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Monitoring of countries graduating and
graduated from the list of LDC category:
Sao Tome and Principe

**SUSTAINABLE
DEVELOPMENT GOALS**

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Summary

The CDP takes note of the fact that Sao Tome and Principe has, with external support, been able to effectively mitigate the socio-economic impacts of the pandemic. The contraction of the tourism sector during the pandemic, the main source of income for the economy, was compensated by higher public spending, including in social areas. As such the economy grew faster than in pre-pandemic years.

However, the CDP acknowledges that the country continues to be highly dependent on external support. Public spending was supported by a notable level of grants and loans. It is therefore difficult to anticipate the stability of Sao Tome and Principe's developmental path. Public debt, as measured by the public debt-to-GDP ratio, remains sustainable, and accumulated arrears with bilateral partners is a main challenge.

Overall, the country continues to show improvement in all LDC criteria indicators, and its graduation is not at risk. Nevertheless, the CDP recommends to continue to monitor the situation, especially with regard to changes in external support, as the economy and the social context are still fragile. The CDP also strongly urges the Government of Sao Tome and Principe to finalize and present their smooth transition strategy, which will be an opportunity to respond the country's vulnerabilities, in line with their National Development Plan.

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, Sao Tome and Principe 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.

Since 2016, GDP growth has been slowing down from 4.2 per cent to 1.3 per cent in 2019. The economic difficulties due to the Covid-19 pandemic were effectively mitigated by public spending, which was externally financed. Current GDP growth projections point to an acceleration of 2.9 per cent in 2020. Comparing with the LDC group, STP seems to have been economically less adversely affected by the pandemic, but it is expected to remain on a moderate growth path in the medium-term, below the developing countries' growth average, including below the LDC group average. 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 have reached 9.8 per cent in 2020, before decreasing to pre-pandemic levels in 2023.

Table 1. Selected macroeconomic data for Sao Tome and Principe, 2015-2020

Indicator	2015	2016	2017	2018	2019	2020
GDP growth rate (per cent, constant price)	3.9	4.2	3.8	2.9	1.3	2.9
Inflation rate (%)	5.3	5.4	5.7	7.9	7.7	9.8
Govt. revenue (billions of national currency)	1.97	2.17	2.03	2.08	2.07	2.59
Govt. expenditure (billions of national currency)	2.41	2.49	2.25	2.24	2.08	2.37
Govt. balance (billions of national currency)	-0.44	-0.326	-0.219	-0.162	-0.006	0.226
Govt. balance (per cent of GDP)	-6.252	-4.235	-2.689	-1.883	-0.064	2.206
Net ODA received (millions of US dollars)	48.95	47.04	40.24	52.13	50.79	
Balance of Payments (millions of US dollars)						

Current Account	-68.7	-61.5	-73.1	-75.1	-90.0	-59.6
Goods, Credit (Exports)	11.3	13.6	15.6	16.0	13.1	13.9
Goods, Debit (Imports)	118.9	119.1	127.7	132.9	126.4	116.7
Balance on Goods	-107.6	-105.5	-112.1	-116.8	-113.2	-102.8
Services, Credit (Exports)	78.7	82.9	76.6	82.2	59.4	35.4
Services, Debit (Imports)	67.1	65.7	65.5	64.3	63.2	43.4
Balance on services	11.6	17.2	11.1	17.9	-3.8	-8.0
Balance on Goods and Services	-96.1	-88.3	-101.0	-98.9	-117.0	-110.8
Balance on income	2.8	2.8	-1.4	-2.7	-0.5	2.9
Balance on current transfers	24.5	23.9	29.3	26.5	27.5	48.2
Capital Account	32.1	29.7	29.7	29.9	14.9	18.7
Financial Account	-23.1	-66.4	-45.2	-65.9	-24.3	-43.6
Direct investment (net)	-25.3	-22.3	-33.9	-21.3	-23.3	-46.3
Portfolio investment (net)	6.6	0.6	0.6	0.1	0.4	-0.5
Fin. Deriv. (other than reserves) + stock opt.	-0.5	0.0	0.0	0.0	0.0	0.0
Other investment (net)	-13.8	-32.1	-8.7	-31.8	-6.4	-18.4
Reserve assets	9.8	-12.5	-3.3	-12.9	5.1	21.6
Reserves (months of imports)	4.6	4.0	3.6	2.6	2.9	5.5

