CABO VERDE

Table 1	2019
Population, million	0.6
GDP, current US$ billion	2.1
GDP per capita, current US$	3738.1
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]	104.0
Life expectancy at birth, years[b]	72.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2018).

Growth was robust in 2019, reaching 5.7 percent. Fiscal and external balances strengthened, with surpluses achieved in the primary balance and the current account. The COVID-19 crisis will lead to a projected contraction of 6.8 percent in 2020, with growth gradually picking up over the medium-term as tourism recovers. The outlook is subject to substantial downside risks stemming from the speed of the global recovery and magnitude of the domestic COVID-19 outbreak.

Recent developments

Economic growth accelerated from 4.5 percent in 2018 to 5.7 percent in 2019. Construction, retail, transport, and tourism services contributed to a dynamic economy. Data for the first quarter of 2020 confirmed the strong macroeconomic performance prior to the COVID-19 crisis, with real GDP growth (year-on-year) estimated at 5.8 percent. The pandemic brought tourism to a halt with leading indicators suggesting a large reduction in output in the second quarter, with imports falling by 25.8 percent and exports declining by 45.5 percent.

The external current account deficit decreased from 5.2 percent of GDP in 2018 to a 0.3 percent surplus in 2019 driven by exports of services, notably tourism, and private remittances. The current account was financed largely through Foreign Direct Investment (FDI), which helped international reserves reach 7 months of imports. The external sector felt the initial impacts of the crisis in the first quarter of 2020, with the current account balance deteriorating to a deficit of 0.2 percent of GDP, as exports of services contracted.

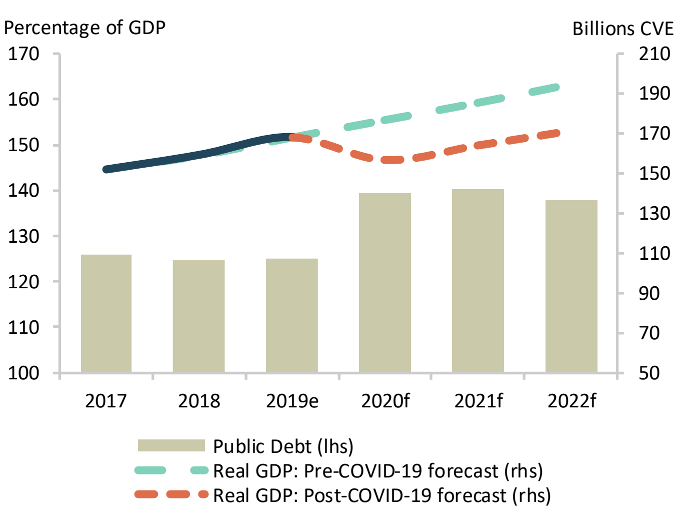
The primary fiscal balance was in surplus for the first time in a decade in 2019, at 0.7 percent of GDP. The overall fiscal deficit narrowed to 1.8 percent of GDP in 2019. Central government fiscal consolidation efforts included reforms of state-owned enterprises (SOEs). The stock of public debt remained stable at 125 percent of GDP in 2019, which is assessed as sustainable, but the risk of external debt distress remains high. The pandemic reduced both revenue and expenditures, mainly due to underperformance in corporate income tax, VAT, and non-tax revenue, while public investments suffered significant delays. The fiscal financing requirement rose to 9.4 percent of GDP.

Cabo Verde's monetary policy is closely aligned with Europe, with the local currency pegged to the Euro. With inflation expectations relatively low and limited pressure on the peg, monetary policy has been accommodative in the face of the crisis. The policy rate was lowered to 0.25 percent in March, along with downward revisions to the minimum reserve requirement, overnight deposit rate, and long-term liquidity support for banks. Inflation remained subdued in 2019 at 1.1 percent in the context of a stable and slightly negative output gap. The unemployment rate reached a nine-year low, standing at 11.3 percent. Despite the persisting effects of a 3-year drought, the share of the population subsisting below the lower middle-income poverty line (US$3.2 a day, 2011 PPP) fell 1.7 percentage points from 9.6 percent in 2018 to 7.9 percent in 2019. As the pandemic reached the country, the government empowered existing social protection systems to support interventions aimed at preserving the livelihoods of the most vulnerable.

Outlook

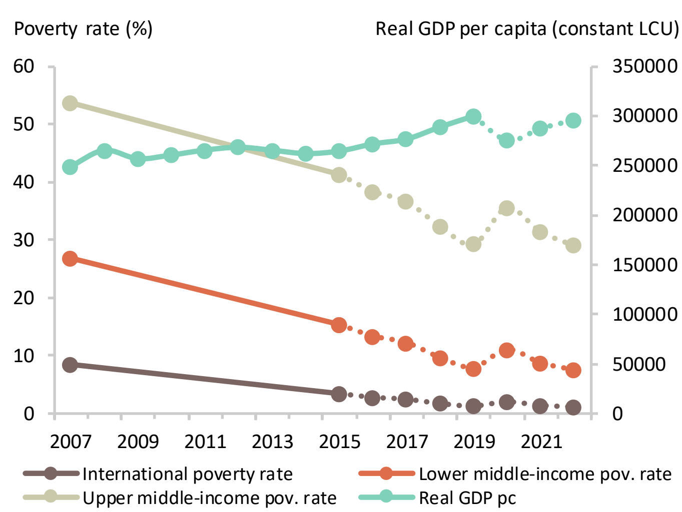
Cabo Verde is very exposed to the economic effects of the COVID-19 pandemic.

