SÃO TOMÉ AND PRÍNCIPE

Table 1	2019
Population, million	0.2
GDP, current US$ billion	0.4
GDP per capita, current US$	1995.7
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), 2011 PPPs.
(b) WDI for School enrollment (2017); Life expectancy (2018)

The COVID-19 pandemic has deteriorated São Tomé and Príncipe (STP)'s already-fragile economy. Tourism, one of the main economic activities, has come to a standstill, pushing the country into a deep economic recession. A recovery in 2021 is conditional on a recovery in international travel and expansion of commercial agriculture. Extreme poverty is projected at 39.5 percent in 2020. To promote a sustainable economic recovery, STP needs to implement structural reforms to address macro-fiscal vulnerabilities and develop a competitive private sector.

Key conditions and challenges

Growth in STP has long been driven by an unsustainable reliance on public expenditures, especially grant- and debt-financed public investment. The country's remoteness, lack of competitive exports and low human capital hold back growth.

Its persistent fiscal and current account deficits have led to debt accumulation and present an ongoing threat to the fixed exchange rate regime. Key reforms, including on energy and taxation are critical to maintain stability and create conditions for a private sector-led growth model.

The COVID-19 pandemic hit STP's economy primarily through a near-halt in tourism, which is a large and promising industry in STP (accounting for about 10 percent of GDP, although less than 5 percent of employment). A prolonged COVID-19 outbreak in STP or tourism origin countries could delay the recovery in international travel – and STP's economy. Additional risks stem from the fragile energy sector that needs urgent investment and governance reforms. The ongoing economic and health crisis along with presidential elections expected in 2021, could cause delays to reforms. Risks to the reform agenda are partially mitigated by the IMF program and support from other development partners.

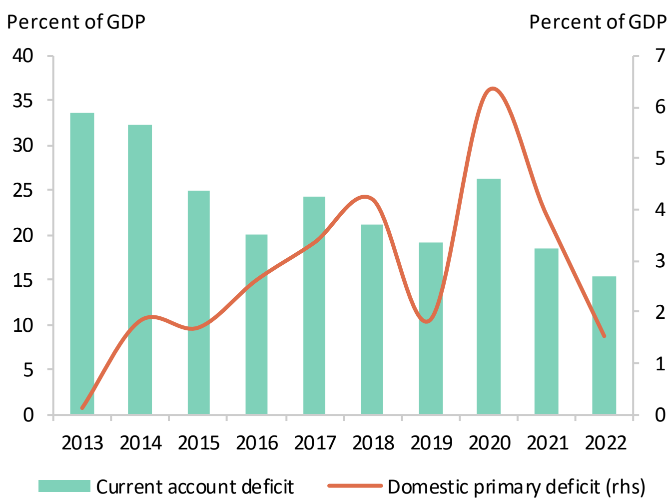
Recent developments

The COVID-19 pandemic has pushed STP into its first recession since 1992. Real GDP is estimated to contract by 6.5 percent in 2020, with the contraction concentrated in services. Industrial output is also expected to contract due to lower public investment and delays in externally financed projects. Supply-chain disruptions are also likely to depress agricultural activity. The pandemic-related uncertainty has also constrained foreign direct investment (FDI). Reduced external and domestic demand, along with scarcity of imported inputs are weighing on the agricultural sector.

The crisis has widened STP's current account deficit. In the first quarter of 2020, a new palm-oil producer started to export, increasing the share of palm-oil exports to almost 46 percent of total goods exports. However, goods exports fell by 5 percent YoY in April 2020 as global conditions deteriorated. Tourist arrivals were initially strong in 2020 but stopped abruptly in early-March and had not yet resumed by early September. Net international reserves increased to US$39 million in May 2020 (equivalent to 3.7 months of imports) from US$32 million at end-2019, bolstered by emergency lending, including from the IMF.

