SÃO TOMÉ AND PRÍNCIPE

Table 1

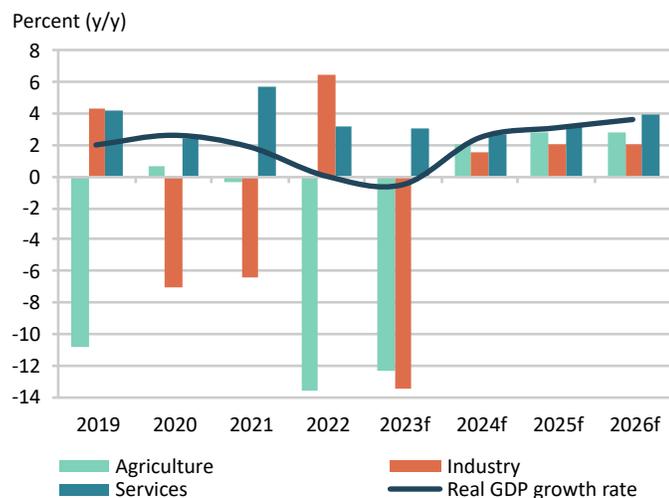|	2023
Population, million	0.2
GDP, current US$ billion	0.6
GDP per capita, current US$	2651.6
International poverty rate ($2.15)[a]	15.7
Lower middle-income poverty rate ($3.65)[a]	45.0
Upper middle-income poverty rate ($6.85)[a]	79.7
Gini index[a]	40.7
School enrollment, primary (% gross)[b]	109.6
Life expectancy at birth, years[b]	67.6
Total GHG emissions (mtCO2e)	0.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2017 PPPs.
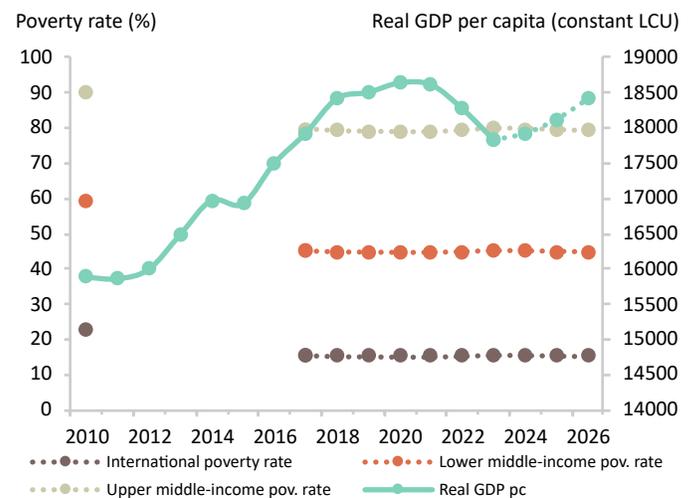b/ Most recent WDI value (2021).

Crisis in the electricity sector and uncertainty in external concessional financing pushed the economy into recession. GDP is estimated to have contracted by 0.5 percent. Poverty rate is estimated at 15.8 percent. GDP growth is projected to recover in the medium term, supported by tourism, agriculture, infrastructure, and renewed external financing. Risks result from delays in concluding IMF program discussions, slow energy reforms, weather-related shocks, and global geopolitical tensions.

Key conditions and challenges

São Tomé and Príncipe (STP) is a remote and small island nation with untapped natural wealth. STP is home to pristine rainforests, a rich and unique biodiversity, and a humid tropical climate with abundant rainfall. Given its vast natural wealth, agriculture, fisheries, and tourism have significant potential to accelerate growth in STP. However, STP's economic and social development has been constrained by its small productive base, weak private sector, institutional fragility, and high vulnerability to climate shocks, coupled with underdeveloped infrastructure, such as an unreliable power sector and limited connectivity.

In the past, growth in STP was supported by large inflows of external concessional financing and grants, which have fueled a public investment-led growth model. However, this growth model has become unsustainable due to the structural decline and volatility of grants. As a result, growth has slowed in recent years, further undermined by recurrent energy crises, climate shocks, and surging commodity prices due to escalating global geopolitical tensions.

Consequently, slow growth has hindered progress in poverty reduction by restricting job opportunities and exacerbating the vulnerability of the poorest. Moreover, excessive reliance on external concessional financing, low domestic revenue mobilization, and high expenditure rigidity limited spending on human capital. Thus, with limited access to basic services and social protection, the poorest bear the brunt of economic and climate shocks, facing increased difficulty in meeting their daily needs given the rising living costs.

Nonetheless, the new government has committed to implementing the needed structural reforms to restore macroeconomic stability and promote growth, particularly energy reforms. Fiscal reforms have been initiated, including the introduction of the value-added tax (VAT). The reform agenda is expected to be backed by a forthcoming IMF program, which should also help mobilize further concessional financing.

Recent developments

Real GDP is estimated to have contracted by 0.5 percent in 2023 due to the aggravated energy crisis and fuel shortage that halted economic activity for two weeks, and delays in external financing disbursements, partly explained by the longer-than-expected discussions on the upcoming IMF program. However, the recession was mitigated by a strong recovery in tourism: tourist arrivals peaked at 35,817 in 2023, above pre-pandemic levels.

