9
Public	13.7	17.1	18.1	19.4	19.2
Private	9.8	7.5	10.0	14.4	15.7
Domestic demand	437.0	453.9	486.9	507.9	553.7
Exports	77.0	73.0	84.5	136.2	115.5
Total demand	514.0	526.9	571.4	644.1	669.2
Imports	127.1	136.5	148.1	173.6	169.4
Memo items:					
Gross domestic savings	-26.6	-38.9	-35.5	-3.6	-19.1
Nominal GDPmp (USD millions)	864.1	826.9	854.6	997.1	1,059.0
GDPmp deflator (annual change, per cent)	13.3	-2.4	3.8	5.5	3.6
Nominal GDPmp (annual change, per cent)	16.9	0.9	8.4	11.1	6.2
Real GDPmp (annual change, per cent)	3.2	3.4	4.5	5.3	2.5
Mear GDI IIIP (aiilidai chailge, per celli)	3.2				

Sources: BCEAO branch in Guinea-Bissau and Banco de Portugal calculations.

Notes: (a) Includes electricity and water.

CONS	UMER PRICE IN	IDEX Per cent			
		Monthly	Cumulative	Year-on-year	Average
		change	change	change	change
		[1]	[2]	[3]	[4]
2001	December		-1.9	-1.9	3.3
2002	December		2.5	2.5	3.3
2003	December		0.7	0.7	-3.5
2004	December		2.9	2.9	0.8
2005	December		0.3	0.3	3.4
2006	December		3.2	3.2	2.0
2007	December		9.3	9.3	4.6
2008	December		8.7	8.7	10.4
2009 2010	December		-6.3	-6.3	-2.8
2010	December December		5.6 2.2	5.6	2.3
2011	December		2.2	2.2	4.8
2010	January	1.7	1.7	-1.0	-3.4
	February	0.4	2.1	0.0	-3.7
	March	-0.3	1.7	0.5	-4.0
	April	0.2	1.9	1.4	-3.9
	May	0.1	2.1	1.2	-3.8
	June	0.8	2.9	1.3	-3.4
	July	0.4	3.2	1.3	-2.8
	August	1.7	5.0	3.2	-2.0
	September	0.0	5.0	3.4	-1.1
	October	-0.2	4.8	5.0	0.0
	November December	0.5 0.3	5.3 5.6	5.2 5.6	1.2 2.3
2011					
2011	January	1.4	1.4	5.3	2.8
	February	-0.8	0.6	4.1	3.1
	March	0.6	1.2	5.0	3.5
	April	1.1 0.2	2.3 2.5	6.0 6.1	3.9 4.3
	May June	1.9	2.5 4.5	7.2	4.5
	July	-0.2	4.3	6.7	5.2
	August	-0.5	3.8	4.4	5.3
	September	0.4	4.2	4.8	5.4
	October	-1.4	2.8	3.6	5.3
	November	-0.2	2.5	2.8	5.1
	December	-0.3	2.2	2.2	4.8
2012	January	1.3	1.3	2.2	4.6
2012	February	0.1	1.5	3.1	4.5
	March	-0.3	1.1	2.2	4.2
	April	0.8	1.9	1.9	3.9
	May	1.0	2.9	2.7	3.6
	June	1.2	4.2	1.9	3.2

Table A.II.3.3.

Sources: BCEAO branch in Guinea-Bissau and Banco de Portugal calculations.

Notes: [1] month (n) / month (n-1); [2] month (n) / previous December; [3] month (n) / month (n) of the previous year; [4] last 12 months / previous 12 months.

Table A.II.3.4.

DALANCE OF DAVIATINES I B'II' (SEA (
BALANCE OF PAYMENTS Billions of CFA			_	_		
	2008	2009	2010 Est.	201 Proj.	Est.	2012 Proj.
Current account	-12.9	-22.4	-35.0	-32.7	-7.3	-23.5
Excluding official transfers ^(a)	-33.7	-50.6	-45.3	-46.0	-22.5	-32.2
Trade balance	-31.6	-38.1	-34.6	-45.9	-5.5	-22.0
Exports (f.o.b.)	57.4	57.4	62.7	67.2	114.2	93.2
of which: Cashews	46.2	46.8	51.8	55.4	104.4	82.9
Imports (f.o.b.)	-89.0	-95.5	-97.3	-113.1	-119.7	-115.2
Services	-18.5	-25.4	-29.0	-21.1	-31.9	-32.0
Income	-6.6	-5.2	-1.1	-0.2	-6.0	-3.6
of which: scheduled interest	-6.3	-5.4	-0.9	-0.2	-0.1	-0.3
Current transfers	43.8	46.3	29.7	34.5	36.1	34.0
Public	28.7	31.2	15.5	18.3	19.5	17.0
of which: balance of payments support	16.4	28.5	9.4	13.3	12.4	6.2
of which: fishing revenue	7.9	3.0	5.2	5.0	4.3	8.3
Private	15.1	15.1	14.2	16.2	16.6	17.0
Capital and financial account	15.5	32.0	49.3	32.7	37.4	26.5
Borrowing	-12.7	-2.2	-450.8	9.0	9.0	2.4
Disbursements	0.1	8.5	4.7	9.4	9.4	2.9
of which: Projects	0.1	8.5	4.7	9.4	9.4	2.9
Scheduled amortisation	-12.8	-10.7	-455.5	-0.4	-0.4	-0.5
Capital transfers and FDI (net)	28.6	32.6	494.7	25.4	29.5	25.1
of which: Debt relief	4.9	0.0	454.1	0.0	0.0	0.0
Short-term capital, errors and omissions	-0.4	1.6	5.4	-1.7	-1.1	-1.0
Overall balance	2.6	9.6	14.3	0.0	30.1	3.0
Financing	-2.6	-9.6	-14.3	0.0	-30.1	-3.0
Change in official reserves (increase: -) ^(b)	-8.6	-8.4	-3.0	-3.5	-31.0	-3.0
Change in arrears (decrease: -)	6.0	-1.2	-11.3	3.5	0.9	0.0

Sources: BCEAO branch in Guinea-Bissau, IMF and Banco de Portugal calculations.

Notes: (a) Revenue from fishing licences is not considered official transfers; (b) Includes the effects of exchange rate fluctuations.

Table A.II.3.5.

MERCHANDISE EXPORTS By country of destination, as a percentage of total									
	2005	2006	2007	2008	2009	2010	2011	2005 to 2011	
Cape Verde	0.6	0.1	0.0	0.1	0.1	0.2	0.1	0.1	
China	0.1	0.0	0.0	0.2	0.2	1.4	1.3	0.6	
France	0.0	0.0	0.0	0.0	8.0	2.0	1.1	0.9	
The Gambia	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	
Netherlands	0.1	0.0	0.3	0.0	0.4	0.5	0.0	0.2	
India	61.5	51.6	66.6	73.9	63.2	88.2	78.8	81.1	
Portugal	1.8	0.5	0.8	0.3	1.5	2.6	1.3	2.8	
Senegal	0.4	22.5	26.2	17.4	27.4	1.5	0.9	2.2	
Singapore	14.9	22.8	2.3	2.1	0.0	1.3	13.4	9.6	
Other	20.5	2.4	3.7	5.9	6.2	2.2	3.0	2.5	

Sources: BCEAO branch in Guinea-Bissau, IMF and Banco de Portugal calculations.

Table A.II.3.6.

MERCHANDISE IMPORTS By country of origin, as a percentage of total										
	2005	2006	2007	2008	2009	2010	2011	2005 to 2011		
China	2.3	1.6	0.2	0.4	2.6	4.1	1.7	2.1		
Spain	1.1	0.9	1.9	1.1	2.7	1.8	3.4	3.1		
France	4.5	2.6	0.5	2.2	4.1	11.4	6.0	4.7		
The Gambia	1.4	7.4	1.4	2.0	0.9	1.1	0.8	2.1		
Netherlands	8.0	6.3	5.6	4.5	4.9	5.6	4.2	5.9		
India	0.6	0.3	2.4	1.0	0.3	1.0	0.7	0.8		
Japan	0.7	0.7	0.2	1.5	1.3	4.4	3.7	2.6		
Portugal	21.0	16.1	19.7	22.4	24.4	33.5	38.4	29.8		
Senegal	45.6	44.5	44.2	29.0	25.9	8.2	13.5	21.6		
Other	14.9	19.8	23.9	35.9	32.9	28.9	27.5	27.3		

 $\textbf{Sources:} \ \ \textbf{BCEAO} \ \ \textbf{branch in Guinea-Bissau, IMF} \ \ \textbf{and Banco de Portugal calculations}.$

Table A.II.3.7.

EXTERNAL DEBT USD millions						
	2007	2008	2009	2010	2011	2012
			Est.	Est.	Est.	Prog.
Medium or long-term debt	1,244.2	1,112.8	1,049.7			
Multilateral creditors	588.4	531.7	494.4			
Bilateral creditors	655.9	581.1	555.3			
bilateral creditors	055.5	301.1	333.3			
Short-term debt	1.3	1.2	1.1			
Total external debt	1,245.6	1,113.9	1,068.1	163.2	174.5	188.5
of which: Arrears	360.1	388.6	427.5	0.0	0.0	0.0
Medium or long-term debt	359.3	387.8				
Multilateral creditors	37.8	39.4				
Bilateral creditors	321.5	348.4				
Paris Club	237.0	254.3				
Other countries	84.5	94.1				
Short-term debt	0.8	0.8				
Scheduled medium and long-term debt service	35.5	42.0	18.8	920.4	0.4	0.6
Principal	25.5	28.6	8.7	919.4	0.0	0.2
Interest	10.0	13.4	10.2	1.0	0.4	0.4
		(% 0	of exports of go	ods and servic	res)	
Total external debt	1,162.2	915.2	857.7	135.9	71.3	102.9
Scheduled medium and long-term debt service	33.1	34.5	16.0	766.4	0.2	0.3
Principal	23.8	23.5	7.4	765.5	0.0	0.1
Interest	9.4	11.0	8.6	0.8	0.2	0.2
			(% of	GDP)		
Total external debt	180.1	132.7	121.9	19.1	17.5	17.8

Sources: BCEAO branch in Guinea-Bissau, IMF and Banco de Portugal calculations.

Note: Figures from 2009 reflect the impact of debt relied under the HIPC initiative and the MDRI.

Table A.II.3.8.

GOVERNMENT OPERATIONS Billions of CFA francs								
	2008	2009	2010		2011		2012	
		Est.	Est.	Proj.	Est.	I.e. (a)	Proj.	
1. Total revenue	89.3	97.5	84.6	88.8	86.6	97.5	101.6	
1.1. Current revenue	34.6	35.4	44.6	49.9	48.5	97.2	61.8	
Non-tax revenue	13.7	8.8	11.5	11.9	10.1	84.9	15.1	
of which: Fishing licences	7.9	3.0	5.2	5.0	4.3	86.0	8.3	
Tax revenue	20.9	26.6	33.1	37.9	38.4	101.3	46.7	
1.2. Grants	54.7	62.1	40.0	38.9	38.1	97.9	39.8	
of which: Projects	38.4	33.6	30.6	25.7	25.7	100.0	33.6	
of which: Budget support	16.4	28.5	9.4	13.3	12.4	93.2	6.2	
2. Total expenditure	92.4	83.2	85.5	97.9	95.7	97.8	106.4	
2.1. Current expenditure	52.4	47.2	49.3	55.3	57.9	104.7	61.8	
Compensation of employees	20.5	20.5	20.7	23.8	24.2	101.7	26.3	
Goods and services	8.0	6.4	8.6	9.1	9.2	101.1	11.0	
Transfers	10.9	11.0	10.7	12.6	12.1	96.0	12.5	
Scheduled debt interest	7.3	1.8	0.7	8.0	0.6	75.0	0.3	
Other expenditure	5.7	7.5	8.6	9.0	11.9	132.2	11.8	
2.2. Capital expenditure	40.0	36.0	36.2	42.5	37.8	88.9	44.6	
3. Current balance: (1.1.) - (2.1.)	-17.8	-11.8	-4.7	-5.4	-9.4	174.1	0.0	
4. Overall bal. excl. grants: (1.) - (2.) - (1.2.)	-57.8	-47.8	-40.9	-48.0	-47.2	98.3	-44.6	
5. Overall balance: (1.) - (2.) (commitment basis)	-3.1	14.3	-0.9	-9.1	-9.1	100.0	-4.8	
6. Change in arrears	10.0	-3.6	-7.7	-3.5	-3.8		-1.5	
6.1. Domestic	4.8	-4.9	-7.7	-3.5	-3.8		-1.5	
6.2. External	5.2	1.3	0.0	0.0	0.0		0.0	
7. Items in transit, errors and omissions	-0.5	0.0	-1.8	0.0	0.0		0.0	
8. Overall balance: (5.) + (6.) + (7.) (cash basis)	6.4	10.7	-10.5	-12.6	-12.9		-6.3	
9. Financing	-6.4	-10.7	10.3	12.6	12.9		6.3	
9.1. Domestic (net)	-4.6	-10.5	7.1	0.0	0.0		0.0	
of which: Banking system	-4.6	-10.5	7.1	0.0	0.0		0.0	
9.2. External (net)	-1.8	-0.2	3.2	9.1	9.4		2.8	
of which: Disbursements	0.1	1.0	4.7	9.4	9.4		2.9	
of which: Amortisation	-12.8	-10.7	-455.5	-0.4	0.0		-0.1	
of which: Debt relief	4.9	5.7	454.1	0.0	0.0		0.0	
10. Financing gap ^(b)	0.0	0.0	0.1	3.5	3.5		3.5	

Sources: BCEAO branch in Guinea-Bissau, IMF and Banco de Portugal calculations.

Notes: (a) Level of budget execution: as a percentage of budgeted/programmed amounts; (b) Net lending (+)/ net borrowing (-).

Table A.II.3.9.

MONETARY SURVEY Billions of CFA francs											
	2008	2009	2010	20	11	2011/	2010	20	12	Jun. 12	/2011
				Proj.	Est.	[1]	[2]	Proj.	June	[1]	[2]
Net foreign assets	66.6	80.6	93.3	80.1	119.3	27.9	22.0	104.7	117.3	-1.7	-1.1
Central Bank	53.0	61.4	64.4	65.2	95.4	48.2	26.2	68.9	90.3	-5.4	-3.0
Commercial banks	13.6	19.2	28.9	14.9	23.9	-17.3	-4.2	35.8	27.0	13.3	1.8
Total domestic credit	28.5	20.2	32.0	48.6	61.7	92.8	25.0	57.7	95.4	54.8	19.5
Net claims on government	11.1	-1.6	4.0	16.1	11.2	183.3	4.2	2.1	22.3	98.9	6.4
Credit to the economy	17.4	21.8	34.0	32.5	50.5	48.3	20.9	55.6	73.1	44.9	13.1
Other assets (net)	-5.2	-4.7	-6.7	-3.0	-7.7	15.2	-0.8	-3.0	-12.9	68.2	-3.0
Total assets	90.0	96.1	118.5	125.6	173.3	46.2		159.3	199.8	15.3	
Broad Money (M2)	90.0	96.1	124.6	125.6	173.3	39.1		159.3	199.8	15.3	
Currency in circulation	54.1	57.1	64.1	76.8	85.5	33.5		82.7	102.8	20.1	
Demand deposits	28.6	33.1	49.3		63.4	28.6			71.2	12.2	
Quasi-money / time deposits	7.3	5.8	11.1		24.3	118.1			25.9	6.3	
Total liabilities	90.0	96.1	118.5	125.6	173.3	46.2		159.3	199.8	15.3	

Sources: BCEAO branch in Guinea-Bissau, BCEAO, IMF and Banco de Portugal calculations.

Notes: [1] Change from the end of the previous year; [2] Change from the money supply at the end of the previous year (liquidity expansion/contraction factors).

Table A.II.3.10.

INTEREST RATES Annual rates, per cent								
	2007 Dec.	2008 Dec.	2009 Dec.	2010 Dec.	2011 Dec.	2012 Jun.		
Deposits								
Time deposits:								
Up to 90 days	1.5	1.5	1.5	1.5	1.5	1.5		
91-180 days	1.8	1.8	1.8	1.8	1.8	1.8		
181-365 days	3.0	3.0	3.0	3.0	3.0	3.0		
Credit								
Up to 90 days	14.0	14.0	14.0	14.0	14.0	14.0		
90-180 days	15.0	15.0	15.0	15.0	15.0	15.0		
181-365 days	16.0	16.0	16.0	16.0	16.0	16.0		
Overdraft on demand deposits	18.0	18.0	18.0	18.0	18.0	18.0		
Central bank operations								
Banking system								
Discount rate	4.75	4.75	4.25	4.25	4.25	4.25		
Reserve ratio	3.0	3.0	3.0	7.0	7.0	5.0		
Memo item:								
Inflation (monthly year-on-year rate of change)	9.3	8.7	-6.3	5.6	2.2	1.9		

Sources: BCEAO branch in Guinea-Bissau and IMF.

EXCH <u>/</u>	ANGE RATES A	verage rates			
				EER	(a)(b)
		EUR / CFA franc	USD / CFA franc	Index, 1	
				Nominal	Real
	2001	655.96	728.18	101.44	100.31
	2002	655.96	695.86	104.21	103.26
	2003	655.96	579.28	110.39	102.41
	2004	655.96	527.53	113.33	102.45
	2005	655.96	531.17	111.01	100.61
	2006	655.96	521.92	114.01	101.45
	2007	655.96	478.68	113.49	101.62
	2008	655.96	447.78	118.99	111.44
	2009	655.96	472.19	121.63	110.07
	2010	655.96	495.42	116.56	103.17
	2011	655.96	471.86	119.65	105.11
2010	January	655.96	459.68	120.41	107.21
2010	February	655.96	479.35	118.77	107.21
	March	655.96	483.48	117.50	103.83
	April	655.96	489.24	115.89	103.83
	May	655.96	522.31	114.25	100.54
	June	655.96	537.36	113.65	100.34
	July	655.96	513.80	116.00	102.16
	August	655.96	508.86	116.19	103.89
	September	655.96	502.27	116.19	103.30
	October	655.96	472.01	117.50	103.74
	November	655.96	480.43	117.26	103.78
	December	655.96	496.21	115.88	102.14
2011	January	655.96	491.19	116.70	103.44
	February	655.96	480.62	117.71	103.48
	March	655.96	468.61	118.43	103.82
	April	655.96	454.06	119.33	104.84
	May	655.96	457.30	119.57	105.36
	June	655.96	455.94	119.61	105.90
	July	655.96	459.91	119.52	106.35
	August	655.96	457.56	120.95	107.24
	September	655.96	476.52	120.86	106.95
	October	655.96	478.75	121.81	106.02
	November	655.96	483.97	122.45	105.96
	December	655.96	497.83	118.85	101.94
2012	January	655.96	508.87	117.01	101.47
	February	655.96	496.08	119.06	103.34
	March	655.96	496.92	120.37	103.34
	April	655.96	498.40	121.90	104.66
	May	655.96	513.07	122.34	106.43
	June	655.96	523.69	119.50	103.94
	July	655.96	533.82	119.16	103.54

Sources: BCEAO branch in Guinea-Bissau, IMF and Banco de Portugal calculations.

Notes:

(a) Effective exchange rate index (EERI), calculated on the basis of official exchange rates applied to the currencies of Guinea-Bissau's four main trading partners over the period from 2005 to 2011 (appreciation + ; depreciation -).

MOZAMBIQUE

AREA: 799,380 KM²

CAPITAL CITY: Maputo

POPULATION: 24 million

(2011; source: UN)

CURRENCY: Metical

The economy continued to perform soundly, anchored on private consumption and exports.

External accounts came under pressure from increasing imports due to strong private investment and the public infrastructure plan, which also burdened government accounts.

Monetary policy successfully contained inflationary pressures, which allowed for a gradual reversal from the second half of 2011 of tight monetary conditions.

II.4.1. SUMMARY

The performance of the Mozambican economy in 2011 was positive in spite of the international crisis. Output grew by 7.3%, i.e. at the same level as average values in the past decade – a solid 7.6% growth rate, much higher than that recorded in Sub-Saharan Africa (5.8%). Relations with the IMF played an important and constant role throughout the macroeconomic stabilisation process. A three-year programme under the Policy Support Instrument (PSI) is currently in force, which was signed in June 2010.

Table II.4.1.

MAIN ECONOMIC INDICATORS									
	2009	2010 Est.	2011 Est.	2012 Prog.					
Real GDP (annual percentage change)	6.3	7.1	7.3	6.7					
Inflation (average percentage change)	3.8	12.4	10.9	7.2					
Broad money (percentage change)	32.6	24.6	7.8	18.8					
Current account (% of GDP)	-12.2	-11.5	-14.4	-12.7					
Fiscal balance (% of GDP)	-5.5	-3.8	-5.4	-6.4					
External debt (% of GDP)	39.6	38.8	31.5						

Sources: IMF and Banco de Moçambique.

The dynamics of Mozambican output in 2011 relied mainly on private consumption and growth in exports of goods from both the various megaprojects (aluminum, electricity, natural gas, titanium and coal) and traditional products. Notwithstanding the good performance, the increase in the demand for imported investment goods, driven by the expansion of megaprojects and the public infrastructure plan, and higher imports of services and repatriated dividends caused a deterioration of the external current account deficit. However, strong capital inflows associated with foreign direct investment led to a foreign reserve level equivalent to 5.2 months of the year's goods and services imports (-0.2 months versus 2010).

This acceleration in externally financed public investment affected public account developments in 2011, raising the overall deficit to 5.4% of GDP, despite positive tax revenue collection and containment in some current expenditure categories. The deficit was financed through recourse not only to external loans but also to credit granted by the domestic banking sector.

Monetary policy was mostly restrained by a need to counter inflationary pressures experienced since 2010, keeping a restrictive nature throughout most of 2011, with repercussions on the pace of expansion of broad money and credit to the economy. As a result of this policy, associated with a prudent fiscal policy especially in the first half of the year, and given favourable developments in food and oil prices, inflation followed a marked downward trend over the year, which extended into the early months of 2012.

Based on these positive results, and with the purpose of fostering the expansion of credit to the private sector, in 2011 the central bank started a progressive reversal of monetary conditions, reducing reference rates and reserve requirements, in addition to having resorted to liquidity-supply operations in interbank markets.

In order to mitigate the impact of the international crisis, the Mozambican authorities chose to maintain the expenditure level in 2012, pursuing the public investment programme (focusing on infrastructures), thus incurring a further widening of the public account deficit and the State's external debt.

However, the improvement of the country's infrastructure is expected to contribute to an increased capacity to dispose of megaprojects' products (especially coal), whose exports will be able to sustain the growth pace of domestic product at 6.7%, albeit slowing down from the previous year. This good behaviour of exports, alongside a reduction in goods imports, is likely to improve the external current deficit, allowing for a further accumulation of foreign reserves (ensuring a coverage level of 5.2 months of forecast imports, similar to the 2010 level).

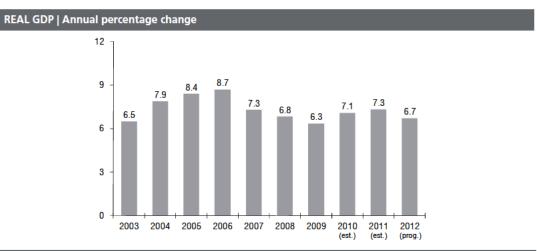
Given the current and expected reduction of foreign aid, authorities are considering recourse to external loans, possibly of a non-concessional nature, to close the investment programme's financing gap. The recent debt sustainability analysis conducted by the IMF and the World Bank continues to assign the country a low default risk, despite some deterioration of indicators. Nevertheless, it calls attention to the vulnerability of external debt to exchange rate and export shocks.

The challenge of enhancing the ability to manage debt and planning and assessing investments is part of the authorities' concerns, and so is reaping the benefits of abundant natural resources to create fiscal space to support the economy's structural transformation in the long term.

II.4.2. DEMAND, OUTPUT AND PRICES

The Mozambican economy performed well in 2011, and real economic growth is estimated to have reached 7.3%, i.e. +0.2 p.p. against 7.1% in 2010. In the past 10 years Mozambique has shown an average growth rate of 7.6%, thus ranking as one of the Sub-Saharan African countries with the greatest output dynamics, much higher than the 5.8% average recorded in that region in the same period.

Chart II.4.1.



Sources: Banco de Moçambique, National Institute of Statistics of Mozambique and IMF.

