SÃO TOMÉ AND PRÍNCIPE

Table 1	2020
Population, million	0.2
GDP, current US$ billion	0.5
GDP per capita, current US$	2159.4
International poverty rate ($1.9)[a]	35.6
Lower middle-income poverty rate ($3.2)[a]	65.4
Upper middle-income poverty rate ($5.5)[a]	86.4
Gini index[a]	56.3
School enrollment, primary (% gross)[b]	106.8
Life expectancy at birth, years[b]	70.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011PPPs.
(b) WDI for school enrollment (2017); life expectancy (2018).

São Tomé and Príncipe (STP)´s economy has offset recessionary effects of the COVID -19 pandemic through exceptional international support. Public expenditures boosted growth to 3.1 percent but poverty is estimated to have hardly changed in 2020. Maintaining such levels of public spending will be a challenge in 2021 and growth will need to come from the expansion of commercial agriculture and tourism. STP needs to implement structural reforms to address macro-fiscal vulnerabilities and promote greater private sector development.

Key conditions and challenges

STP is a small island country constrained by remoteness, weak private sector, and low human capital. Growth in STP has long been driven by public expenditures, especially grant- and debt-financed public investment. Such public expenditure-driven growth is no longer sustainable due to the structural decline of grants and concessional external financing in recent years, combined with historically-low domestic revenue mobilization. Persistent fiscal and current account deficits have led to debt accumulation that put the country in debt distress and present an ongoing challenge to the fixed exchange rate. Key reforms, especially on energy and taxation, are critical to maintain stability and create conditions for private sector growth. Most Sao Tomeans work in low-productivity and subsistence self-employment and extreme poverty remains high, with about one-third of the population living on less than $1.90 per day (in 2011 PPP terms). Malnutrition and deprivations in essential goods and services are prevalent and reduce human capital and productivity growth.

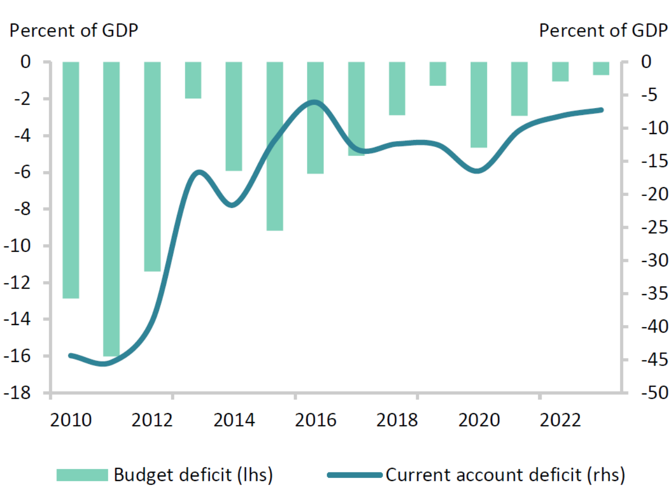
The near-halt in international tourism, a growing industry accounting directly for 2.4 percent of GDP and about 5 percent of employment, and public health measures implemented to curb the spread of disease were the main channels through which the pandemic affected STP's economy. In July 2020, most workers reported lower earnings due to business closures, reduced demand, and reduced business hours. The ongoing economic and health crisis along with presidential elections expected in 2021, could cause delays to reforms. Additional risks stem from the fragile energy sector that needs urgent investment and governance reforms. Risks to the reform agenda are partially mitigated by the support of the multilateral development partners.

Recent developments

Despite the pandemic-related freeze in tourism and the curfew, the government estimates real GDP growth at 3.1 percent in 2020, driven by the expansion of the industrial and services sectors underpinned by a 36.5 percent increase in government primary spending, much of which on salaries, goods and services, and public investment. This included a four-fold increase in support to vulnerable households. Industrial activity expanded by 4.4 percent boosted by construction, which benefited from an increase of externally-financed public investments. A palm oil mill began production in end-2019, contributing to industrial growth. The services sector grew 2.2 percent sustained by public administration. Consequently, poverty is expected to have remained stable.

