COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 1.7.2009
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COMMISSION RECOMMENDATION

of 1.7.2009

concerning the conclusion of an Agreement on economic cooperation between the Republic of Portugal and the Democratic Republic of Sao Tome and Principe to help foster macroeconomic and financial stability of Sao Tome and Principe

COMMISSION RECOMMENDATION

EXPLANATORY MEMORANDUM

1. The Portuguese authorities were approached by the authorities of Sao Tome and Principe with a view to opening negotiations on an agreement to help foster the macroeconomic and financial stability of Sao Tome and Principe. Portugal has indicated that it has a specific interest in concluding the Agreement on account of its economic, cultural, historical, social and political ties with Sao Tome and Principe.

2. Without prejudice to the competence of Member States that have not adopted the euro, the Community has exclusive competence since the launch of the euro for the negotiation and conclusion of agreements concerning monetary or foreign exchange matters. The compatibility with the Treaty of draft agreements presenting elements of possible relevance for exchange rate issues should therefore be carefully examined.

3. The Agreement between Portugal and Sao Tome and Principe would provide for a limited credit facility (up to €25 million) from the Portuguese Treasury, which Sao Tome and Principe may use to strengthen its foreign-currency reserves if macroeconomic and financial stability developments so suggest. Each disbursement from the credit facility would be limited to 2 million euro and would be subject to conditionality.

4. Upon signature of the Agreement, Portugal and Sao Tome and Principe would have sole responsibility for its implementation. The Agreement would not imply any obligation for the ECB or any national central bank.

5. Sao Tome and Principe would commit itself to conducting sound economic policies designed to maintain its macroeconomic and financial stability and setting up the institutional framework needed for rigorous management of the credit facility.

6. Given the very small size of the Sao Tome and Principe economy (the country ranks among the world's least developed countries, and, in 2007, its GDP per capita was 912 USD) and the mechanisms provided for in the draft, the Agreement envisaged will not have any material effect on the monetary and exchange rate policy of the euro area and will not present any obstacle to the smooth functioning of the Economic and Monetary Union.

7. The Agreement could be validly concluded by Portugal. It should be recommended to Portugal to keep the Commission, the ECB and the EFC regularly informed of implementation of the Agreement and to submit in advance any plan to amend it.

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THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community, and in particular the second indent of Article 211 thereof,

Whereas:

(1) Under Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro[1], the euro replaced as from 1 January 1999 the currency of each euro area Member State at the conversion rate.

(2) Since the introduction of the euro, the Community has exclusive competence for monetary and exchange rate matters in euro-area Member States.

(3) Without prejudice to Community competence and Community agreements as regards economic and monetary union, Member States may negotiate in international bodies and conclude international agreements, while taking full account of the Community interest.

(4) Draft agreements negotiated directly by euro-area Member States with third countries that present elements of possible relevance for exchange rate issues should therefore be examined.

(5) To support the macroeconomic and financial stability of Sao Tome and Principe, the Portuguese authorities wish to conclude an agreement with Sao Tome and Principe ('the Agreement') and to create a special credit facility to enable Sao Tome and Principe to strengthen its foreign exchange reserves.

(6) The Portuguese authorities have given assurances that this Agreement has no substantial financial implications for Portugal, and Sao Tome and Principe has committed itself to conducting sound economic policies designed to maintain its macroeconomic and financial stability and to setting up the institutional framework needed for rigorous management of the credit facility.

(7) The Republic of Portugal and the Democratic Republic of Sao Tome and Principe have sole responsibility for the implementation of this Agreement.

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[1] OJ L 139, 11. 5. 1998, p. 1.

(8) This Agreement will not have any material effect on the monetary and exchange rate policy of the euro area; in its present form this Agreement is unlikely to present any obstacle to the smooth functioning of Economic and Monetary Union; in particular, nothing in this Agreement can be construed as implying any financial or other obligation for the European Central Bank (ECB) or any national central bank.

(9) Amendments to this Agreement should not lead to any obligation for the ECB or any national central bank.

(10) The Community should be kept informed on a regular basis of the implementation of the Agreement.

(11) The competent Community bodies should also be informed before any changes are made to the nature or scope of this Agreement.

(12) Conclusion of the Agreement by Portugal is without prejudice to the competence of the Community as defined in the Treaty.

HEREBY RECOMMENDS:

1. The Commission, the European Central Bank and the Economic and Financial Committee should be kept informed on an annual basis of the implementation of the economic cooperation agreement to be concluded between the Republic of Portugal and the Democratic Republic of Sao Tome and Principe to help foster the macroeconomic and financial stability of Sao Tome and Principe and of the use made of the credit facility provided for in this Agreement.

2. The Commission, the European Central Bank and the Economic and Financial Committee should be informed in advance of any plan to amend this Agreement.

3. This recommendation is addressed to the Republic of Portugal.

Done at Brussels, 1.7.2009.

For the Commission
J. ALMUNIA
Member of the Commission