As in recent years, economic activity stimulus in 2011 was essentially provided by production in the agricultural (including livestock, forestry and related activities), transport and communication (which continues to grow in importance) and manufacturing sectors. Similarly to 2010, these three sectors as a whole accounted for around half of real output growth in the year now ended.

From an expenditure perspective and although dominated by the behaviour of consumption, especially private consumption (which seems to have increased by 7.7% in real terms in 2011), economic growth benefited from the strong dynamics of goods exports, mainly associated with megaprojects but also traditional products. However, the expansion of some megaprojects and the infrastructure programme implemented by the State led to an increase in the demand for imported investment goods.

Projections for 2012 point to some slowdown in the expansion of economic activity to 6.7%, as a result of a continuing deterioration of the external economic environment. The difficulties expressed by some of the major Mozambican trading partners – with EU trading partners accounting for over 50% of Mozambique's exports – may cause a certain moderation in external demand for Mozambican goods and services and some decline in capital inflows from abroad (reduction of aid and lower credit availability). Nevertheless, a partial removal of a few constraints at the transportation infrastructure level should lead to good performance of the exporting mining sector (notably coal), thus mitigating the negative impact of the external environment.

Chart II.4.2.

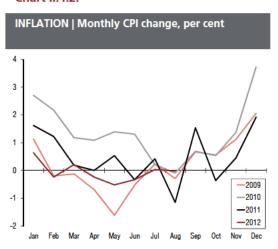
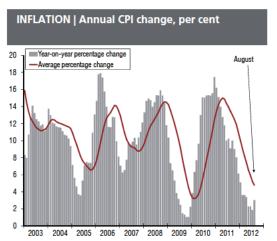


Chart II.4.3.



Sources: Banco de Moçambique and National Institute of Statistics of Mozambique.

Disinflationary efforts by Mozambican authorities have led to a sharp decline in the inflation rate over 2011, to stand at 6.1% in year-on-year terms at the end of the year (17.4% in December 2010). This downward trend, which is being maintained throughout 2012, reflects not only implementation of a stricter monetary policy (also causing an appreciation of the metical), but also the adoption of a somewhat contained fiscal policy (especially in the first half of the year) and a favourable trend in international food and energy prices, in addition to a greater domestic supply of fresh products (fruit and vegetables, with a high weight in the price index basket).

Despite more accommodating monetary conditions starting in 2011 and deepening throughout 2012, projections point to an average inflation of close to 7% at the end of this year.

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II.4.3. EXTERNAL ACCOUNTS

In spite of the positive performance of goods exports, the Mozambican external current deficit widened in 2011, reaching 14.4% of GDP (11.5% in 2010), which is substantially higher than initially planned (11.9%), due not only to a rise in imports (of investment goods), but also to a deterioration of the services and income account.

Table II.4.2.

BALANCE OF PAYMENTS As a percentage of GDP								
	2009	2010	2011 Est.	2012 Prog.				
Current account	-12.2	-11.5	-14.4	-12.7				
Trade balance	-12.8	-12.2	-12.2	-9.5				
Exports	21.5	24.2	23.9	21.9				
Imports	-34.3	-36.4	-36.1	-31.4				
Services and income	-7.1	-6.1	-8.6	-8.0				
Current transfers	7.7	6.8	6.4	4.8				
Capital and financial account	12.9	11.6	18.4	14.1				
Capital account	4.2	3.6	3.1	3.0				
Financial account	8.7	8.0	15.3	11.2				
of which: FDI (net)	8.9	8.2	18.0	11.2				
Errors and omissions	1.3	0.6	-1.2	0.0				
Overall balance	1.9	0.6	2.8	1.4				

Sources: IMF and Banco de Moçambique.

Mozambican exports grew by 19% year-on-year, reflecting more intense activity among the megaprojects and also the good dynamics of traditional exports (wood, cashew and tobacco). This positive performance was, however, accompanied by a rise in the demand for imported goods, mainly investment goods, by both the private and public sectors, with the trade balance keeping its relative weight (-12.2% of GDP).

Chart II.4.4.

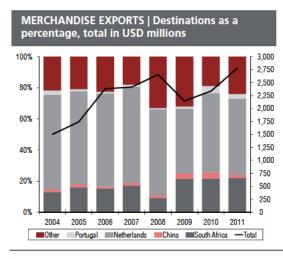
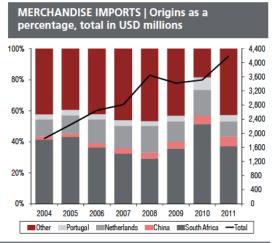


Chart II.4.5.



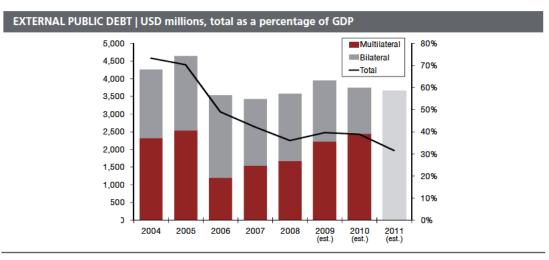
Source: Banco de Moçambique.

Hence, the main factor behind the deterioration of the current account was the widening of the services and income deficit, to 8.6% of GDP in 2011 (6.1% of GDP in 2010). This was mainly due to

greater imports of transportation and (investment-related) construction services, and to the amounts of dividends repatriated by megaprojects (virtually non-existent in 2010).

The volume of foreign direct investment more than doubled in 2011 from the previous year, to 18% of GDP, also led by megaprojects. This strong foreign currency inflow made it possible to reinforce the surplus of the capital and financial account and consequently of the overall balance, resulting in an increase in Banco de Moçambique's foreign reserves by USD 321 million. This ensures a comfortable level equivalent to 5.2 months of the year's goods and services imports.

Chart II.4.6.



Sources: Banco de Moçambique and IMF.

The current account deficit is expected to improve in 2012 to 12.7% of GDP, chiefly as a result of an expected improvement in the trade balance. As shown by data for the first quarter, continued good export dynamics, notably in megaprojects, and the deceleration in goods imports will lead to a decline in the trade deficit to 9.5% of GDP. On the downside, dividends repatriated by megaprojects increased further and grants are expected to decrease.

Public investment financing will allow for a partial mitigation of the reduction forecast for foreign direct investment, allowing a positive overall balance to be maintained and consequently keeping foreign reserves at a similar level to 2011.

II.4.4. PUBLIC FINANCES

As forecast in the budget, Mozambican public accounts deteriorated in 2011, with the overall deficit amounting to 5.4% of GDP (3.8% in 2010), mainly due to an acceleration in externally financed public investment in the second half of the year. However, the deterioration of the deficit was below budget (6.7% of GDP), thanks to good revenue performance and some containment in current expenditure. The current balance thus grew considerably, to 2.7% of GDP (1.5% in the previous year).

Similarly to 2010, tax revenue rose considerably in the year now ended, to around 20% of GDP (+2.1 p.p.), chiefly due to efforts by the tax administration to increase efficiency. The improvements introduced mainly translated into above budget collection of income taxes (especially corporate income) and consumption taxes (in particular VAT recovery). On the revenue side, there was a continuing decline in the weight of grants in the public account financing structure. It accounted for only 8% of GDP at

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the end of 2011 (8.9% of GDP in 2010), albeit influenced by an appreciation of the metical over the year, which reduced the amount of grants expressed in local currency.

Table II.4.3.

BUDGET EXECUTION As a percentage of GDP								
	2009	2010	2011	2012				
			Est.	Prog.				
Total revenue	27.1	29.3	30.5	28.8				
Current revenue	17.6	20.3	22.5	22.2				
Grants	9.5	8.9	8.0	6.6				
Total expenditure	32.6	33.1	35.9	35.2				
Current expenditure	18.0	18.7	19.9	19.8				
Interest	0.5	0.8	1.0	1.1				
Capital expenditure	12.9	13.7	14.1	12.1				
Net lending	1.7	0.6	1.7	3.3				
Current balance	-0.4	1.5	2.7	2.4				
Overall balance	-5.5	-3.8	-5.4	-6.4				

Sources: IMF and Banco de Moçambique.

Despite some containment in current expenditure, mainly in goods and services, compensation of employees grew by 22.5% from 2010, to close to 10% of GDP. Although the phasing-out of the fuel subsidy recorded under 'transfers and subsidies' is already being implemented, in 2011 it reached once again a significant amount, equivalent to 1.1% of GDP in 2011 (1.5% of GDP in the previous year).

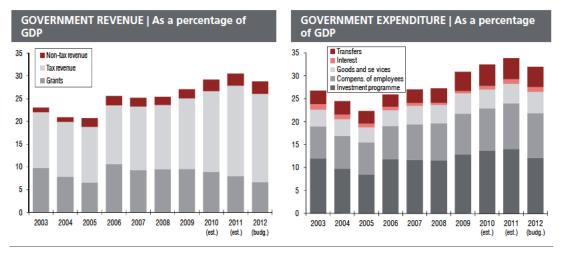
In the second half of 2011 the public investment programme accelerated, especially in projects funded by external grants, raising capital expenditure to 14.1% of GDP at the end of the year (13.7% in 2010) and leading to a worsening of the overall deficit to 5.4% of GDP. This deficit was mostly funded through recourse to external loans, although in 2011 the State also resorted to the banking system, countering the trend observed in recent years.

The goal of limiting the effects on the Mozambican economy of an adverse external environment, as well as a need to meet the commitments assumed in the recently approved poverty reduction strategy¹ (one of the foundations of the PSI in force), has led Mozambican authorities to forecast that the 2012 expenditure level will remain similar to that recorded in 2011. The budget for this year thus points to renewed buoyancy in public investment and maintained priority expenditure levels, while simultaneously seeking to contain growth in compensation of employees (especially as regards hiring in non-priority areas) and continuing and accelerating the phasing-out of fuel subsidies (partly countered by the recent oil price increases).

Given the expected reduction of grants as a consequence of the international crisis and some anticipated deceleration in tax revenue (already noticeable in the outturn for the first quarter), the overall deficit is expected to rise to 6.4% of GDP in 2012. Greater financing requirements are again likely to be covered by external loans (especially World Bank support), seeking to limit recourse to the domestic banking system as a way of avoiding constraints for the private sector when accessing bank credit.

¹ Action Plan to Reduce Poverty of May 2011, presenting a strategic allocation of recourses in priority areas, based on the following general objectives: (i) increasing agricultural and fishing production and productivity, (ii) promoting employment and (iii) fostering human and social development. The document also stresses that the range of these objectives depends on a stable and competitive macroeconomic scenario, efficient and effective public finance management and transparent, upright and fair governance.





Sources: Banco de Moçambique and IMF.

This additional pressure on external indebtedness, which is likely to continue in the next few years due to the planned investment programme, was subject to a sustainability assessment by the IMF and the World Bank in May 2012. It concluded that the main debt indicators are still within sustainable limits, although they are expected to grow. However, stress tests have shown that Mozambican external debt shows a certain degree of vulnerability to exchange rate shocks (depreciation of the metical) and exports (fall in the international prices of aluminium, which accounts for around half of the country's exports).

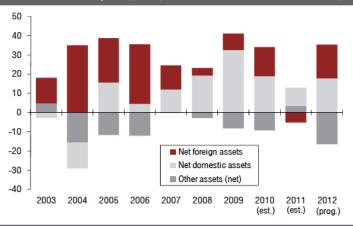
II.4.5. MONETARY AND EXCHANGE RATE CONDITIONS

Given a need to reverse the upward trend of inflation and increase the ability to attract foreign capital, as of August 2010 Banco de Moçambique adopted a stricter monetary policy stance, which extended over most of 2011. These measures taken by the central bank (including rises in reference rates and reserve requirements, as well as interventions in the foreign exchange market) had a positive impact on the sustained reduction of inflation, and eventually contained monetary base growth at 8.5%, i.e. 6 p.p. less than forecast.

Broad money also expanded less than planned (7.8% in 2011, -10.5 p.p. versus projected value), extending and deepening the deceleration started in 2010. The measures taken resulted in some slowdown in credit to the economy, mainly in foreign currency, with claims on general government experiencing a remarkable increase.

In the light of the positive results achieved in the containment of inflationary pressures, as of the third quarter of 2011 Banco de Moçambique started to ease monetary conditions, freeing up banking liquidity so as to foster credit to the private sector. Ever since, and up to September 2012, the monetary authority cut its reference rate (on liquidity-supplying operations) by 6 p.p. cumulatively, to 10.5%, and the reserve requirements by 1 p.p. to 8%, in addition to having supplied liquidity in interbank markets. The more accommodating nature of monetary policy has been accompanied by a careful analysis of inflation forecasts and conditions of credit supply to the economy.

DETERMINANTS OF MONEY SUPPLY | Change in per cent of the initial stock of money supply



Sources: Banco de Moçambique and IMF.

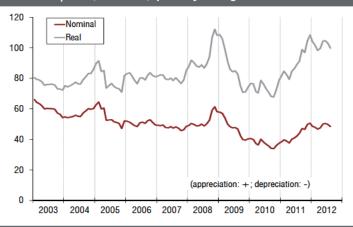
This lowering of reference rates passed through to interest rates in the interbank money market and the primary market for Treasury bills – which declined by around 7 p.p. as of early in the year –and to both lending and deposit bank rates, by approximately 2 p.p..

In the context of the programme agreed on under the PSI, monetary programming for 2012 points to an acceleration of growth in credit to the economy, as a consequence of the adoption of less strict conditions in monetary policy. Consequently, the pace of expansion of broad money is likely to increase to 18.8%, also accommodating a further increase in net claims on general government in addition to the reinforcement of the central bank's foreign reserves.

The gradual improvement in coordination with the Ministry of Finance over establishing a framework for intervention operations and the level of liquidity forecasts and market and instrument development are part of the authorities' strategy in preparing a future inflation-targeting regime. In parallel, although the banking system has been showing a certain resilience to the international crisis, the central bank intends to reinforce financial system supervision. This will be conducted through regular stress tests on banking liquidity, improving cooperation with supervisors from parent companies of foreign banks in the territory and adjusting contingency plans for the banking sector (notably in emergency liquidity assistance or a legal framework for resolving the sector's problems).

However, under a floating exchange rate regime the Mozambican central bank resorts to intervention in the interbank foreign exchange market as a liquidity management instrument and a means to ease pressure on exchange rates. As a reflection of tight monetary conditions and strong capital inflows, in 2011 the metical appreciated against the main reference currencies for Mozambique (US dollar, euro and South African rand). The cumulative valuation was more significant against the South African rand (37%), followed by the US dollar and the euro (25% and 20% respectively). With the reversal of the policy stance, as of January 2012 there was a reversal of the trend, with a devaluation of the metical by around 5% up to August against the South African rand and the US dollar and of almost 3% against the euro. This translated into similar movements in real terms, with the respective exchange rate index showing an appreciation of 38% in 2011 and a depreciation of 8% up to August this year.

EFFECTIVE EXCHANGE RATE | Index, 100: 2000, quarterly averages



Sources: Banco de Moçambique and IMF.

In May 2011 the Mozambican authorities announced that they accepted the obligations set forth in Article VIII of the IMF's Articles of Agreement, pursuing an actual phasing-out of all existing foreign exchange restrictions on payments and current transaction-related transfers. Banco de Moçambique also made the formal decision to end differentiated exchange rate practices (that used to exist, e.g. between interbank foreign exchange market rates and rates used in Banco de Moçambique's transactions with the State and the World Bank). Against this background, the central bank will continue to control implementation of the new exchange rate law and its regulations, as well as the functioning of the foreign exchange market, so as to avoid practices not conforming to the obligations provided for in Article VIII.

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Table A.II.4.1.

MAIN ECONOMIC INDICATORS										
WAIN ECONOMIC INDICATORS		2008	2000	2010	20	11		2012		
	Units	Est.	2009 Est.	2010 Fst	Prog.	Est.	Prog.	2012 <i>Est.</i>		
OUTDUT AND DDICEC		LJC.	LJC.	LJC.	rrog.	LJU	rrog.	LJC.		
OUTPUT AND PRICES	FLID asilliana	6 712	C 025	6.007	0.251	0.022	10.071			
Nominal GDP	EUR millions	6,712	6,835	6,997	9,351		10,071			
Real GDP	Annual % change	6.8	6.3	7.1	7.2	7.3	6.7	20.4		
Inflation (Consumer Price Index)	Year-on-year % change	11.8	2.3	17.4	8.4	6.1	5.6	3.0 Aug.		
DUDUG FINANGEG	Average % change	14.5	3.8	12.4	9.5	10.9	7.2	4.8 Aug.		
PUBLIC FINANCES										
Total revenue	% of GDP	25.6	27.1	29.3	29.1	30.5	28.8			
Total expenditure	% of GDP	27.9	32.6	33.1	35.8	35.9	35.2			
Overall balance	% of GDP	-2.3	-5.5	-3.8	-6.7	-5.4	-6.4			
Overall balance excl. grants	% of GDP	-11.8	-15.0	-12.7	-14.5	-13.3	-13.0			
MONEY AND CREDIT										
Net claims on general gov.	Annual % change	-13.1	-1.6	-6.5	12.4	53.6	55.9	16.0 Jul. ^(c)		
Credit to the economy	Annual % change	45.9	58.6	29.3	17.8	6.4	22.7	5.5 Jul. ⁽⁶⁾		
Broad money (M3)	Annual % change	20.3	32.6	24.6	18.3	7.8	18.8	9.8 Jul. ^(c)		
INTEREST RATES										
Deposit (1-year)	Annual rate	11.6	10.2	12.2		13.4		12.2 Jul.		
Lending (1-year)	Annual rate	21.8	19.2	21.7		23.7		21.8 Jul.		
BALANCE OF PAYMENTS										
Merchandise exports (in USD)	Annual % change	10.0	-19.1	8.7	10.3	19.0	12.2			
Merchandise imports (in USD)	Annual % change	29.6	-6.1	2.6	10.2	19.2	6.5			
Current account	% of GDP	-11.9	-12.2	-11.5	-11.9	-14.4	-12.7			
Current acc. excl. official transf.	% of GDP	-19.6	-19.1	-17.8		-20.6				
International reserves	Months of imports ^(b)	4.7	5.4	5.4	5.0	5.2	5.2			
EXTERNAL DEBT										
Total stock	EUR millions	2,423	2,707	2,717		2,638				
	% of GDP	36.1	39.6	38.8		31.5				
	% of exports ^(b)	119.2	142.9	137.9		108.0				
Debt service	% of exports ^(b)	2.3	1.8	2.3		2.1				
EXCHANGE RATES										
MZM/EUR (official market)	Average rate	35.72	38.95	45.44		40.28		35.91 Aug.		
MZM/USD (official market)	Average rate	24.17	26.71	32.99		29.06		28.53 Aug.		
MZM/USD (parallel market)	Average rate	25.15	29.24	35.65		31.04		29.47 Aug.		
Nominal EERI (Index, 100: 2000) ^(a)	% change ^(c)	19.2	-30.5	-7.1		35.4		-4.6 Aug.		
Real EERI (Index, 100: 2000) ^(a)	% change ^(c)	26.8	-31.4	5.9		37.9		-7.9 Aug.		

Sources: Banco de Moçambique, IMF and Banco de Portugal calculations.

Notes: (a) Effective exchange rate index (EERI), calculated on the basis of official exchange rates applied to the currencies of Mozambique's four main trading partners over the period 2005/09 (appreciation: +; depreciation: -); (b) Imports of goods and services; (c) Change from the previous December.

GROSS DOMESTIC PRODUCT Curre	nt prices. MZ	M millions				
	2007	2008	2009	2010	2011	2012
	Est.	Est.	Est.	Est.	Est.	Prog.
Primary sector	52,829	67,231	71,652	89,229	102,049	
Agriculture and livestock	49,431	63,436	67,425	83,974	96,335	
Fishing	3,398	3,795	4,227	5,255	5,714	
Secondary sector	49,338	52,211	57,134	69,103	76,364	
Mining and quarrying	2,967	3,350	3,566	4,074	5,042	
Manufacturing	29,370	30,906	34,449	39,880	43,104	
Electricity and water	11,065	11,322	11,586	13,277	14,828	
Construction	5,936	6,633	7,533	11,872	13,390	
Tertiary sector	88,484	101,223	113,536	132,159	152,614	
Trade and repairs	28,970	33,581	37,735	46,400	55,877	
Restaurants and hotels	3,081	3,504	3,904	4,837	6,205	
Transport and communication	19,011	22,237	24,913	28,666	33,030	
Financial services	9,088	9,522	10,508	12,034	12,813	
Real estate renting	12,225	13,331	14,254	14,883	15,726	
Public services	18,164	21,206	24,751	28,109	31,805	
Other	-2,055	-2,158	-2,529	-2,770	-2,842	
Gross Domestic Product (at factor costs)	190,652	220,664	242,322	290,491	331,028	
Indirect taxes	16,991	19,111	23,891	27,487	28,753	
Gross Domestic Product (market prices)	207,644	239,775	266,213	317,978	359,780	426,000
Consumption	191,136	222,204	248,737	285,093	325,903	367,048
Public	24,738	29,691	34,368	44,020	48,896	
Private	166,398	192,513	214,369	241,073	277,007	
Investment	31,783	41,708	39,796	58,674	70,331	97,128
Gross Fixed Capital Formation	33,504	39,614	43,959	51,862	64,701	
Changes in inventory	-1,721	2,094	-4,163	6,812	5,630	
Domestic demand	222,919	263,912	288,533	343,767	396,234	464,176
Exports of goods and services	64,146	72,638	73,799	89,565	98,372	109,669
Overall demand	287,065	336,550	362,332	433,332	494,606	573,844
Imports of goods and services	79,423	96,775	96,119	115,354	134,826	147,844
Memo item:						
Gross domestic savings	16,508	17,571	17,476	32,885	33,877	58,952
Nominal GDPmp (USD millions)	8,123	9,919	9,967	9,640	11,607	14,200
GDPmp deflator (annual % change)	7.4	8.1	4.4	11.5	5.4	11.0
Nominal GDPmp (annual % change)	15.2	15.5	11.0	19.4	13.1	18.4
	13.2	10.0	11.0	13.4	1.7.1	10.4

7.3

6.8

6.3

7.1

7.3

6.7

Sources: Banco de Moçambique, IMF and Banco de Portugal calculations.

Real GDPmp (annual % change)

Table A.II.4.2.

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Table A.II.4.3.

CONSUN	IER PRICE INDEX	Per cent		
		Monthly change [1]	Year-on-year change [2]	Average change [3]
2002	December	2.5	9.1	17.3
2003	December	2.8	11.4	11.5
2004	December	1.9	9.3	11.4
2005	December	3.9	13.1	7.0
2006	December	2.2	8.1	13.6
2007	December	3.2	12.1	9.2
2008	December	0.9	11.8	14.5
2009	December	2.1	2.3	3.8
2010	December	3.7	17.4	12.4
2011	December	1.9	6.1	10.9
2011	January	1.6	16.2	13.5
	February	1.2	15.1	14.2
	March	0.2	14.0	14.7
	April	0.0	12.8	15.0
	May	0.5	11.8	14.9
	June	-0.3	10.0	14.4
	July	0.4	10.2	14.0
	August	-1.1	9.1	13.5
	September	1.5	10.0	13.0
	October	-0.4	9.0	12.5
	November	0.4	8.0	11.9
	December	1.9	6.1	10.9
2012	January	0.6	5.1	10.0
	February	-0.2	3.6	9.0
	March	0.2	3.6	8.2
	April	-0.2	3.4	7.4
	May	-0.5	2.3	6.6
	June	-0.3	2.3	5.9
	July	0.0	1.9	5.3
	August	0.0	3.0	4.8

Sources:

Banco de Moçambique, National Institute of Statistics of Mozambique and Banco de Portugal calculations.

Notes:

The basis for calculating the CPI was changed in 2004 (to December 2004), as well as its structure (new products and weights).

[1] month (n) / month (n-1); [2] month (n) / month (n) of the previous year; [3] last 12 months / previous 12 months.

