CABO VERDE

Table 1	2020
Population, million	0.6
GDP, current US$ billion	1.7
GDP per capita, current US$	3093.6
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]	104.0
Life expectancy at birth, years[b]	72.8

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

The COVID-19 crisis led to a contraction of real GDP of 14 percent in 2020, exacerbating pre-existing fiscal, debt, and external imbalances. Progress in poverty reduction since 2015 was erased. Over the medium-term, growth is expected to recover gradually as tourism flows and foreign direct investment rebound. The outlook is subject to substantial downside risks stemming from access to vaccines, the emergence of new variants of the virus, the speed of global recovery, and climatic shocks.

Key conditions and challenges

Political stability, democratic institutions, and pro-market reforms generated significant economic and social progress in Cabo Verde since independence in 1975. However, the country'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 to Cabo Verde, with dwindling private investment and growth. Ineffective expansionary fiscal policy between 2010-2015 led to growing fiscal financing needs, increasing public debt, and a slowdown in productivity. To put public debt on a sustainable path, authorities initiated a fiscal consolidation program in 2016, including the reform of key loss-making State Own Enterprises (SOEs).

The impact and persistence of the COVID -19 pandemic exacerbated the vulnerabilities of the growth model. In addition to the adverse economic effects of domestic containment and mitigation measures, international travel restrictions led to a sharp contraction in tourism and related activities. Rising global uncertainty also depressed FDI. Authorities responded to the crisis appropriately, expanding public health services and social protection programs as well as providing financial support to small businesses and hard-hit sectors, although it set back gain in poverty reduction made in the past five years.

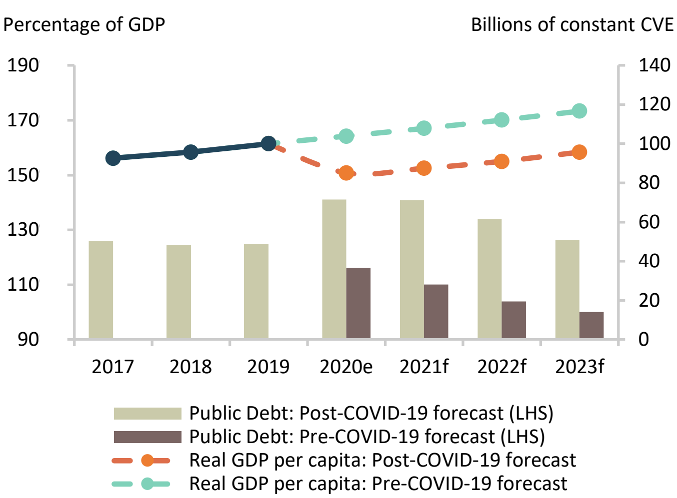
The pace of the economic recovery is tied to the duration of the pandemic, access to vaccines, the emergence of new variants of the virus, and the speed of global recovery, particularly international tourism. Fiscal risks are high as the government is exposed to contingent liabilities in sectors that are particularly vulnerable to the crisis. A protracted pandemic would aggravate the current crisis, triggering these liabilities and leading to macroeconomic instability. The country also remains significantly exposed to natural disasters that could further weigh on external and fiscal balances.

Recent developments

Economic activity contracted by 14 percent in 2020, the largest contraction on record and one of the highest in Africa. The deceleration was driven by the shutdown of the tourism sector and the associated negative spillovers in upstream sectors. The services sector contracted by 18.4 percent, while industrial output declined by 3.6 percent. Agriculture output grew by 2.5 percent as the 3-year long draught came to an end in 2020.

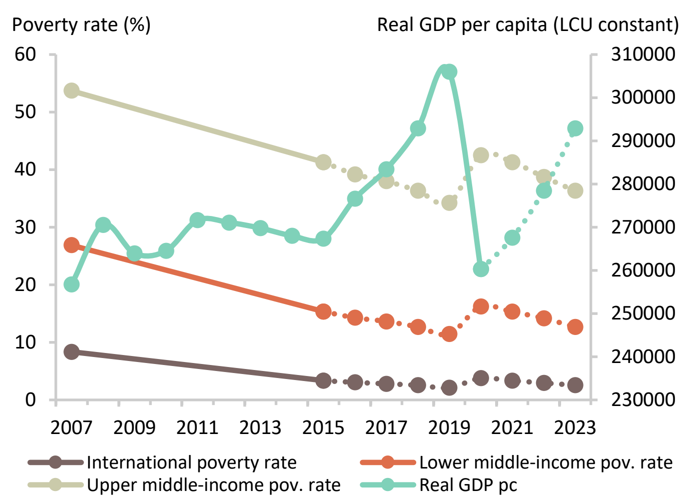
The Current Account Deficit (CAD) increased from 0.4 percent of GDP in 2019 to 13.8 percent in 2020, owing to the collapse in services exports. The CAD was financed primarily by grants and concessional loans. International reserves reached 7.8 months of imports.

