São Tomé & Príncipe

The economy grew by an estimated 4.5% in 2010. From 2011 onwards, large private investments in oil exploration and the construction of a deepwater seaport should boost growth back to pre-crisis levels of 6% by 2012.

The new Prime Minister is actively diversifying trade and diplomatic ties with emerging partners, particularly in the African sub region, to push the project of turning the archipelago into a regional transport hub and spur the country's development.

Social indicators remain weak despite some progress. Economic growth so far is not broad based and has failed to create employment opportunities for the rural poor and the urban youth.

The gross domestic product (GDP) of the Democratic Republic of São Tomé and Príncipe (STP) slowed down in 2009 but picked up timidly in 2010 to an estimated 4.5%. Growth was sustained by foreign aid and the tertiary sector, including tourism, construction and retail. The economy is forecast to expand by 5.0% in 2011 and 6.0% in 2012, supported by foreign direct investment (FDI) in oil exploration and the construction of a new deepwater seaport. The longer-term outlook, however, remains highly dependent on uncertain oil prospects, with production not expected before 2016.

Macroeconomic policies will remain restrictive. Fiscal policy aims to contain further current primary expenditure through better management of public finances. At the same time, legal and technical measures, combined with higher import duties related to future investment projects, should gradually improve fiscal revenues. Monetary policy is geared towards maintaining the euro currency peg introduced in January 2010. Inflation, still largely determined by imported food and oil prices, slowed to about 11.4% in 2010, down from 16.7% in 2009, thanks to the economic rigour imposed by the peg. This downward trend is expected to continue, provided fiscal policies stay on track and international food prices remain stable. In the meantime, major structural challenges remain: the growing debt burden, vulnerability to external shocks and the lack of economic diversification.

Until and unless oil revenues materialise, the government will remain heavily dependent on external financing. FDI is not expected to return to its pre-crisis levels until after the presidential elections in 2011. In 2010, investments were driven by the public sector, financed by grants and concessional loans. Official development assistance (ODA) remained at the same level as in 2009, although disbursements were held back until after the legislative elections in August. So far, ODA compensated for sluggish FDI throughout 2010, sustaining the slight increase in economic growth. ODA might drop in 2011, however, given the increasing pressures on donors' budgets.

Emerging partners have long played a crucial role in STP's economic and social development. Chinese Taipei has the longest track record, but India and Brazil are intensifying their bilateral cooperation. Nigeria, Angola and increasingly other neighbouring countries are engaging more pro-actively with STP. The new Prime Minister has expressed his interest in diversifying trade and diplomatic ties with emerging partners in order to spur STP's development. In a time of increased competition for scarce resources, STP is seeking to engage with various emerging partners while nurturing the collaboration with traditional partners.

The most pivotal event in 2010 was the local government and parliamentary election in August, resulting in a minority government that may struggle to pass legislation or even remain in charge for long. The new Prime Minister remains committed to transforming STP's economy into a regional hub for transhipment activity. He will promote the diversification of the economy in order to lessen the country's dependence on uncertain oil prospects. Prospects for the economy in the short term will depend on the stability of the new government and the success of presidential elections in June 2011.

Poverty, estimated at about 54% in 2009, remains widespread in rural and periurban areas. The search for employment opportunities is resulting in urban migration, which puts increasing pressure on the capital's infrastructure and feeds the informal sector – estimated at 63% of the economy. Public services such as electricity, sanitation, health and waste management need to be ramped up if STP's social indicators are to maintain their upward trend.

Table 1: Macroeconomic indicators

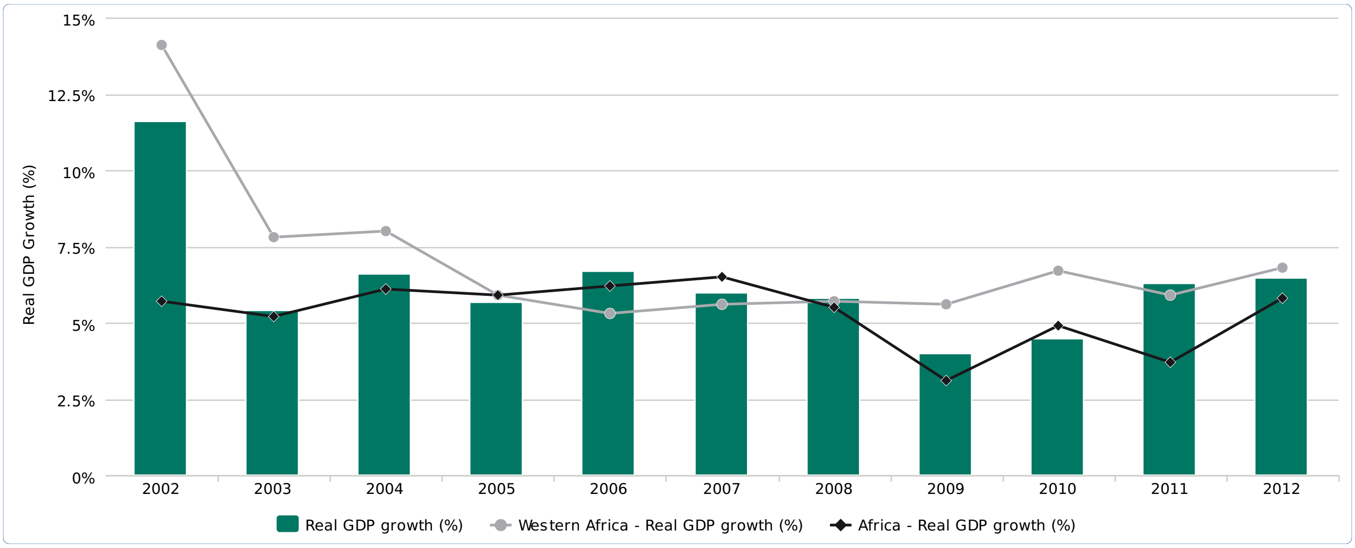
	2009	2010	2011	2012
Real GDP growth	4	4.5	5	6
CPI inflation	16.7	11.4	7.5	6.7
Budget balance % GDP	17.6	-7.7	3.3	-8.4
Current account % GDP	-26.2	-28.1	-35.8	-34.2

Source: National authorities' data; estimates and predictions based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink http://dx.doi.org/10.1787/888932406859

Figure 1: Real GDP growth (W)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink http://dx.doi.org/10.1787/888932404503

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