Table A.II.4.4.										
BALANCE OF PAYMENTS USD million	S									
	2008	2009	2010		2011		20	12		
			Est.	Prog.	Q1	Est.	Prog.	Q1		
Current account	-1,179	-1,220	-1,113	-1,380	-386	-1,673	-1,803	-524		
Excluding official transfers	-1,948	-1,901	-1,718		-610	-2,394		-683		
Trade balance	-990	-1,275	-1,179	-1,297	-475	-1,411	-1,344	-431		
Exports (f.o.b.)	2,653	2,147	2,333	2,574	635	2,776	3,116	963		
of which: Megaprojects	1,851	1,311	1,668	1,960		2,015	2,325			
Imports (c.i.f.)	-3,643	-3,422	-3,512	-3,871	-1,110	-4,187	-4,460	-1,394		
of which: Megaprojects	-754	-791	-900	-1,035		-1,547	-1,508			
Services	-410	-457	-506	-615	-180	-794	-895	-185		
Income	-631	-251	-85	-225	11	-207	-239	-38		
of which: Dividends f/ megaproj.	-492	-224	0	-219		-157	-254			
Scheduled interest	-28	-20	-30		-9	-35		-11		
Current transfers	852	763	657	757	258	738	675	131		
Official transfers	768	682	605		224	721		160		
of which: External grants	778	687	605	675	225	725	661	160		
Private transfers	84	82	52		34	17		-29		
Capital and financial account	1,190	1,288	1,116	1,471	201	2,131	2,005	292		
Capital account	421	422	348	431	72	355	422	73		
Financial account	769	866	768	1,040	129	1,777	1,583	219		
FDI (net)	587	890	790	867	84	2,090	1,590	182		
General gov. borrowing (net)	342	434	468	885	63	530	926	123		
Private sector borrowing (net)	-97	-487	-348	-343	100	-610	-671	-135		
Other transactions (net) (a)	-64	28	-142	-368	-118	-234	-261	48		
Errors and omissions	111	126	56	0	144	-136	0	179		
Overall account	122	194	58	91	-42	322	200	-52		
Financing	-122	-194	-58	-91	42	-322	-200	52		
Change in international reserves (net) ^(a)	-140	-352	-87	-89	36	-321	-198	47		
Use of IMF funds (net) (b)	0	156	18	-2	5	-2	-2	5		
Exceptional financing	18	2	10	0	0	0	0	0		
Change in arrears (decrease: -)	0	0	0	0	0	0	0	0		

Sources: Banco de Moçambique, IMF and Banco de Portugal calculations.

Financing gap (c)

Notes: (a) In 2009, includes the use of an SDR allocation of SDR 108.8 million under investment liabilities of the monetary authorities, resulting in an increase in international reserves; (b) Disbursements in 2009 and 2010 under the Exogenous Shocks Facility arrangement; (c) Net borrowing (-) / net lending (+).

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Table A.II.4.5.

MERCHANDISE EXPORTS Destinations as a percentage of total exports											
	2004	2005	2006	2007	2008	2009	2010	2011	2004 to 2011		
Belgium	0.6	0.1	0.1	0.3	0.5	0.7	0.4	0.4	0.4		
China	1.6	1.9	1.4	1.7	1.6	3.5	3.9	2.0	2.2		
India	2.2	1.5	1.3	0.7	8.0	2.6	1.5	2.2	1.6		
Netherlands	60.9	59.7	59.7	61.8	55.5	41.6	51.0	48.9	54.5		
Malawi	3.3	2.8	1.0	0.7	1.4	2.2	1.2	3.6	1.9		
Portugal	2.8	1.2	1.2	1.3	0.8	1.5	4.7	2.9	2.0		
South Africa	12.9	16.2	15.2	17.2	9.2	21.4	21.6	22.2	17.2		
Spain	2.5	1.9	1.8	1.5	1.3	1.5	1.7	2.8	1.9		
United States	0.6	2.2	0.3	0.2	0.5	1.9	0.9	0.3	0.8		
Zimbabwe	2.3	2.9	3.2	2.9	2.1	3.4	3.2	3.6	3.0		
Other	10.3	9.6	14.7	11.7	26.2	19.6	10.0	11.2	14.6		

Sources: Banco de Moçambique, IMF and Banco de Portugal calculations.

Table A.II.4.6.

MERCHANDISE IMPO	MERCHANDISE IMPORTS Origins as a percentage of total imports											
	2004	2005	2006	2007	2008	2009	2010	2011	2004 to 2011			
Australia	0.1	0.7	0.1	0.3	0.1	0.6	0.1	1.0	0.4			
China	2.0	2.5	2.6	3.5	3.9	4.6	5.7	6.4	4.2			
France	1.7	0.9	0.8	0.8	0.6	0.8	0.3	1.1	0.8			
India	3.1	3.6	3.2	4.4	3.6	6.5	1.1	4.3	3.8			
Japan	8.0	0.8	0.6	3.1	3.2	3.8	5.5	3.1	2.9			
Netherlands	11.0	11.5	15.6	14.5	17.4	13.0	16.5	9.8	13.8			
Portugal	3.3	3.6	3.3	3.5	2.9	3.8	8.0	4.0	4.2			
South Africa	41.4	42.9	36.3	32.4	29.1	35.5	51.2	37.0	37.9			
United States	2.4	2.6	2.2	2.7	4.0	3.6	0.5	2.8	2.6			
Other	34.3	30.9	35.3	34.9	35.2	28.0	11.0	30.5	29.4			

Sources: Banco de Moçambique, IMF and Banco de Portugal calculations.

EXTERNAL DEBT USD millions					
	2007 Est.	2008 Est.	2009 Est.	2010 Est.	2011 Est.
Medium or long-term debt	3,424.0	3,581.3	3,947.7	3,743.6	3,656.2
Multilateral creditors	1,543.4	1,672.9	2,229.0	2,436.6	
Bilateral creditors	1,880.6	1,908.4	1,718.8	1,307.0	
OECD countries	639.6	560.1	216.9	326.7	
Paris Club countries (non-OECD)	159.9	159.9	159.7	158.1	
Eastern European countries	107.1	107.2	227.5	148.5	
Other countries	974.0	1,081.2	1,342.3	673.7	
Short-term debt					
Total external debt	3,424.0	3,581.3	3,947.7	3,743.6	3,656.2
Scheduled medium/long-term debt service	47.6	69.1	49.2	63.2	72.7
Principal	31.9	41.5	28.7	33.1	37.7
Interest	15.7	27.6	20.4	30.1	35.0
		(% of expor	ts of goods and	services)	
Total external debt	136.4	119.2	142.9	137.9	108.0
Debt service	1.9	2.3	1.8	2.3	2.1
			(% of GDP)		
Total external debt	42.2	36.1	39.6	38.8	31.5

Sources: Banco de Moçambique, IMF and Banco de Portugal calculations.

Table A.II.4.7.

Table A.II.4.8.

GOVERNMENT OPERATIONS M	ZM billio	ons								
	2008	2009	2010		2011			2012		
	Est.	Est.	Est.	Budg.	Est.	I.e. (a)	Budg.	QΙ	I.e. (a)	
1. Total revenue ^(b)	61.33	72.03	93.18	104.70	109.75	104.8	122.68	24.64	20.1	
1.1. Current revenue	38.27	46.73	64.48	76.79	81.12	105.6	94.57	18.96	20.0	
Non-tax revenue	4.25	5.26	7.94	9.23	9.58	103.8	11.66	2.91	25.0	
Tax revenue	34.02	41.47	56.54	67.56	71.54	105.9	82.91	16.04	19.4	
Income taxes	11.72	13.72	18.48	22.01	24.89	113.1	27.49	5.24	19.0	
Consumption taxes	18.05	22.89	31.69	37.69	38.42	101.9	45.76	8.49	18.5	
Taxes on international trade	3.59	4.08	5.26	6.53	6.73	103.1	8.00	1.63	20.4	
Other taxes	0.65	0.78	1.10	1.33	1.51	113.5	1.66	0.69	41.4	
1.2. Grants	22.64	25.30	28.34	27.91	28.63	102.6	28.11	5.68	20.2	
2. Total expenditure ^(c)	66.89	86.70	105.19	128.94	129.10	100.1	150.09	26.11	17.4	
2.1. Current expenditure ^(d)	37.63	47.87	59.56	72.99	71.50	98.0	84.46	18.91	22.4	
Compensation of employees	19.27	23.62	29.11	36.25	35.66	98.4	41.35	10.75	26.0	
Goods and services	9.71	11.72	13.09	16.85	15.57	92.4	19.84	3.90	19.7	
Transfers and subsidies	7.40	11.17	14.69	16.58	16.46	99.3	18.63	3.21	17.3	
Interest	1.26	1.36	2.67	3.31	3.58	108.2	4.63	0.97	21.0	
2.2. Capital expenditure	27.74	34.41	43.70	44.27	50.60	114.3	51.74	7.03	13.6	
Domestic financing	10.93	11.72	20.03	18.77	20.32	108.3	24.26	4.11	16.9	
External financing	16.81	22.69	23.67	25.50	30.28	118.7	27.48	2.93	10.7	
2.3. Net lending	1.52	4.42	1.93	11.68	6.17	52.8	13.89	0.08	0.5	
3. Current balance: (1.1-2.1)	0.64	-1.15	4.92	3.80	9.63		10.11	0.05		
4. Overall bal. excl. grants: (1-2-1.2)	-28.20	-39.97	-40.35	-52.15	-47.98		-55.52	-7.15		
5. Overall balance: (1-2)	-5.57	-14.67	-12.01	-24.24	-19.35		-27.41	-1.47		
6. Financing	5.57	14.67	12.01	24.24	19.35		27.41	1.34		
6.1. Domestic (net) (e). (f)	-4.08	1.17	-1.23	2.09	3.36	160.8	2.50	0.71	28.5	
of which: Banking system	-1.31	11.29	0.00	0.00	0.01		0.00			
6.2. External (net)	9.65	13.50	13.25	22.15	15.99	72.2	24.91	0.63	2.5	
Disbursements ^(e)	9.56	14.20	14.28	23.26	17.11	73.6	27.19	1.02	3.8	
Amortisation	-0.75	-0.70	-1.03	-1.11	-1.12	100.9	-2.27	-0.39	17.2	
7. Financing gap ^(g)	0.00	0.00	0.00	0.00	0.00		0.00	-0.13		

Sources Banco de Moçambique, IMF and Banco de Portugal calculations.

Notes: (a) Level of budget execution, %; (b) Includes revenue that has not been classified; (c) Includes expenditure that has not been classified; (d) Includes other current expenditure; (e) Includes movements related to a government account set abroad with the proceedings of the Moatize coal mine concession; (f) For 2009 and 2010, includes privatisation receipts; (g) Net borrowing (-) /net lending (+).

MONETARY SURVEY M	ZM b <u>i</u> ll	ions										
	2009	2010	20	11	2011	/2010	2012	2012	0/2011	2012	2012	2012
	Est.	Est.	Prog.	Est.	[1]	[2]	Prog.	[1]	[2]	Mar.	Jun.	Jul.
Net foreign assets	63.8	79.9	75.2	73.0	-8.6	-5.1	98.2	34.5	17.5	72.1	77.8	82.2
Central Bank	49.7	57.1	59.6	56.9	-0.4	-0.2	73.0	28.3	11.2	55.4	60.0	64.5
Foreign assets	59.6	68.9		66.9	-2.9	-1.5				65.8	70.3	75.0
Foreign liabilities	-10.0	-11.8		-10.0	-15.1	1.3				-10.4	-10.3	-10.5
Commercial banks	14.1	22.8	15.7	16.1	-29.2	-5.0	25.2	56.2	6.3	16.6	17.8	17.7
Net domestic assets	60.0	80.2	98.1	92.6	15.5	9.3	118.1	27.6	17.7	95.1	100.4	98.8
Net claims on general gov	-11.5	-12.2	-10.7	-5.7	53.6	4.9	-2.5	55.9	2.2	-4.0	-2.6	-4.8
Credit granted	28.7	22.9		37.7	64.2	11.0				44.7	47.0	43.8
Deposits	-38.7	-34.3		-43.0	25.4	-6.5				-48.6	-49.5	-48.4
National currency	-38.0	-34.0		-42.9	26.4	-6.7				-48.5	-49.4	-48.4
Foreign currency	-0.7	-0.3		-0.1	-79.9	0.2				-0.1	-0.1	-0.1
Earmarked funds	-1.5	-0.9		-0.3	-61.3	0.4				-0.1	-0.1	-0.1
Credit to the economy	71.4	92.4	108.8	98.3	6.4	4.4	120.6	22.7	15.5	99.1	102.9	103.6
National currency	48.7	65.2	76.9	76.5	17.3	8.4	94.0	22.9	12.2	76.7	78.5	78.6
Foreign currency	22.8	27.2	31.9	21.8	-19.8	-4.0	26.6	22.1	3.3	22.4	24.4	25.0
Other items (net)	-16.6	-26.6	-15.5	-21.8	-18.1	3.6	-45.5	108.7	-16.5	-24.0	-22.2	-23.2
Total assets	107.1	133.4	157.8	143.8	7.8		170.8	18.8		143.1	155.9	157.9
Broad money (M3)	107.1	133.4	157.8	143.8	<i>7.8</i>	<i>7.8</i>	170.8	18.8	18.8	143.1	155.9	157.9
Base money	24.5	31.6	36.2	34.3	8.5	2.0	41.2	20.1	4.8	31.0	34.1	34.8
Currency in circulation	13.1	17.4	24.6	17.5	0.5		21.9	25.3		15.3	17.5	17.6
Demand deposits	60.8	73.7	82.1	80.1	8.6		93.5	16.7		80.2	87.7	88.5
Quasi-money	33.2	42.3	51.1	46.2	9.3		55.4	19.9		47.7	50.7	51.8
Total liabilities	107.1	133.4	157.8	143.8	7.8		170.8	18.8		143.1	155.9	157.9

Sources: Banco de Moçambique, IMF and Banco de Portugal calculations.

Notes: [1] Percentage change from the previous period; [2] Change in per cent of the initial stock of money supply (expansion/contraction determinants).

Table A.II.4.10.

Table A.II.4.9.

INTER	EST RATES Annual rates, per cent								
		2007 Dec.	2008 Dec.	2009 Dec.	2010 Dec.	2011 Dec.	2012 Mar.	2012 Jun.	2012 Jul.
Deposits	91-180 days	12.1	11.2	8.8	11.5	12.7	12.5	11.6	10.8
	181-365 days	12.7	11.6	10.2	12.2	13.4	12.9	12.6	12.2
	1-2 years	12.2	11.1	9.4	14.3	13.2	11.5	11.4	11.4
Credit	Up to 180 days	23.0	22.0	18.6	22.0	24.4	23.4	22.0	22.9
	181-365 days	22.2	21.8	19.2	21.7	23.7	22.9	22.0	21.8
	1-2 years	22.1	20.7	18.8	22.6	24.9	24.6	23.7	23.1
Reference	ce rates								
	Standing liquidity provision facility	15.5	14.5	11.5	15.5	15.0	13.8	11.5	11.5
	Treasury bills (91 days) ^(a)	14.8	14.0	9.5	14.7	11.8	8.6	4.2	3.8
	Unsecured IMM (up to 7 days)	13.9	12.4	8.0	13.1	11.7	8.8	6.6	3.8

Sources: Banco de Moçambique, IMF and Banco de Portugal calculations.

Notes: (a) As no transactions were carried out during March and June 2012, figures for these months are from the months immediately preceding them (February and May).

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Table A.II.4.11.

EXCHANG	E RATES	Average	e rates								
	N	/IZM/EUI	R		M	ZM/USD			MZM/	EE	RI ^(a)
	Official	Open	Op/Of	Official	Parallel	Open	Pa/Of	Op/Of	/ZAR	Index, 1	00: 2000
	(Of)	(Op)	(%)	(Of)	(Pa)	(Op)	(%)	(%)	Open	Nom.	Real
2000	13,980	14,045	0.46	15,141	15,996	15,254	5.65	0.75	2,187	100.00	100.00
2001	18,294	18,515	1.21	20,455	21,145	20,706	3.37	1.23	2,537	82.03	87.03
2002	21,896	22,371	2.17	23,180	24,281	23,665	4.75	2.09	2,374	76.88	90.51
2003	26,360	26,874	1.95	23,341	24,249	23,782	3.89	1.89	3,188	60.26	76.18
2004	27,457	27,783	1.19	22,131	23,166	22,581	4.67	2.04	3,523	56.51	78.36
2005	28,337	28,576	0.84	22,936	23,614	23,068	2.96	0.58	3,617	54.19	78.38
2006 ^(b)	32.18	31.38	-2.47	24.98	26.93	26.03	7.82	4.18	3.77	50.60	80.72
2007	35.57	35.02	-1.55	25.56	26.64	25.84	4.24	1.09	3.67	47.95	80.30
2008	35.72	35.49	-0.65	24.17	25.15	24.30	4.05	0.52	2.98	52.18	94.03
2009	38.95	37.25	-4.37	26.71	29.24	27.52	9.47	3.03	3.33	47.33	85.48
2010	45.44	43.63	-3.99	32.99	35.65	33.96	8.09	2.95	4.65	37.13	73.29
2011	40.28	40.46	0.45	29.06	31.04	29.07	6.81	0.03	4.04	42.58	89.81
2011											
January	43.03	43.51	1.12	32.48	35.42	32.65	9.06	0.51	4.73	38.48	81.88
February	42.82	43.00	0.42	31.51	33.83	31.63	7.36	0.37	4.41	39.64	84.79
March	43.45	43.42	-0.07	31.01	32.62	31.05	5.18	0.14	4.50	38.88	82.36
April	44.97	44.33	-1.42	30.71	32.27	30.73	5.09	0.06	4.57	37.65	79.38
May	42.52	43.09	1.34	30.11	31.65	30.10	5.11	-0.03	4.38	40.04	84.66
June	41.39	41.96	1.38	29.16	30.65	29.16	5.09	0.00	4.30	41.03	86.49
July	39.79	40.22	1.08	28.17	30.30	27.97	7.55	-0.72	4.12	42.49	89.38
August	39.18	39.29	0.28	27.38	30.26	27.22	10.53	-0.57	3.86	44.03	91.41
September	37.00	37.38	1.03	27.15	29.66	27.19	9.24	0.15	3.62	47.10	98.87
October	38.31	37.14	-3.05	27.05	29.51	27.11	9.08	0.21	3.42	46.48	96.94
November	35.92	36.53	1.70	26.95	28.26	26.94	4.86	-0.03	3.31	49.87	104.51
December	34.96	35.65	1.97	27.02	28.04	27.07	3.77	0.19	3.31	50.73	108.42
2012											
January	35.74	35.08	-1.85	27.18	29.50	27.26	8.54	0.29	3.41	48.67	104.40
February	35.99	35.94	-0.14	27.17	29.05	27.27	6.90	0.38	3.57	47.89	101.82
March	36.85	36.25	-1.63	27.46	28.73	27.64	4.62	0.64	3.64	46.66	98.32
April	36.53	36.51	-0.05	27.76	29.05	27.98	4.63	0.79	3.58	47.62	99.65
May	34.98	35.33	1.00	27.63	28.63	27.88	3.63	0.92	3.42	50.05	104.22
June	34.82	34.95	0.37	27.89	28.60	28.09	2.56	0.70	3.36	50.42	104.77
July	34.68	34.44	-0.69	28.03	28.97	28.21	3.35	0.66	3.42	49.82	103.06
August	35.91	35.98	0.18	28.53	29.47	28.80	3.29	0.96	3.49	48.37	99.84

Sources: Banco de Moçambique, IMF and Banco de Portugal calculations.

Notes: (a) Effective exchange rate index (EERI), calculated on the basis of official exchange rates applied to the currencies of Mozambique's four main trading partners over the period 2005/09 (appreciation: +; depreciation: -); (b) A monetary reform was carried out in July 2006 with a conversion rate of 1 to 1000.

SÃO TOMÉ AND PRÍNCIPE

AREA: 997 KM²

CAPITAL CITY: São Tomé

POPULATION: 187.4 thousand

(2011; source: INE-STP)

CURRENCY: Dobra

By mid-2012, the most relevant developments
were the downward trend in inflation, which
dropped to historically low levels, and the
strengthening of fiscal consolidation that has
been broadly sustained since 2008.

Economic growth also proceeded at a
considerable pace and foreign exchange
reserves remained at an appropriate level,
against a background of modest, but broad-based improvement in the external position.

II.5.1. SUMMARY

The macroeconomic and structural fragilities of São Tomé and Príncipe are indubitably profound, as are its socioeconomic weaknesses, viewed by the Santomean authorities as challenging hurdles to be overcome, albeit in the long term. Despite the magnitude of these constraints, the Santomean economy has made significant progress in a number of areas over the last few years. Several initiatives undertaken by the Santomean authorities encompassed that progress, e.g. the National Poverty Reduction Strategy for 2012-2016, the new IMF-supported adjustment programme (in force since July 2012, following two other programmes) and the ongoing Economic Cooperation Agreement with Portugal (viewed by the Santomean authorities as a pillar of the fixed exchange rate regime between the dobra and the euro adopted in 2010).

Table II.5.1.

MAIN ECONOMIC INDICATORS						
	2009 Est.	2010 Est.	2011 Prog.	2011 Est.	2012 Prog.	2013 Prog.
Real GDP (annual rate of change)	4.0	4.5	4.5	4.9	4.5	5.5
Inflation (year-on-year rate of change)	16.1	12.9	12.0	11.9	8.0	6.0
Money supply (annual rate of change)	8.2	25.1		10.5	6.1	15.2
Current and capital account (% of GDP)	3.9	-27.7	-25.1	-25.3	-17.8	-23.0
Overall fiscal balance (% of GDP)	-18.0	-10.4	-27.7	-12.0	-6.8	-12.3
Domestic primary balance (% of GDP)	-8.1	-4.1	-4.0	-3.0	-3.2	-3.1
External debt (% of GDP)	69.2	78.8		74.9		

Sources: Banco Central de São Tomé e Príncipe, Ministry of Finance and International Cooperation (STP) and IMF.

Macroeconomic developments in 2011 and the first half of 2012 were broadly in line with this momentum of progress, as can be seen from the major trends observed: an acceleration in the pace of economic growth, a modest but broad-based reduction of external imbalances, a subdued expansion in liquidity, the maintenance of foreign exchange reserves at relatively comfortable levels and, possibly the most significant of all, further fiscal consolidation and a slowdown in inflation.

The importance of structural fragilities, however, asserts itself in many ways: among others, a marked volatility in short term macroeconomic developments due to various exogenous factors. This was the case in the second quarter of 2012, when inflation accelerated again, mainly reflecting problems with domestic production and distribution of basic foodstuffs. This period was also characterised by a shift in monetary conditions, with a faster expansion in domestic credit and liquidity, together with a deterioration in foreign exchange reserves (although the latter was subsequently reversed, according to preliminary data).

Prior to the negative impact from food market problems, inflation had dropped to 8.0% in April 2012, i.e. a historical low in the current price index series (that began in 1993). Having remained stable over one year, the slowdown in inflation coincided with an appreciation in the US dollar (as of the third quarter of 2011), thus making it possible for the Santomean currency to stabilise, in real effective terms, and so for price-competitiveness conditions to be maintained. In addition to inflation, public finances saw the most positive developments in the recent juncture, with the domestic primary deficit dropping to 3.0% of GDP in 2011 (approximately one percentage point lower than both budgeted for this year and recorded in the previous one) - which confirms the consolidation trend broadly seen since 2008.

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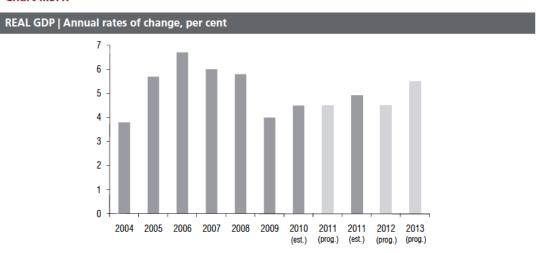
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II.5.2. DEMAND, OUTPUT AND PRICES

The pace of economic expansion in São Tomé and Príncipe has gradually picked up since 2009, and is even estimated to have exceeded expectations in 2011 – although a temporary slowdown is also expected in 2012 (see Chart II.5.1.). The retrenchment seen in 2009 had resulted mainly from the impact of the international crisis, which affected the Santomean economy in many ways but, nevertheless, allowed for a still fairly robust pace of growth to persist. Indeed, since the beginning of the millennium income per capita has been constantly posting annual gains – even on the basis of the population growth rate determined after the general census in 2011 (which was higher than originally admitted): an annual average increase of 3.13% since 2001, which means that the Santomean population now totals 187,356 inhabitants.

Favourable economic developments in 2011 (with real annual growth of 4.9%, i.e. four decimal points higher than expected) seem to be largely due to the sound performance of two crucial variables. On the one hand, foreign aid, which sustains public investment and started to recover only in late 2010 (particularly the rehabilitation of the road network), following two years of relative retrenchment. On the other hand, foreign direct investment, which had fallen markedly in 2009 and significantly recovered from the second half of 2010 onwards. In terms of the main economic activities, although detailed figures are not yet available for national accounts in recent years, there are indications of a sound performance in 2011 by sectors such as construction, agriculture, tourism and other services.

