

CABO VERDE

Table 1 **2023**

| | |
|--|--------|
| Population, million | 0.5 |
| GDP, current US\$ billion | 2.5 |
| GDP per capita, current US\$ | 4968.9 |
| International poverty rate (\$2.15) ^a | 4.6 |
| Lower middle-income poverty rate (\$3.65) ^a | 19.3 |
| Upper middle-income poverty rate (\$6.85) ^a | 50.9 |
| Gini index ^a | 42.4 |
| School enrollment, primary (% gross) ^b | 97.0 |
| Life expectancy at birth, years ^b | 74.1 |
| Total GHG emissions (mtCO2e) | 0.7 |

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2015), 2017 PPPs.
 b/ WDI for School enrollment (2019); Life expectancy (2021).

Growth is expected to have slowed to 4.8 percent in 2023 despite exports, mainly tourism, returning to pre-pandemic levels. Inflation stood at 3.7 percent, aided by declining fuel and food prices. Growth-friendly fiscal consolidation should allow stable growth of 4.7 percent over the medium term, though the outlook remains subject to downside risks from commodity price spikes, weaker external demand, limited progress on key SOE reforms, and climate shocks.

Key conditions and challenges

Cabo Verde is a small, and vibrant island nation with an open economy. Its economic growth has been driven by tourism, remittances, and foreign direct investment enabled by structural reforms and social and political stability. The development model has shown signs of fatigue since the 2008 global financial crisis: growth fell from a robust average 7.5 percent in the 2000s to 2.8 percent in the last decade (excluding 2020) and is highly volatile. The impact of the pandemic accentuated debt risks and underscored key vulnerabilities, including the dominance of the tourism sector, absence of buffers to shocks, and poor performing State-Owned Enterprises (SOE).

Achieving higher and sustained growth requires reforms to reduce the economy's vulnerabilities to external economic and climate-related shocks; increase private sector productivity to benefit from the thriving tourism sector; and reduce internal transport costs and market fragmentation. A gradual transition to blue (ocean related) and green (environment related) activities are policy priorities for the medium term.

Recent developments

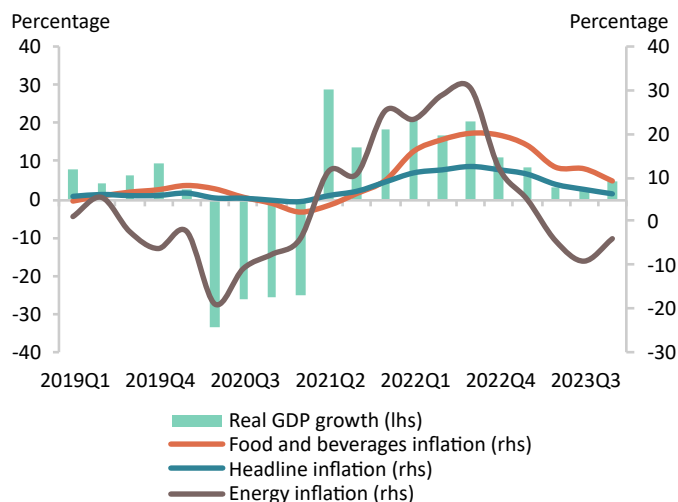
Economic growth is estimated to have slowed to 4.8 percent in 2023 (4.2 percent in per capita terms), reflecting the stabilization

of service exports after the post-covid tourism rebound. On the supply side, accommodation, transport, and commerce drove growth, while on the demand side, growth was led by exports and private consumption. Growth was accompanied by a 0.9 percentage points reduction in poverty (using the US\$3.65 per person and per-day-2017 PPP).

