

COUNTRY REVIEW

São Tomé & Príncipe



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ANALYST: Andrew Atkinson

EULER HERMES COUNTRY RISK GRADE: C

Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.

COUNTRY PROFILE

Capital city:	São Tomé
GDP:	USD189mn (2009e)
Population:	0.163mn (2009e)
GDP per capita:	USD1,160 (2009e)
Currency:	Dobra (STD)
Form of state:	Republic
Head of state:	President Fradiqué de Meñezes
Head of government:	PM Joaquim Rafael Branco
Next elections:	Presidential by July 2011 and parliamentary by August 2010

In presidential polls in July 2006, Fradiqué de Meñezes was returned for a second five-year term. However, the **political system remains fractious**. A new government was formed this month, although PM Patrice Trovoada's Acção Democrática Independente (ADI) party won only 26 out of 55 seats in elections on 1 August and requires the support of smaller parties to pass legislation. The previously ruling MLSTP/PSD of Rafael Branco won 21 seats, thereby providing a strong opposition voice in the National Assembly. The **fluidity of party alliances suggests that governance will remain fragile and the country has a chequered history of stability**—since 1991 it has had 14 premiers and no coalition government has lasted its full parliamentary term.

Once a quiet area of the Gulf of Guinea, São Tomé is now strategically important because it **possesses commercially-exploitable oil reserves**. Nigeria signed a deal in 2002 relating to the use of resources in the Joint Development Zone (JDZ), with the larger African country receiving 60% of all income from oil and gas exploitation in the disputed waters to the north of the twin-island state. However, following uncertainties over the award of oil licences within the JDZ, São Tomé has been leaning more towards Angola in terms of regional co-operation. At the beginning of 2005, a first exploration and production sharing agreement was signed for exploitation of offshore oil resources. This provided state revenues with a front-end payment of USD49mn. This figure needs to be seen in perspective—it is ten times larger than the FX generated annually from the country's main export, cocoa (75% of merchandise trade earnings), and four times a typical total government tax yield. In March 2010, a bidding process for seven of 19 exclusive oil blocks was launched and **output could come on stream in commercially-viable amounts within the next eight years**.

Annual real **GDP growth averaged only 1.2% in 1990-99 but over 5.6% in 2000-07 as oil sector activity heightened economic expansion**. Even with the slowdown in world economic growth and associated uncertainties in export markets, **GDP growth is forecast at 6% both this year and in 2011**. Moreover, increased government expenditure and capital investment by oil companies are likely to maintain high growth rates into the medium term. However, the oil boom (before crude petroleum actually flows, it should be noted) has already resulted in inflationary pressures. Moreover, **large windfall earnings of FX are generally not conducive to fiscal discipline and to good governance**. With limited institutional and technical capacity to absorb large financial inflows, the problems of oil wealth that have become apparent in Equatorial Guinea, as well as large neighbour Nigeria, may arise.

The external sector will be transformed by developments in the oil industry. However, in the short term, the current account balance will deteriorate as oil-related capital goods are imported to develop the hydrocarbon resources. Accordingly, the **current account deficit is forecast to register deficits this year and next that will be equivalent to around 50% of GDP**. Use of IMF facilities—currently a three-year Extended Credit Facility is in place until 2011—and of general Fund support were key features leading to completion point under the enhanced HIPC initiative, thereby allowing foreign debt relief. The IMF is broadly supportive of economic management, although the Fund has raised concerns relating to government finances, with some programme targets missed.

Andrew Atkinson

London: +44 (0)20 7860 2577