Chart II.5.1.



Sources: Banco Central de São Tomé e Príncipe and IMF.

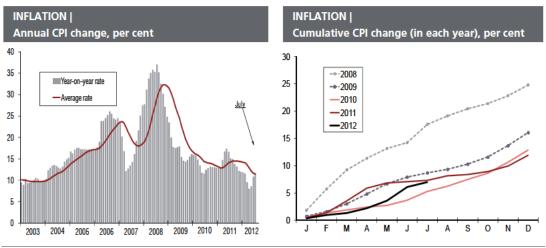
In turn, the relative slowdown in activity projected for 2012 as a whole is expected to reflect factors such as the projected fall in foreign investment (due to delays in the implementation of a number of structural projects), a less favourable farming year (in the case of specific crops) and a deceleration in credit to the economy (whose pace in 2009-2010 was, however, likely to be unsustainable). The outlook for 2013 and the following years – as reflected in the new National Poverty Reduction Strategy and the new IMF-supported programme – is, however, fairly positive, with growth expected to pick up (to around 6%), due to the impact of ongoing investment projects, several growth-inducing structural reforms and also the beginning of oil extraction (which both the national authorities and the IMF now admit may occur as early as 2015).

Together with a fairly substantial pace of growth, the Santomean economy has also recorded significant progress in terms of nominal stabilisation, which is particularly clear in the gradual slowdown of inflation – albeit subject to swings, reflecting its vulnerability to various specific factors.

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These include, most notably, hikes in international commodity prices (food and fuel), which were instrumental to inflationary pressures in 2008 and 2011, and recurring problems with the domestic production and distribution of certain foodstuffs (partly due to weather issues). The relevance of this second factor was particularly noteworthy in May and June 2012, when a hike in the price index (3.9% for those two months, taken together; see Chart II.5.3.) was mainly due to a 63.1% increase over that period in the subgroup "Fruit and vegetables" (which has a weight of 10.9% in that price index).

Chart II.5.2. Chart II.5.3.



Source: Banco Central de São Tomé e Príncipe.

This one-off phenomenon was instrumental in countering the strongly favourable trend in inflation up to April 2012 (see Chart II.5.2.). Indeed, the year-on-year rate of change in the CPI had, at that time, dropped to its lowest level since the beginning of the current series in 1993. After eleven consecutive monthly falls, the 8.0% rate was within levels only reached, in a sustained manner, at the beginning of the millennium. Indeed, annual inflation had not gone below a two-digit figure since December 2003. These favourable developments had already, in fact, enabled the achievement of the (revised) goal of 12.0% established for December 2011 under the IMF-supported programme.

The slowing trend in the pace of inflation since 2008 was largely due to the ongoing fiscal consolidation effort, as well as a broadly prudent monetary policy implementation. These factors were also heightened by the anchoring of expectations provided since 2010 by the fixed exchange rate regime between the dobra and the euro, which the Santomean authorities consider to be underpinned by the Economic Cooperation Agreement between Portugal and São Tomé and Príncipe. The preservation of these underlying conditions continues, indeed, to be regarded as critical by the authorities, which under the IMF-supported programme are expected to progressively steer inflation to "low, single-digit figures".

II.5.3. EXTERNAL ACCOUNTS

The traditional Santomean balance of payments profile is characterised by a strong dependence on foreign aid and foreign direct investment, which sustain a relatively high import volume. Over the medium term, this profile is only expected to undergo considerable changes should oil prospects materialise, which the new IMF programme now admits as a baseline scenario for as early as 2015. However, although remaining in line with the traditional profile, estimates for the Santomean external accounts in 2011 reflect a broad based (albeit modest) improvement in the most relevant balances – which is expected to continue in 2012 (see Table II.5.2.).

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Table II.5.2.

BALANCE OF PAYMENTS As a percentage of GDP							
	2009 Est.	2010 Est.	2011 Prog.	2011 Est.	2012 Prog.	2013 Prog.	
Current account	-23.0	-27.7	-37.1	-27.4	-21.8	-23.0	
Trade balance	-37.9	-46.2	-42.7	-42.1	-39.8	-35.1	
Exports	4.7	5.4	5.8	4.3	4.3	3.3	
Imports	-42.6	-51.6	<i>-48.5</i>	-46.4	-44.1	<i>-38.5</i>	
Services and income	-4.5	-5.9	-9.4	-5.1	<i>-7.3</i>	-3.9	
of which: tourism revenue	4.2	5.5	4.4	6.1	<i>6.7</i>	7.3	
Unrequited transfers	19.5	24.4	<i>15.0</i>	19.7	<i>25.3</i>	16.0	
Capital and financial account	28.2	23.4	<i>45.7</i>	25.6	24.7	22.9	
of which: Foreign direct investment	3.8	25.3	11.5	14.8	4.6	8.4	
Oil bonuses	0.0	0.0	12.0	8.0	3.9	0.0	
Debt relief	26.9	0.0	0.0	0.0	0.0	0.0	
Overall balance	5.2	-4.2	8.6	-1.8	2.8	-0.2	

Sources: Banco Central de São Tomé e Príncipe and IMF.

Imports of goods continued to recover from a fall in 2009, although at a less intense pace than in 2010. Repeating its usual pattern, the pace picked up most significantly in the second half of both 2010 and 2011, continuing into 2012 (although it is expected to slow thereafter, reflecting developments in foreign investment). In 2011, imports of foodstuffs, fuel and construction material were especially significant, with Portugal still as the main supplier (see Chart II.5.5.). By contrast, exports of goods seem to have virtually stagnated in terms of value (thus falling as a percentage of GDP), despite positive developments in cocoa, the main exported product, which went hand in hand with the strengthening of the Netherlands as a destination market (see Chart II.5.4.).

Chart II.5.4.

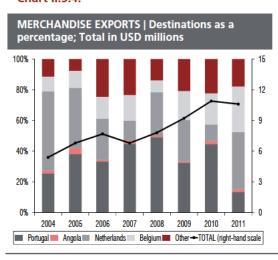
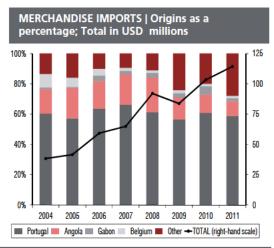


Chart II.5.5.



Source: Banco Central de São Tomé e Príncipe.

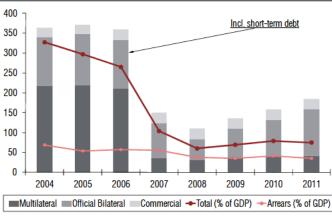
A substantial share of the relative fall in the current and capital account deficit in 2011 (from 27.7% to 25.3% of GDP) resulted, therefore, from a reduction in the trade deficit (as a percentage of GDP, not in absolute terms), although the contribution of the two main sources of revenue is also noteworthy. On the one hand, tourism activity grew 81% in nominal terms between 2009 and 2011, reflecting the increase in hotel capacity and international air links. On the other hand, official transfers (current and capital), which continued to be largely predominant, remained broadly unchanged in 2011 from the

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previous year, in nominal terms. Moreover, oil signature bonuses were posted again, for the first time since 2007, and for the first time ever in reference to prospecting activities in the Santomean exclusive economic zone.¹

Chart II.5.6.





Sources: Banco Central de São Tomé e Príncipe, Ministry of Finance and International Cooperation of São Tomé and Príncipe and IMF.

Disbursements of external loans to the government – which must be established in concessional terms – also increased significantly in 2011, thus contributing strongly to funding the current and capital account deficit. This contribution, however, could not prevent a decline in foreign exchange reserves for the second consecutive year (although less markedly than in 2010), whereas an increase is now expected for 2012. The new disbursements of loans have driven external debt upwards, in nominal terms (particularly to Portugal and Nigeria, and despite debt relief as granted by Algeria), while falling as a percentage of GDP – for the first time since 2008, when debt relief peaked under the HIPC and MDRI initiatives, coordinated by the IMF and the World Bank (see Chart II.5.6.).

II.5.4. PUBLIC FINANCES

Fiscal dominance in the context of broad economic policymaking is particularly strong in São Tomé and Príncipe, reflecting not only the specific weight of the State at multiple levels (starting with the sheer size of government expenditure, at around 50% of GDP) but also, in particular, constraints resulting from the fixed exchange rate regime adopted in 2010. In fact, the feasibility of this type of regime, i.e. the possibility of sustaining a fixed exchange rate between the dobra and the euro (with the potential associated benefits), largely relies on the authorities' ability to foster the consolidation of public accounts. This principle was reiterated by the authorities on a number of occasions and has strengthened the ongoing consolidation strategy since 2008, in spite of a constraining international environment. This strategy, reflected in the consecutive IMF-supported programmes and the Economic Cooperation Agreement with Portugal, mostly focuses on broadening the tax base, fighting tax evasion and rationalising/containing non-essential current expenditure, for which purpose various reforms were introduced in terms of processes, tools and the technological platform.

¹ These 'signature bonuses' are standard practice in the oil business and refer to amounts given by companies interested in the rights to explore for oil in a given area (frequently through competitive tenders). In the case of São Tomé and Príncipe, bonuses were received in reference to the Joint Development Zone with Nigeria – in 2005 (USD 49.2 million) and 2007 (USD 28.6 million), while further revenues are expected in 2012 (USD 10.4 million).

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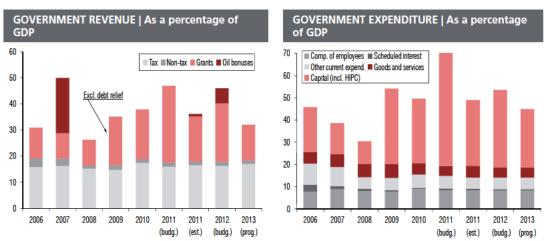
Table II.5.3.

BUDGET EXECUTION As a percentage of GDP							
	2009 Est.	2010 Est.	2011 Budg.	2011 Est.	2012 Prog.	2013 Prog.	
Total revenue	36.1	39.2	47.8	37.1	46.9	32.7	
Current revenue	16.6	19.0	17.6	18.0	17.9	18.4	
Grants (including debt relief)	19.5	20.2	30.2	18.3	23.2	14.4	
Oil bonuses	0.0	0.0	0.0	8.0	5.8	0.0	
Total expenditure	54.1	49.7	<i>75.6</i>	49.0	<i>53.6</i>	<i>45.0</i>	
of which: Compensation of employees	7.9	9.1	8.4	8.4	8.3	8.3	
External debt interest	0.5	0.4	0.8	0.5	0.6	0.6	
Capital	32.9	28.5	<i>55.4</i>	28.9	34.2	25.7	
Overall balance (commitment basis)	-18.0	-10.4	-27.7	-12.0	-6.8	-12.3	
Excluding debt relief and oil bonuses	-19.0	-11.7	-28.6	-13.7	-13.4	-13.0	
Domestic primary balance	-8.1	-4.1	-4.0	-3.0	-3.2	-3.1	

Sources: Banco Central de São Tomé e Príncipe, Ministry of Finance and International Cooperation (STP) and IMF.

The results of this strategy have gradually become more visible, as shown by the indicator that in the Santomean context most closely corresponds to the capacity for authorities to intervene – i.e. the domestic primary deficit.² This deficit, which in 2006 was around 10% of GDP, gradually declined in the course of the following years (except for 2009, when the impact of the international crisis led to a substantial fall in customs revenue). These developments, which the authorities intend to extend over the next few years, culminated in 2011 in the lowest domestic primary deficit since, at least, the beginning of the millennium: 3.0% of GDP, also comfortably below the budgeted value of 4.0% (see Table II.5.3.).

Chart II.5.7. Chart II.5.8.



Sources: Banco Central de São Tomé e Príncipe, Ministry of Finance and International Cooperation of São Tomé and Príncipe and IMF.

The main contribution to this result came from tax revenue, although restraint applied to some of the main current expenditure classes has been equally instrumental. Turning to taxation (with a level of execution equivalent to 113.8% of the budgeted value), customs revenue was particularly significant, with a level of execution of 126.2% (although with an absolute value below the remarkable outcome

² This indicator (highlighted in the context of adjustment programmes established between the authorities and the IMF) only covers government revenue and expenditure items that are controlled more directly by the Santomean Treasury. It corresponds to the overall balance on a commitment basis, excluding grants, oil revenues (bonuses and other), debt interest and capital expenditure funded with external resources.

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of 2010), as well as direct taxes, which are particularly noteworthy for a level of execution of 130.5% compared with the State Budget for 2011. In fact, the reform of indirect taxation that started in 2008 can now be clearly seen as a success: between 2007 and 2011, indirect taxes increased 152% in nominal terms, accounting for 30% of current revenue (compared with approximately 25% in 2007-2008).

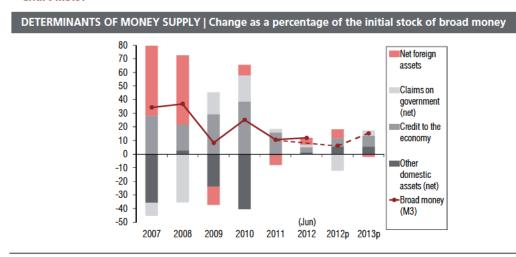
With regard to current expenditure, there was a positive impact from subsidies and transfers, public debt interest and the part of employees' compensation that refers to salaries - all comfortably lower than budgeted. By contrast, budgeted amounts were exceeded in the case of other personnel expenditure, other current expenditure and goods and services (resulting in a 110.1% level of execution for total current expenditure). The goods and services item, which traditionally is not easily manageable (particularly as regards water, electricity and communication services), seemed, in fact, to continue to put strains on expenditure in 2012, according to the preliminary data available for the first half of the year.

Turning to the fiscal framework as a whole, the overall deficit worsened in 2011 (an increase of 1.6 percentage points of GDP; see Table II.5.3.), although an upturn is already expected in 2012, due to the expected impact of oil bonuses (see Chart II.5.7.). The outcome in 2011 was mostly due to the fact that capital expenditure was funded to a larger extent by external borrowing (with concessional terms, i.e. relatively inexpensive terms) and to a smaller extent by grants (classified as revenue and, as such, affecting the overall deficit). Indeed, capital expenditure increased as a percentage of GDP, but was lower than budgeted (see Chart II.5.8.), thus reflecting the usual penchant for some optimism in the forecasts of grants and loans available.

II.5.5. MONETARY AND EXCHANGE RATE CONDITIONS

The pace of liquidity expansion in the Santomean economy slowed down considerably in 2011, while its main determinants showed much more subdued changes than usual. This trend extended into the first half of 2012 – albeit with some acceleration in terms of broad money – and is expected to continue over the next few years (see Chart II.5.9.).

Chart II.5.9.

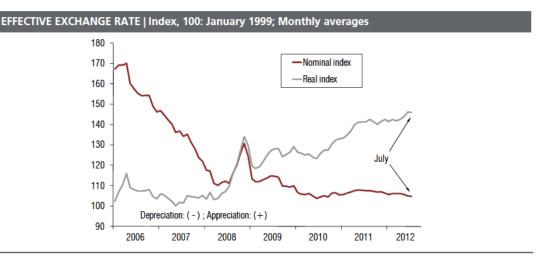


Sources: Banco Central de São Tomé e Príncipe and IMF.

Developments in foreign assets – and, particularly, the share held by the central bank – are particularly relevant in the context of the fixed exchange rate regime between the dobra and the euro adopted by \square

the Santomean economy in 2010 (with the double aim of anchoring the nominal stabilisation process and enabling investment attraction). Maintaining this aggregate at comfortable levels is, in fact, instrumental for the regime's sustainability – and, therefore, the increase in total foreign assets in the first half of 2012 is particularly relevant, amounting to 4.8% of the money supply stock estimated at the end of 2011 (thus recovering from a fall in the latter year as a whole). However, this broadly positive performance lost momentum in the second quarter of 2012 and was mostly sustained by commercial banks – with the net foreign assets of Banco Central de São Tomé e Príncipe falling by around 20% over that quarter (although preliminary data point to an upturn in the following two months, leading the latter aggregate to levels above those reached at the end of 2011).

Chart II.5.10.



Source: Banco Central de São Tomé e Príncipe.

With regard to domestic assets, net claims on government had a moderate expansionary impact on liquidity, both in 2011 and the first half of 2012: increases of less than 3% of the initial money supply value, by contrast with much more marked changes in the period 2009-2010. In turn, credit to the economy continued to be the main factor driving liquidity in 2011 (with an increase equivalent to 15.8% of the initial money supply), although it later followed an overall slowing trend up to March 2012. However, this performance was still broadly in line with the expansion in nominal output, despite a background of rising household indebtedness, declining profitable investment opportunities and increasing non-performing loans in 2011, after four years of decline (an increase closely monitored by banking supervision, which has intensified its activities).

The more subdued expansion of liquidity in 2011 and the beginning of 2012 seems to have sustained the overall slowing trend in inflation over the same period. This trend was, in turn, instrumental to the relative stability of the Santomean currency, in real terms, between mid-2011 and mid-2012 (when inflation accelerated further). The second main factor behind this phenomenon (reflected in fluctuations of the real effective exchange rate index within a band of only around $\pm 1\%$; see Chart II.5.10.) was the depreciation of the euro vis-à-vis the US dollar – and, consequently, of the dobra vis-à-vis the kwanza (which is one of the currencies in the currency basket of the real effective exchange rate index and tends to be aligned with the US dollar). The exchange rate stability had the welcome effect of maintaining price-competitiveness conditions of the Santomean economy vis-à-vis other countries, following the inevitable real appreciation after the introduction of the fixed peg to the euro in early 2010.

Table A.II.5.1.									
MAIN ECONOMIC INDICATOR	RS								
	Units	2008	2009	2010	20	11	2	2012	2013
	Onits		Est.	Est.	Prog.	Est.	Prog.	Est.	Prog
OUTPUT AND PRICES									
Nominal GDP	billions of dobras	2,696	3,185	3,719	4,006	4,376	5,063		5,80
	EUR millions	124.8	141.5	151.8		178.6			
	USD millions	183.6	196.5	200.2	217.0	246.5	264.8		298.8
Real GDP	annual % change	5.8	4.0	4.5	4.5	4.9	4.5		5.5
Inflation (Consumer Price Index)	y-o-y % change	24.8	16.1	12.9	12.0	11.9	8.0	11.6 jul	6.0
	avg. % change	32.0	17.0	13.3	12.4	14.3	9.0	11.4 jul	7.1
PUBLIC FINANCES									
Total revenue	% of GDP	45.1	36.1	39.2	47.8	37.1	46.9		32.7
Current revenue	% of GDP	16.5	16.6	19.0	17.6	18.0	17.9		18.4
Grants	% of GDP	28.6	19.5	20.2	30.2	18.3	23.2		14.4
of which: Debt relief	% of GDP	18.8	1.0	1.3	0.9	1.0	0.8		0.7
Oil bonuses	% of GDP	0.0	0.0	0.0	0.0	8.0	5.8		0.0
Total expenditure	% of GDP	30.4	54.1	49.7	75.6	49.0	53.6		45.0
of which: Current expenditure	% of GDP	20.3	20.2	20.6	19.3	19.4	18.7		18.6
Capital expenditure	% of GDP	8.1	32.9	28.5	55.4	28.9	34.2		25.7
Domestic primary balance ^(a)	% of GDP	-6.4	-8.1	-4.1	-4.0	-3.0	-3.2		-3.1
Overall balance (commitment basis)	% of GDP	14.7	-18.0	-10.4	-27.7	-12.0	-6.8		-12.3
Excl. debt relief + oil bonuses	% of GDP	-4.1	-19.0	-11.7	-28.6	-13.7	-13.4		-13.0
Overall balance (cash basis)	% of GDP	14.3	-18.1	-10.9	-27.7	-11.4	-6.8		-12.3
MONEY AND CREDIT									
Net claims on central govern.	annual % change	-152.7	37.7	78.4		63.5	-860.5	117.2 jun	29.7
Credit to the economy	annual % change	22.8	39.1	40.0		14.7	5.6	8.7 jun	7.3
Broad money (M3)	annual % change	36.9	8.2	25.1		10.5	6.1	15.0 jun	15.2
BCSTP reference interest rate	annual rate	28.0	16.0	15.0		15.0		14.0 jul	
BALANCE OF PAYMENTS									
Exports f.o.b.	annual % change	14.7	18.1	18.3	15.6	-2.8	8.5		-13.0
Imports f.o.b.	annual % change	42.1	-9.2	23.4	1.7	10.5	2.2		-1.5
Trade balance	% of GDP	-46.0	-37.9	-46.2	-42.7	-42.1	-39.8		-35.1
Services	% of GDP	-6.4	-4.4	-6.2	-10.5	-5.2	-7.6		-4.2
Current account	% of GDP	-28.3	-23.0	-27.7	-37.1	-27.4	-21.8		-23.0
Excluding official transfers	% of GDP	-52.5	-42.9	-50.7	-50.6	-46.0	-46.0		-38.1
Current and capital account	% of GDP	-9.4	3.9	-27.7	-25.1	-25.3	-17.8		-23.0
BCSTP net foreign assets	EUR millions	55.9	50.9	40.7		36.4	43.7	33.5 jun	43.0
	USD millions	78.8	73.1	53.7		46.5	57.6	41.3 jun	56.7
EXTERNAL DEBT									
Total external debt	USD millions	110	136	158		184			
	% of GDP	59.9	69.2	78.8		74.9			
External debt service	% of exports	38.9	30.4	12.8		15.6			

Sources: Banco Central de São Tomé e Príncipe (BCSTP), Ministry of Finance and International Cooperation of São Tomé and Príncipe, IMF and Banco de Portugal calculations.

-13.2

9.4

14,685 16,208 18,574

-4.0

9.8

-6.1

2.2

average rate

average rate

annual % change

21,602 22,510 24,500 24,500 24,500 24,500 24,500 *ago* 24,500

17,754

1.5

2.2

20,048 jul

-2.7 ju/

3.2 jul

EXCHANGE RATES

Bil. rate STD/EUR (official market)

Bil. rate STD/USD (official market)

Real EERI (b) [appreciation: +]

Nominal EERI (b) [appreciation: +] annual % change

Notes: (a) Overall balance (commitment basis), excluding grants, oil revenue (signature bonuses and other), debt interest and capital expenditure financed by external sources; (b) Effective exchange rate index (EERI), calculated on the basis of official exchange rates applied to the currencies of the four main trading partners over the period 2005/2009.

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Table A.II.5.2.

Table A.II.5.2.							
GROSS DOMESTIC PRODUCT Current prices,	billions o	f dobras	;				
	2008	2009	2010	20°	11	2012	2013
	Est.	Est.	Est.	Prog.	Est.	Prog.	Prog.
Primary sector	483	568					
Agriculture, livestock, hunting and forestry	314	371					
Fishing	152	178					
Mining and quarrying	17	19					
Secondary sector	513	550					
Manufacturing	208	215					
Electricity, gas and water	69	69					
Construction	236	266					
Tertiary sector	1,616	2,074					
Trade	613	804					
Accommodation and food	38	47					
Transportation, storage and communication	339	454					
Financial activities	262	394					
Real estate activ., rental and serv. to enterprises	109	135					
Public admin., defence and social security	112	109					
Education	11	15					
Health and social work	8	9					
Other activities	124	107					
FISIM ^(a)	-187	-281					
Indirect taxes	270	273					
GROSS DOMESTIC PRODUCT m.p.	2,696	3,185	3,719	4,006	4,376	5,063	5,801
Consumption	3,554	3,943					
Private	3,170	3,496					
Public	383	447					
Investment	582	589					
Gross fixed capital formation	716	750					
Changes in inventories	-134	-161					
Domestic demand	4,136	4,532					
Exports of goods and services	262	318	451	460	515	625	687
Overall demand	4,397	4,850					
Imports of goods and services	1,702	1,665	2,401	2,588	2,582	3,023	2,970
Memo items:							
GDPmp (real rate of change, %)	5.8	4.0	4.5	4.5	4.9	4.5	5.5
GDPmp (nominal rate of change, %)	38.0	18.1	16.8	7.7	17.7	15.7	14.6
Nominal GDP (EUR millions; current prices)	124.8	141.5	151.8		178.6		
Nominal GDP (USD millions; current prices)	183.6	196.5	200.2	217.0	246.5	264.8	298.8

Sources: Banco Central de São Tomé e Príncipe, IMF and Banco de Portugal calculations.

