



United Nations  
**CDP**  
Committee for  
Development Policy

CDP2021/PLEN/5B.iii

# Committee for Development Policy 23<sup>rd</sup> Plenary Session

United Nations  
22-26 February 2021  
Virtual meeting

Monitoring of Countries Graduating from  
the Least Developed Country Category:  
São Tomé and Príncipe

**SUSTAINABLE  
DEVELOPMENT**  **GOALS**

# Monitoring of Countries Graduating from the Least Developed Country Category: São Tomé and Príncipe

## Contents

<b>Summary</b> .....	3
<b>Macroeconomic situation</b> .....	3
<b>LDC indicators</b> .....	5
<b>Productive capacity</b> .....	5
<b>3.4. Data gap</b> .....	6
<b>3.5. Smooth transition and country specific factors</b> .....	6

## Summary

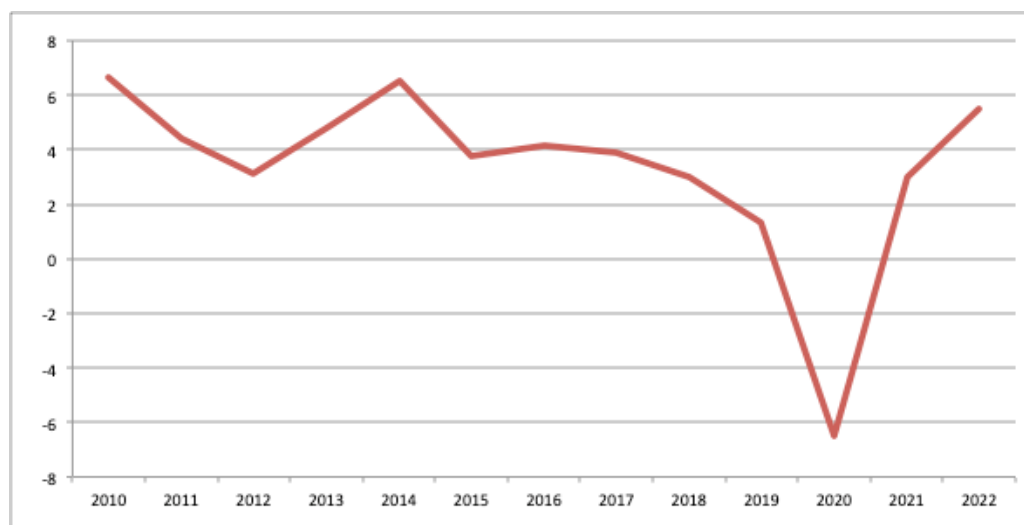
LDC indicators meet the graduation criteria with large margins in 2021, 50 per cent above income threshold, 35 per cent above HAI threshold, and 20 per cent below the EVI threshold. Productive capacity is still limited, similar to the average LDCs. The economic growth, which had been slowing down prior to the Covid-19 pandemic, was affected heavily by the pandemic. The country is considered to be in debt distress, with the external public debt estimated at 74 per cent of GDP in 2020. On the fiscal side, the government has also registered a continuous deficit for several years. In view of responding to the impacts of the COVID-19, fiscal balance and debt issues need a close monitoring in 2021.

## Macroeconomic situation

Sao Tomé and Príncipe is characterized as a small island developing country and a fragile economy, with a population of about 200 thousand people. As many other small and insular states, São Tomé and Príncipe is highly vulnerable to external shocks and face structural obstacles to enjoy scale benefits in their main productions, as well as to diversify their economy. Government expenditure has been a main engine of the economy, supported by external aid and borrowing.

The economy is mainly linked to the production of cocoa beans and the tourism sector. Cocoa export represents over 70 per cent of merchandize exports, mainly destined to Ethiopia, New Zealand, and the European Union. The tourism sector accounts for 20 per cent of GDP and 74 per cent of overall exports.

Figure 1. GDP growth as percentage change from 2010 to 2022



Source: IMF, WEO.

GDP growth has been slowing down from 4.2 per cent since 2016 to 3 per cent in 2019 (by DESA estimate, see table 1). The economic difficulties were aggravated with the Covid-19 pandemic, leading to a projected negative GDP growth of 6.5 per cent in 2020 (IMF data, see Figure 1). The main factor is the sudden standstill of the tourism sector since mid-March, besides a significant reduction in foreign-financed projects.