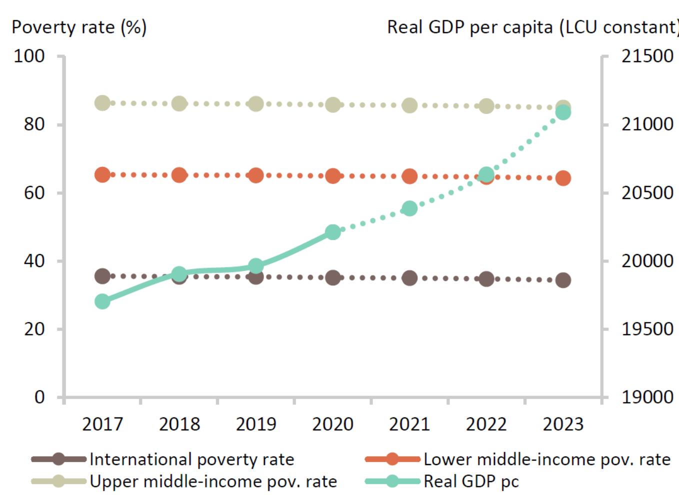
The current account deficit widened from an estimated 12.5 percent of GDP in 2019 to 16.5 percent of GDP in 2020. The trade

FIGURE 1 São Tomé and Príncipe / Twin current account and primary fiscal deficits



Sources: Government authorities, IMF and World Bank staff estimates and projections.

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



Source: World Bank. Notes: see Table 2.

deficit has improved from 26.5 to 21.7 percent of GDP, explained by increased goods exports (e.g. palm-oil), while imports declined mostly due to lower costs of oil products. Net international reserves increased to US$37 million in end-2020 from US$32 million at end-2019, bolstered by emergency lending.

Reflecting the public spending increase and supply constraints, inflation stood at 9.4 percent in 2020. Also, the tight monetary policy stance was relaxed to provide emergency liquidity support to the banking sector, which increased money supply (M2) by 9.4 percent YoY in November 2020.

The pandemic response has widened the budget deficit. Despite the higher domestic revenues, the additional public expenditures to address the pandemic contributed to an estimated primary deficit of 5.5 percent of GDP in 2020, which was financed mostly by grants. Public debt decreased to 90.7 percent of GDP, and STP remains in debt distress due to unsettled long-standing external arrears although debt is deemed sustainable under programmed policies.

Outlook

Growth is expected to moderate to 2.7 percent in 2021 as the public spending impulse wanes. Agricultural activity is expected to expand due to higher palm oil and cocoa production, while increased public investment and implementation of externally financed projects are expected to support industrial activity. The services sector will benefit from fewer mobility restrictions, which will contribute to increased trade and tourism activity. However, this is conditional on the COVID-19 outbreak being controlled and progress in vaccination.

With a recovery of the tourism sector and gains in palm oil exports, the current account deficit (excluding grants) should decline to below 15.0 percent of GDP in 2021–22. The trade balance is projected to improve, despite higher oil prices. FDI, oil-related and other, is expected to increase as global oil prices recover and the government implements structural reforms to attract private investors.

Inflation is projected to moderate to 9.0 percent in 2021 as the lifting of the pandemic-related disruptions relieves inflationary pressures. Additionally, fiscal consolidation and tighter monetary policy are expected to reduce inflation in the medium-term, although the planned introduction of VAT in 2021 may create additional inflationary pressures. To mitigate the impact on poverty, coverage of the transfer program will increase to 15,000 households.

The fiscal balance is expected to improve in the medium-term as the government resumes fiscal consolidation, improves tax collection, and adopts measures to reduce losses in the electricity sector. These should contribute to a gradual decline in public debt. Additionally, the authorities have committed to borrow externally only on concessional terms under the IMF program.

The reintroduction of travel restrictions, and slow progress in vaccination could delay the recovery of tourism in STP. In addition, a weak global recovery could undermine the agricultural sector due to lower exports, while delays in externally-financed projects can subdue industrial activity. Under such a downside scenario, real GDP could contract by around 4.8 percent.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.9	2.2	3.1	2.7	3.5	4.0
Real GDP growth, at constant factor prices	2.1	2.5	2.3	2.7	3.5	4.0
Agriculture	-3.3	1.0	-1.1	1.7	2.0	2.8
Industry	0.8	0.7	4.4	3.0	3.3	3.5
Services	3.1	3.2	2.2	2.7	3.7	4.2
Inflation (Consumer Price Index)	7.9	7.8	9.9	9.3	7.8	6.1
Current Account Balance (% of GDP)	-12.4	-12.5	-16.5	-10.3	-8.2	-7.3
Fiscal Balance (% of GDP)	-2.9	-1.3	-4.7	-2.9	-1.1	-0.7
Debt (% of GDP)	96.2	97.7	90.7	89.4	86.3	81.9
Primary Balance (% of GDP)	-2.5	-0.6	-4.3	-2.5	-0.7	-0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	35.5	35.4	35.2	35.0	34.8	34.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	65.2	65.2	65.0	64.8	64.7	64.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	86.2	86.1	85.8	85.7	85.4	85.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2017-IOF. Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021 to 2023.

(b) Projection using point to point elasticity at regional level with pass-through = 0.7 based on GDP per capita in constant LCU.