CABO VERDE

Table 1	2021
Population, million	0.6
GDP, current US$ billion	1.9
GDP per capita, current US$	3363.6
International poverty rate ($1.9)[a]	3.4
Lower middle-income poverty rate ($3.2)[a]	15.4
Upper middle-income poverty rate ($5.5)[a]	41.3
Gini index[a]	42.4
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	73.0
Total GHG Emissions (mtCO2e)	0.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2011 PPPs.
b/ Most recent WDI value (2019).

Growth rebounded to 7.1 percent in 2021, led by the gradual recovery in tourism, supporting poverty alleviation. Inflationary pressures increased, driven by energy and food. Growth-friendly fiscal consolidation should see growth converging to 6 percent and put debt-to-GDP on a declining path over the medium term. The outlook is subject to substantial downside risks stemming from new COVID-19 variants, the Ukraine crisis, and climatic shocks.

Key conditions and challenges

Political stability, democratic institutions, and pro-market reforms have generated significant economic and social progress since independence in 1975. However, Cabo Verde's development model, based on tourism and foreign direct investment (FDI) has shown signs of fatigue since the 2008 Global Financial Crisis. The subsequent sluggish recovery in Europe reduced the influx of funds, with dwindling private investment and growth. Ineffective expansionary fiscal policy between 2010-2015 led to growing fiscal financing needs and to put public debt back on a sustainable path, the authorities initiated a consolidation program in 2016, including the reform of loss-making state owned enterprises (SOEs).

The COVID-19 crisis reversed the progress in fiscal consolidation and exacerbated the growth model's vulnerabilities. In addition to the adverse economic effects of mitigation measures, global travel restrictions led to a sharp contraction in tourism and related activities. The authorities responded by expanding public health services and social protection programs, as well as by providing financial support to small businesses. However, poverty reduction gains made since 2015 were reversed in 2020 driven largely by substantial temporary job losses, particularly in the tourism sector. The unemployment rate increased from 11.3 to 14.5 percent in 2020.

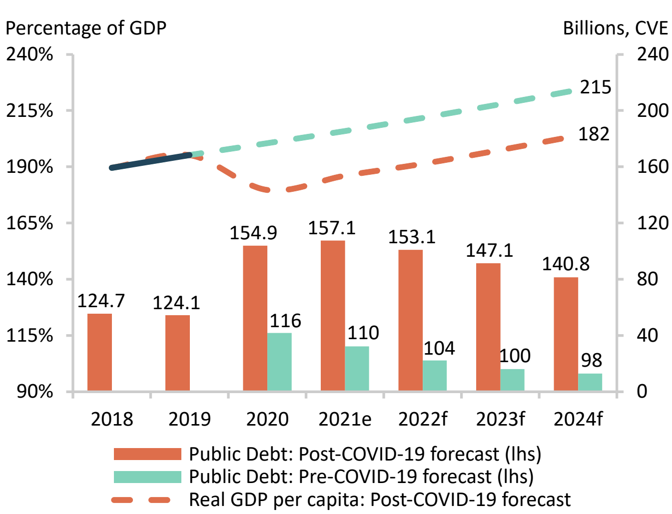
The pace of economic recovery is subject to substantial downside risks associated with rising uncertainty in Europe due to the Ukraine conflict, the emergence of new COVID-19 variants, and climatic shocks. Fiscal risks are high as the government is exposed to contingent liabilities in sectors that are particularly vulnerable to the crisis, such as aviation, ports, and utilities. A sustained Ukraine war could reduce investments and tourism flows and trigger fiscal liabilities. Moreover, Cabo Verde remains highly exposed to natural disasters such as volcanic eruptions, droughts, floods, and rising sea levels that could further weigh on external and fiscal balances.

Recent developments

Economic activity is estimated to have expanded by 7.1 percent in 2021, magnified by base effects after a contraction of 14.8 percent in 2020. Growth was led by a slight recovery of tourism from the second quarter. Retail and wholesale trade, construction, and public administration were the main contributors of growth. On the demand side, public consumption and net exports were the main drivers.

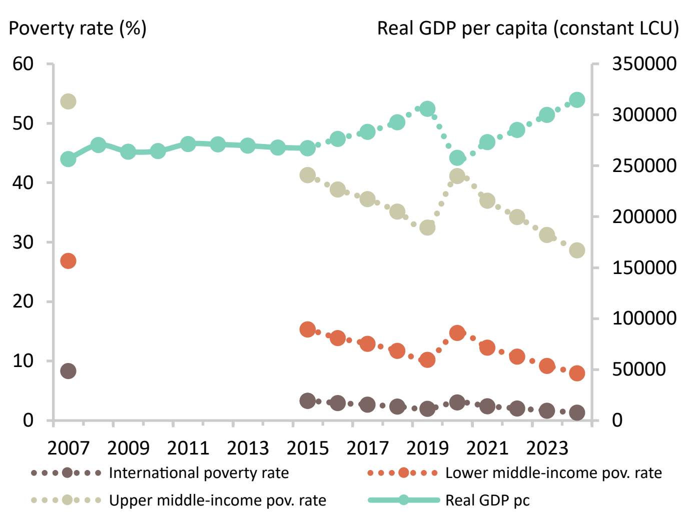
The current account deficit (CAD) is estimated to have declined from 15.9 percent of GDP in 2020, to 14.2 percent in 2021, supported by an increase in remittances and the moderate recovery in services exports. The CAD was financed by concessional loans and FDI. International reserves reached 6.9 months of prospective imports.