The current account deficit is estimated to have remained around 15.4 percent of GDP in 2023, due to a due to higher imports bill and wider trade deficit.

Inflationary pressures eased despite the introduction of VAT, as the Central Bank

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FIGURE 1 **São Tomé and Príncipe** / Real GDP growth and contributions to real GDP growth

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

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

Source: World Bank. Notes: see Table 2.

of STP (BCSTP) tightened liquidity conditions and issued certificates of deposit in May 2023, coupled with higher interest rates on T-bills, and subdued domestic demand. Inflation declined from 25.2 percent in 2022 to 21.2 percent in 2023, and the monetary base (M0) contracted by 11.6 percent. However, delays in external financing disbursements and high fuel-related import demand depleted net international reserves, threatening the currency's peg to the euro. The BCSTP responded by entering into a non-concessional foreign exchange swap agreement for about US$30 million with Afreximbank to boost reserves, of which US$12 million was disbursed. Although further disbursement of grants supported net international reserves, the latter remain below one month of imports. The fiscal balance remained in deficit, estimated at -3.6 percent of GDP in 2023 primarily due to reduced grant disbursements, despite the introduction of the VAT in June 2023 to support revenue mobilization.

As a result of these adverse macro-fiscal conditions, the livelihoods of the poorest deteriorated. The share of people that were living on less than US$2.15 per day (in 2017 PPP terms) is estimated to have slightly increased to 15.8 percent in 2023, from 15.6 percent in the previous year.

Outlook

Real GDP growth is expected to recover to 2.5 percent in 2024 and then 3.6 percent in 2026. Growth over the medium term is supported by a stronger agricultural sector, including palm oil and cocoa exports, continued tourism rebound, foreign investments, including for increased electricity capacity and renewable energy projects, and resumption of externally funded infrastructure projects, such as the rehabilitation of the Marginal Road.

The current account deficit is projected to improve from 15.4 percent in 2023 to 12.6 percent in 2024 and 10.8 percent in 2026 as the trade deficit narrows with the drop in the cost of commodities (fuel and food), tourism continues to recover, and fiscal consolidation weighs on the twin deficit of fiscal and external balances.

A tight monetary policy stance and lower global commodity prices are expected to reduce inflation to 12.1 percent in 2024. The resumption of externally financing disbursements, an expected IMF-supported fiscal consolidation, and the full impact of VAT implementation would improve STP's fiscal position in 2024. These measures are projected to contribute to an improvement in the domestic primary balance deficit from -2.7 percent in 2023 to 1.4 percent of GDP in 2024 and 1.6 percent of GDP in 2026.

Risks to the outlook come from delays in the new IMF program discussion, and relatedly delayed external financing disbursements, slow implementation of energy reforms, and weather-related events. Adverse developments in global commodity prices due to geopolitical tensions are also a risk factor. In addition, the outlook for poverty alleviation in STP remains uncertain and the share of people living in extreme poverty is projected to stagnate in the short term, with a slight decline in the medium-term. While economic recovery is projected in 2024, the benefits may not reach the most vulnerable without concerted efforts.

TABLE 2 São Tomé and Príncipe / Macro poverty outlook indicators   (annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	1.9	0.1	-0.5	2.5	3.1	3.6
Real GDP growth, at constant factor prices	3.1	2.5	-0.5	2.5	3.1	3.6
Agriculture	-0.3	-13.6	-12.4	2.0	2.8	2.8
Industry	-6.4	6.4	-13.5	1.5	2.0	2.0
Services	5.6	3.1	3.1	2.7	3.3	3.9
Inflation (consumer price index)	9.5	25.2	21.2	12.1	7.4	7.0
Current account balance (% of GDP)	-19.2	-14.6	-14.1	-10.9	-9.6	-8.5
Net foreign direct investment inflow (% of GDP)	3.5	23.3	3.5	5.0	5.7	7.0
Fiscal balance (% of GDP)	-3.9	-4.5	-3.3	-0.1	0.2	0.6
Revenues (% of GDP)	19.8	25.4	23.5	21.6	21.6	21.3
Debt (% of GDP)	77.8	68.5	57.5	52.7	47.7	41.3
Primary balance (% of GDP)	-3.7	-4.0	-2.4	1.3	1.0	1.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	15.4	15.6	15.8	15.7	15.6	15.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	44.6	44.8	45.1	45.0	44.9	44.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	79.0	79.3	79.8	79.7	79.5	79.2
GHG emissions growth (mtCO2e)	1.2	0.6	0.4	0.9	1.4	1.7
Energy related GHG emissions (% of total)	35.7	35.6	35.8	36.3	36.9	37.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Projection using point to point elasticity at regional level with pass-through = 0.7 based on GDP per capita in constant LCU.
b/ Actual data: 2017. Nowcast: 2018-2023. Forecasts are from 2024 to 2026.