

SÃO TOMÉ AND PRÍNCIPE

Key conditions and challenges

STP is a small, remote, island economy heavily exposed to external shocks and constrained by a weak private sector and low human capital. Growth opportunities are further limited by underdeveloped infrastructure, especially unreliable and expensive electricity. STP is highly dependent on overseas development aid (ODA) and has pursued a “public expenditures-led” growth model. This growth model is unsustainable due to declining external financing and low domestic revenue mobilization.

STP’s fast-growing population is young and lacks employment opportunities, relying on informal and subsistence activities. Poverty remains high, with about 15.3 percent of the population living on less than US\$ 2.15/day (in 2017 PPP terms) in 2022 while another 29 percent of the population lives on less than US\$ 3.65/day (the poverty line for lower middle-income countries). To reduce the poverty impact of the pandemic, the Vulnerable Families Program, introduced in 2019, was complemented with the COVID-19 response cash transfer program to provide support to 16,000 families. Despite a stronger tourism’s recovery, the ongoing energy crisis, destructive flooding in late 2021 and May 2022, and lower-than-expected externally financed public investments continue to take a toll on STP’s economy in 2022. STP remains highly vulnerable to climate change and risks stemming

from its fragile energy sector that needs urgent investment and governance reforms. Reducing reliance on ODA and building the private sector’s ability to generate jobs are essential for sustainable and inclusive poverty reduction. Its natural wealth, including extensive marine zone, and growing human capital present important opportunities if barriers to business can be reduced.

Recent developments

Real GDP growth is estimated to decline from 1.8 percent in 2021 to 1.1 percent in 2022 owing to persistent energy shortages, lower external financing for public investments, notwithstanding a strong recovery of tourism. The current account deficit (CAD), excluding grants, is projected to worsen to 23.6 percent of GDP due to higher fuel and other import prices and lower global demand for commodities. However, tourism’s recovery is being led by the resumption of international travel, additional air connectivity to STP, and progress on COVID-19 vaccination (46.4 percent of the population fully vaccinated). The number of annual tourist arrivals reached 14,160 by July-2022 compared to 15,101 in all of 2021. Lower external financing, higher import bill, and unexpected flood-related spending reduced net international reserves to about US\$ 16.3 million in end-March 2022, covering less than two months of imports. Overall fiscal revenue performance will be undermined by lower levels of domestic revenue mobilization as economic activity slows down, and delays in external grants

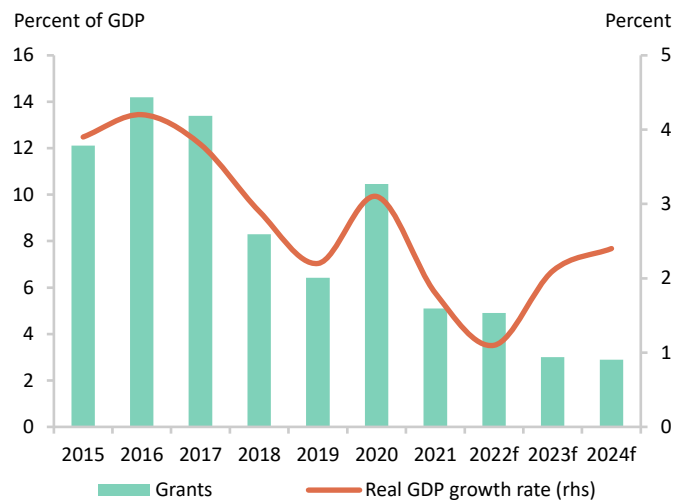
Table 1 2021

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|--|--------|
| Population, million | 0.2 |
| GDP, current US\$ billion | 0.5 |
| GDP per capita, current US\$ | 2361.7 |
| International poverty rate (\$2.15) ^a | 15.6 |
| Lower middle-income poverty rate (\$3.65) ^a | 44.8 |
| Upper middle-income poverty rate (\$6.85) ^a | 79.7 |
| Gini index ^a | 40.7 |
| School enrollment, primary (% gross) ^b | 106.8 |
| Life expectancy at birth, years ^b | 70.6 |
| Total GHG emissions (mtCO2e) | 0.4 |

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2017 PPPs.
b/ WDI for School enrollment (2017); Life expectancy (2020).

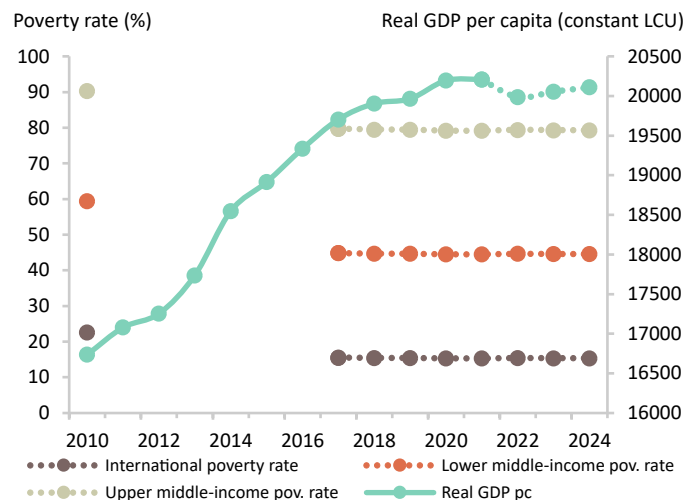
São Tomé and Príncipe (STP) ’s economy is suffering with the surge in commodity prices associated with the war in Ukraine, which worsened terms of trade despite better tourism prospects. Persistent electricity outages further weaken growth prospects. Inflation picked in end-June as fuel and food prices increased due to global supply bottlenecks. Expanded social protection has kept poverty stable. Geopolitical factors and delays in the implementation of structural reforms pose risks to the outlook.