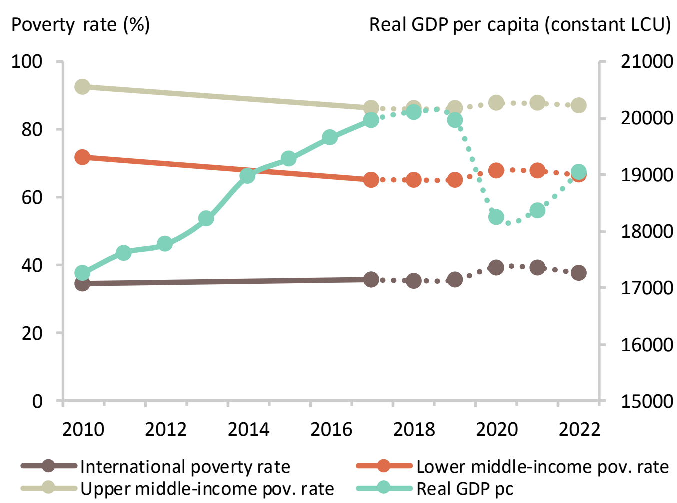
Pandemic restrictions have triggered inflationary pressures, with prices rising 10.1 percent YoY in June 2020 driven by higher food prices. The tight monetary policy stance that had reduced inflation

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.

to 7.7 percent in 2019 was relaxed to provide emergency liquidity support to the banking sector.

Finally, the pandemic response has widened the budget deficit, reversing the effects of strong fiscal consolidation measures in 2019. Lower domestic revenues and additional health and social protection expenditures to address the pandemic have increased the primary deficit, which is estimated to reach 6.3 percent of GDP in 2020 and push public debt to 105.2 percent of GDP. STP remains in debt distress due to long-standing external arrears under negotiations but remaining debt is deemed sustainable under programmed policies.

Outlook

A partial economic recovery is expected in 2021, with real output reaching its pre-crisis level in 2022. However, this is conditional on the COVID-19 outbreak being controlled and tourists' being willing to return. Agricultural activity is expected to expand due to the recovery of global commodity prices, while higher public investment and implementation of externally financed projects are expected to boost industrial activity.

With a recovery of the tourism sector, the current account deficit (excluding grants) should return to pre-crisis levels of around 17.0 percent of GDP in 2021–22. The trade balance is projected to improve, driven by higher palm oil exports and a slow recovery of imports. 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 decline to 8.0 percent by the end of 2020 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. But the planned introduction of VAT in 2021 may create additional inflationary pressures.

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

Weaker employment opportunities arising from the pandemic and higher food inflation are expected to increase food insecurity and extreme poverty. The share of São Toméans living in extreme poverty ($1.90 per day in 2011 PPP) is expected to increase to 39.5 percent in 2020, from an estimated 35.6 percent in 2019, and gradually decrease to 37.6 percent in 2022. The COVID-19 has revealed the value of STP early investment in a social safety net (SSN) system. The Government quickly adapted its social protection programs to provide timely support. Two support packages were deployed. First, the Government quickly provided immediate support through the delivery of advanced payments to existing SSN beneficiaries for the equivalent of 4 months. Second, a nine -month temporary cash transfer program for 20,000 families has been approved, is under preparation and it is expected to start in 2021.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.8	2.9	1.3	-6.5	3.0	5.5
Real GDP growth, at constant factor prices	4.0	2.1	1.8	-6.5	3.0	5.5
Agriculture	1.6	-3.3	-0.9	-2.1	2.8	3.0
Industry	3.0	0.8	-0.3	-3.2	3.2	2.8
Services	4.6	3.1	2.7	-7.8	3.0	6.5
Inflation (Consumer Price Index)	5.7	7.9	7.8	7.9	8.0	5.9
Current Account Balance (% of GDP)	-13.2	-12.4	-12.4	-17.0	-11.9	-9.3
Fiscal Balance (% of GDP)	-5.1	-2.9	-1.3	-4.6	-3.7	-1.5
Debt (% of GDP)	84.3	96.2	97.7	105.2	105.1	100.3
Primary Balance (% of GDP)	-4.6	-2.5	-0.6	-3.8	-3.2	-1.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	35.6	35.5	35.6	39.5	39.2	37.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	65.4	65.2	65.4	68.0	67.9	66.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	86.4	86.2	86.4	87.8	87.8	87.2

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: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU.