

THE TOURISM SECTOR IN SÃO TOMÉ AND PRÍNCIPE¹

The global pandemic shock has caused an unprecedented shock to the tourism industry, severely impacting tourism-dependent economies such as São Tomé and Príncipe. This chapter seeks to examine the recent developments in the tourism sector in São Tomé and Príncipe. It further examines the outlook for recovery prospects and outlines some policy priorities given the economic vulnerability to the tourism shock and the need to minimize scarring and protect the vulnerable workers.

A. Recent Trends in the Tourism Sector

1. Global tourism has suffered the worst year on record in 2020 following the unprecedented fall in demand and widespread travel restrictions, and recovery remained slow in 2021. According to UNWTO (2021) and UNWTO (2022), international arrivals dropped by 73 percent in 2020 (1 billion fewer arrivals) than in 2019. The collapse in international travel represented an estimated loss of USD 1.3 trillion in export revenues, more than 11 times the loss recorded during the 2009 global economic crisis. Africa recorded a 77 percent drop in tourist arrivals in 2020. In 2021, international travel is still suffering from the pandemic. International tourist arrivals (overnight visitors) in 2021 were 72 percent down when compared to the same period of pre-pandemic year 2019. The pace of recovery remained slow. After a weak start of the year, international tourism saw a modest improvement during the months of June and July 2021, driven mainly by vaccinations and the reopening of many destinations to international travel, mostly in Europe and the Americas. In Africa, international travel dropped by 77 percent in the first seven months of 2021 compared to the same period of 2019. While the annual arrivals to Africa showed a 12 percent increase in 2021 compared to 2020.

Figure 1. International Tourist Arrivals, by region, 2019-2021

(In percent change over 2019)

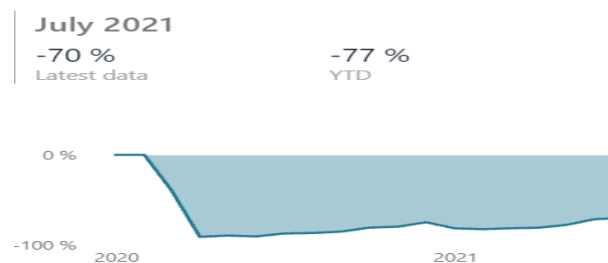


Source: UNWTO.

Note: Change over 2019 (provisional data).

Figure 2. International Tourist Arrivals, Africa, 2020-July 2021

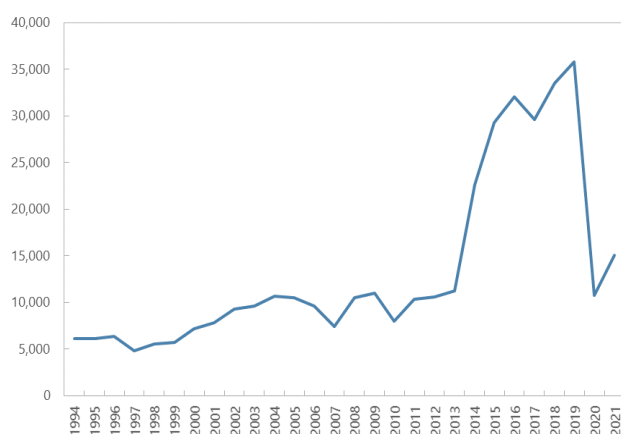
Source: UNWTO



¹ Prepared by Ke Wang. This SIP has benefited from discussions with the authorities from the Central Bank of São Tomé and Príncipe (BCSTP), and Ministry of Commerce, Industry and Tourism.