Source: GDP growth and inflation: UN DESA, WESP 2022; Net ODA: OECD, OECD.Stat, accessed 15 Nov 2021; other data: Government balance: IMF, World Economic Outlook Database, October 2021 edition, accessed 15 Nov 2021; external sector indicators: IMF, BoP Data Reports, accessed 15 Nov 2021.

Owing 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 destinations 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 has widened, reaching an estimated 14.1 per cent of GDP (IMF, 2021b), mainly caused by a drop in tourism activities. In the coming years, the current account the total deficit is expected to decrease, but the current account balance will stay in negative territory.

LDC criteria and supplementary indicators

The GNI per capita has followed a steady progression, including through the pandemic and is estimated as \$1977 in 2022, above the graduation threshold established at the 2021 triennial review. This trend is consistent with the GDP growth projections and the efficacy of the government of STP in mitigating the economic impacts of the pandemic.

Table 2. Indicators for LDC identification, STP, 2018-2022.

	GNI per capita	EVI	HAI
2018	1669.3	22.2	88.1
2019	1690.9	23.2	89.9
2020	1762.4	22.5	90.3
2021	1852	21.9	90.7
2022	1977.1	22.7	91

Source: CDP Secretariat

The HAI score reached 91 in 2022, continuing its positive trend, despite the impact of the Covid-19 on social vulnerabilities. This may be explained by the government's ability to increase fiscal spending by about 2.9 per cent of GDP (IMF, 2021b), targeting the health sector, cash transfer programs and food distribution. This initiative helped mitigating the impact of the pandemic, especially considering that one third of the population is still living in extreme poverty. In terms of vaccination against Covid-19, the country plans to cover 70 per cent of the population by mid-2022, supported by COVAX. However, as of September 2021 only 12 per cent of the population had been vaccinated.

The revision of the EVI index composition led to a sudden improvement in São Tome and Príncipe's score, well below the threshold of graduation – 22.7 in 2022. Nevertheless, the country remains highly exposed to external shocks, as evidenced by some of the EVI sub-indicators. Particularly due to the limited productive base, merchandise export concentration remains an important source of vulnerability.

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 the past two years; and (ii) expanding international tourism and entering new service markets.¹ Progress, however, have not been well documented and have been disrupted with the Covid-19 pandemic.

Supplementary indicators

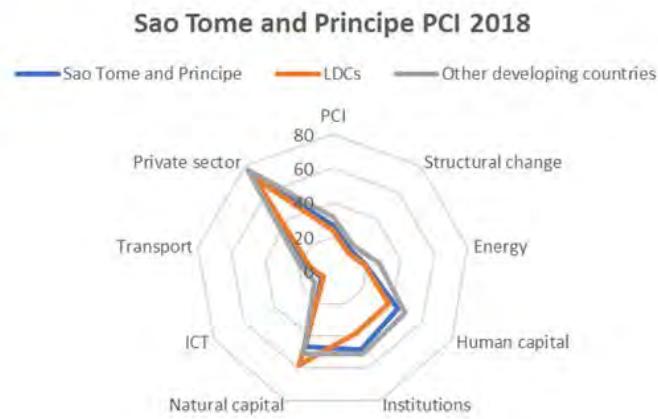
The country continues in debt distress, according to the latest IMF debt sustainability analysis (IMF, 2021), mainly explained by prolonged unsettled external arrears. These include the arrears of the country's fuel supplier, ENCO, to the Angolan fuel company, Sonangol, representing more than 49 per cent of STP's GDP. The country has also benefited from the Debt Service Suspension Initiative (DSSI) and from the IMF Catastrophe and Containment Relief Trust, both providing temporary relief. This will require that STP to reschedule agreements with creditors in 2022/2023.