Notes: (a) Financial intermediation services indirectly measured.

CONSUMER PRICE INDEX | Per cent

Sources: Banco Central de São Tomé e Príncipe, IMF and Banco de Portugal calculations.

December (prog.)

December (prog.)

2013

Notes: [1] month (n) / month (n-1); [2] month (n) / previous December; [3] month (n) / month (n) of the previous year; [4] last 12 months / previous 12 months.

8.0

6.0

9.0

7.1

Table A.II.5.4.

Table A.II.3.4.							
BALANCE OF PAYMENTS USD millions							
	2008	2009	2010	20	11	2012	2013
			Est.	Prog.	Est.	Prog.	Prog.
1. CURRENT ACCOUNT	-52.0	-45.1	-55.5	-80.5	-67.6	-57.6	-68.8
1.1. Trade balance	-84.4	-74.6	-92.5	-92.6	-103.7	-105.3	-105.0
Exports (f.o.b.)	7.8	9.2	10.9	12.6	10.6	11.5	10.0
of which: Cocoa	5.0	5.5	4.3	7.7	5.3	4.6	4.5
Re-exports	2.2	3.0	5.2	4.0	5.1	6.4	5.0
Imports (f.o.b.)	-92.2	-83.8	-103.4	-105.2	-114.3	-116.8	-115.0
of which: Food	-24.2	-29.0	-23.9	-33.5	-33.6	-32.6	-32.8
Capital goods	-35.3	-30.0	-38.0		-40.2	-44.1	-40.9
Fuel	-22.1	-14.7	-18.4	-19.8	-25.2	-25.8	-25.2
1.2. Services	-11.7	-8.6	-12.5	-22.7	-12.7	-20.1	-12.6
Exports	9.7	10.4	13.4	12.3	18.4	21.2	25.4
of which: Travel and tourism	7.7	8.3	11.1	9.5	15.1	17.7	21.8
Imports	-21.4	-19.0	-25.9	-35.0	-31.1	-41.3	-38.0
of which: Freights and insurance	-17.3	-15.8	-20.7		-22.9		
1.3. Income	-0.1	-0.3	0.7	2.3	0.2	0.8	0.9
Credit	1.9	1.6	2.9		1.9		
Debit	-2.0	-1.9	-2.3		-1.7		
of which: Scheduled debt interest	-1.5	-1.4	-1.6		-1.1		
1.4. Current transfers	44.2	38.3	48.9	32.5	48.7	67.0	47.9
Private transfers	-0.2	-0.9	2.8	3.1	2.9	2.9	3.0
Official transfers	44.4	39.2	46.1	29.4	45.8	64.1	44.9
of which: Project grants	25.3	26.1	37.1	24.0	36.9	50.3	32.9
2. CAPITAL AND FINANCIAL ACCOUNT	67.1	55.3	47.0	99.1	63.1	65.3	68.3
2.1. Capital account	34.8	52.8	0.0	26.0	5.1	10.4	0.0
Capital transfers	34.8	52.8	0.0	26.0	5.1	10.4	0.0
of which: Oil signature bonuses	0.0	0.0	0.0	26.0	1.9	10.4	0.0
Debt relief	34.8	52.8	0.0	0.0		0.0	0.0
2.2. Financial account	32.3	2.5	47.0	73.1	58.0	54.9	68.3
General government - Loans	-35.4	-28.8	16.8	7.9	25.3	15.7	4.6
of which: Disbursements	4.7	28.6	18.2	13.8	28.7	18.7	7.9
Amortisation	-40.1	-57.4	-1.5	-3.5	-3.4	-2.6	-2.7
Other assets (net)	58.4	27.2	66.2	32.1	55.2	11.2	23.9
of which: Foreign direct investment	56.7	7.5	50.7	25.0	36.4	12.1	25.0
Short-term capital, errors and omissions	9.3	4.2	-36.0	33.1	-22.5	28.0	39.8
3. OVERALL BALANCE: (1) + (2)	15.1	10.2	-8.5	18.6	-4.5	7.5	-0.6
4. FINANCING	-15.1	-10.2	8.5	-18.6	4.5	-7.5	0.6
Chg. in foreign reserves, excl. NOA ^(a) (increase: -)	-18.5	-13.1	6.0	4.2	4.9	1.2	-3.3
National Oil Account (increase: -)	2.7	2.4	1.9	-24.5	-0.5	-9.3	3.4
Use of IMF resources (net)	0.7	0.5	0.6	1.7	0.0	0.6	0.5
5. FINANCING GAP ^(b) : (4) + (5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo items:							
Current account (% of GDP)	-28.3	-23.0	-27.7	-37.1	-27.4	-21.8	-23.0
Current and capital account (% of GDP)	-9.4	3.9	-27.7	-25.1	-25.3	-17.8	-23.0

Sources: Banco Central de São Tomé e Príncipe, IMF and Banco de Portugal calculations.

Notes: (a) National Oil Account: NOA; (b) Net borrowing (-) / net lending (+).

Table A.II.5.5.

MERCHANDISE EXPORTS Destinations, as a percentage of total												
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2002
											Q1	to 2011
Angola	2.1	1.7	1.8	4.1	1.1	1.8	0.9	1.1	2.2	2.1	0.5	1.8
Belgium	13.1	15.1	9.5	11.0	14.2	16.8	7.9	18.9	20.2	29.5	15.3	16.3
Netherlands	60.0	40.7	51.7	39.1	26.9	13.3	28.2	26.8	10.9	37.4	29.5	33.1
Portugal	19.6	33.5	25.5	38.0	33.1	44.9	49.2	32.3	44.4	13.2	6.4	33.2
Other	5.2	9.0	11.5	7.7	24.6	23.2	13.8	20.8	22.3	17.9	48.3	15.6
Total exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Banco Central de São Tomé e Príncipe, IMF and Banco de Portugal calculations.

Table A.II.5.6.

MERCHANDISE	MERCHANDISE IMPORTS Origins, as a percentage of total											
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 Q1	2002 to 2011
Angola	11.2	10.3	16.0	20.3	18.3	20.1	22.9	14.8	12.1	9.6	15.8	15.6
Belgium	14.8	11.9	8.8	6.1	4.6	2.3	1.7	1.9	1.8	1.7	2.6	3.8
China	0.0	0.7	0.1	0.2	0.3	1.7	0.9	1.4	2.4	2.0	8.0	1.3
France	0.8	3.1	0.5	0.3	1.1	0.3	0.2	0.7	5.0	2.4	8.0	1.6
Gabon	3.0	3.1	1.4	0.6	3.5	2.2	3.0	2.7	5.3	2.0	1.8	2.9
Japan	7.0	3.4	6.0	7.4	0.7	0.2	8.0	4.4	1.2	2.5	4.6	2.6
Netherlands	5.7	0.5	1.0	0.3	8.0	1.4	0.1	0.4	0.5	0.3	0.5	0.7
Portugal	54.6	62.3	60.4	57.1	63.6	66.2	61.3	56.4	60.9	58.9	51.8	60.3
Other	2.9	4.7	5.8	7.7	7.1	5.6	9.2	17.4	10.8	20.6	21.2	11.1
Total imports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Banco Central de São Tomé e Príncipe, IMF and Banco de Portugal calculations.

Table A.II.5.7.

		_	_	
EXTERNAL DEBT USD millions				
	2008	2009	2010	2011 Est.
1. Medium and long-term debt	106.6	122.6	139.4	156.1
of which: Arrears	66.0	65.7	69.1	67.7
1.1 Multilateral debt	30.6	37.0	38.6	42.0
of which: Arrears	0.0	0.0	0.0	0.0
BADEA	2.9	4.2	5.1	5.8
AfDB/ADF	2.2	2.2	3.2	2.1
EIB	2.4	2.1	1.4	0.9
IFAD	3.9	5.7	6.5	7.9
IMF	3.7	4.4	5.0	4.9
IDA	9.7	13.7	13.4	14.9
OPEC	5.7	4.7	4.0	5.5
1.2 Bilateral official debt	49.4	59.8	75.0	88.3
of which: Arrears	39.4	39.9	43.3	41.9
1.2.1 Paris Club members	0.0	0.2	0.9	0.9
of which: Arrears	0.0	0.0	0.0	0.0
Germany	0.0	0.0	0.0	0.0
Belgium	0.0	0.2	0.9	0.9
Spain	0.0	0.0	0.0	0.0
France	0.0	0.0	0.0	0.0
Russia	0.0	0.0	0.0	0.0
1.2.2 Other official creditors	49.4	59.6	74.1	87.4
of which: Arrears	39.4	39.9	43.3	41.9
Angola	22.0	32.0	32.0	32.0
Algeria	1.3	1.3	3.1	0.0
Cape Verde	0.0	0.0	0.0	0.0
China	17.3	17.0	17.0	17.4
Former Yugoslavia	8.8	8.8	8.8	8.8
Portugal	0.0	0.4	13.1	29.2
1.3 Commercial debt	26.6	25.8	25.8	25.8
of which: Arrears	26.6	25.8	25.8	25.8
ltaly ^(a)	26.6	25.8	25.8	25.8
2. Short-term debt	3.4	13.4	18.4	28.4
of which: Arrears	3.4	3.4	13.4	18.4
Angola	3.4	3.4	3.4	3.4
Brazil	0.0	0.0	5.0	5.0
Nigeria	0.0	10.0	10.0	20.0
TOTAL EXTERNAL DEBT [1 + 2]	110.0	136.0	157.8	184.5
of which: Arrears	69.3	69.1	82.5	86.1
Memo items:				
Scheduled external debt service				
(% of exports of goods and services)	38.9	30.4	12.8	15.6
Total external debt (% of GDP)	59.9	69.2	78.8	74.9
Total arrears (% of GDP)	37.8	35.2	41.2	34.9

Sources: Banco Central de São Tomé e Príncipe, Ministry of Finance and International Cooperation of São Tomé and Príncipe, IMF and Banco de Portugal calculations.

Notes: (a) Debt in dispute, awaiting a decision by the international court.

Table A.II.3.6.										
GOVERNMENT OPERATIONS Billions of	dobras									
	2008	2009	2010		2011			2012		2013
		Est.	Est.	Budg.	Est.	l.e. ^(a)	Budg.	1st half	l.e. ^(a)	Prog.
1. Total revenue	1,216	1,149	1,459	1,915	1,622	84.7	2,372			1,898
1.1. Current revenue	444	528	707	706	787	111.6	904	372	41.2	1,065
Tax revenue	411	472	647	638	726	113.8	828	330	39.9	990
Direct taxes	113	150	181	180	235	130.5	241	108	44.7	
Indirect taxes	262	247	374	358	355	99.2	448	172	38.4	
of which: Customs revenue	215	168	312	237	299	126.2	369		39.2	
Other tax revenue	36	75	91	100	136	136.0	139		36.3	
Non-tax revenue	33	56	60	68	61	90.7	76		55.3	75
1.2. Grants	771	621	752	1,210	800	66.1	1,174			833
Project grants	165	576	699	1,069	674	63.0	962			640
Other grants	99	13	5	105	83	78.8	169			151
Debt relief-related grants	507	31	48	35	43	122.4	43		0.0	42
1.3. Oil signature bonuses	0	0	0	0	35		294	0	0.0	0
2. Total expenditure	820		1,847		2,146	70.9	2,716			2,611
2.1. Current expenditure	548	642	766	772	851	110.1	947		48.3	1,081
Compensation of employees	219	252	338	338	369	109.3	418		43.4	479
Goods and services	164	195	191	175	234	133.7	228		64.8	255
Subsidies and transfers	103	144	193	202	181	89.4	237		44.3	272
Public debt interest	23	16	16	32	24	74.5	32		12.7	33
Other current expenditure	39	35 1.048	28 1.060	25	43	169.2	32 1,734		62.6	42
2.2. Capital expenditure With domestic financing	219 34	,	1,060	2,219 90	1,266 65	57.0 72.2	1,734			1,489
With external financing	185	126 922	972	2,129	1,201	56.4	1,638			155 1,334
2.3. HIPC initiative-related social expend.	53	33	21	35	29	82.5	35			41
OVERALL BALANCE (commitment basis) [1] - [2]	395	-575		-1,112	-523	02.0	-343			-713
4. Change in arrears [decrease: -]	21	0	0	0	65		0			0
External arrears (interest)	0	0	0	0	0		0			0
Domestic arrears	21	0	0	0	65		0			0
5. Items in transit, errors and omissions	-31	-2	-18	0	-41		0			0
·				_						_
6. OVERALL BALANCE (cash basis) [3] + [4] + [5]		-577		-1,112	-499		-343			-713
7. Financing	-385 79	577 271	406 150	1,112 156	499 38		343 -286			713 68
7.1. Domestic financing Bank credit (net)	-233	271	133	156	38		-200			00
of which: National Oil Account	-233 44	39	36	33	-13		-263			68
Non-bank financing	312	0	17	33	0		203			00
of which: Privatisation revenue	312	0	17		0					
7.2. External financing	-464	306	256	955	461		629			645
Disbursements (projects)	20	346	293	1,036	528		676			694
Other disbursements	29	9	11	0	1		0			0
Scheduled amortisation (incl. relief)	-520	-49	-48	-80	-68		-47			-49
Change in arrears (principal)	0	0	0	0	0		0			0
Bilateral rescheduling	7	0	0	0	0		0			0
8. Financing gap [6] + [7]	0	0	0	0	0		0			0
Memo items:										
Overall balance, commitment basis (% of GDP)	14.7	-18.0	-10.4	-27.7	-12.0		-6.8			-12.3
excluding debt relief (% of GDP)	-4.1	-19.0	-11.7	-28.6	-12.9		-7.6			-13.0
excl. debt relief and oil bonuses (% of GDP)	-4.1	-19.0	-11.7	-28.6	-13.7		-13.4			-13.0
Domestic primary balance ^(b)	-174	-257	-152	-160	-133		-164			-179
(% of GDP)	-6.4	-8.1	-4.1	-4.0	-3.0		-3.2			-3.1

Table A.II.5.8.

Sources: Banco Central de São Tomé e Príncipe, Ministry of Finance and International Cooperation of São Tomé and Príncipe, IMF and Banco de Portugal calculations.

Notes: (a) Level of budget execution, per cent; (b) Overall balance (commitment basis), excluding grants, oil revenue (signature bonuses and other), debt interest and capital expenditure financed by external sources.

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Table A.II.5.9.

MONETARY SURVEY End-of-period stocks, billions of Dobras												
	2008	2009	2010	2011			2012	2012	Jun 2	2012/	2012	2013
					2011/		Mar	Jun		2011		
					(A)	<i>(B)</i>	Est.	Est.	(A)	(B)	Prog.	Prog.
1. NET FOREIGN ASSETS	1,418	1,279	1,364	1,263	-7.4	-7.2	1,439	1,338	5.9	4.8	1,365	1,329
1.1. Central bank	1,199	1,228	998	891	-10.7	-7.5	1,025	820	-7.9	-4.5	1,070	1,054
1.2. Commercial banks	219	50	367	372	1.4	0.4	415	517	39.1	9.3	295	275
2. NET DOMESTIC ASSETS	-371	-145	53	303	470.3	17.7	115	414	36.5	7.1	296	584
2.1. Net domestic credit	334	810	1,466	1,728	17.9	18.5	1,660	1,819	5.3	5.8	1,635	1,833
2.1.1. Net credit to central gov.	-450	-280	-60	-22	63.5	2.7	-78	11	150.7	2.1	-212	-149
2.1.1.1. Gross loans	127	158	261	267	2.6	0.5	259	343	28.1	4.8	267	268
2.1.1.2. Deposits	-577	-438	-321	-290	-9.8	2.2	-337	-331	14.5	-2.7	-479	-417
2.1.2. Credit to the economy	784	1,090	1,526	1,750	14.7	15.8	1,738	1,808	3.3	3.7	1,847	1,982
2.2. Other assets and liabilities	-704	-955	-1,412	-1,424	-0.8	-0.8	-1,545	-1,405	1.3	1.2	-1,339	-1,249
3. BROAD MONEY (M3)	1 047	1,133	1,417	1,566	10.5	10.5	1,554	1,752	11.8	11.8	1,661	1,913
3.1. Currency in circulation	120	149	163	177	8.5		141	153	-13.5		196	225
3.2. Demand deposits	717	718	922	955	3.5		970	1,056	10.6			
3.2.1. In national currency	309	288	399	493	23.6		475	555	12.7		523	603
3.2.2. In foreign currency	409	431	524	462	-11.7		495	501	8.3			
3.3. Other deposits	210	266	331	434	30.9		444	542	25.0			
3.3.1. In national currency	105	116	23	53	129.3		74	101	92.5		36	41
3.3.2. In foreign currency	105	150	308	381	23.5		369	441	15.7			

Sources: Banco Central de São Tomé e Príncipe, IMF and Banco de Portugal calculations.

Notes: (A) Percent changes from the end of the previous year; (B) Changes in percent of the initial stock of broad money (expansion/contraction determinants).

Table A.II.5.10.

INTEREST RATES Annual rates, per cent											
	2006	2007	2008	2009	2010	2011	2011	2012			
	Dec	Dec	Dec	Dec	Dec	Jun	Dec	Jul			
1. BCSTP reference rate	28.0	28.0	28.0	16.0	15.0	15.0	15.0	14.0			
2. Lending rates											
2.1. Credit (91-180 days)	31.0	34.3	31.2	31.2	26.8	26.0	26.0	26.0			
2.2. Credit (181 days-1 year)	32.0	32.1	28.7	28.7	27.0	26.0	26.0	26.0			
2.3. Credit (over 1 year)	32.5	30.8	28.0	28.0	26.7	26.5	26.5	26.5			
3. Deposit rates											
3.1. Deposits (up to 90 days)	12.0	12.3	10.2	10.2	11.6	12.2	12.2	12.2			
3.2. Deposits (91 days-1 year)	14.5	13.2	11.3	11.3	13.2	13.7	13.7	13.7			
3.3. Deposits (over 1 year)	16.0 N	Negotiable N	legotiable N	legotiable	13.9	12.8	12.8	12.8			
Memo item:											
Inflation (year-on-year rate of change)	24.6	27.6	24.8	16.1	12.9	16.6	11.9	11.6			

Sources: Banco Central de São Tomé e Príncipe.

Note: Indicative rates (calculated on the basis of raw information provided by the banks).

EXCHA	NGE RATES	Average rates					
		Euro / Do	obra	USD / Do	obra	EERI (a)(b)
		Exchange rate	Annual change	Exchange rate	Annual change	Nominal	Real
2	2000	7 367	-3.7	7 978	12.0	197.8	140.1
2	2001	7 901	7.2	8 842	10.8	218.6	133.4
2	2002	8 586	8.7	9 088	2.8	236.9	131.7
2	2003	10,568	23.1	9 348	2.9	225.1	115.4
2	2004	12,306	16.4	9 902	5.9	202.4	106.7
2	2005	13,123	6.6	10,519	6.2	191.9	111.4
2	2006	15,630	19.1	12,445	18.3	158.4	107.5
2	2007	18,558	18.7	13,537	8.8	134.6	103.7
2	2008	21,602	16.4	14,685	8.5	116.9	113.3
2	2009	22,510	4.2	16,208	10.4	112.2	124.4
2	2010	24,500	8.8	18,574	14.6	105.4	127.2
2	2011	24,500	0.0	17,754	-4.4	107.0	139.7
2010	January	24,500	12.2	17,277	4.9	106.6	126.4
	February	24,500	11.7	18,037	5.2	105.8	125.9
	March	24,500	11.7	18,194	7.9	105.7	125.0
	April	24,500	11.6	18,394	10.6	106.1	125.5
	May	24,500	11.6	19,582	21.4	104.9	124.0
	June	24,500	11.5	20,206	28.9	103.6	123.2
	July	24,500	11.4	19,376	24.1	104.3	125.7
	August	24,500	10.5	19,125	23.0	105.0	127.4
	September	24,500	6.1	18,209	14.7	104.4	127.3
	October	24,500	4.0	17,777	11.7	106.4	130.3
	November	24,500	2.7	18,019	11.4	106.4	132.3
	December	24,500	2.7	18,692	13.6	105.3	132.9
2011	January	24,500	0.0	18,511	7.1	105.7	133.2
	February	24,500	0.0	18,102	0.4	106.4	134.9
	March	24,500	0.0	17,656	-3.0	106.8	136.6
	April	24,500	0.0	17,125	-6.9	107.5	139.8
	May	24,500	0.0	17,183	-12.3	107.8	141.1
	June	24,500	0.0	17,161	-15.1	107.7	141.2
	July	24,500	0.0	17,277	-10.8	107.6	141.3
	August	24,500	0.0	17,220	-10.0	107.5	142.4
	September	24,500	0.0	17,883	-1.8	107.1	141.2
	October	24,500	0.0	18,039	1.5	106.7	140.0
	November	24,500	0.0	18,177	0.9	106.9	141.4
	December	24,500	0.0	18,716	0.1	106.2	142.5
2012	January	24,500	0.0	19,153	3.5	105.5	141.5
	February	24,500	0.0	18,682	3.2	106.1	142.6
	March	24,500	0.0	18,694	5.9	106.2	141.8
	April	24,500	0.0	18,758	9.5	106.1	142.4
	May	24,500	0.0	19,251	12.0	105.6	143.9
	June	24,500	0.0	19,705	14.8	104.8	146.2
_	July	24,500	0.0	20,048	16.0	104.7	145.9

Sources: Banco Central de São Tomé e Príncipe and Banco de Portugal calculations.

Notes: (a) Effective exchange rate index (EERI), calculated on the basis of official rates applied to the currencies of the four main trading partners over the period 2005/2009; (b) An increase/decrease in the EERI (nominal or real) corresponds to an appreciation/depreciation of the dobra. (Index, 100: January 1999).

TIMOR-LESTE

AREA: 14,600 KM²

CAPITAL CITY: Díli

POPULATION: 1.2 million

(2011; source: UN)

CURRENCY: US dollar

Timor-Leste has been witnessing marked growth in its domestic economy, together with significant oil revenue inflows. This revenue is channelled to the Petroleum Fund, which is already considerable.

As a result of its comfortable budgetary position, an ambitious public investment programme has been implemented in order to address the significant infrastructure needs that still exist in the country. Inflation has remained relatively high, although decelerating from the previous year.

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Developments in the Timorese economy during 2011 were driven by positive developments in the non-oil output (with an estimated real rate of change above 10%) and oil revenue (around USD 3.2 billion, a 40% increase compared with the previous year). Government expenditure also increased significantly (specifically public investment), which helped accelerate price growth. This resulted in a high rate of inflation (17.4% year-on-year at the end of the year), which nevertheless did not continue in 2012, as the inflation that had accumulated from January to August this year stood at 3.3%.

In 2012 the non-oil output is expected to grow similarly to previous years (close to 10%).

Table II.6.1.

MAIN ECONOMIC INDICATORS				
	2009	2010	2011 Est.	2012 Prog.
Non-oil real GDP (annual rate of change)	12.8	9.5	10.6	10.0
Inflation (average annual rate of inflation)	0.7	6.8	13.5	8.0
Broad Money (annual rate of change)	40.3	9.9	9.3	
Current account (% of non-oil GDP)	166.8	193.9	226.2	141.6
Fiscal balance (% of non-oil GDP) (a)	169.4	183.9	216.0	44.1
Oil revenue (% of non-oil GDP)	233.7	265.1	309.4	225.4
Petroleum Fund (% of non-oil GDP)	682.2	788.9	883.3	742.8
Public debt (% of non-oil GDP)	0.0	0.0	0.0	3.4

Sources: Banco Central de Timor-Leste, Ministry of Finance and IMF.

Notes: (a) Fiscal balance on a cash basis.

Energy commodity prices have remained at high levels, resulting in continued growth in the value of the Timorese Petroleum Fund, where all State revenue from the offshore exploration of oil and gas is channelled. The value of this Fund's assets amounted to USD 9.3 billion at the end of 2011 and USD 10.6 billion in June of last year, although the Timorese authorities are making greater use of these resources compared with previous years. In 2011 USD 1.05 billion was transferred from the Petroleum Fund to the Treasury, corresponding almost exactly to the value of the Timorese non-oil GDP of that year.

The Fund's management continues to focus on preserving this wealth to benefit future generations, although the Timorese political authorities (Government and Parliament) believe that a more assertive investment policy – in infrastructure and human capital – will have markedly positive results both in the short and the long term, given the country's clear shortages in these areas.