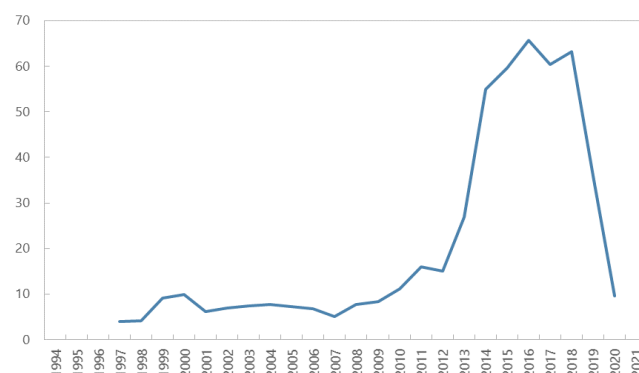
2. Tourism in São Tomé and Príncipe has been hard hit by the Covid-19 shock, as other tourism-dependent countries in Africa. Tourist arrivals experienced an unprecedented collapse since the pandemic. In 2020, tourist arrivals decreased by 70 percent, while tourism revenue decreased by 74 percent, compared to 2019. Travel restrictions led to a significant decrease in tourist demand from the major markets both from Africa and from other regions. Tourist arrivals and tourism receipts declined to the levels of around ten years ago. In 2021, tourist arrivals have made steady recovery, with total number of travelers reached to 15,100 compared to the low level of 10,786 in 2020.

Figure 3. Total Number of Travelers, STP, Annual, 1994–2021



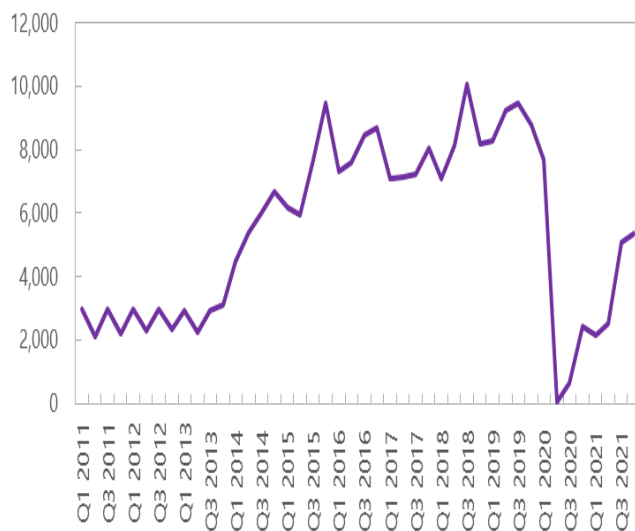
Source: BCSTP; IMF staff calculation

Figure 4. International Tourism Receipts, STP, Annual, 1994–2020
(In millions of USD)



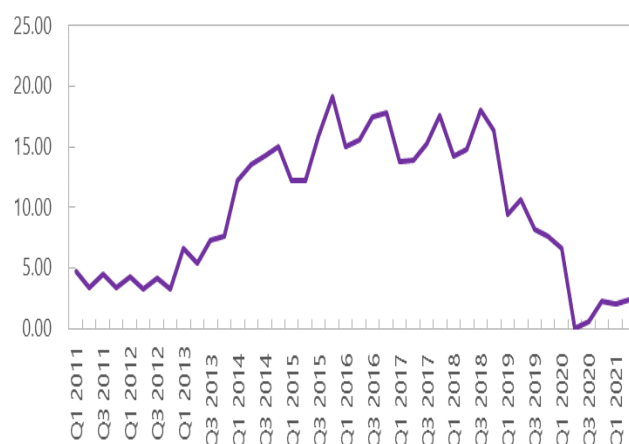
Source: BCSTP; IMF staff calculation

Figure 5. Total Number of Travelers, STP, 2001Q1–2021Q4



Source: BCSTP; IMF staff calculation

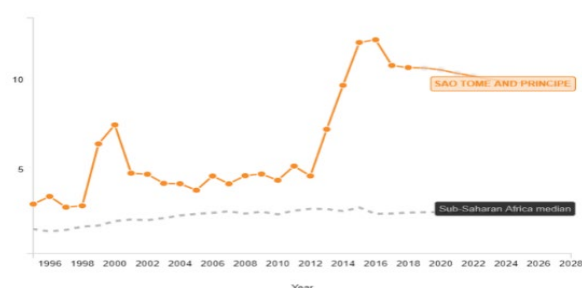
Figure 6. International Tourism Receipts, STP, 2001Q1–2021Q2
(In millions of USD)



