CABO VERDE

Table 1	2021
Population, million	0.6
GDP, current US$ billion	1.8
GDP per capita, current US$	3168.2
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]	100.9
Life expectancy at birth, years[b]	73.2
Total GHG emissions (mtCO2e)	0.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2020).

The war in Ukraine and the ongoing drought are exacerbating food and energy-driven inflation in 2022, threatening growth (projected at 4 percent in 2022 versus 7 percent in 2021) and aggravating food insecurity. Growth-friendly fiscal consolidation should see growth converging to 6 percent over the medium term. The outlook is subject to substantial downside risks stemming from new COVID-19 variants, the Ukraine war, 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. An ineffective counter-cyclical fiscal policy led to growing fiscal financing needs and increased public debt between 2010-2015. To put public debt back on a sustainable path, Government 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. Global travel restrictions led to a sharp contraction in tourism and related activities. Government responded by expanding public health services and social protection programs, as well as by providing financial support to small businesses. However, the poverty rate increased from 14.5 percent in 2019, to 20.4 percent in 2020 (using the $3.65 per-day-PPP in 2017), driven by substantial temporary job losses, particularly in the tourism sector.

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. The Ukraine war exacerbated inflationary pressures and reduced growth prospects in 2022, affecting the poorest disproportionally through increasing food insecurity and malnutrition. Food consumption should be insufficient for around a fifth of the population in 2022, according to the UN World Food Program. A prolonged war in Ukraine could reduce investments and tourism flows, trigger fiscal liabilities, and exacerbate food insecurity.

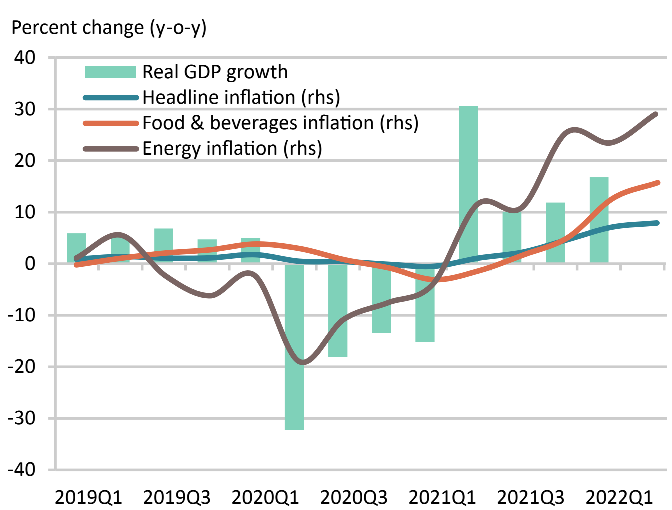
Recent developments

Economic activity expanded 7 percent in 2021, magnified by base effects after a contraction of 14.8 percent in 2020. On the supply side, manufacturing and construction drove growth while private and public consumption did on the demand side. The strong recovery continued in the first quarter of 2022, with a real GDP growth of 16.8 percent.

Inflation started to rise in 2021 (from 0.6 percent in 2020 to 1.9 percent) due to higher international oil and food prices. The impact of war in Ukraine exacerbated inflation pressures in the first half of 2022. Headline inflation in July climbed to 9 percent, with food and energy inflation respectively at 16.7 and 37.3 percent. Higher food prices and low agricultural production, driven by the five-year long drought, intensified food insecurity.

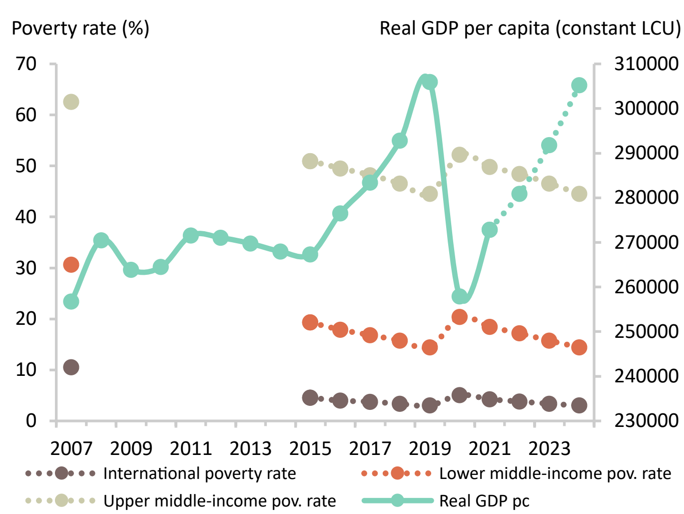
The fiscal deficit remained high at 7.3 percent of GDP in 2021, driven by sustained current expenditures. Public debt increased slightly to 143 percent of GDP,