Table 1. Selected macroeconomic data for São Tomé and Príncipe, 2014-2019

Indicator	2014	2015	2016	2017	2018	2019
GDP growth rate (per cent, constant price)	6.5	3.9	4.2	3.9	3	3
Inflation rate (%)	7	5.2	5.4	5.7	7.9	4.9
Government revenue (billions of national currency)	1.62	1.97	2.17	2.03	2.08	2.08
Government expenditure (billions of national currency)	1.96	2.41	2.49	2.25	2.24	2.24
Government balance (billions of national currency)	-0.342	-0.44	-0.326	-0.219	-0.162	-0.162
Government balance (per cent of GDP)	-5.307	-6.252	-4.235	-2.689	-1.883	-1.758
Net ODA received (millions of US dollars)	41.38	48.95	47.04	40.24	46.25	
Balance of Payments (millions of US dollars)						
Current Account	-103.9	-68.7	-61.5	-73.1	-75.1	-89.1
Goods, Credit (Exports)	17.2	11.3	13.6	15.6	16.0	13.1
Goods, Debit (Imports)	144.6	118.9	119.1	127.7	132.9	126.4
Balance on Goods	-127.4	-107.6	-105.5	-112.1	-116.8	-113.2
Services, Credit (Exports)	69.9	78.7	82.9	76.6	82.2	60.0
Services, Debit (Imports)	84.6	67.1	65.7	65.5	64.3	65.3
Balance on services	-14.7	11.6	17.2	11.1	17.9	-5.4
Balance on Goods and Services	-142.1	-96.1	-88.3	-101.0	-98.9	-118.6
Balance on income	6.7	2.8	2.8	-1.4	-2.7	-0.3
Balance on current transfers	31.5	24.5	23.9	29.3	26.5	29.8
Capital Account	29.6	32.1	29.7	29.7	29.9	12.6
Financial Account	-60.3	-23.1	-66.4	-45.2	-65.9	-25.9
Direct investment (net)	-22.6	-25.3	-22.3	-33.9	-21.3	-26.7
Portfolio investment (net)	6.8	6.6	0.6	0.6	0.1	-7.6
Other investment (net)	-47.2	-13.8	-32.1	-8.7	-31.8	3.3
Change in reserves						
Total Reserves (Millions of US dollars)	2.6	9.8	-12.5	-3.3	-12.9	5.1
Reserves (months of imports)						

Source: GDP growth and inflation are from UN DESA, WESP, 2020 edition, accessed 18 Dec 2020. Government balance is from IMF, World Economic Outlook Database, October 2020 edition, accessed 18 Dec 2020. Net ODA is from OECD, OECD.Stat, accessed 18 Dec 2020. All external sector indicators are from IMF, Balance of Payment Data Reports, accessed 18 Dec 2020.

Due to the Covid-19 pandemic, the external sector has been impacted mostly by the sharp decline in service exports, essentially tourism. Despite the global context, merchandise exports are expected to register positive growth in 2020, especially after a robust first half of the year led by palm oil exports, while cocoa exports were hardly hit by restrictions at the destination ports. The European Union is the country's most important trade partner both for imports and exports, while Angola ranks as the second most important trade partner. The country has ratified the African Continental Free Trade Agreement (AfCFTA), having made a tariff reduction offer to eliminate tariffs on 90 per cent of its tariff lines over a 5-year period rather than the 10-year period that is available to LDCs.

The current account has been registering a deficit for several years, mainly due to a deficit in the trade balance. In 2020 the deficit is expected to reach 17 per cent of GDP (IMF, 2020).

Inflation has trended higher in 2020, as in many LDCs, as result of supply disruptions, pushing food prices higher. The inflation rate is expected to reach 9 per cent in 2020.

The country is considered to be in debt distress and participated in DSSI. External public debt of São Tomé and Príncipe has been relatively high in the past few years but is expected to improve in 2020. The external public debt is estimated at 74 per cent of GDP in 2020. On the fiscal side, the government has also registered a continuous deficit for several years. In 2020 the fiscal deficit is expected to total 4.6 per cent of GDP.

Given the concerning economic contraction and the twin deficits, the IMF approved, in April 2020, \$12.3 million disbursement under the Rapid Credit Facility, as well as debt service relief of \$200,000 to address the country's difficulties in the context of the Covid-19 fallout. In July 2020 the IMF completed its first review of the Extended Credit Facility (ECF) for the country, which facilitated the immediate disbursement of \$2.67 million. The IMF's Executive Board also approved an expansion of the ECF by \$2.08 million to be disbursed immediately, so that total disbursements to the country under the ECF to \$7.35 million.

## LDC indicators

The GNI per capita of São Tomé and Príncipe is estimated as \$1,843 in 2021, above the graduation threshold established at the 2021 triennial review, \$1,222 (see table2). The HAI score is high at 88.8 in 2021, even though it declined when compared with last year's score.

Table 7. Indicators for LDC identification, São Tomé and Príncipe, 2017-2021

	GNI per capita	EVI	HAI
2017	1,583.9	23.8	85.9
2018	1,669.5	25.9	86.5
2019	1,690.7	26.3	88.1
2020	1,765.4	26.2	88.5
2021	1,843.3	25.8	88.8

Source: CDP Secretariat

São Tomé and Príncipe remains exposed to external shocks, but the whole EVI score improved, 25.8 in 2021, well below the graduation threshold of 32.

## Productive capacity

The PCI scores of SIDS tends to overstate the development of productive capacities in SIDS, due to the small basis effect, according to UNCTAD. São Tomé and Príncipe shows productive capacities aligned to the levels of the average of LDCs rather than ODCs (see table 3). It presents a pattern of development of productive capacities that need to be reinforced for its continuing development beyond graduation. At present its overall PCI scores 12% above the average LDC. The widest positive margins are in institutional development, ICTs and human capital, all of which will be indispensable for graduation with momentum. At the same time, however, the development path ahead is long. São Tomé and Príncipe scores below the average ODC not only in the overall PCI, but also in all its sub-components. In order to start closing the gap with ODCs, policy action is required particularly in infrastructure of transport, energy and ICTs.