However, the external and government debts are deemed sustainable given that the debt-to-GDP ratio was only breached in 2020 (IMF, 2021), while consolidation on the fiscal side and cautious external borrowing will contribute to a positive scenario in the following years. Public debt to GDP ratio is estimated at 87 per cent in 2020 and 88 per cent in 2021. External public debt of São Tome and Príncipe is estimated to reach 43.3 per cent of GDP in 2021 (IMF, 2021b), which is slightly above the historical average of 41.8 for the previous eight years.

¹ 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>

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 August 2021 the IMF completed its third review of the Extended Credit Facility (ECF) for the country, which facilitated the immediate disbursement of an additional \$2.7 million. This brings the total disbursements to the country under the ECF arrangement to \$12.9 million.

Productive Capacity



Sao Tome and Principe has a pattern of development of productive capacities which is typical of many SIDS. Given its geographical and population smallness, it has reached superior performance in many infrastructure, human development and per capita indicators. Its level of productive capacities development is some 12% higher than the LDC average and the country outperforms the group in seven of the eight subcomponents of the PCI (the only exception being Natural Capital).

Nevertheless, as compared with other developing countries, Sao Tome and Principe lags behind ODCs both in the PCI and in its eight subcomponents. The gaps in productive capacity development is widest in “hard” components of productive capacities (energy, transport, ICT), but narrowest in its “soft” components (e.g. Institutions and Human Capital). The country has achieved strongest progress in the two latter components during the 2010s, as well as in ICTs.

These indicators of productive capacities do not, however, adequately reflect the economic and environmental vulnerabilities of the country – again, typical of SIDS.

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

Country	PCI	Energy	Human capital	ICT	Institutions	Natural capital	Private sector	Structural change	Transport
Angola	22.2	22.8	35.9	5.0	32.2	51.9	65.6	12.3	10.5
Bangladesh	26.8	25.3	44.7	6.7	37.7	58.1	72.7	16.5	13.6
Bhutan	30.1	22.4	46.5	9.2	63.3	41.5	73.9	16.7	21.7
Lao PDR	27.1	23.5	41.0	8.2	40.1	46.0	78.0	20.6	12.5
Nepal	26.3	18.3	46.2	7.8	39.9	52.3	70.6	15.9	14.8
Sao Tome and Principe	26.7	19.6	43.7	7.2	48.4	46.7	75.8	16.3	15.2
Solomon Islands	26.2	21.2	40.0	5.5	46.9	44.7	81.1	13.5	20.7
Vanuatu	29.4	23.1	41.2	6.7	55.5	46.2	80.4	17.7	24.2

LDCs	23.9	18.8	37.9	6.1	38.2	58.2	71.0	14.0	13.4
ODCs	31.9	27.8	48.7	12.4	51.4	51.3	77.7	19.4	19.2

Source: UNCTAD.