Source: BCSTP; IMF staff calculation

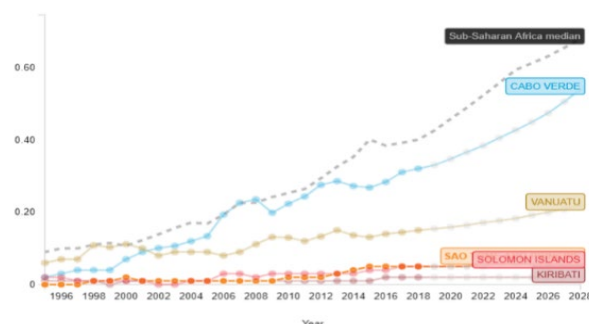
3. Travel and tourism made important contribution to employment and GDP in São Tomé and Príncipe, while the pandemic shock has had a significant negative impact. Travel and Tourism has made substantial direct contribution to employment, which increased steadily since 2012 to account for more than 10 percent of total employment, and the levels are higher than the SSA average. Travel and tourism contributed to 13.8 percent of total employment in 2019, and it suffered a 36 percent decline with around a loss of more than five thousand jobs. The pandemic is expected to have lasting impact on the employment in tourism sector and it will take time to recover. The pandemic shock has adverse impact on exports of services and on GDP growth. The adverse impact on the economy was large since tourism is a key sector for São Tomé and Príncipe. Economy Services exports decreased by around 46 percent in the second to fourth quarters of 2020 compared to the same periods of 2019, mainly reflecting the fall in demand for tourism. The overall economy was also impacted negatively, but the growth was protected mainly by the external support from donors including the support from the IMF. Based on the forecast of World Travel & Tourism Council, the travel and tourism direct contribution to GDP² is expected to gradually recover in São Tomé and Príncipe in the next few years.

Figure 7. Travel and Tourism Direct Contribution to Employment
(In percent)



Source: World Travel & Tourism Council

Figure 8. Travel and Tourism Direct Contribution to GDP
(In billions of USD)



Source: World Travel & Tourism Council

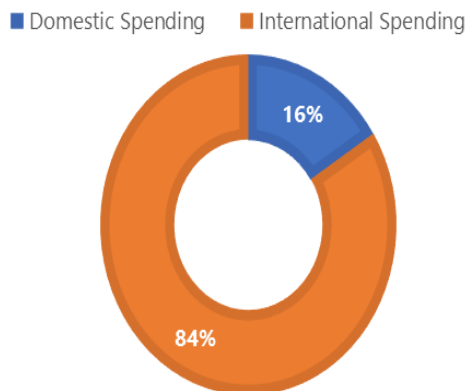
B. Characteristics and Recovery Prospects of the Tourism Sector

4. The economy of São Tomé and Príncipe has a high dependence on tourism, which makes it more vulnerable to the impact of the Covid-19 shock. Tourism receipts accounted for more than 70 percent of total service exports in 2019. Tourism also has large spillover effects to related industries, including hotels, restaurants, retail, transport, construction, and other services. São Tomé and Príncipe's economy has a very high dependence on tourism related industries. In 2019, total contribution of travel and tourism to GDP for São Tomé and Príncipe was 14.7 percent of total economy in 2019 using WWTC data, and it declined to 6.1 percent of total in 2020.

² Based on the World Travel and Tourism (WWTC) database, the direct contribution of travel & tourism to GDP is calculated to be consistent with the output of tourism-characteristic sectors such as hotels, airlines, airports, travel agents and leisure & recreation services that deal directly with tourists (WTTC/Oxford Economics 2020).