FIGURE 1 Cabo Verde / Real GDP per capita and debt outlook



Sources: World Bank and IMF Staff estimates

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



Source: World Bank. Notes: see Table 2.

The overall fiscal deficit reached 9.3 percent of GDP in 2020, driven by a fall of 20 percent in tax revenue and an increase of 21 percent in current spending due to health-related expenditures and temporary subsidies. Financing needs of 12.3 percent of GDP were covered by concessional credits, grants, domestic borrowing, and resources freed by the Debt Service Suspension Initiative (DSSI). The stock of public debt climbed to 141.1 percent in 2020. The risk of external and total debt distress is high but public debt remains sustainable due to its concessional profile, long maturity and low interest rates.

Cabo Verde's monetary policy is aligned with the Eurozone, as the Escudo is pegged to the Euro. Despite an accommodative monetary policy stance, inflation remained subdued at 1 percent in 2020. Liquidity and capital ratios in the banking system are adequate, but exposure to non-performing loans is high.

The crisis reversed the progress in poverty reduction achieved since 2015, pushing close to 10,000 people into temporary poverty. Population living under the international poverty line of US$1.9/day (2011 PPP) increased from 2.3 percent in 2019 to 3.7 percent in 2020.

Outlook

The economy will recover slowly from the pandemic. Real GDP growth is projected to be 3.9 percent in 2021 and gradually accelerate to 6.1 by 2023. GDP per capita is projected to return to the 2019 level by 2024. In the short-term, the recovery will be driven by a gradual reactivation of the tourism sector. Over the medium-term, private consumption and investment in tourism and the blue economy, energy and ICT will contribute to closing the output gap. The resumption of FDI and structural reforms will also unlock investments and accelerate productivity. The outlook is subject to substantial downside risks stemming from delays in the recovery of tourism, financial flows, and SOEs reforms.

The CAD is projected to reach 13.5 percent of GDP in 2021, converging to 4.6 in 2023. Medium-term external financing needs are expected to be covered mainly by private external debt and FDI, which is expected to reach 5 percent of GDP in 2023. International reserves would remain steady at about 6 months of imports.

Authorities are committed to macroeconomic stabilization in the short-term and fiscal consolidation in the medium-term. Consolidation measures will include enhanced management of fiscal risks, notably from SOEs, and revenue mobilization. The primary deficit is projected to reach 6.1 percent of GDP in 2021 and improve over the medium term to 0.5 percent in 2023. The extension of the DSSI in 2021 will free resources amounting to 0.5 percent of GDP and the public debt-to-GDP ratio is expected to fall to 126.4 by 2023. Inflation is projected to remain below 1.5 percent over the medium-term.

The poverty rate (using the international poverty line of $1.9/day) is projected to decline to 3.3 percent in 2021 and reach 2.5 percent in 2023 with significant downside risks associated with an uncertainty about the depth and duration of the pandemic and associated impacts on tourism.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.5	5.7	-14.0	3.9	5.2	6.1
Private Consumption	1.5	5.9	-7.0	2.9	4.1	5.3
Government Consumption	2.2	4.8	5.1	2.6	-5.8	-3.7
Gross Fixed Capital Investment	4.4	-4.5	0.9	0.3	7.6	6.4
Exports, Goods and Services	15.9	10.0	-49.0	15.1	18.2	11.3
Imports, Goods and Services	8.7	2.0	-21.9	5.6	8.9	5.7
Real GDP growth, at constant factor prices	4.5	5.7	-14.0	3.9	5.2	6.1
Agriculture	-18.5	-6.8	2.5	6.2	7.3	8.1
Industry	8.1	7.5	-3.6	4.2	5.5	6.6
Services	6.3	6.3	-18.4	3.6	4.9	5.7
Inflation (Consumer Price Index)	1.3	1.1	1.0	1.2	1.4	1.5
Current Account Balance (% of GDP)	-5.2	-0.4	-13.8	-13.5	-9.7	-4.6
Net Foreign Direct Investment (% of GDP)	4.1	4.1	4.1	4.2	4.5	5.0
Fiscal Balance (% of GDP)	-2.7	-1.8	-9.3	-9.1	-6.3	-3.3
Debt (% of GDP)	124.7	124.9	141.1	140.9	134.0	126.4
Primary Balance (% of GDP)	-0.2	0.8	-6.4	-6.1	-3.5	-0.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.5	2.1	3.8	3.4	3.0	2.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	12.7	11.5	16.2	15.3	14.2	12.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	36.3	34.2	42.5	41.3	38.7	36.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2015-IDRF. Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021 to 2023.
(b) Projection using neutral distribution (2015) with pass-through = 1 based on GDP per capita in constant LCU.