Data gap

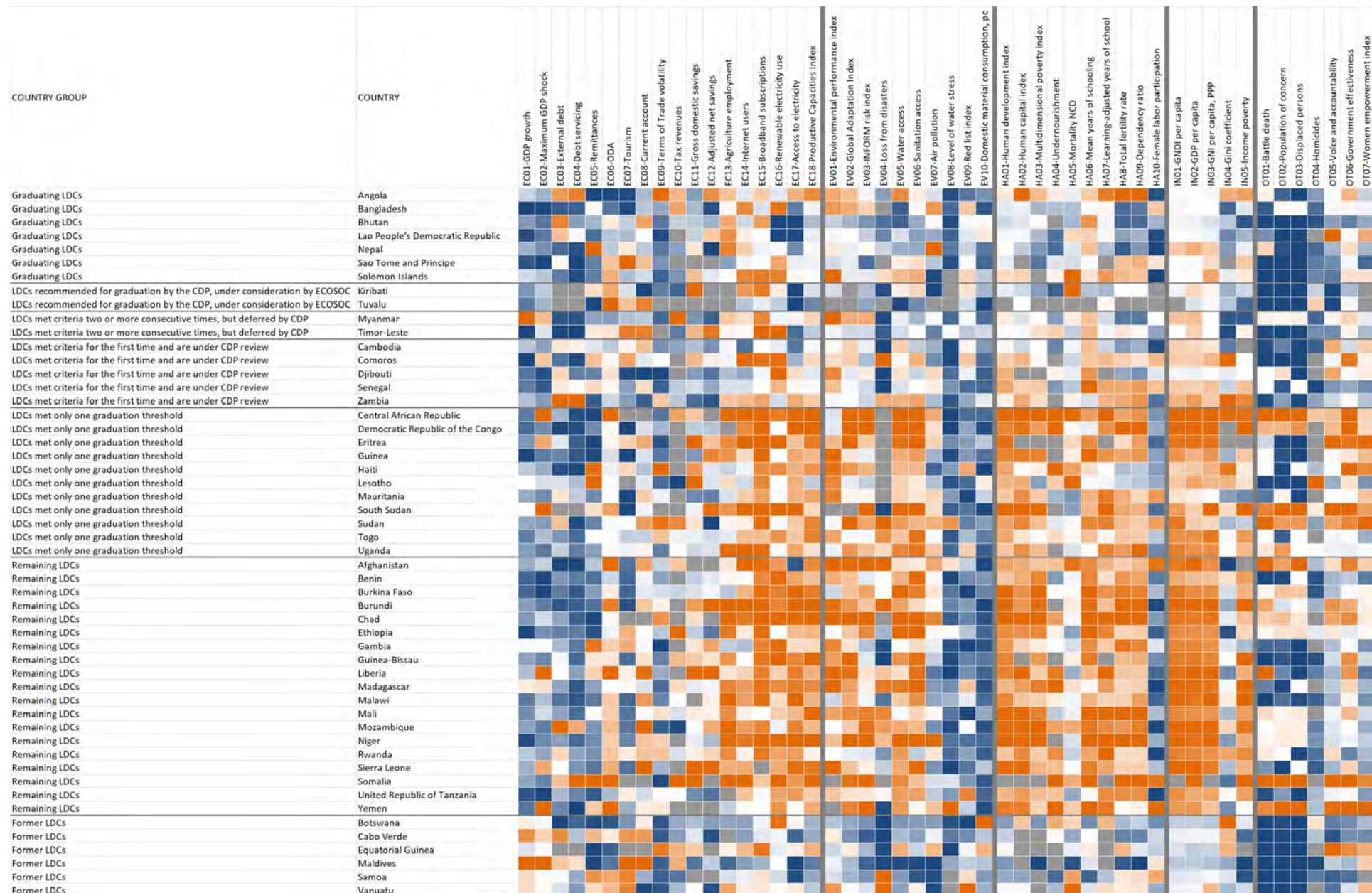
The statistical capacity index of STP was 57.8 in 2019, lower than the low middle income countries (66.4).² However it is on par with the Sub-Saharan score (57.1) Data required for monitoring exercise is, however, are available and up to date, relative to other Sub-Saharan African LDCs....

Smooth transition, national plan and country specific factors

Sao Tome and Principe is scheduled to graduate on 13 December 2024 (A/RES/73/133). In 2021, the Minister of Foreign Affairs met with the CDP Secretariat and the head of Interagency Task Force (IATF) on LDC graduation at the UN Headquarters in New York to discuss the smooth transition strategy timeline and support throughout the preparation period leading up to the graduation. The Minister expressed strong interest in accelerating the preparation of the STS and in receiving assistance from the UN system for its preparation. Responding to the demand, the CDP Secretariat in close collaboration with the RCO in STP is supporting the preparation of the STS. Sometime in the second quarter of 2022 a first draft can be expected.

² World Bank. WDI. Accessed 12 January 2022.

Annex 1: Heatmap extract of the supplementary graduation indicators (SGIs) for LDCs and former LDCs (2022 or latest available year)



Legend:

- Indicator furthest below reference point, indicating most concern (5th percentile)
- Indicator furthest above reference point, indicating least concern (95th percentile)

- Reference point (e.g. 33th percentile)
- No data available