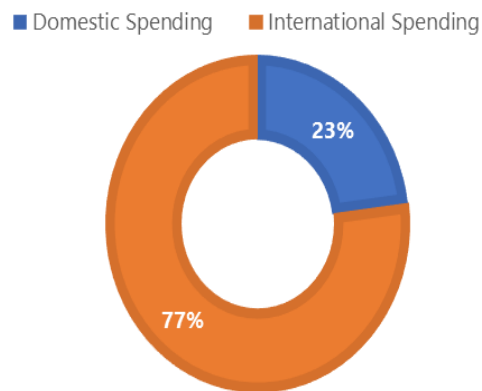
5. The tourism sector in São Tomé and Príncipe is highly reliant on foreign/inbound tourism, which makes it a less favorable position regarding the prospects for a near-term recovery. Based on data from the WWTC annual research country highlights, international spending accounted for 84 percent of total travel spending in 2019, while domestic spending was only 16 percent of total spending. In 2020, international spending continued to dominant which accounted for 77 percent of total travel spending. The high reliance of São Tomé and Príncipe's tourism on international arrivals indicates a slower near-term recovery prospect as international travel restrictions will be eased at a slower pace than domestic tourism. The smaller share of domestic tourism also reflects its relatively minor contribution from its rebound to offset the drop in international arrivals. In addition, the full dependence on air travel also makes it highly susceptible to travel restrictions.

Figure 9. Domestic Spending and International Spending on Travel, STP, 2019



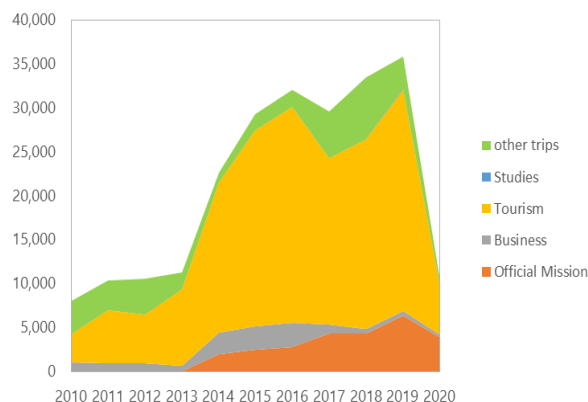
Source: World Travel & Tourism Council

Figure 10. Domestic Spending and International Spending on Travel, STP, 2020

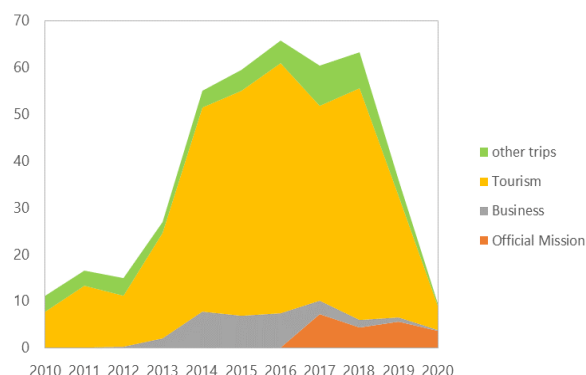


Source: World Travel & Tourism Council

6. São Tomé and Príncipe's lower dependency on business travel is more favorable for recovery prospects. When evaluating travel exports by type, São Tomé and Príncipe has a high ratio of personal travel and low reliance on business travel, official mission, and other trips. As shown in the charts, both the increases in number of travelers and the travel exports in the last two decade are mainly driven by tourism (personal travel). In 2019, personal tourism contributed to 70 percent of total number of travelers, and 73 percent of total travel exports. In 2020, the relative small declines in business travel and official mission helped to complement the big decline in personal travel. These trends of overall lower dependency on business travel could suggest a quicker rebound of tourism in São Tomé and Príncipe, since business tourism may be more severely affected post-Covid-19.

Figure 11. Number of Travelers by Type, STP, 2010-2020

Source: BCSTP; IMF staff calculations.

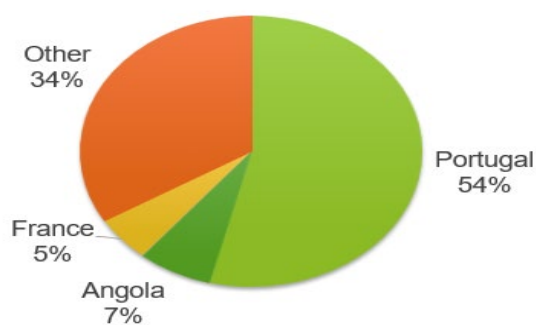
Figure 12. Travel Exports by Type, STP, 2010-2020
(In millions of USD)

Source: BCSTP; IMF staff calculations.