At an institutional level, the Banking and Payments Authority (created in November 2001, before the restoration of independence) was transformed into Banco Central de Timor-Leste (created in September 2011). In addition, the preparation and publication of the National Accounts for 2004 – 2010 (in April of this year) by the Direção Nacional de Estatística (National Statistics Directorate) was a significant step forward (an update of the National Accounts with the 2011 figures will be available shortly). These estimates were prepared in accordance with international standards, treating output and income estimates appropriately and consistently. For the first time, the oil sector is treated in a systematic manner in the National Accounts.

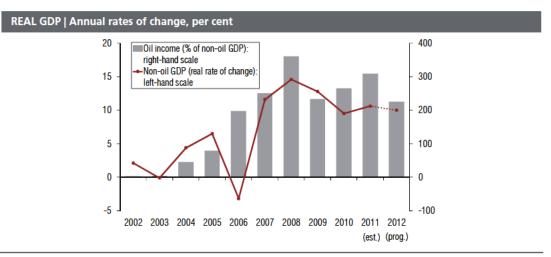
II.6.2. DEMAND, OUTPUT AND PRICES

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The updated values for non-oil GDP calculated under the new National Accounts confirmed the positive developments observed in this variable since 2007. This aggregate has systematically shown annual real rates of change close to or above 10% throughout these past five years.

The new sectoral breakdown of output, which breaks down the value added by the general government (and the role of government expenditure on the expenditure side) more appropriately, has revised the non-oil output of previous years upwards. Although no figures estimated for 2011 according to this methodology are currently available, the National Statistics Directorate (responsible for preparing the National Accounts) and the International Monetary Fund expect non-oil GDP to have grown by 10.6% in 2011 (see Chart II.6.1.).

Chart II.6.1.



Sources: Banco Central de Timor-Leste, Ministry of Finance and IMF.

In 2012 the real change in non-oil GDP is expected to stand at around 10% and overall GDP (including oil production) is expected to drop slightly, using a very conservative estimate of projected developments in the value of oil production (which is more than three times the level of non-oil output). In fact, the value of Petroleum Fund assets had already grown by 14% at the end of June of this year since the end of 2011 (a change of USD 1.3 billion during the first half of 2012), while it was initially expected not to change in 2012 (under the assumption that transfers to finance the budget expenditure would be broadly equivalent to the Fund's new inflows and income).

Construction is expected to remain considerably buoyant, as investments in public works have been gaining in relevance, in particular the new power plant in Hera, which is likely to respond to the chronic shortages of electricity production and distribution in the country's central region (specifically the capital). Nevertheless, the high import content of these investment projects (in particular equipment) and even the need for outsourcing (for positions requiring skilled labour) means this major investment effort does not translate into an equivalent national value added.

This clearly illustrates the constraints arising from the domestic economy's low absorption capacity, which results in a large share of the stimulus from government expenditure mainly moving wealth abroad. In addition to the constraints associated with a small economy and a weak business fabric,

there are a limited amount of skilled workers and a legal and administrative framework that still is not conducive to economic activity.

2011 and 2012 have been very different in terms of inflation behaviour. Consumer prices grew strongly throughout 2011, resulting in the highest inflation of the past 10 years at the end of the year. The yearend rates of change in prices (a year-on-year rate of 17.4% and an average annual rate of 13.5%) exceeded the figures seen in the previous inflationary episodes of 2006/07 (a period of social and political turmoil) and the first half of 2008 (reflecting a sharp increase in international food and energy prices) (see Chart II.6.2.).

Chart II.6.2.

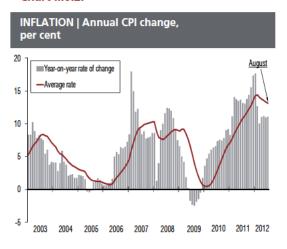
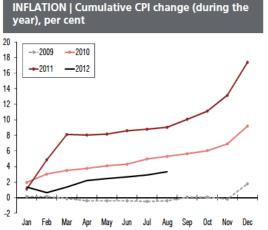


Chart II.6.3



Source: Banco Central de Timor-Leste.

For the first time in 2011, the key factors behind inflation behaviour are expected to have been mostly domestic (specifically the marked expansion of government expenditure). In fact, non-tradable goods and services contributed the most to the change in prices (specifically perishables, such as vegetables and meat).

By contrast, inflation has been more moderate in 2012, as seen in the low inflation accumulated up to the end of August (only 3.3%) (see Chart II.6.3.), reflecting a good start to the agricultural year and a reversal of developments in government expenditure (specifically investment) in the first months of 2012.

These inflation figures are derived from a consumption basket estimated in 2001 (for Dili) and thus reflect consumption patterns that are very different from today. It would therefore be advisable to swiftly introduce a new price index that is already based on the 2011 household expenditure survey.

II.6.3. EXTERNAL ACCOUNTS

Oil income continued to be determinant to the aggregate behaviour of external accounts, in spite of an increase in imports of goods and services. Oil revenue increased by USD 980 million from the previous year. As a consequence, the current account balance also increased markedly, amounting to around USD 2.4 billion in 2011, i.e. more than two times the value of non-oil GDP. As the estimate for the value of gas and oil exports for 2011 in the National Accounts is currently not available, this sector's major impact on the external accounts still only appears as an income flow.

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Table II.6.2.

BALANCE OF PAYMENTS As a % o	of non-oil G	DP		
	2009	2010	2011 Est.	2012 Prog.
Current account	166.8	193.9	226.2	141.6
Trade account	-45.8	-63.6	-32.6	-63.5
Exports	1.2	2.1	3.2	2.6
Imports	47.0	65.7	35.9	66.2
Services (net)	-67.0	-46.7	-134.7	-51.2
Income (net)	234.0	267.6	343.6	227.4
of which: Oil income	233.7	265.1	307.4	225.3
Current transfers (net)	45.6	36.7	50.0	29.0
Financial and capital account	-166.8	-194.1	-220.9	-128.9
Overall balance	5.0	10.1	5.3	12.8

Sources: Banco Central de Timor-Leste and IMF.

Statistical difficulties hampered the compilation of external trade figures in the first months of 2011, which subsequently affected the preparation of balance of payment statistics.

In turn, the statistical treatment of import flows related to a number of major public investment projects by foreign companies (in particular the new power station) may have also affected the calculation of imports, specifically the breakdown of goods and services imports. The implementation of the power station project in Hera was also responsible for a new one-off trading partner (Finland) in the second half of 2011, as the project's building company and main equipment were from this Nordic country.

Chart II.6.4. Chart II.6.5. COFFEE EXPORTS | Destination by country, as a MERCHANDISE IMPORTS | Origin by country as a percentage, total in USD millions percentage, total in USD millions 20 100% 400 100% 16 320 80% 80% 60% 12 60% 240 40% 8 40% 160 20% 4 80 20% 0% 2005 2007 2008 2009 2010 2006 United States ■Germany ■Indonesia ■Portugal ■Other →TOTAL (right-hand scale) Indonesia ■Australia ■Singapore ■Portugal ■Other →TOTAL (right-hand scale)

Sources: Banco Central de Timor-Leste, National Statistics Directorate of Timor-Leste / Ministry of Finance.

Note: Excludes imports under the UN, diplomatic representations and official donors.

On the import side, Indonesia continues to be Timor-Leste's main trading partner. However, in addition to Finland, Timor-Leste has seen an increase in imports from China, by contrast with a decrease in the share of more 'traditional' trading partners, such as Australia (which might result from a strong appreciation in the Australian currency), Singapore and Vietnam (resulting from a diversification of the countries of origin of rice imports) (see Chart II.6.5.).

Coffee exports (Timor-Leste's predominant export, in the absence of a specific value for energy exports) dropped from the previous year (from USD 17 million to USD 12 million) and, for the first time, Germany surpassed the United States as the main destination market for Timorese coffee. The decrease in the value of Timorese coffee production and exports in 2011 (see Chart II.6.4.) is mostly the result of a poor agricultural year in 2011 (owing to adverse weather conditions), given that the international price for coffee increased markedly in 2011 compared with 2010.

The high current account surplus has given rise to new financial investments abroad by the Petroleum Fund (practically the same amount: USD 2.4 billion). This sovereign fund (whose adequate management and transparency rules are generally recognised, specifically within the Extractive Industries Transparency Initiative) amounted to around USD 9.3 billion at the end of 2011, and has continued to grow, totalling approximately USD 10.6 billion at the end of the first half of the year.

The size of the Petroleum Fund has continued to grow owing to high international energy prices (well above the values foreseen in the budget document), despite the Government (with the required approval of the other State authorities) having increased recourse to transfers from the Fund in order to finance government expenditure (in particular in 2011).

II.6.4. PUBLIC FINANCES

Income from the offshore exploration of oil and natural gas has a key role in public finances, ensuring a comfortable budget position. In fact, this income represents around thirty times the amount of domestic revenue (USD 3.3 billion in oil revenue and USD 108 million in domestic revenue in 2011) (see Chart II.6.6.).

Table II.6.3.

BUDGET EXECUTION As a % of no	on-oil GDP			
	2009	2010	2011 Est.	2012 Prog.
Total revenue	242.4	275.1	319.7	177.8
Domestic revenue	7.5	9.6	10.3	10.9
Oil revenue	234.1	265.5	309.4	166.9
Total expenditure	72.7	90.8	103.7	133.7
Current expenditure	46.2	60.3	47.5	57.2
Capital expenditure	26.5	30.6	56.1	76.5
Overall balance (cash basis)	169.7	184.3	216.0	44.1

Sources: Banco Central de Timor-Leste, Ministry of Finance and IMF.

The value of this oil revenue is channelled to the Petroleum Fund, from which transfers to cover the State's expenditure are carried out in observance with the requirements set out in the law establishing the use of these resources (focusing on intergenerational equity).

For 2011 these transfers were initially budgeted to an amount of USD 734 million, but the Treasury withdrew a total of USD 1.1 billion from the Petroleum Fund.

The increased use of these resources resulted from significant budgetary revisions on the expenditure side, specifically public investment. This component had initially been allocated an amount of USD 355 million (in the 2011 general state budget, approved in 2010), but totalled USD 592 million. By contrast,

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current expenditure stood rather below the amounts foreseen in the last budgetary revisions (specifically the transfer and subsidy component).

The breakdown of domestic public revenue shows the increasing weight of indirect taxes, which currently account for almost double the direct taxes, while only three years ago they were roughly the same. As a whole, this domestic revenue has been growing relative to non-oil GDP (but still account for little over 10%).

As regards public finance management, an effort has been made to control the execution on the expenditure side, specifically by improving the accounting systems and increasing the effectiveness and transparency of the public procurement system. This aims to establish mechanisms that are efficient and not easily susceptible to corruption and ensure a high level of execution (specifically capital expenditure, which has been increasing significantly since 2007).

In 2011 budget execution reached 86.9% for current expenditure and 81.1% for capital expenditure, slightly below the previous year.



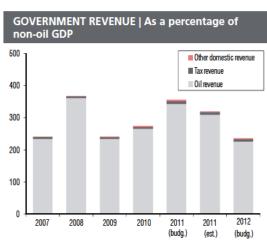
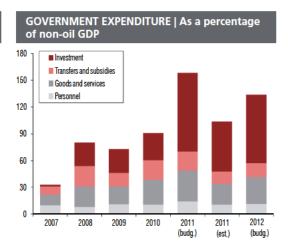


Chart II.6.7



Sources: Banco Central de Timor-Leste, Ministry of Finance and IMF.

The volume of total public revenue budgeted for 2012 decreased compared with 2011, using a very conservative estimate for oil revenue (a decrease of almost 36% from the previous year). However, energy price developments – and even the amount of oil revenue already collected during the first half of the year – are in contrast with this view and oil revenue is currently expected to remain at levels similar to 2011.

Expenditure budgeted for 2012 (see Chart II.6.7.) grew markedly compared with actual 2011 figures (+41% for current expenditure and +62% for capital expenditure, both in nominal terms). Compared with initial revenue forecasts, this clearly results in an estimated value for the fiscal balance that is very small compared with previous years (USD 552 million, equivalent to 44.1% of non-oil GDP, while it is expected to have reached 216% of non-oil GDP in 2011) (see Table II.6.3.).

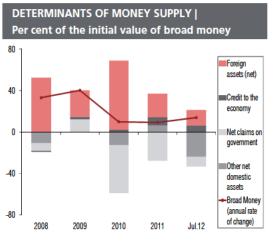
As mentioned before, real revenue is expected to be considerably higher. Therefore, the fiscal balance to be calculated in 2012 will probably not be affected as much as expected in the budget document.

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The volume of central government deposits in the central bank has a key influence on the country's set of monetary aggregates. In fact, the value of these deposits is structurally high (USD 429 million at the end of July 2012) compared with total broad money (USD 367 million), significantly conditioning developments in most Timorese monetary variables and having a direct influence on the level of the monetary authority's external assets.

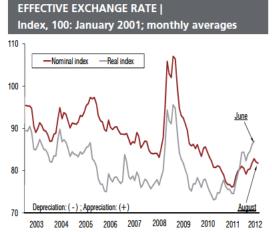
In turn, credit to the economy (private sector) in Timor-Leste is less relevant than in other comparable countries, as it accounts for less than half the money supply (and around 15% of non-oil GDP).





II.6.5. MONETARY AND EXCHANGE RATE CONDITIONS

Chart II.6.9



Sources: Banco Central de Timor-Leste and IMF

The value of circulation in monetary statistics only includes the issuing of coins – by the central bank, and therefore a component of its liabilities - excluding USD banknotes (used for the great majority of cash payments).

These features (a predominance of government deposits in monetary aggregates and a small share of credit) and the reduced role of the banking system are key factors in the country's monetary system, in addition to a foreign currency being used as means of circulation and payment since 2001 (the US dollar).

Growth of broad money was 9.3% in 2011, although credit to the economy increased by 21.1% (developments in government deposits were once again decisive). In the first seven months of 2012, this variable (broad money) had grown by around 14%, stimulated by developments in credit to the private sector (+17.8%) and a deceleration in government deposits (see Chart II.6.8.).

In 2012 developments in demand and time deposits reversed compared with the previous year: in 2011 growth was much more marked in demand deposits, while depositors preferred to place their savings in time deposits in the first seven months of 2012.

The banking system of Timor-Leste is composed of four institutions (in addition to the central bank). The status of the former microfinance institution (operating since 2003 under a restricted banking licence) was changed to a full banking licence. This is therefore the first bank with domestic capital to operate in Timor-Leste.

As for the exchange situation, the Australian dollar remained historically high against the US dollar in 2011 and 2012 (so far), while the Indonesian rupiah has been depreciating against the US dollar since mid-2011.

The joint evolution of these two currencies, traditionally more relevant to Timor-Leste's external trade flows, has been driving an appreciation in its nominal effective exchange rate. This appreciation is naturally even more pronounced in real terms owing to the country's higher inflation compared with its trade partners (see Chart II.6.9.).

Table A.II.6.1.									
MAIN ECONOMIC INDICATO	ORS								
	Heite	2008	2009	2010	201	11		2012	
	Units				Prog.	Est.	Prog.	Est.	,
OUTPUT AND PRICES									
Gross domestic income ^(a)	USD millions	3,289	2,598	3,167	3,250	3,522	3,861		
Non-oil GDP	USD millions	665	788	875	939	1,054	1,252		
	real rate of change	14.6	12.8	9.5	10.6	10.6	10.0		
Inflation (CPI)	y-o-y % change	7.5	1.8	9.2	13.1	17.4	8.0	11.3	Aug
	avg. % change	9.0	0.7	6.8	13.1	13.5	8.0	13.0	Aug
PUBLIC FINANCES									
Total revenue	% of non-oil GDP	369	242	275	356	320	178		
Domestic revenue	% of non-oil GDP	6.6	7.5	9.6	13.4	10.3	10.9		
Oil revenue (oil and gas)	% of non-oil GDP	361	234	265	343	309	225		
Total expenditure (cash basis)	% of non-oil GDP	80	73	91	132	104	134		
Current expenditure	% of non-oil GDP	54	46	60	70	48	57		
Capital expenditure	% of non-oil GDP	26	27	31	88	56	77		
Fiscal balance (cash basis)	% of non-oil GDP	289	169	184	198	216	44		
Public debt	% of non-oil GDP	0	0	0	0	0	3		
Petroleum Fund	USD millions	4,197	5,377	6,904	8,271	9,310	9,300	10,601	Jun
	% of non-oil GDP	631	682	789	881	883	743	847	Jun
MONEY AND CREDIT									
Net foreign assets ^(b)	% of non-oil GDP	59	56	71		65			
	annual % change	24	13	40		11			
	months of imports	6	6	7		7			
Net domestic assets	% of non-oil GDP	-30	-22	-37		-35			
	annual % change	16	-14	87		12			
Broad Money ^(c)	% of non-oil GDP	29	34	34		31			
	annual % change	33	40	10		9			
BALANCE OF PAYMENTS									
Current account	% of non-oil GDP	305	167	194	253	226	142		
Trade account	% of non-oil GDP	-43	-46	-64	-71	-33	-63		
Merchandise exports ^(d)	% of non-oil GDP	2.1	1.2	2.1	2.3	3.2	2.6		
	tx. variação anual	112	-34	95	22	55	-3		
Merchandise imports	% of non-oil GDP	45	47	66	73	36	66		
	tx. variação anual	70	24	55	20	-45	119		
Current and capital balance	% of non-oil GDP	308	170	201	257	229	144		
Overall balance	% of non-oil GDP	-3.0	5.0	10.1	-0.3	5.3	12.8		

Sources: Banco Central de Timor-Leste, Ministry of Finance, IMF and Banco de Portugal calculations.

Notes: (a) Includes income from the off-shore exploration of oil and gas; (b) Does not include Petroleum Fund assets;

⁽c) Currency in circulation only includes coins (centavos, sub denominations of the USD) issued by the ABPTL/ Banco Central de Timor-Leste, excluding USD banknotes in circulation, owing to the absence of reliable indicators on cash inflows and outflows (within the context of the official dollarisation); (d) Oil revenue is accounted for in the income account, and therefore is not included in merchandise exports due to lack of broken-down data.

Table A.II.6.2.

GROSS DOMESTIC PRODUCT Current pri	ices, USD	millions	5				
	2007	2008	2009	2010	20 [.] Proj.	11 Est.	2012 Prog.
Agriculture, fishing and forestry	145	165	181	188			
Industry, trade and services	295	396	445	504			
Public administration	84	115	162	188			
Non-oil GDP (at factor costs)	524	676	788	879			
Non-oil GDP (market prices)	525	665	788	875	939	1,054	1,252
Total GDP (incl. oil production)	2,875	4,415	3,283	4,131	4,612	4,315	4,073
Consumption	1,032	1,324	1,444	1,574			
Private consumption	466	533	584	609			
Government consumption	566	791	861	965			
Gross investment	112	210	490	581			
GFCF	110	209	488	579			
Changes in inventories	1.3	1.6	1.8	2.0			
Domestic demand	1,144	1,535	1,934	2,154			
Exports of goods and services	2,876	4,276	3,094	3,940			
Overall demand	4,019	5,811	5,028	6,095			
Imports of goods and services	1,155	1,426	1,743	1,964			
Memo item:							
Gross domestic income	1,956	3,289	2,598	3,167	3,250	3,522	3,861
Oil income, incl. interest from investments	1,313	2,400	1,845	2,323	3,261	3,258	2,821
Non-oil GDP (real change, %)	11.6	14.6	12.8	9.5	10.6	10.6	10.0
Gross domestic income (nominal change, %)	50.9	68. <i>2</i>	-21.0	21.9	2.6	11.2	9.6

Sources: Banco Central de Timor-Leste, Ministry of Finance and IMF.

CONSU	MER PRICE II	NDEX Per cent			
		Monthly	Cumulative	Year-on-year	Average
		change	change	change	change
		[1]	[2]	[3]	[4]
2002 D	ecember		9.5	9.5	
	ecember		4.2	4.2	7.2
	ecember		1.8	1.8	3.2
	ecember		0.9	0.9	1.1
	ecember		7.3	7.3	3.9
	ecember		8.6	8.6	10.3
	ecember		7.5	7.5	9.0
	ecember		1.8	1.8	0.7
	ecember		9.2	9.2	6.8
2011 D	ecember		17.4	17.4	13.5
2010 Ja	anuary	1.9	1.9	3.6	0.5
Fe	ebruary	1.1	3.0	4.7	0.5
N	1arch	0.5	3.5	5.5	0.6
А	pril	0.3	3.8	6.0	0.9
N	1ay	0.3	4.1	6.4	1.4
Ju	une	0.2	4.3	6.6	2.1
Ju	uly	0.6	5.0	7.3	2.9
А	ugust	0.3	5.3	7.6	3.8
S	eptember	0.3	5.6	7.4	4.6
0	ctober	0.4	6.0	7.8	5.4
N	lovember	0.8	6.9	9.0	6.1
D	ecember	2.1	9.2	9.2	6.8
2011 Ja	anuary	1.1	1.1	8.3	7.2
Fe	ebruary	3.7	4.8	11.1	7.7
N	1arch	3.1	8.1	14.1	8.4
А	pril	-0.1	8.0	13.7	9.1
N	1ay	0.1	8.2	13.5	9.7
Ju	une	0.4	8.6	13.7	10.3
Ju	uly	0.2	8.8	13.2	10.8
А	ugust	0.2	9.0	13.0	11.2
S	eptember	1.0	10.1	13.8	11.7
O	ctober	0.9	11.1	14.4	12.3
N	lovember	1.8	13.1	15.5	12.8
D	ecember	3.7	17.4	17.4	13.5
D	ecember (pro	ng.)		13.1	13.1
2012 Ja	anuary	1.4	1.4	17.7	14.3
Fe	ebruary	-0.7	0.6	12.6	14.4
	1arch	0.7	1.4	10.1	14.0
А	pril	0.8	2.2	11.0	13.8
Ν	1ay	0.3	2.5	11.2	13.6
	une	0.2	2.7	11.0	13.3
Ju	uly	0.3	2.9	11.1	13.1
А	ugust	0.4	3.3	11.3	13.0
D	ecember (pro	oa.)		8.0	8.0

Sources: Banco Central de Timor-Leste, Ministry of Finance and Banco de Portugal calculations.

Notes: [1] month (n) / month (n-1); [2] month (n) / previous December; [3] month (n) / month (n) of the previous year; [4] last 12 months / previous 12 months.

Table A.II.6.4.

BALANCE OF PAYMENTS USD millions	_						
	2007	2008	2009	2010	2011	2011	2012
			Est.	Est.	Prog.	Est.	Prog.
1. CURRENT ACCOUNT	1,177	2,029	1,315	1,697	2,376	2,384	1,773
1.1. Trade account	-169	-285	-361	-557	-666	-344	-795
Exports ^(a)	7	14	9	18	22	34	33
of which: Coffee	6	13	8	17	20	12	30
Imports	-176	-299	-370	-575	-689	-378	-829
of which: Food		-48	-50	-42	-52		-52
Manufactures		-169	-263	-267	-537		-668
1.2. Services (net)	-263	-433	-528	-409	-690	-1,420	-641
Exports	63	46	46	68	93	65	103
of which: Travel	26	16	13	20	42	22	50
Imports	-325	-478	-574	-477	-782	-1,486	-744
of which: relating to the UN and donors	-286	-364	-375	-351	-446		-362
1.3. Income (net)	1,331	2,410	1,845	2,342	3,284	3,621	2,847
of which: Oil revenue ^(b)	1,312	2,399	1,842	2,320	3,261	3,240	2,821
1.4. Current transfers	278	337	359	321	446	527	363
of which: International assistance	281	355	362	321	316		
2. CAPITAL AND FINANCIAL ACCOUNT	-1,031	-2,049	-1,275	-1,609	-2,377	-2,329	-1,614
Official capital transfers	32	17	27	59	35	26	30
Financial account	-1,064	-2,057	-1,289	-1,397	-2,412	-2,314	-1,644
of which: Investment of oil savings	-1,012	-2,003	-1,325	-1,419	-2,461	-2,407	-1,585
Items in transit, errors and omissions	1	-9	-13	-271	0	-41	0
3. OVERALL BALANCE	147	-20	39	88	-3	55	160
4. FINANCING	-147	20	-39	-88	3	-55	-160
Change in net foreign assets (increase: -)	-147	20	-39	-88	3	-55	-160
Memo item:			(as a perce	ntage of non	-oil GDP)		
Oil income ^(b)	249.9	360.8	233.7	265.1	347.3	307.4	225.3
Current account	224.2	305.1	166.8	193.9	253.0	226.2	141.6
Current account (excl. international assistance)	170.7	251.7	120.9	157.2	219.4	226.2	141.6
Current and capital account	230.3	307.7	170.3	200.7	256.8	228.7	144.0

Sources: Banco Central de Timor-Leste, Ministry of Finance, IMF and Banco de Portugal calculations.