Headline inflation decelerated to 3.7 percent (y/y) in 2023 from the high of 7.9 percent in 2022, driven by the easing of international food prices and falling oil prices. Food inflation, which represents 25 percent of the CPI basket, slowed to 8.9 percent while energy inflation decreased by 3.2 percent on average. Core inflation reached an annual average of 2.3 percent. Poverty (\$3.65 per day PPP 2017) is expected to reach 15.1 percent in 2023, down from 16.0 percent in 2022, but above its 2019 pre-pandemic level of 14.1 percent. Economic growth was fundamental for poverty reduction in 2023, coupled with a decrease in inflation compared to 2022. Growth of the services sector led to creation of new jobs, especially in tourism, but the household real income benefits were dampened by inflation pressures, especially in food items.

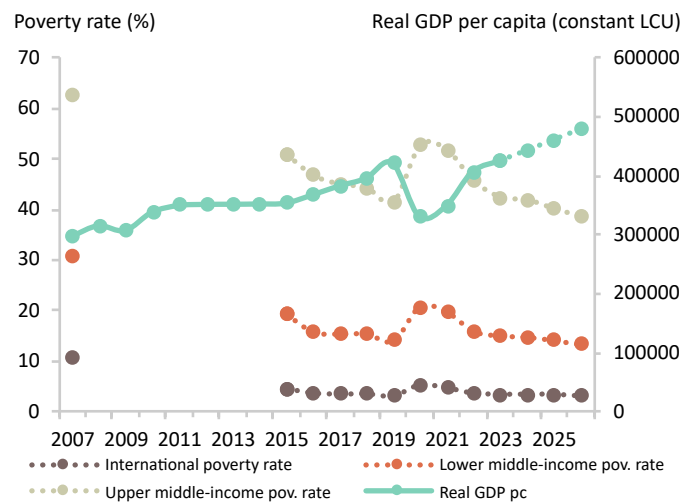
Increased revenues and under execution of the capital budget narrowed the fiscal deficit to 0.5 percent of GDP in 2023 from 4.3 percent in 2022. Revenue increased by about 20 percent over the same period driven by corporate income tax and VAT collection, as well as revenues linked to the airport private concession. Total expenditure increased by 2.6 percent. Public debt declined from 127.1 percent in 2022 to

FIGURE 1 Cabo Verde / Real GDP growth and inflation



Source: Government of Cabo Verde.

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



Source: World Bank. Notes: see Table 2.

115.3 percent in 2023, driven by GDP growth. External debt is mainly concessional, at 105 percent of GDP, while domestic debt has surged to over 30 of GDP post-COVID-19, driving the high risk of overall debt distress.

The current account deficit (CAD) widened from 3.4 percent of GDP in 2022 to 5.3 percent in 2023, due to the slowdown in exports of goods and services, mainly tourism, and remittances compared to 2022. The CAD was financed primarily by FDI and concessional loans, while international reserves remained at a comfortable 5.8 months of import coverage.

Outlook

Real GDP growth is projected to remain relatively stable in 2024, at 4.7 percent (4.2 percent in per capita terms). Over the medium term, growth will be supported by the implementation of structural reforms aimed at improving public sector efficiency and the business environment.

Inflation is expected to decline further to 2.7 percent in 2024, as global inflation the international price shock continues to subside, and converge to around 2 percent over the medium term, supported by the strong nominal anchor provided by the peg to the Euro.

Poverty (using US\$3.65 per day-2017 PPP) is projected to decline to 14.9 percent in 2024 driven by the services and industry sectors, and a moderation of inflation. Projections for 2025 suggest a further decline in poverty to 14.2 percent, aligning with the pre-pandemic level, with this downward trend continuing into 2026 to reach 13.4 percent.

Overall fiscal balance is projected to widen to -3.0 percent of GDP in 2024, reflecting the increase in total expenditure with staff salary updates, increases in social benefits and acquisition of goods and services, and sound execution of public investments. Tax revenue collection will remain strong, with a review of tax benefits and the continued implementation of measures to improve tax administration efficiency and broaden the tax base. Continued efforts to

mobilize domestic revenue and contain current expenditure will reduce the fiscal deficit to just above 1 percent of GDP by 2026. The public debt-to-GDP ratio is expected to improve to 102.1 percent by 2026 but continued management of fiscal risks related to SOE arising from loan guarantees remains critical.