FIGURE 1 Cabo Verde / GDP 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 GDP per capita



Source: World Bank. Notes: see Table 2

The temporary shutdown of the tourism sector and the associated impact to upstream sectors will impact growth significantly in 2020. The impact of mitigation measures will be compounded by the downturn in FDI inflows. The economy is projected to contract by 6.8 percent in 2020. The unemployment rate is expected to double to 19.2 percent. Over the medium term, private consumption and investment in transport, tourism, energy and ICT linked to planned structural reforms is expected to jumpstart growth, with export of services continuing to be the leading contributor. Inflation is expected to remain contained, benefitting from lower international fuel prices and subdued aggregate demand, reaching 1.4 percent in the medium-term.

The fiscal deficit will be allowed to widen substantially in 2020 to absorb the shock. The overall deficit (including grants) will increase from 1.8 percent in 2019 to 11.3 percent in 2020 owing to a loss of tax revenue, especially from tourism, and a large increase of expenditure in response to the pandemic. Public debt will increase to 140.3 percent of GDP in 2021 before reverting to a gradually declining path in the medium-term as the government resumes a prudent fiscal stance.

The external current account deficit is projected to increase substantially to around 15.2 percent of GDP in 2020. Tourism receipts are expected to decline by approximately 65 percent in 2020. Over the medium-term the current account deficit is expected to decline, underpinned by sustained growth in tourism receipts and remittance inflows.

The country is expected to register an increase in poverty in 2020, with the poverty rate at the US$1.90 a day (2011 PPP) poverty line expected to rise to 2 percent, equivalent to 40,000 additional people falling into poverty. The reduction in tourist arrivals will lead to direct and severe income shocks for households that are active in the sector; through loss of employment, drops in complimentary income, and loss of domestic remittances. The pace of poverty reduction would resume into the medium-term as economic growth gradually returns, consolidating Cabo Verde among the countries projected to meet the objective of eliminating extreme poverty by 2030.

Risks and challenges

The emergence of subsequent waves of the pandemic, particularly in Europe, would deepen the unfolding crisis and increase pressure on external and fiscal balances. Furthermore, the speed of recovery of the tourism sector, and consequentially most of the economy, is directly linked to external factors related to the evolution of the pandemic and its containment. Failure to contain the domestic outbreak would call for additional reprioritization of government expenditure and further revenue mobilization measures, thus impacting public debt. This would increase fiscal unbalances and require stronger adjustment efforts in the medium-term to maintain a downward trajectory for public debt.

Contingent liabilities, particularly in the transportation sector, continue to increase fiscal risks over the short-term given the vulnerability of the sector to the crisis. As such, the resumption of reforms to improve SOE oversight are crucial to enhance governance, transparency, mitigate fiscal risks, and lay the groundwork for a sustained recovery. These key structural reforms could be jeopardized by domestic political and social pressures against further fiscal consolidation in the aftermath of the crisis.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.7	4.5	5.7	-6.8	4.5	4.8
Private Consumption	7.1	1.5	5.9	-3.0	4.5	5.0
Government Consumption	7.7	2.2	4.8	14.8	-1.5	-3.5
Gross Fixed Capital Investment	12.3	5.8	-4.0	3.3	-3.7	1.1
Exports, Goods and Services	7.5	11.9	8.6	-47.3	23.9	17.5
Imports, Goods and Services	16.4	6.7	0.9	-22.0	6.1	7.1
Real GDP growth, at constant factor prices	2.0	2.4	5.7	-6.8	4.5	4.8
Agriculture	-12.5	-19.0	-7.3	3.0	3.5	3.5
Industry	11.9	8.1	5.0	-5.9	3.0	4.0
Services	1.5	3.4	7.2	-7.9	5.0	5.2
Inflation (Consumer Price Index)	0.8	1.3	1.1	1.0	1.2	1.4
Current Account Balance (% of GDP)	-7.9	-5.2	0.3	-15.2	-10.0	-7.3
Net Foreign Direct Investment (% of GDP)	5.6	4.1	4.1	0.8	2.8	3.7
Fiscal Balance (% of GDP)	-3.0	-2.8	-1.8	-11.3	-9.6	-6.2
Debt (% of GDP)	125.9	124.7	125.0	139.4	140.3	137.9
Primary Balance (% of GDP)	-0.4	-0.3	0.7	-8.6	-6.7	-3.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.4	1.7	1.3	2.0	1.4	1.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	12.2	9.6	7.9	11.0	8.7	7.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	36.6	32.4	29.3	35.5	31.5	29.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on 2007-QUIBB and 2015-IDRF. Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.

(b) Projection using point-to-point elasticity (2007-2015) with pass-through = 0,7 based on GDP per capita in constant LCU.