Notes: (a) Oil revenue is accounted for in the income account, and therefore is not included in merchandise exports owing to lack of broken-down data; (b) Includes interest from oil income investments.

MERCHANDIS	SE EXPO	RTS By	country	of des	tination	, as a pe	ercentage	e of tot	al
	2004	2005	2006	2007	2008	2009	2010	2011	2004 to 2011
Germany	6.3	20.7	24.2	2.4	26.3	27.9	25.3	47.2	31.8
Australia	7.3	5.5	3.6	7.8	2.1	3.0	4.1	2.4	4.5
United States	50.9	49.1	40.8	45.9	26.2	33.8	43.2	24.1	44.3
Indonesia	18.3	5.0	13.6	5.0	16.4	4.9	4.2	3.7	10.5
Japan	0.0	1.2	1.4	0.0	5.0	4.7	3.7	5.6	4.1
Portugal	8.3	11.9	2.1	2.6	6.3	8.9	4.3	0.9	6.7
Singapore	2.3	1.1	7.6	17.6	10.8	3.4	9.0	4.3	7.6
Other	6.5	5.4	6.7	18.7	6.9	13.4	6.1	11.7	9.7
Total exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Banco Central de Timor-Leste, Ministry of Finance, IMF and Banco de Portugal calculations.

Notes: Only coffee exports.

Table A.II.6.6.

MERCHANDI	SE EXPO	RTS By	country	of orig	jin, as a	percent	age of to	otal	
	2004	2005	2006	2007	2008	2009	2010	2011	2004 to 2011
Australia	17.7	13.9	12.5	13.5	13.8	16.7	15.8	4.8	12.8
China	0.9	1.7	2.5	3.3	2.1	4.1	7.4	18.8	7.3
Indonesia	52.9	47.0	43.0	27.7	42.5	32.6	36.2	30.7	37.1
Japan	1.1	10.4	2.5	9.1	2.3	2.7	3.3	1.8	3.2
Portugal	1.5	1.6	2.2	0.9	1.2	3.4	2.4	1.5	2.0
Singapore	13.3	14.6	19.4	13.7	17.1	18.9	20.4	6.8	15.1
Vietnam	4.8	4.5	5.0	2.1	7.0	12.2	4.7	2.3	5.7
Other	7.7	6.4	12.8	29.7	14.0	9.3	9.8	33.3	16.8
Total imports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Banco Central de Timor-Leste, Ministry of Finance, IMF and Banco de Portugal calculations.

 $\begin{tabular}{ll} \textbf{Notes:} & \textbf{Excludes imports under the UN, diplomatic representations and donors.} \end{tabular}$

Table A.II.6.7.

Table A.II.0.7.								
GOVERNMENT OPERATIONS (a) USD r	nillions							
Fiscal year	2008	2009	2010		2011		20	12
		Est.	Est.	Budg. ^(a)	Est.	I.e. (b)	Budg. ^(a)	Proj.
Total revenue	2,452	1,908	2,404	2,940	3,370	114.6	2,226	2,957
Domestic revenue	53	66	84	111	108	97.8	136	136
Direct taxes	19	13	19	22	28	124.8	41	41
Indirect taxes	19	30	26	43	51	118.9	55	57
Other revenue	6	16	39	46	30	64.9	41	38
Oil revenue	2,399	1,842	2,320	2,830	3,262	115.3	2,090	2,823
Total expenditure (cash basis)	533	573	794	1,306	1,093	83.7	1,674	1,417
Current expenditure	358	364	527	577	501	86.9	716	680
Personnel expenditure	53	86	93	118	112	94.9	140	138
Goods and services	154	158	243	283	246	87.0	376	346
Transfers and subsidies	151	120	192	176	143	81.5	200	196
Capital expenditure	175	209	268	730	592	81.1	958	737
Overall balance (cash basis)	1,919	1,335	1,610	1,634	2,277		552	1,540
Overall balance (excl. oil revenue)	-480	-507	-711	-1,195	-985		-1,538	-1,283
Financing	480	507	711	1,195	985		1,538	1,283
Change in cash balances (increase: -)	91	1	-125	64	-78		0	-255
Drawings from the Petroleum Fund	396	512	811	1,055	1,055		1,495	1,495
Indebtedness - disbursements	0	0	0	0	0		43	43
Other ^(c) (increase: -)	-7	-6	25	76	8		0	C
Memo item:								
Total GDP	4,415	3,283	4,131	4,194	4,612		4,073	4,073
Non-oil GDP	665	788	875	825	1,054		1,252	1,252
Overall balance, cash basis (% of non-oil GDP)	289	169	184	198	216		44	123
excl. oil revenue	-72	-64	-81	-145	-93		-123	-102
Petroleum Fund (cumulated)								
USD millions (end of period)	4,197	5,377	6,904	8,271	9,310		9,300	9,300
% of non-oil GDP	631	682	789	1003	883		743	743

Sources: Banco Central de Timor-Leste, Ministry of Finance, IMF and Banco de Portugal calculations.

Notes: (a) Central Administration Budget; (b) Level of budget execution, per cent;

(c) Including items in transit, errors and omissions.

Table A.II.6.8.

MONETARY SURVEY USD millions												
	2007	2008	2009	2010			2011			2012	/n/	Jul 2012 /
	Dec	Dec	Dec	Dec	201	2010/2009	Dec	201	2011/2010	Inf	De	Dec 2011
					[1]	[2]		[1]	[2]	Est.	[1]	[2]
NET FOREIGN ASSETS	318	393	443	622	40.4	2.99	689	10.8	22.7	743	7.9	16.9
Foreign assets	356	421	469	650	38.6	67.4	756	16.4	36.1	845	11.7	27.4
BCTL [ABP7L up to Sep. 2011]	230	210	250	406	62.5	58.2	498	22.5	31.0	429	-13.7	-21.2
Commercial banks	126	211	219	244	11.3	9.2	259	6.3	5.2	415	60.5	48.6
Foreign liabilities	-38	-28	-26	-28	7.1	-0.7	-68	141.6	-13.4	-101	50.1	-10.5
BCTL [ABPTL up to Sep. 2011]	0	0	-12	-12	-1.7	0.1	-14	21.7	-0.9	-12	-18.1	0.8
Commercial banks	-38	-28	-14	-16	14.8	-0.8	-53	230.4	-12.6	-90	289	-11.3
NET DOMESTIC ASSETS	-174	-202	-174	-327	87.4	-56.8	-366	12.1	-13.4	-465	27.0	-30.7
Net claims on government	-219	-230	-206	-331	60.5	-46.5	-413	24.7	-27.7	-447	8.4	-10.8
Gross loans	0	12	—	22	1851.2	7.9	9	-73.7	-5.6	0	-100.0	-1.8
Deposits	-219	-241	-207	-353	70.4	-54.4	-419	18.4	-22.1	-447	6.9	-8.9
Credit to the private sector	101	66	104	110	5.9	2.3	133	21.1	7.8	156	17.8	7.3
Other assets (net)	-56	-72	-72	-105	47.0	-12.6	-87	-17.9	6.4	-174	101.3	-27.2
BROAD MONEY	144	191	268	295	9.9	8.8	322	9.3	9.3	367	13.9	13.9
Currency in circulation (a)	2	2	m	m	20.5		4	14.5		4	11.1	
Demand deposits	73	102	155	138	-10.8		159	15.1		173	8.8	
Time deposits and other deposits	89	87	111	154	38.5		160	4.0		190	19.1	
Memo item:												
Petroleum Fund assets (USD millions)	2,086	4,197	5,377	6,904	28.4		9,310	34.8		10,601	13.9 ((jun)
Net foreign assets (in months of imports) 🐠	7.6	6.1	5.6	7.3	29.4		6.8	-6.2		7.4	7.9	

Sources: Banco Central de Timor-Leste (BCTL), IMF and Banco de Portugal calculations.

Notes: (a) This aggregate only includes coins (centavos, sub denominations of the USD) issued by Banco Central de Timor-Leste, excluding USD banknotes in circulation, owing to the absence of reliable indicators on cash inflows and outflows, within the context of the official dollarisation; (b) Imports of goods and services.
[1] Change from the end of the previous year; [2] Change from the broad money at the end of the previous year (liquidity expansion/contraction factors).

Table A.II.6.9.

4	
	Ш

XCHANGE RA	TES Average rates				
	Australian dollar	Indonesian rupiah	Euro	EERI (a)(b)
	USD/AUD	USD/IDR	EUR/USD	Nominal	Rea
2000	1.73	8,402	0.92	92.38	
2001	1.93	10,260	0.90	106.82	101.29
2002	1.84	9,319	0.94	100.16	92.36
2003	1.54	8,574	1.13	91.64	86.82
2004	1.36	8,938	1.24	90.92	85.22
2005	1.31	9,709	1.24	94.31	83.99
2006	1.33	9,167	1.26	90.50	77.3
2007	1.20	9,140	1.37	87.38	78.79
2008	1.20	9,690	1.47	88.98	80.69
2009	1.28	10,412	1.39	94.60	83.87
2010	1.09	9,085	1.33	83.54	75.9°
2011	0.97	8,777	1.39	78.57	77.25
2010 January	1.09	9,293	1.43	85.20	76.88
Februa		9,342	1.37	86.18	78.37
March	1.10	9,164	1.36	84.59	77.20
April	1.08	9,027	1.34	83.33	76.0
May	1.15	9,166	1.26	85.29	77.82
June	1.17	9,148	1.22	85.62	77.9
July	1.14	9,042	1.28	84.31	76.32
August		8,976	1.29	83.21	75.15
Septem		8,966	1.31	82.18	74.1
Octobe		8,927	1.39	80.79	73.09
Novem	ber 1.01	8,948	1.37	80.70	73.29
Decem	ber 1.01	9,021	1.32	81.11	74.75
2011 January	1.00	9,040	1.34	80.90	74.72
Februa		8,913	1.36	79.90	76.50
March	0.99	8,760	1.40	78.96	77.82
April	0.95	8,651	1.44	77.41	76.3
May	0.94	8,565	1.43	76.68	75.5
June	0.94	8,564	1.44	76.73	75.50
July	0.93	8,533	1.43	76.09	74.6
August	0.95	8,532	1.43	76.36	74.5
Septem		8,766	1.38	78.54	77.1
Octobe		8,895	1.37	79.78	79.0
Novem	ber 0.99	9,015	1.36	80.43	80.9
Decem	ber 0.99	9,088	1.32	81.02	84.2
2012 January	0.96	9,109	1.29	80.48	84.4
Februa		9,026	1.32	79.17	82.3
March	0.95	9,165	1.32	80.20	83.8
April	0.97	9,176	1.32	80.44	84.6
May	1.00	9,290	1.28	81.74	86.09
June	1.00	9,451	1.25	82.80	86.9
July	0.97	9,452	1.23	82.06	
August		9,486	1.25	81.71	

Sources: Bank Indonesia, Reserve Bank of Australia, Monetary Authority of Singapore and Banco de Portugal; Banco de Portugal calculations

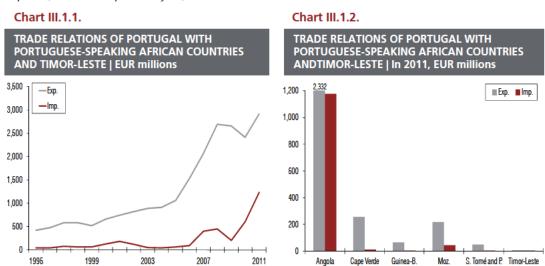
Notes:

(a) Effective exchange rate index (EERI), calculated on the basis of rates applied to the three main trading partners over the period 2005/2009; (b) An increase/decrease in the EERI (nominal or real) corresponds to an appreciation/depreciation of the USD (Index, 100: January 2001).

ECONOMIC AND FINANCIAL RELATIONS OF PORTUGAL WITH PORTUGUESE-SPEAKING AFRICAN COUNTRIES AND TIMOR-LESTE

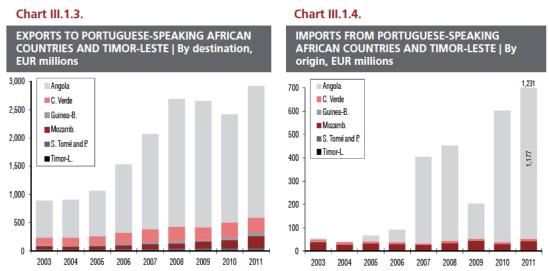
III.1. PORTUGAL'S TRADE RELATIONS AND BALANCES OF PAYMENTS WITH PORTUGUESE-SPEAKING AFRICAN COUNTRIES AND TIMOR-LESTE

Portugal's trade relations with Portuguese-speaking African countries and Timor-Leste grew somewhat in 2011, particularly in terms of Portuguese imports from this group of countries (which doubled from 2010) but also as regards exports (21% from 2010, thus reversing the trend seen in previous years). In relative terms, 2011 figures show that these countries have strengthened their weight in Portuguese total trade relations, accounting for 6.9% of exports (6.5% in 2010) and 2.2% of imports (1.1% in the previous year).



Source: Statistics Portugal (INE)

Portuguese exports to these countries amounted to EUR 2,919 million in 2011, i.e. EUR 504 million more than in the previous year. This was mostly due to increases in exports to Angola (by EUR 421 million) and Mozambique (by EUR 67 million). Exports to Guinea-Bissau (by EUR 22 million) and São Tomé and Príncipe (by EUR 4 million) increased as well, while exports to other countries declined slightly.



Source: Statistics Portugal (INE)

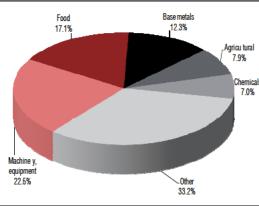
Portuguese imports from this group of countries amounted to EUR 1,231 million in 2011, EUR 629 million more than in the previous year, which was mainly due to higher imports from Angola (by EUR 614 million), as a reflection of an increase in mineral fuels (which include oil). Among these countries, Angola has been the main destination market for Portuguese exports and the main source market for imports since 2006 and, in 2011, its share increased to 96% and 80%, respectively, of the total.

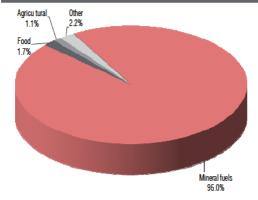


EXPORTS TO PORTUGUESE-SPEAKING AFRICAN COUNTRIES AND TIMOR-LESTE | In 2011, by group of products









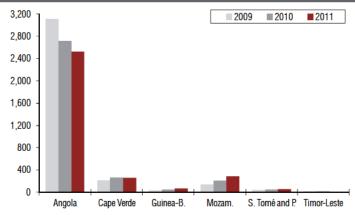
Source: Statistics Portugal (INE).

Despite a slight increase in dispersion, in 2011 Portuguese exports to these countries continued to focus on products from "machinery and equipment", "food" and "base metals", which together account for 51% of the total. "Mineral fuels" from Angola are the main Portuguese import from Portuguesespeaking African countries and Timor-Leste (95% of the total).

The strong momentum of imports resulted in a decline of the trade balance surplus with Portuguesespeaking African countries and Timor-Leste, which reached EUR 1.7 billion in 2011 (-5% versus the previous year). The fall in the trade account, together with a decline in the income account balance, led to a further decrease in the aggregate balance of bilateral current accounts between Portugal and Portuguese-speaking African countries and Timor-Leste in 2011.

Chart III.1.7.





Source: Banco de Portugal.

Current transfers with Portuguese-speaking African countries and Timor-Leste again resulted in a more favourable balance for Portugal in 2011, which is still sustained by remittances from Portuguese emigrants in Angola. These net remittances amounted to EUR 118.7 million in 2011 (an increase of 13.8% from the previous year).

Table A.III.1.1.

		UGAL/PORTUGUESE-SPEAKING AFRICAN COUNTRIES AND TIMOR-LESTE: MERCHANDISE IMPORTS EXPORTS (PORTUGAL'S PERSPECTIVE) EUR millions											PORTS	
	Ang	gola	Cape '	Verde	Guir Biss		Mozan	nbique	S.Tom Prín		Timor	-Leste	ТО	TAL
	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Ехр.	Imp.	Exp.	Imp.	Ехр.
1995	10	259	6	89	5	23	23	37	0	13			43	421
1996	10	305	8	97	4	22	24	40	0	13			45	476
1997	39	394	9	109	2	25	27	43	0	13			79	584
1998	22	368	9	118	2	16	28	61	1	17			62	580
1999	10	277	10	138	0	17	39	67	4	19			64	517
2000	58	371	10	170	1	28	45	69	9	19			123	657
2001	127	504	9	135	3	23	40	63	3	21			182	745
2002	70	570	9	148	3	21	37	54	0	30	1	1	121	823
2003	2	652	9	137	2	17	38	54	0	25	1	5	52	890
2004	2	671	11	140	1	18	26	55	0	24	1	1	41	909
2005	25	802	7	148	1	24	32	64	0	22	1	1	66	1,061
2006	53	1,210	7	190	1	27	29	74	1	28	1	2	92	1,531
2007	369	1,684	7	228	1	35	26	89	0	33	0	1	403	2,070
2008	408	2,261	9	258	1	40	34	92	0	37	1	2	452	2,690
2009	151	2,236	7	223	1	33	43	120	0	36	1	9	204	2,656
2010	563	1,910	7	263	0	43	29	149	0	43	1	7	602	2,415
2011	1,177	2,332	10	255	0	64	42	217	0	47	1	5	1,231	2,919

Source: Statistics Portugal (INE).

Table A.III.1.2.

			WITH P		UESE-SI	PEAKIN	IG AFRIC	CAN CO	UNTRIE	S AND	TIMOR-	LESTE I	N	
	Ang	ola	Cape '	Verde	Guir Biss		Mozan	nbique	S.Tom Prín		Timor	-Leste	TO	TAL
	lmp.	Ехр.	Imp.	Ехр.	Imp.	Exp.	Imp.	Ехр.	Imp.	Ехр.	lmp.	Ехр.	Imp.	Ехр.
1995	0.0	1.7	0.0	0.6	0.0	0.1	0.1	0.2	0.0	0.1			0.2	2.8
1996	0.0	1.6	0.0	0.5	0.0	0.1	0.1	0.2	0.0	0.1			0.2	2.5
1997	0.1	1.8	0.0	0.5	0.0	0.1	0.1	0.2	0.0	0.1			0.3	2.7
1998	0.1	1.6	0.0	0.5	0.0	0.1	0.1	0.3	0.0	0.1			0.2	2.5
1999	0.0	1.2	0.0	0.6	0.0	0.1	0.1	0.3	0.0	0.1			0.2	2.2
2000	0.1	1.4	0.0	0.6	0.0	0.1	0.1	0.3	0.0	0.1			0.3	2.4
2001	0.3	1.8	0.0	0.5	0.0	0.1	0.1	0.2	0.0	0.1			0.4	2.7
2002	0.2	2.0	0.0	0.5	0.0	0.1	0.1	0.2	0.0	0.1	0.0	0.0	0.3	2.9
2003	0.0	2.2	0.0	0.5	0.0	0.1	0.1	0.2	0.0	0.1	0.0	0.0	0.1	3.0
2004	0.0	2.2	0.0	0.5	0.0	0.1	0.1	0.2	0.0	0.1	0.0	0.0	0.1	2.9
2005	0.1	2.6	0.0	0.5	0.0	0.1	0.1	0.2	0.0	0.1	0.0	0.0	0.1	3.4
2006	0.1	3.4	0.0	0.5	0.0	0.1	0.1	0.2	0.0	0.1	0.0	0.0	0.2	4.3
2007	0.6	4.4	0.0	0.6	0.0	0.1	0.0	0.2	0.0	0.1	0.0	0.0	0.7	5.4
2008	0.7	5.8	0.0	0.7	0.0	0.1	0.1	0.2	0.0	0.1	0.0	0.0	0.7	6.9
2009	0.3	7.0	0.0	0.7	0.0	0.1	0.1	0.4	0.0	0.1	0.0	0.0	0.4	8.3
2010	1.0	5.2	0.0	0.7	0.0	0.1	0.1	0.4	0.0	0.1	0.0	0.0	1.1	6.5
2011	2.1	5.5	0.0	0.6	0.0	0.2	0.1	0.5	0.0	0.1	0.0	0.0	2.2	6.9

Sources: Statistics Portugal (INE) and Banco de Portugal calculations.

Table A.III.1.3.

PORTUGAL/PORTUGUESE-SPEAKING AFRICAN COUNTRIES	RICAN COU		ND TIMOR	LESTE: EX	PORTS BY	Y GROUP	OF PRODU	AND TIMOR-LESTE: EXPORTS BY GROUP OF PRODUCTS (PORTUGAL'S PERSPECTIVE) EUR millions	UGAL'S F	PERSPECTI	VE) EUR	millions		
				2010							2011			
	Angola	C. Verde	G. Bissau	Mozamb.	S. Tomé	Timor-L.	Total	Angola	C. Verde	G. Bissau	Mozamb.	S. Tomé	Timor-L.	Total
Agricultural	110.15	25.09	2.21	4.88	5.96	0.24	148.54	183.42	31.85	3.61	5.55	7.17	0.24	231.84
Food	314.85	31.78	10.88	13.10	9.20	0.77	380.58	422.73	33.30	13.38	17.42	10.33	0.82	497.98
Mineral fuels	19.56	2.58	6.39	2.10	0.61	0.00	31.24	53.38	4.92	22.41	2.10	1.68	00.00	84.50
Chemicals	121.05	20.99	1.23	10.75	3.27	0.03	157.33	166.23	21.31	1.56	12.23	3.38	0.01	204.70
Plastics, rubber products	80.73	15.31	0.84	8.35	2.29	0.03	107.54	105.46	14.37	1.11	96.6	2.00	0.05	132.96
Leather, leather products	5.58	1.99	0.03	0.31	0.22	0.00	8.14	5.26	1.88	0.02	0.62	0.09	00.00	7.88
Wood, cork	22.69	5.30	0.30	1.00	0.13	90.0	29.47	24.45	4.77	0.23	2.05	0.20	0.04	31.74
Pulp, paper	60.38	7.57	0.42	13.48	1.12	0.24	83.22	79.54	8.24	0.41	13.52	0.97	0.69	103.38
Textile products	23.10	3.34	0.39	1.71	0.47	0.08	29.10	29.68	3.77	0.40	2.02	0.44	90.0	36.37
Clothing	25.32	2.51	0.37	1.38	0.89	0.01	30.47	33.24	3.10	0.23	1.90	0.89	0.01	39.37
Footwear	10.55	0.42	0.25	0.83	0.30		12.36	13.16	0.47	0.13	1.17	0.26	00.00	15.19
Minerals, ores	92.26	25.43	6.14	6.04	2.99	0.03	132.89	94.77	22.50	6.19	7.33	2.07	0.08	132.93
Base metals	233.81	26.39	2.76	16.88	3.12	0.37	283.33	301.82	27.97	2.95	23.50	3.28	0.50	360.03
Machinery, equipment	482.76	70.19	5.50	49.83	7.62	4.39	620.29	506.73	51.66	6.85	81.83	7.62	2.07	656.77
Motor vehicles, other transport equipment	116.69	9.72	3.19	5.02	2.34	0.10	137.06	96.60	11.68	3.04	20.11	4.08	0.16	135.67
Optical and precision instruments	52.38	4.09	0.32	5.73	0.83	0.01	63.36	56.95	2.86	0.20	3.39	0.77	0.02	64.16
Other products	138.39	10.44	1.62	7.85	1.31	0.31	159.91	158.23	10.35	1.68	11.94	1.38	0.15	183.71
Total	1,910.25	263.15	42.84	149.24	42.67	6.68	2,414.82	2,331.65	254.99	64.37	216.66	46.61	4.91	2,919.19

Source: Statistics Portugal (INE).

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Table A.III.1.5.

