

São Tomé and Príncipe

Recent macroeconomic and financial developments

GDP grew by 3.1% in 2020, supported by high aid inflows during the pandemic (the weight in the total budget increased by 23.5% in 2020) and accommodative monetary policies in early 2020. Economic growth slowed to 2.2% in 2021 as aid inflows declined and monetary policy measures were reversed at end-2020 to contain excess liquidity. Inflation was largely unchanged at 9.5% in 2021 and 9.4% in 2020, pressured mainly by food products. The government increased the supply of health and social infrastructure and services to contain COVID-19's spread. Palm and coconut oil supply rose five- and twofold, from 2019 to 2020 in response to international demand.

The pegged exchange rate system with the euro has helped maintain a stable exchange rate (24.5 dobras per euro). The fiscal balance stood at 0.9% of GDP in 2021 after a long period of deficits, averaging 4.0% in the past four years. The surplus reflects lower government spending, financed mainly by concessional loans and grants. The current account deficit, which edged down marginally to 10.1% of GDP in 2021 from 11.6% in 2020 due to a 7.6% import decline and a 6% export increase, is primarily financed by international credit. Gross international reserves declined slightly from \$91.8 million in 2020 to \$88.5 million in 2021 as aid inflows shrunk.

Public debt declined to 87.9% of GDP in 2021 from 99.9% in 2019, because of the government's commitment to borrow concessional for the most part. Of the allocation of around SDR 12.2 million (\$19.6 million) in 2020, half was used for investment projects and the other half for international reserves; the latter rose by 29.7% in 2020. The ratio of NPLs to gross loans declined to 30.2% in September 2021 from 34.2% in the corresponding period in 2020. Banks also returned to profitability with the return on asset ratio of 1% in September 2021.

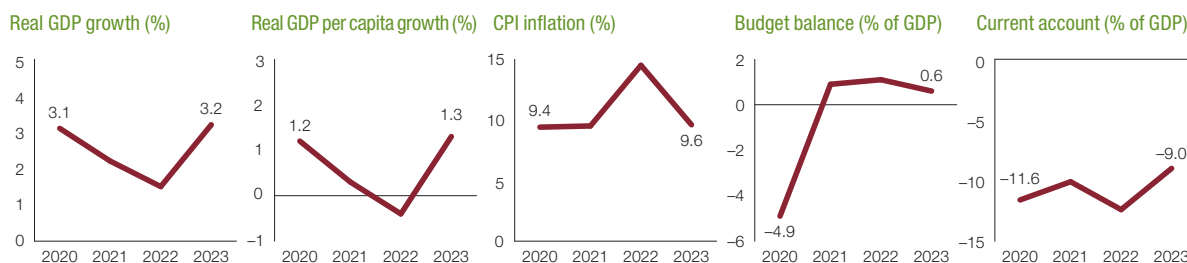
Outlook and risks

The economy is projected to grow by 1.5% and 3.2% in 2022 and 2023, supported by global demand in

commodities, improved trade and tourism, which will benefit from easing of COVID-19 pandemic restrictions. The fiscal balance is projected to remain positive, at 1.1% in 2022 and 0.6% in 2023. Export and tourism earnings will eventually help narrow the current account deficit from 12.4% in 2022 to 9.0% in 2023, while international reserves are forecast to rise slightly to \$70.3 million and \$72 million over the same period, induced by inflows of private capital and FDI, narrowing the debt-to-GDP ratio to 67.5% of GDP in 2022 and 66.1% in 2023, from 68.8% in 2021. Current macroeconomic reforms will drive growth. The Russia-Ukraine conflict will negatively affect global economic growth, with a huge impact on commodity prices. São Tomé and Príncipe depends heavily on fossil fuel for power generation, and this will greatly distress prices in the country, provoking an increase in the cost of living. COVID-19, poor infrastructure, and climate change might also put a drag on economic recovery, though the government is committed to reforms and is working closely with development partners to ensure continued investment in infrastructure, climate change, and power.

Climate change issues and policy options

Vulnerable to climate change, the country has recorded increasing temperatures, decreasing rainfall, longer dry seasons, decreasing river levels, floods, a rising sea level, and increasing coastal erosion. These impacts greatly affect energy, agriculture, fisheries, forestry, and livestock. In 2021, the government updated its 2015 NDC. One goal is to increase RE generation from 26 MW to 49 MW, for a 27% CO₂ emissions reduction by 2030 at an estimated cost of \$150 million. With the Bank, the government is conducting a gap assessment on climate change financing, including capacity building, to enhance the country's capacity on climate financing mobilization. Various activities are concurring to meet the SDG 13 targets by 2030, including a blue economy strategy and related laws.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.