FIGURE 1 São Tomé and Príncipe / Real GDP growth and Grants



Sources: Ministry of Finance, IMF, World Bank MTI.

FIGURE 2 São Tomé and Príncipe / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

disbursements. Expenditures are expected to increase driven by higher cost of goods and services and adjustment in civil service wages in June, which represent around half of the total current primary spending. The domestic primary deficit (excluding oil) is projected to increase slightly from 4.5 percent in 2021 to 4.6 percent of GDP in 2022, while public sector gross debt will increase from 91.6 percent to 93.4 percent of GDP.

Inflation has surged to 16.7 percent in June 2022 from 9.5 percent in end-2021, reflecting higher global prices of imports, higher local food prices exacerbated by more expensive inputs, and the fuel price adjustments of April. Given its currency peg, the real exchange rate has appreciated, undermining competitiveness. To help in curbing inflation, the central bank raised the base interest rate from 9 percent to 10 percent in June, tightening excess liquidity.

Despite high inflation, slow recovery, and population growth outpacing economic growth, growth in agriculture, a key sector of employment, and the extension of pandemic cash transfers through the end of 2022 have propped up household incomes sufficiently to avoid increases in poverty.

Outlook

Real GDP growth is projected at 2.1 percent in 2023 supported by higher externally funded infrastructure development projects and a more robust recovery of tourism. Since growth will barely outpace projected population growth of 1.9 percent, poverty is expected to fall only marginally, reaching 15.0 percent by 2024. The CAD is projected to improve to around 20.9 percent of GDP in 2023 as tourism receipts and demand for high-value commodities gradually increase and fuel imports should gradually decline as the energy sector becomes more efficient.

The improvement in domestic resource mobilization through the introduction of VAT coupled with planned energy reforms is expected to improve the government's fiscal position, contributing to narrowing the domestic primary deficit to about 3.1 percent of GDP in 2023.

At the same time, since the COVID-19 expansion of cash transfers will end in December 2022 (reducing the number

of beneficiary families from 16,000 to 4,500), it will be important to use the country's growing social protection system strategically to mitigate the poverty impact of higher consumer prices due to these reforms.

The central bank is expected to support the peg, as external financing improves and the inflation differential to the euro area moderates. Reforms in the energy sector continue to be critical to address unsettled external arrears.

The outlook is subject to substantial risks. Delays in the implementation of much needed reforms (the introduction of VAT and energy sector reforms) could narrow the fiscal space for social and infrastructure spending. Furthermore, the legislative elections on 25 September further contribute to delays in the reform agenda due to political uncertainty. Climate-related events could undermine the agricultural and fisheries sectors, and delays in externally funded projects could subdue industrial activity and strain the economy. Risks to the reform agenda are partially mitigated by the support of the multilateral development partners.

TABLE 2 São Tomé and Príncipe / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

| | 2019 | 2020 | 2021 | 2022e | 2023f | 2024f |
|--|-------|-------|-------|-------|-------|-------|
| Real GDP growth, at constant market prices | 2.2 | 3.1 | 1.8 | 1.1 | 2.1 | 2.4 |
| Real GDP growth, at constant factor prices | 2.5 | 2.3 | 1.5 | 1.1 | 2.1 | 2.4 |
| Agriculture | 1.0 | -1.1 | -1.0 | 1.0 | 1.5 | 2.0 |
| Industry | 0.7 | 4.4 | -1.5 | -1.2 | -0.5 | 1.3 |
| Services | 3.2 | 2.2 | 2.5 | 1.7 | 2.7 | 2.7 |
| Inflation (Consumer Price Index) | 7.7 | 9.4 | 9.5 | 17.2 | 10.7 | 9.3 |
| Current Account Balance (% of GDP) | -19.9 | -11.4 | -17.1 | -20.3 | -18.9 | -17.5 |
| Fiscal Balance (% of GDP) | -2.6 | -4.9 | -5.9 | -6.2 | -4.9 | -4.0 |
| Debt (% of GDP) | 99.9 | 87.6 | 91.7 | 94.2 | 92.6 | 88.5 |
| Primary Balance (% of GDP) | -2.0 | -4.6 | -5.7 | -5.7 | -4.5 | -3.6 |
| International poverty rate (\$2.15 in 2017 PPP)^{a,b} | 15.4 | 15.3 | 15.3 | 15.4 | 15.4 | 15.3 |
| Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b} | 44.7 | 44.5 | 44.5 | 44.7 | 44.6 | 44.6 |
| Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b} | 79.4 | 79.2 | 79.1 | 79.4 | 79.3 | 79.3 |
| GHG emissions growth (mtCO₂e) | 2.3 | 1.2 | 0.9 | 1.3 | 1.4 | 1.6 |
| Energy related GHG emissions (% of total) | 36.6 | 37.0 | 37.1 | 37.5 | 38.0 | 38.6 |

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.

a/ Projection using point to point elasticity at regional level with pass-through = 0.87 based on GDP per capita in constant LCU. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.

b/ Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.