CURRENT AND CAPITAL ACCOUNTS WITH PORTUGUESE-SPEAKING AFRICAN COUNTRIES AND TIMOR-LESTE (PORTUGAL'S PERSPECTIVE) | EUR millions

LESTE (POR	TUGA	L'S PERS	PECTIVE)	EUR mi	llions						
					Curi	ent accou	unt				
			Merchandis	se			Cur	rent transfe	ers		Capital
		Export.	Import.	Balance	Services	Income	Total	of wh Remitta Emig.		Balance	account
	2007	1,682.5	362.5	1,320.0	364.9	123.9	21.2	48.1	12.3	1,829.9	-87.5
	2008	2,270.6	402.5	1,868.1	557.2	130.1	43.2	70.9	13.1	2,598.6	20.6
Angola	2009	2,241.4	151.7	2,089.7	549.1	359.9	112.1	103.5	12.3	3,110.9	-4.5
	2010	1,913.0	552.7	1,360.3	689.4	510.6	155.3	134.9	13.5	2,715.5	-2.8
	2011	2,336.5	1,139.2	1,197.3	950.3	208.4	169.6	147.3	12.9	2,525.6	3.8
	2007	226.2	7.8	218.3	16.6	-9.3	-36.5	2.6	22.3	189.2	-5.4
	2008	259.1	9.2	249.8	24.8	-8.3	-35.8	2.1	23.7	230.5	-7.7
Cape Verde	2009	222.6	7.5	215.1	29.2	5.2	-35.9	2.5	20.9	213.7	-1.3
	2010	263.2	8.0	255.1	10.0	22.3	-25.9	3.1	12.9	261.5	-1.7
	2011	255.2	11.1	244.1	5.5	14.3	-6.6	2.8	13.3	257.3	-1.0
	2007	34.2	0.5	33.7	3.8	1.1	-6.5	0.6	6.1	32.1	-1.3
	2008	40.3	0.6	39.7	3.0	9.4	-9.4	0.1	6.5	42.7	-1.2
Guinea-Bissau	2009	33.4	1.4	32.1	3.7	-1.1	-4.5	0.3	5.1	30.2	-1.5
	2010	42.8	0.7	42.1	4.3	6.6	-5.4	0.3	4.8	47.6	-2.5
	2011	64.4	2.1	62.3	5.5	1.6	-5.3	0.2	4.3	64.0	-1.0
	2007	89.5	34.8	54.7	21.1	161.0	5.6	2.4	5.9	242.3	-2.5
	2008	92.7	42.2	50.5	21.2	77.5	-2.3	2.3	3.2	146.9	-101.3
Mozambique	2009	120.8	46.6	74.2	19.8	46.5	-3.2	2.4	3.2	137.3	-14.2
	2010	150.8	32.7	118.1	33.9	60.9	-3.5	2.7	4.5	209.4	-14.6
	2011	217.9	45.7	172.3	49.6	53.4	7.3	4.7	5.7	282.6	-14.8
	2007	33.1	0.8	32.3	9.3	3.1	-0.7	0.4	1.0	44.0	0.0
S. Tomé and	2008	36.6	2.0	34.6	5.4	1.1	-0.8	0.1	0.6	40.3	-0.2
S. Tome and Principe	2009	35.5	2.0	33.5	6.0	8.0	0.4	0.2	0.4	40.7	-1.4
Timespe	2010	42.6	1.8	40.9	7.2	1.0	-1.3	0.1	1.3	47.8	-1.3
	2011	46.7	1.2	45.5	9.0	1.2	0.0	0.3	0.8	55.7	-1.1
	2007	1.2	0.2	1.0	-4.6	3.3	0.1	0.0	0.1	-0.1	-0.3
	2008	2.1	0.5	1.6	-9.5	6.5	-1.3	0.2	0.1	-2.7	-0.5
Timor-Leste	2009	9.3	1.0	8.3	0.7	7.9	-0.9	0.3	0.1	16.0	-1.0
	2010	6.7	1.2	5.5	-3.8	16.3	0.1	0.3	0.1	17.9	-0.2
	2011	5.2	1.1	4.1	1.1	7.1	-5.0	0.4	0.1	7.3	-0.6
Total of	2007	2,066.6	406.7	1,659.9	411.1	283.1	-16.8	54.0	47.6	2,337.4	-97.1
Portuguese-	2008	2,701.4	457.0	2,244.4	602.2	216.2	-6.4	75.7	47.1	3,056.4	-90.2
speaking African	2009	2,663.1	210.2	2,452.9	608.6	419.3	67.9	109.1	42.0	3,548.7	-23.9
Countries and		2,419.1	597.2	1,822.0	741.1	617.6	119.1	141.5	37.1	3,299.7	-23.1
Timor-Leste			1,200.3	1,725.5	1,020.9	286.1	160.0	155.8	37.0	3,192.5	-14.7
	D. d										

Source: Banco de Portugal.

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III.2. BILATERAL DIRECT INVESTMENT WITH PORTUGUESE-SPEAKING AFRICAN COUNTRIES AND TIMOR-LESTE

In 2011 Portugal's gross direct investment in Portuguese-speaking African countries and Timor-Leste again declined markedly, thus following the downward trend that started in 2009. The Portuguese gross direct investment volume in that group of countries was EUR 345 million in 2011, which corresponds to a 58% fall from 2010, and now accounts for 2.2% of total gross direct investment of Portugal abroad (8.4% in 2010).



PORTUGUESE INVESTMENT IN PORTUGUESE-SPEAKING AFRICAN COUNTRIES AND TIMOR-LESTE | Annual total, EUR millions

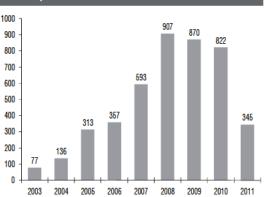
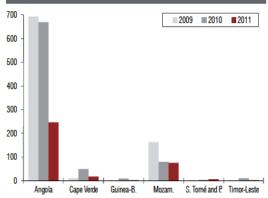


Chart III.2.2.





Source: Banco de Portugal.

In geographical terms, Portugal's investment in Portuguese-speaking countries and Timor-Leste in 2011 focused mainly on Angola (71% of the total, as the main destination market since 2002), Mozambique (22%) and Cape Verde (5%). Available estimates for 2011 point to an increase in gross Portuguese investment only in São Tomé and Príncipe, while it dropped for all the other countries.

Broken down into destination markets, in 2011 Portuguese investment in this group of countries was mainly in "construction" (41%), "trade" (32%) and "financial activities" (22%, although this corresponds to a substantial fall from 2010). As in the previous year, Portuguese disinvestment in Portuguese-speaking African countries and Timor-Leste in 2011 was mostly due to "construction" (82% of the total), particularly as regards Angola, Mozambique and Cape Verde.

Portugal's gross direct investment in Angola declined significantly in 2011, and stood at EUR 246 million, which corresponds to almost one third of the value for 2010. As usual, the main destination sectors were "trade", "construction" and "financial activities" ("monetary intermediation" and "other financial and insurance activities"), accounting for 98% of the total last year.

In 2011 Portuguese gross direct investment channelled to Mozambique came to EUR 75 million, i.e. EUR 5 million less than in 2010. This fall was mainly due to investment in "monetary intermediation" and "construction". These sectors, however, continued to account for the largest share of the total, i.e. 79%.

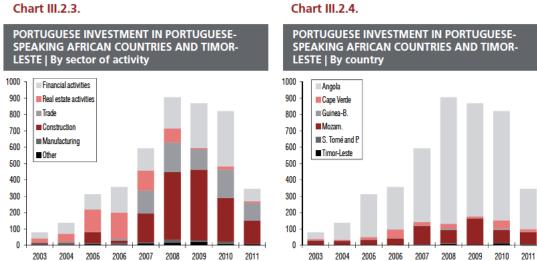
In Cape Verde, Portuguese investors placed EUR 17 million in 2011, i.e. approximately one third of the amount invested in the previous year, due to a fall in "monetary intermediation" and "manufacturing", with "construction" becoming the main investment sector (63% of the total).

Albeit less substantial, Portuguese investment in São Tomé and Príncipe amounted to nearly EUR 6 million, thus following the upward trend seen over the past few years, and was mainly due to



"construction" (79% of the total). EUR 0.7 million and EUR 0.2 million respectively were channelled to Timor-Leste and Guinea-Bissau. As regards the latter, this represents a fairly substantial decline, taking into account a record high in 2010.

Chart III.2.3.



Source: Banco de Portugal.

Gross direct investment of Portuguese-speaking countries and Timor-Leste in Portugal increased in 2011, amounting to EUR 79 million (75% more than in 2010), although this only accounts for 0.2% of total foreign direct investment in Portugal. This investment was mostly made by Angola (89% of the total) and was mainly channelled to "monetary intermediation", "real estate activities", "construction", "professional, scientific and technical activities" and "administrative and support service activities".

Table III.2.1.

PORTUGUESE BANKS F Situation in July 2012	REPRESENTED IN PORTUGUESE	-SPEAKING AFRICAN COU	INTRIES AND TIMOR-LESTE
Country / Bank	Form of representation	Country / Bank	Form of representation
Angola Banco BPI Banco Com. Português Banco Espírito Santo Banco Santander Totta ^(a) Caixa Geral Depósitos ^(a) Caixa Geral Depósitos Montepio Geral	Banco de Fomento Angola Banco Millenium Angola Banco Espírito Santo Angola Banco Caixa Geral Totta de Angola Banco Caixa Geral Totta de Angola Banco Promoção e Desenvolvimento Finibanco Angola	Mozambique Banco BPI ^(a) Banco Com. Português Banco Espírito Santo ^(a) Caixa Geral Depósitos	Banco Comercial e de Investimentos Banco Internac. de Moçambique Moza Banco Banco Comercial e de Investimentos Banco Nacional de Investimentos
Cape Verde Banco Espírito Santo BANIF, SGPS Caixa Geral Depósitos	Banco Espírito Santo Cabo Verde Banco Cabo-Verdiano de Negócios Banco Interatlântico Banco Comercial do Atlântico	S. Tomé and Príncipe Caixa Geral Depósitos ^(a)	Banco Internac. S. Tomé e Príncipe
established off-shore (b) Caixa Central CAM Montepio Geral Banco Espírito Santo	Branch CA Finance - Gestão de Activos Banco Montepio Geral Cabo Verde Branch	Timor-Leste Caixa Geral Depósitos	Branch

Source: Banco de Portugal.

Notes: (a) Minority holdings; (b) The holding company created under the privatisation process of BPN (called Parparticipadas, SGPS, SA) also holds BPN Cabo Verde.

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Table A.III.2.1.

	E DIRECT INVESTMENT IN PORTUGUESE-SPEAKING AFRICA activity, EUR millions	N COUN	TRIES AN	ID TIMOF	R-LESTE
12, 20110.		204	10	204	
		201		201	
	Prof., scientific and tech. activ. and administrative and support service activ.	7.0	Desinv.	2.3	Desinv.
	Information and communication activities	0.3	0.0	0.0	0.3
	Real estate activities	0.5	0.1	0.0	2.6
	Agricultural, animal prod., hunting, forestry, fishing and mining and quarrying	0.5	0.4	0.3	0.7
	Trade; repair of motor vehicles; transp, and storage; accomm., food service	165.4	26.2	100.7	68.7
	Construction	221.6	399.1	97.6	441.0
Angola	Electricity, gas, steam, water, sewerage, waste manag, and remediation activ.	0.2	555	0.1	0.1
	Manufacturing	3.4	12.8	0.5	13.7
	Monetary intermediation	263.9	52.5	40.5	29.5
	Other financial and insurance activities	1.9		2.5	
	Other activities	5.3	14.5	1.7	1.9
	TOTAL	669.5	512.1	246.4	571.7
	Prof., scientific and tech. activ. and administrative and support service activ.	0.9	0.4	0.9	0.1
	Information and communication activities	0.0	2.8	0.0	
	Real estate activities	0.0		0.0	
	Trade; repair of motor vehicles; transp. and storage; accomm., food service	0.6		0.2	
Cape Verde	Construction	12.0	25.9	10.9	64.0
	Manufacturing	5.9		0.4	0.3
	Monetary intermediation	30.0		4.6	0.5
	Other activities	0.2	0.0	0.3	1.8
	TOTAL	49.6	29.1	17.4	66.6
	Prof., scientific and tech. activ. and administrative and support service activ.	4.2	1.0	0.1	
	Information and communication activities	3.1			
	Trade; repair of motor vehicles; transp. and storage; accomm., food service			0.0	
Guinea-Bissau	Construction			0.0	
Guiriea Dissaa	Manufacturing	2.3		0.1	
	Monetary intermediation			0.0	
	Other activities	0.0	1.0	0.1	
	TOTAL	9.6	2.0	0.2	0.0
	Prof., scientific and tech. activ. and administrative and support service activ.	6.3	0.2	0.3	4.0
	Information and communication activities	0.5		0.0	
	Real estate activities	0.8		4.4	
	Agricultural, animal prod., hunting, forestry, fishing and mining and quarrying	0.0	1.2	0.0	0.1
	Trade; repair of motor vehicles; transp. and storage; accomm., food service	2.5	1.3	8.3	0.1
Mozambique	Construction	32.8	12.5	29.9	151.4
	Electricity, gas, steam, water, sewerage, waste manag. and remediation activ.	0.7 2.6		1.4 0.7	0.7
	Manufacturing Manufacturing	33.4	3.9	28.8	0.7 3.6
	Monetary intermediation Other financial and insurance activities	0.0	3.9	0.0	3.0
	Other activities	0.0	0.2	0.0	0.5
	TOTAL	79.9	17.9	74.7	
	Information and communication activities	73.3	17.5	0.0	160.4
	Agricultural, animal prod., hunting, forestry, fishing and mining and quarrying		0.1	0.5	0.0
	Trade; repair of motor vehicles; transp. and storage; accomm., food service	0.3	0.1	0.2	0.0
	Construction	2.2	2.9	4.3	9.3
S. Tomé and	Electricity, gas, steam, water, sewerage, waste manag. and remediation activ.	2.2	1.0	7.5	5.5
Príncipe	Manufacturing		0.1	0.1	
	Monetary intermediation	0.4	0	0.5	
	Other activities	0.0	2.2	0.0	0.4
	TOTAL	2.9	6.3	5.7	9.7
	Prof., scientific and tech. activ. and administrative and support service activ.	0.0		0.3	
	Monetary intermediation	9.7	1.8	0.3	
Timor-Leste	Other activities	1.0	0.3	0.0	0.0
	TOTAL	10.7	2.2	0.7	0.0
Total Por	tuguese-speaking African countries and Timor-Leste	822.3	569.7	345.1	808.4
	Postugal, Statistics presented on the basic of the Currier on Postuguese Investment		509.7	343. I	000.4

Source: Banco de Portugal. Statistics prepared on the basis of the Survey on Portuguese Investment Abroad.

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Table A.III.2.2.

Table A.III.	2.2.				
	ESTMENT OF PORTUGUESE-SPEAKING AFRICAN COUNTRIES By sector of activity, EUR millions	S AND TII	MOR-LES	TE IN	
		2010	0	201	1
		Inv. [Desinv.	Inv.	Desinv.
	Prof., scientific and tech. activ. and administrative and support service activ.	9.7	0.1	10.0	0.1
	Information and communication activities	0.0		0.1	0.0
	Real estate activities	8.8	0.0	11.6	0.2
	Agricultural, animal prod., hunting, forestry, fishing and mining and quarrying	2.9		0.7	
	Trade; repair of motor vehicles; transp. and storage; accomm., food service	1.0	0.2	2.7	1.2
Angola	Construction	0.9	1.8	10.7	0.1
	Manufacturing	0.1		0.0	0.2
	Monetary intermediation	6.9	0.1	30.7	
	Other activities	2.4	0.0	3.8	
	TOTAL	32.8	2.2	70.3	1.8
	Prof., scientific and tech. activ. and administrative and support service activ.	3.6		0.8	
	Information and communication activities			0.0	
	Real estate activities		0.0	3.1	
	Trade; repair of motor vehicles; transp. and storage; accomm., food service	0.0	0.0	0.0	0.0
Cape Verde	Construction	4.5	0.0	1.7	
	Monetary intermediation		0.0	0.4	0.0
	Other activities	0.2			
	TOTAL	8.4	0.1	6.0	0.0
	Trade; repair of motor vehicles; transp. and storage; accomm., food service	2.1			-
Cuina Dina	Construction			0.0	
Guinea-Bissau	Other activities	0.4			
	TOTAL	2.6	0.0	0.0	0.0
	Prof., scientific and tech. activ. and administrative and support service activ.		0.1	0.0	0.1
	Information and communication activities			0.2	0.1
	Real estate activities	1.3		0.2	
	Agricultural, animal prod., hunting, forestry, fishing and mining and quarrying		0.1		
	Trade; repair of motor vehicles; transp. and storage; accomm., food service			0.0	0.2
Mozambique	Construction			0.1	0.1
	Manufacturing	0.0	1.5	0.0	
	Monetary intermediation	0.2	0.4		1.0
	Other activities	0.0		0.3	
	TOTAL	1.5	2.0	0.8	1.4
	Agricultural, animal prod., hunting, forestry, fishing and mining and quarrying				
S. Tomé and	Monetary intermediation				0.0
Príncipe	Other activities				
	TOTAL	0.0	0.0	0.0	0.0
	Prof., scientific and tech. activ. and administrative and support service activ.	0.0		0.0	
	Monetary intermediation	5.0		2.2	
Timor-Leste	Other activities	0.0	0.0	0.0	
	TOTAL	0.0	0.0	2.2	0.0
	IOIAL	0.0	0.0	۷.۷	0.0

45.3

4.4

79.3

3.3

Source: Banco de Portugal. Statistics prepared on the basis of the Survey on Portuguese Investment Abroad.

Total Portuguese-speaking African countries and Timor-Leste

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III.3. DEBT OF PORTUGUESE-SPEAKING AFRICAN COUNTRIES TO PORTUGAL

As at 31 December 2011 the official debt of Portuguese-speaking countries to Portugal totalled USD 3,215 million, which corresponds to a 34% increase from the previous year. Official debt growth in this group of countries – which includes direct debt to the Portuguese State and debt guaranteed by it – reached USD 808 million in 2011, almost tripling from an already high increase in 2010.

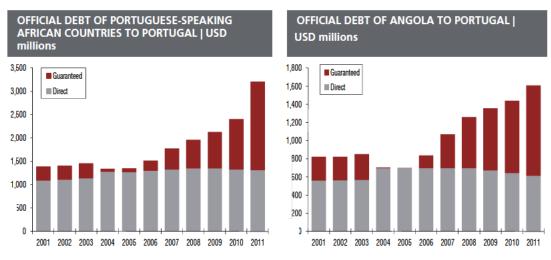
Quadro II.3.1.

OFFICIAL DEBT OF POI AFRICAN COUNTRIES T USD millions		NG
	31-12-2011	%
Angola	1,608	50.0
Mozambique	1,063	33.1
Cape Verde	355	11.0
Guinea-Bissau	125	3.9
S. Tomé and Príncipe	64	2.0
TOTAL	3,215	100.0

Sources: Ministry of Finance - GPEARI.

In 2011, similarly to that seen since 2005, the medium- to long-term State-guaranteed debt was behind developments in the official debt of this group of countries, growing by USD 824 million. As in the two previous years, direct debt to the State declined slightly in 2011, by USD 16 million.

Chart III.3.1. Chart III.3.2.



Source: Ministry of Finance - GPEARI.

Among the Portuguese-speaking African countries as a whole, Angola continues to be the main debtor to Portugal, with its official debt reaching USD 1,608 million at the end of 2011 (50% of the total), i.e. USD 168 million more than in the previous year. Over the past few years, this growth has been exclusively due to the Portuguese State-guaranteed debt, given that since 2009 and as established in the rescheduling agreement signed in 2004 with the Portuguese authorities, Angola has been repaying its outstanding direct debt.

In 2011 Mozambique saw the most substantial increase in the group under review, with its debt doubling from 2010, to a total of USD 1,063 million. This upward trend, which has been more marked

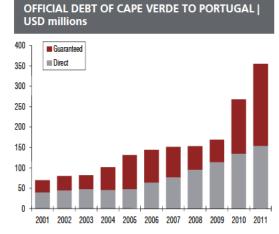
over the past few years, stems both from the use of concessional credit lines agreed with Portugal in 2008 and 2009 to fund infrastructural investment projects and the strong increase in the volume of State-guaranteed exports in 2011. Similarly to Angola, in 2011 Mozambican direct debt continued to follow a downward path, as established in the debt restructuring and gradual write-off agreement of July 2008, which is part of the HIPC (Heavily Indebted Poor Countries) Initiative.

Chart III.3.3.

OFFICIAL DEBT OF MOZAMBIQUE TO PORTUGAL | USD millions

1,200 | Guaranteed | Direct | Direct

Chart III.3.4.



Source: Ministry of Finance - GPEARI.

After rising continuously since 1998, Cape Verde's official debt to Portugal again increased markedly in 2011, reaching USD 355 million, which represents a 32% hike. As in the previous year, in 2011 this resulted from an increase in direct debt to the State, with new disbursements to fund road infrastructures, and guaranteed debt, with the use of credit lines for port infrastructures, renewable energy resources and environment and social housing.

Chart III.3.5.

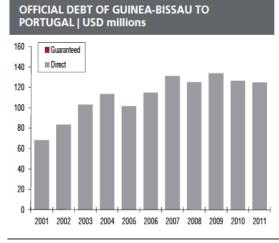
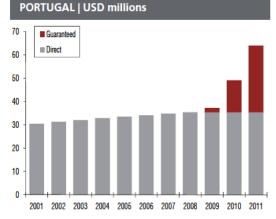


Chart III.3.6.



OFFICIAL DEBT OF S. TOMÉ AND PRÍNCIPE TO

Source: Ministry of Finance - GPEARI.

Similarly to previous years, in 2011 no disbursement or repayment was made on Guinea-Bissau's official debt to Portugal. Despite the accumulation of interest arrears, the USD 2 million decline recorded in 2011 was due to an appreciation of the US dollar vis-à-vis the euro, given that Guinea-Bissau's claims are denominated in euro.

In 2010 Guinea-Bissau had, in fact, reached the completion point under the HIPC Initiative and, at the same time, gained access to the Multilateral Debt Relief Initiative, which made it possible to cut by around USD 1.2 billion Guinea-Bissau's multilateral debt. Also in that context, in May 2011 the Paris Club agreed on the near total forgiveness of Guinea-Bissau's debt to its members. The authorities of Guinea-Bissau are now in the process of seeking similar debt relief from its remaining creditors.

As in 2010, São Tomé and Príncipe's debt to Portugal increased somewhat in 2011 (by USD 15 million), reflecting further disbursements under the concessional credit line signed in February 2009, mainly to fund road infrastructures and the electric power distribution network. Outstanding direct debt has remained stable since 2008, while the grace period laid down in the debt restructuring and gradual write-off agreement signed in July 2008 under the HIPC Initiative still applies.



Table A.III.3.1.

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OFFICIAL DE	BT OF	PORTUG	JESE-SPEA	KING AFF	RICAN COL	JNTRIES TO F	PORTU	GAL USD	millions	
		Direct de	bt to the	State (1)		m and long-t aranteed de		Offic	ial debt (1))+(2)
		Due	In arrears	Total	Due	In arrears	Total	Due	In arrears	Total
	2007	698		698	375		375	1,073		1,073
	2008	698		698	562		562	1,260		1,260
Angola	2009	670		670	686		686	1,356		1,356
	2010	642		642	799		799	1,441		1,441
	2011	614		614	994		994	1,608		1,608
	2007	77		77	75		75	152		152
	2008	95		95	58		58	153		153
Cape Verde	2009	114		114	55		55	169		169
	2010	134		134	133		133	268		268
	2011	154		154	202		202	355		355
	2007	85	46	131				85	46	131
	2008	77	48	125				77	48	125
Guinea-Bissau	2009	81	53	134				81	53	134
	2010	74	53	126				74	53	126
	2011	70	55	125				70	55	125
	2007	386		386				386		386
	2008	393		393	0		0	393		393
Mozambique	2009	391		391	45		45	436		436
	2010	388		388	135		135	523		523
-	2011	383		383	680		680	1,063		1,063
	2007	23	12	35				23	12	35
S. Tomé and	2008	35		35				35		35
Príncipe	2009	35		35	2		2	37		37
,	2010	35		35	14		14	49		49
	2011	35		35	29		29	64		64
Total of	2007	1,269	58	1,327	450		450	1,718	58	1,776
Portuguese-	2008	1,299	48	1,346	620		620	1,919	48	1,967
speaking	2009	1,291	53	1,344	788		788	2,079	53	2,132
African countries	2010	1,273	53	1,326	1,081		1,081	2,354	53	2,407
Countries	2011	1,256	55	1,310	1,905		1,905	3,161	55	3,215

Sources: Ministry of Finance - GPEARI.