Stronger import growth vis-à-vis exports, with the continued dynamism of economic activity, will increase the CAD to 6.2 percent of GDP in 2024. CAD is projected to decline to 5.7 percent of GDP in 2026 supported by stronger growth in tourism and remittances, which, together with higher FDI inflows, will help maintain international reserves at about 6 months of prospective imports.

The outlook is subject to substantial downside risks stemming from new commodity price spikes due to geopolitical shocks, weaker external demand in tourism markets, and limited progress with the SOE reform agenda, which could undermine the fiscal consolidation and weaken growth. Climate-related shocks will remain a concern, given the country's high vulnerability.

TABLE 2 Cabo Verde / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

| | 2021 | 2022 | 2023e | 2024f | 2025f | 2026f |
|--|-------|-------|-------|-------|-------|-------|
| Real GDP growth, at constant market prices | 5.6 | 17.1 | 4.8 | 4.7 | 4.7 | 4.6 |
| Private consumption | 1.4 | 25.9 | 6.5 | 8.8 | 8.6 | 8.1 |
| Government consumption | 5.3 | -4.6 | 0.5 | 20.4 | 0.9 | 2.7 |
| Gross fixed capital investment | 23.4 | -54.2 | -2.4 | -19.1 | -6.5 | 1.8 |
| Exports, goods and services | 2.1 | 97.5 | 4.4 | 8.6 | 9.2 | 9.5 |
| Imports, goods and services | 7.7 | 12.7 | 3.4 | 12.5 | 9.5 | 11.4 |
| Real GDP growth, at constant factor prices | 5.6 | 17.1 | 4.8 | 4.7 | 4.7 | 4.6 |
| Agriculture | 3.1 | -14.3 | -2.0 | -2.3 | 2.6 | 2.7 |
| Industry | 13.2 | 7.5 | 7.7 | 5.2 | 5.5 | 5.4 |
| Services | 4.4 | 21.9 | 4.7 | 5.1 | 4.7 | 4.6 |
| Inflation (consumer price index) | 1.9 | 7.9 | 3.7 | 2.7 | 2.1 | 1.9 |
| Current account balance (% of GDP) | -12.2 | -3.4 | -5.3 | -6.2 | -6.5 | -5.7 |
| Net foreign direct investment inflow (% of GDP) | 4.6 | 4.7 | 4.0 | 3.9 | 3.7 | 3.6 |
| Fiscal balance (% of GDP) | -7.7 | -4.3 | -0.5 | -3.0 | -2.2 | -1.1 |
| Revenues (% of GDP) | 23.9 | 22.4 | 24.6 | 28.3 | 27.4 | 26.3 |
| Debt (% of GDP) | 152.0 | 127.1 | 115.3 | 112.0 | 107.7 | 102.1 |
| Primary balance (% of GDP) | -5.5 | -2.0 | 1.8 | -0.7 | 0.0 | 1.1 |
| International poverty rate (\$2.15 in 2017 PPP)^{a,b} | 4.7 | 3.7 | 3.5 | 3.5 | 3.5 | 3.1 |
| Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b} | 19.7 | 16.0 | 15.1 | 14.9 | 14.2 | 13.4 |
| Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b} | 51.8 | 45.7 | 42.4 | 41.9 | 40.1 | 38.5 |
| GHG emissions growth (mtCO₂e) | -3.5 | -1.2 | 5.3 | 6.4 | 6.7 | 6.6 |
| Energy related GHG emissions (% of total) | 84.5 | 85.0 | 85.2 | 85.6 | 86.0 | 86.5 |

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on 2015-IDRF. Actual data: 2015. Nowcast: 2016-2023. Forecasts are from 2024 to 2026.

b/ Projections using microsimulation methodology.