7. In addition, progress on vaccination in source countries and growth recovery in source markets are important for recovery prospects.

As regard to the vaccination progress among the top source market countries, Portugal has reached a very high vaccination rate with around 90 percent of population fully vaccinated by February 2022. France is also very advanced in vaccinating their population, with 77 percent of population having already completed full vaccinations. Angola has around 32 percent of population completed at least one dose

and 16 percent of population who are fully vaccinated as of February 2021. The faster recovery to pre-pandemic growth rates of source markets would also help to the tourism recovery in São Tomé and Príncipe. According to the Oct 2021 WEO, the Euro area is expected to have a real GDP growth rate of 5 percent in 2021 and 4.3 percent in 2022.

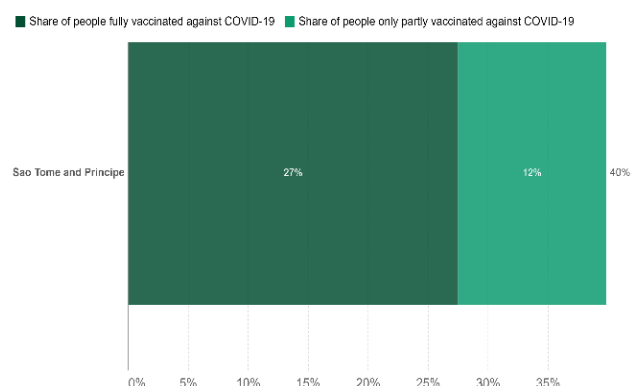
Figure 13. Travelers by Source Markets

Source: BCSTP; IMF staff calculations.

8. Furthermore, the development of health conditions and progress of vaccinations in São Tomé and Príncipe are essential for the speed of recovery. Good health conditions would help to attract tourists once travel restrictions are lifted. In São Tomé and Príncipe, from January 2020 to February 2022, there have been 5,932 confirmed cases of COVID-19 with 72 deaths, reported to WHO. The Covid Case ratio in total population in São Tomé and Príncipe is relatively low compared to other regions such as Europe, North America, and South America. São Tomé and Príncipe also made a good progress in vaccination. As of February 2022, a total of 182,000 vaccine doses have been administered, with around 28 percent of total population fully vaccinated.

Figure 14. Cumulative Confirmed Covid Cases, Apr 2020-Jan 2022

Source: Our World in Data.

Figure 15. Share of People Vaccinated Against COVID, Jan 2022

Source: Our World in Data.

C. Outlook for Tourism

9. Research has suggested some recovery in international tourism in 2021 over the low levels of 2020, but international tourism remained well below 2019 levels. Based on the UNWTO World Tourism Barometer and Statistical Annex (Sep 2021, and Jan 2022), international tourism saw a modest improvement in 2021 with 15 million more international tourist arrivals (4 percent increase) compared to 2020. The increase was mainly driven by increased traveler confidence, progress on vaccinations, and border reopening of many destinations to international travel, mostly in Europe and the Americas. However, international tourist arrivals were still 72 percent lower than the pre-pandemic year of 2019. In addition, the pace of recovery was uneven across regions. According to the UNWTO report, small islands in the Caribbean, Southern Mediterranean Europe, and Central America recorded the best performance in 2021 with quicker recovery than other regions.