FIGURE 1 Cabo Verde / GDP per capita and debt outlook



Sources: World Bank and IMF staff estimates. Note: Pre COVID-19 GDP forecast refers to the 2019 Annual Meetings Macro-poverty Outlook.

FIGURE 2 Cabo Verde / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see table 2.

The fiscal deficit is estimated to have narrowed slightly to 9.5 percent of GDP in 2021, driven by sustained high current expenditure (33.8 percent of GDP). Financing needs of 8.8 percent of GDP were covered by concessional credits, grants, domestic borrowing, and resources freed up by the Debt Service Suspension Initiative. Public debt as a share of GDP increased slightly to 157.1 percent of GDP, driven by increased domestic debt, and remains sustainable, but the risk of external and total debt distress is high.

Cabo Verde's monetary policy is aligned with the Eurozone, as the escudo is pegged to the euro. Inflationary pressures increased in 2021 due to higher international oil and food prices. Average headline inflation rose from 0.6 percent in 2020, to 1.9 percent in 2021. Food inflation, which stood at 0.6 percent, affected disproportionally the poor as the bottom forty percent of the population spends about 34 percent of their income on consumption.

The rebound in economic activity in 2021 resulted in a reduction in the poverty rate from 14.7 percent to 12.3 percent (using $3.2 US per day PPP in 2011), reflecting nearly 12,000 fewer people living in poverty. The extreme poverty rate fell slightly from 2.4 percent to 2 percent.

Outlook

Real GDP growth is projected to reach 5.5 percent in 2022 (4.4 percent in per capita terms), driven by the continued recovery of the tourism sector. The Ukraine crisis will weigh on growth, mainly through increasing oil and food prices. Over the medium term, private consumption and investment in tourism and the blue economy will be the main contributors to growth. The outlook is subject to substantial downside risks stemming from climate shocks, new COVID-19 variants, the realization of contingent liabilities, increased global uncertainty due to the Ukraine war, and delays in SOE reforms.

Inflationary pressures are expected to peak in 2022, reaching 3.5 percent, reflecting the stress on global value chains and the impact of the Ukraine war. Inflation is expected to start stabilizing in 2023 as supply disruptions abate and energy prices stabilize. Inflation is projected to converge to 2 percent over the medium-term.

The CAD is projected to reach 11.8 percent of GDP in 2022, falling to 6.7 percent by 2024 driven by the rebound in service exports. Medium-term external financing needs are expected to be covered mainly by FDI, which is expected to reach 5.3 percent of GDP in 2024. International reserves are expected to remain strong, at 6 to 7 months of imports.

The authorities are committed to gradual fiscal consolidation over the medium term, which includes enhanced management of fiscal risks, notably from SOEs, and revenue mobilization. The primary fiscal deficit is projected to decline to 8 percent of GDP in 2022. Fiscal consolidation and prudent borrowing policies should reduce the public debt-to-GDP ratio to 140.8 percent by 2024.

The poverty rate (based on the lower-middle income poverty line of US$3.2 a day, 2011 PPP) is projected to decline to 10.6 percent in 2022 and 8 percent by 2024. Poverty reduction will be supported by growth, mainly in the tourism sector, and the stabilization of inflation over the medium term.

TABLE 2 Cabo Verde / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.7	-14.8	7.1	5.5	6.1	6.0
Private Consumption	5.9	-11.3	3.9	2.3	3.4	3.0
Government Consumption	4.8	0.8	7.5	2.3	2.5	1.7
Gross Fixed Capital Investment	-6.3	19.7	11.2	12.5	10.4	10.6
Exports, Goods and Services	8.7	-58.4	8.4	22.4	13.4	12.7
Imports, Goods and Services	0.8	-22.5	7.4	13.6	9.1	8.8
Real GDP growth, at constant factor prices	5.7	-14.8	7.1	5.5	6.1	6.0
Agriculture	-6.8	-6.3	8.1	4.5	2.9	2.6
Industry	7.5	-2.0	10.3	6.4	6.3	5.6
Services	6.3	-19.2	5.9	5.3	6.3	6.5
Inflation (Consumer Price Index)	1.1	0.6	1.9	3.5	2.3	2.0
Current Account Balance (% of GDP)	-0.4	-16.5	-13.5	-11.8	-7.0	-6.7
Net Foreign Direct Investment (% of GDP)	4.2	3.7	5.8	2.6	4.2	5.3
Fiscal Balance (% of GDP)	-2.4	-10.0	-9.5	-8.0	-7.1	-5.9
Debt (% of GDP)	124.1	154.9	157.1	153.1	147.1	140.8
Primary Balance (% of GDP)	0.2	-7.1	-7.0	-4.8	-3.6	-2.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.0	3.1	2.4	2.0	1.6	1.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	10.2	14.7	12.3	10.8	9.2	8.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	32.5	41.1	37.0	34.2	31.2	28.7
GHG emissions growth (mtCO2e)	2.5	2.2	2.1	2.5	2.4	1.5
Energy related GHG emissions (% of total)	87.5	88.1	88.7	88.9	89.1	90.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2007-QUIBB, 2019-, and 2015-IDRF. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2007-2019) with pass-through = 1 based on GDP per capita in constant LCU.