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Summary

The CDP takes note that São Tomé and Príncipe has, with external support, been able to effectively mitigate the socio-economic impacts of the pandemic. However, the CDP acknowledges that the country continues to be highly dependent on external support. The country is in debt distress due to the prolonged unsettled external arrears to bilateral partners, while the debt sustainability assessment varies across sources. The significant macroeconomic and structural challenges make it difficult to assess the stability of the country's developmental trajectory.

Overall, the country continues to show improvement in all LDC criteria indicators, and its graduation is not at risk. Nevertheless, the country has a very low participation rate in CDP's monitoring exercise, and the CDP strongly recommends the country to actively participate in the EMM and provide more information to CDP so that appropriate actions and support can be delivered in a timely manner.

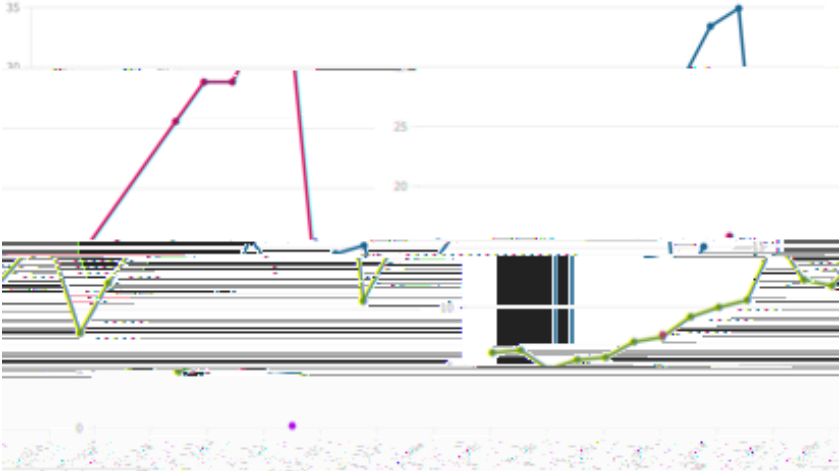
Macroeconomic situation

São Tomé and Príncipe's macroeconomic fundamentals remain weak. The country's export concentration, agricultural instability, relatively high level of external public debt (87 per cent of GDP in 2020¹, with external debt equivalent to 43 per cent of GDP and domestic debt equivalent to 44 per cent of GDP), macroeconomic fragility and extremely high reliance on international support (ODA financed 97.3 per cent of the 2019 State Budget² and 96 per cent of total public investments in 2020³) represent a challenging situation for a country characterized by consistently high poverty rates.

Table 1.

The tertiary sector, largely informal, represents 73.5 per cent of GDP, while the primary and secondary sectors contribute to 12.5 per cent and 12.3 per cent of GDP, respectively.⁴ Tourism, its main service export, experienced substantial growth up until 2020. However, the impact of COVID-19 has been substantial, negatively affecting the income of businesses and households. The pandemic has disproportionately impacted the most disadvantaged and vulnerable groups, who have suffered with the disease itself and with the increase in inequalities, which threatens to undermine development gains achieved in recent years, including progress made towards the SDGs,⁵ as noted in the country's Voluntary National Review of 2022.

Figure 2. Total Arrivals of Tourists (thousands)



Source: UNWTO accessed from <https://www.unwto.org/tourism-statistics/key-tourism-statistics> on 01.02.2023

The pandemic has seriously affected the economy, mainly through losses in the tourism industry. There was a complete stop in tourist arrivals in March 2020 due to the pandemic-related lock-down, as shown in figure 2. Tourism, which has been an engine of growth for the private sector in recent years and is responsible for a large part of formal employment, came to a complete halt, with losses in labor income, foreign exchange, and tax revenue. Nonetheless, the country registered a 3.1 per cent GDP growth in 2020, due to high levels of grants and loans supporting public spending, as well as a considerable increase in palm oil export revenue.⁶

In 2021 and 2022, economic growth decreased again to 1.8 per cent and 1.3 per cent respectively, with inflation climbing to 15 per cent in 2022.⁷ The tourism receipts which account for over 70 per cent of exports receipts, fell sharply from \$66 million in 2019 to \$18 million in 2020, recovering to an estimated \$36 million in 2021 and \$52 million in 2022. However, the impact on the current account deficit was somewhat mitigated by the rise in net ODA received in 2020.

As regard the developments in inflation, it increased sharply in 2022 by 15 per cent (see figure 3), mainly due to the increase in global fuel and food prices caused by the war in Ukraine (see figure 4).

⁴ UNDP (2020), Impacts of the Covid-19 Pandemic in São Tomé and Príncipe Rapid Socio-Economic Analysis UNDP, March 2020

⁵ National Resilience and Socio-Economic Mitigation Plan in the face of Covid-19

⁶ São Tomé and Príncipe Central Bank

⁷ UN DESA, WESP 2023.

The development of São Tomé and Príncipe has been largely funded by Government expenditures, sustained by external aid and government borrowing, as well as by foreign direct investment mostly in the tourism and related services sectors. More than 90 per cent of the public investment budget is financed through debt and external aid. The country has grown acc reh1s7s376(wn)-229(9hR-164(an)lat7R-164(an)

Table 2. Indicators for LDC identification, São Tomé and Príncipe, 2019-2023.

	GNI per capita	EVI	HAI
2019	1,679.5	28.3	89.7
2020	1,754.4	27.3	90.1
2021	1,850.2	26.3	90.6
2022	1,989.2	26.4	90.9

undertaken by the CDP in 2018, a joint UN Workshop in support of the country's LDC graduation was held in São Tomé, in September 2019, co-organized by the UN Inter-Agency Task Force on LDC Graduation, the Government and the UN RCO and sponsored by Portugal. It assessed challenges and opportunities resulting from LDC graduation and gathered technical advice on the process.

In 2020, the Government established an Inter-Ministerial Governing Body for the design of the STS, integrated by relevant stakeholders¹², to coordinate LDC graduation. Its secretariat is integrated by the Prime Minister's Office, the Ministry of Finance and the Ministry of Foreign Affairs. Additionally, focal points were appointed at the Ministry of Foreign Affairs and Ministry of Finance, to facilitate consultations with national stakeholders. However, to date, this Governing Body has never met.

Through technical assistance sponsored by UNDP, RCO and DESA, a Background Report for the preparation of the STS has been drafted, intended to serve as a basis for the country to formulate its STS. The Background Report resulted from various stakeholder interviews and consultations undertaken from December 2021 to May 2022, generating relevant inputs from a broad spectrum of stakeholders from the public, private and non-profit sectors. Additionally, a joint meeting with focal points from several government sectors¹³ was held in May 2022, to collect additional inputs. The document has also benefitted from technical support by the CDP and aims, essentially, at maximizing the benefits of LDC transitioning and mitigating the negative impacts of such a status change. It is aligned with the country's National Resilience and Socio-Economic Mitigation Plan in the face of COVID-19¹⁴, one of the main strategic instruments currently guiding development efforts. This alignment should promote synergies in implementation and resource optimization.

The government has not yet started the development of a national STS and has not submitted a report on the country's progress on preparing for the LDC graduation.

¹² Ministry of Foreign Affairs, Cooperation and Communities, Ministry of Financers, 72.024C93102g4(the9)-171(an)7(rs)-8(Blue4