10. A full recovery to pre-pandemic levels is expected only in the medium term. The Oct 2021 WEO points out that trade volumes are expected to grow almost 10 percent in 2021, moderating to about 7 percent in 2022 and 3.5 percent in medium term, in line with the projected broader global recovery. Countries which are more tourism dependent are projected to suffer larger declines in activity compared to the pre-COVID-19 forecasts. Travel restrictions and lingering fears of contagion are likely to weigh on cross-border tourist activity until virus transmission declines durably. According to the Nov 2021 and the Jan 2022 UNWTO reports, more than half of the experts continue to expect a rebound in 2022, driven by unleashed pent-up demand, mostly during the third quarter of 2022. Nearly forty percent of the respondents expect a potential rebound in 2023. A majority of experts now expect a return of international arrivals to 2019 levels only in 2024 or later. The UNWTO Confidence Index shows a slight decline in January to April 2022, mainly due to the recent rise in COVID-19 cases and the Omicron variant. The ETC (2021Q3) report indicated according to Tourism Economics' latest baseline, European international arrivals are forecast to be 60 percent below 2019 levels in 2021. European travel demand is poised for a major recovery with

the highest vaccination rate among the world regions, but volumes are still far from the pre-pandemic days which are not expected to return until 2024. The recent Eurocontrol forecasts (Oct 2021) expects that air traffic in Europe would return to 2019 levels by end of 2023 in the baseline scenario, with the assumptions of vaccine roll-out reaching herd immunity levels within Europe with reliable vaccine in 2021, limited travel restriction, and coordinated European approach.

11. The recovery of tourism in São Tomé and Príncipe will be impacted by the pace of the vaccination rollout, the coordination among countries on travel procedures, and the economic situation of source markets. Vaccine developments help to shift the balance of risks and elevate the upside potential, while infection waves and protracted containment measures could further delay the recovery of tourism sector. Tourist arrivals data shows a recovery of 42 percent of the 2019 level in 2021. The authorities shared their views of a full recovery in travel exports to pre-pandemic level expected to take place by 2023 or 2024.

12. The outlook of international travel and tourism also implies shifts in characteristics and provides new opportunities. As pointed out by the report of WTTC (2021), challenges in the tourism recovery can be converted into opportunities and make the sector adapt to ultimately return stronger. From a demand perspective, COVID-19 is transforming tourist behaviors toward the familiar, predictable, trusted, and even low risk. Domestic and regional vacations, extensive research and planning, and the outdoors will reign in the short term, with tourism businesses and destinations already adapting accordingly. Health and safety will be important. Travel regulations and flexible policies will guide consumer behavior in short to medium term. Collaboration of business with their extended value chains, especially employees and suppliers, to ensure implement protocols is important. Innovation and the integration of new technologies are helpful to provide safe and seamless travel experiences. Tourism sector needs to make meaningful changes to adapt to the needs of social, environmental, and institutional sustainability. Government support, regional and international coordination are crucial for the swift recovery of the tourism sector.

D. Policy Priorities

13. São Tomé and Príncipe has adopted various measures to support the economy and tourism sector. Main policy measures³ include: 1) Fiscal measures to increase spending on epidemic prevention and readiness, provide social assistance and protect small businesses; 2) Monetary policies to ease pressure on the banks and increase liquidity; 3) External support from international communities including the World Bank and the IMF; 4) The authorities declared a state of emergency in March 2020 including the suspension of all international passenger flights. The government moved to the three phases of reopening started from June 2020. The country has reopened hotels, restaurants, commercial flights, and extended the operation of commerce and public service to normal hours and started in-person classes at universities. All air passengers arriving in São Tomé and Príncipe are required to have proof of a negative coronavirus PCR test taken in the 72 hours prior to their arrival; 5) On jobs and skills, measures include expansion of social

³ Summarized based on UNWTO compilation of country policy measures to support travel and tourism.

assistance to the most vulnerable and increased support to the disadvantaged, protecting small businesses and employment in particular through salary contributions and state-guaranteed loans, and financial assistance to workers who lost their jobs in both the formal or informal sectors.

14. Continued targeted support measures to the tourism sector are warranted in the short term given their systemic importance to the economy. Policy priorities could focus on facilitating travel, such as rolling out vaccinations swiftly, travel policies to facilitate transport and boarder entry, and promoting marketing for tourism to boost tourism revenues. Other important policy measures include providing liquidity for business, protecting jobs, recovering confidence through safety and security, public and private sector collaboration, harmonizing and coordinating protocols and procedures, adding value jobs through new technologies, and encouraging innovation and sustainability as the new normal.

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