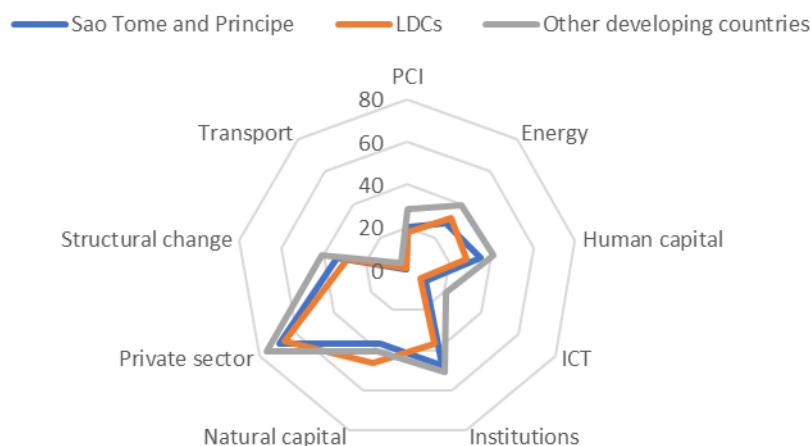
Table 3. Productive Capacity Index, Selected Countries, 2018 value

Country	PCI	Energy	Human capital	ICT	Institutions	Natural capital	Private sector	Structural change	Transport
Angola	14.5	34.1	23.8	5.0	30.2	48.1	57.6	21.5	0.3
Bhutan	28.5	49.7	37.9	13.8	62.4	43.7	72.0	35.3	2.4
Equatorial Guinea	18.0	25.1	24.4	8.0	22.3	37.9	64.8	31.7	1.3
Samoa	29.1	39.9	37.4	10.5	66.3	32.4	81.9	39.2	4.7
São Tomé and Príncipe	19.9	28.4	34.6	9.9	47.9	36.7	69.4	33.4	0.6
Solomon Islands	22.4	33.9	29.9	6.0	46.3	50.1	78.3	26.1	2.2
Vanuatu	25.1	29.2	31.3	8.7	55.0	34.4	78.5	36.5	3.6
LDCs	17.7	32.0	28.3	7.4	36.9	46.5	66.6	28.9	1.1
ODCs	28.4	39.3	40.7	20.7	50.8	40.4	76.0	40.7	4.4

Source: UNCTAD.

Figure 2. Productive Capacity Index 2018, São Tomé and Príncipe

### Sao Tome and Principe PCI 2018



Source: UNCTAD

### 3.4. Data gap

The statistical capacity index for the country was 63.3 in 2019, higher than the LDC average (59.9), but lower than the lower middle-income country average (68.4). Data required for monitoring are readily available from international and/or national sources.

### 3.5. Smooth transition and country specific factors

São Tomé and Príncipe is scheduled to graduate on 13 December 2024 (A/RES/73/133). In 2019, the Government expressed strong interests in receiving assistance from the UN system on preparing a smooth transition strategy. Responding to the demand, a joint mission was organized on September 2019 by Interagency Task Force (IATF) on LDC graduation. The Government is committed to establish a road map

to prepare the transition strategy. However, the Government has not submitted a report on the preparations of the transition strategy.

The country is seeking to diversify its economy to build resilience to external shocks. The government has been implementing a diversification strategy mainly in two areas: (i) expanding and moving to higher value-added segments in agriculture and fisheries – this includes the new palm oil production which has been increasing fast in 2020; and (ii) expanding international tourism and entering new service markets.<sup>1</sup> Progress, however, have not been well documented and have been disrupted with the Covid-19 pandemic. Restructuring of the energy sector is also important. The sector depends mostly on thermal generation; diversification to renewables is on the agenda, as part of the strategy to expand access to energy. In 2018, 70 per cent of the population had access to electricity.

In view of responding to the impacts of the COVID-19, fiscal balance and debt issues need a close monitoring. In November 2020, according to the IMF report, program performance under the Extended Credit Facility has remained steady, although the pandemic has hampered progress on key structural reforms.<sup>2</sup> Important areas identified are to address the immediate health, social, and economic needs arising from the pandemic while pushing forward with medium-term fiscal and structural reforms to support a strong and inclusive economic recovery. The 2021 fiscal budget is recommended to provide room to expand social spending, while delivering on the authorities' gradual fiscal consolidation plans. The Government made a commitment to introduce the VAT in 2021, while providing additional support to the education sector and the country's young population. The IMF Executive Board is scheduled to consider the second ECF review in January 2021.

---

<sup>1</sup> Government of São Tomé and Príncipe (2015). Programme for the XVI Constitutional Government of São Tomé and Príncipe. <http://www.mnec.gov.st/index.php/publicacoes/documentos/file/2-programa-do-xvi-governo-constitucional>

<sup>2</sup> IMF, Press release, Nov 2020, Staff Completes Review Mission to São Tomé and Príncipe Under the Extended Credit Facility