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.

driven by increased domestic debt. In the first half of 2022, total revenue increased 34 percent, driven by personal income and VAT taxes, while total expenditure increased 8.4 percent, reflecting higher personnel expenses and interest payments. In April, authorities announced measures, estimated at 4.2 percent of GDP, to protect the most vulnerable from rising food insecurity and to control fuel and energy prices.

The current account deficit (CAD) declined from 15 percent of GDP in 2020 to 11.3 percent in 2021, supported by higher surplus in net-services exports and robust remittances. The CAD was financed by concessional loans and FDI. International reserves reached 7.2 months of imports.

The rebound in economic activity in 2021 resulted in a reduction in the poverty rate to 18.5 percent (using US$3.65 per day PPP in 2017) down from 20.4 percent in 2020, reflecting nearly 10,000 fewer people living in poverty. Social protection programs that were central to mitigate the impacts of the COVID-19 pandemic also helped alleviate poverty.

Outlook

Real GDP growth is projected to reach 4 percent in 2022 (2.9 percent in per capita terms). The Ukraine crisis will weigh on growth, mainly through inflation and its impact on private consumption and economic activity. Over the medium-term, private consumption, investment in tourism and the blue economy should support growth. The outlook is subject to substantial downside risks stemming from climate shocks, new COVID-19 variants, and increased global uncertainty due to the Ukraine war.

Inflationary pressures will peak in 2022, with headline inflation expected to reach 7.5 percent. Inflation should start stabilizing in 2023 as supply disruptions abate, and global commodity prices start normalizing. Over the medium-term, the nominal anchor (peg to Euro) and return to fiscal consolidation should keep inflation contained, converging to 2 percent by end-2024.

The authorities are committed to gradual revenue-driven fiscal consolidation over the medium-term, which includes enhanced management of fiscal risks, revenue mobilization, and the waning of exceptional shock measures. The fiscal deficit is projected to reach 9 percent of GDP in 2022, driven by increased current expenditure due to the response package to mitigate the impact of the Ukraine war, estimated at US$85 million (4.2 percent of GDP). The public debt-to-GDP ratio is expected to improve from 147.7 percent in 2022 to 141.1 percent by 2024.

The CAD is projected to reach 14.1 percent of GDP in 2022, falling to 5.9 percent by 2024, driven by the rebound in services exports and the gradual reduction of import prices. Over the medium-term, higher public debt amortization outflows are expected to increase external financing needs, which will be covered by official borrowing and FDI. International reserves are expected to remain adequate, at 5.5 months of prospective imports.

The poverty rate (based on the lower-middle income poverty line of US$3.65 per-day, 2017 PPP) is projected to decline to 17.2 percent in 2022 and reach 14.5 percent by 2024, supported by growth and inflation stabilization.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.7	-14.8	7.0	4.0	4.8	5.7
Private Consumption	5.9	-11.3	9.4	3.0	4.5	5.1
Government Consumption	4.8	0.8	30.1	5.9	1.2	1.9
Gross Fixed Capital Investment	-6.3	19.7	-9.1	13.5	7.0	6.2
Exports, Goods and Services	8.7	-58.4	5.8	6.5	12.6	10.4
Imports, Goods and Services	0.8	-22.5	4.3	11.2	7.6	5.9
Real GDP growth, at constant factor prices	5.7	-14.8	7.0	4.1	4.8	5.7
Agriculture	-6.8	-6.3	4.8	1.0	1.8	3.8
Industry	7.5	-2.0	9.5	2.3	4.7	6.5
Services	6.3	-19.2	6.3	5.0	5.0	5.6
Inflation (Consumer Price Index)	1.1	0.6	1.9	7.5	3.5	2.0
Current Account Balance (% of GDP)	-0.2	-15.0	-11.3	-14.1	-7.2	-5.9
Net Foreign Direct Investment Inflow (% of GDP)	-4.2	-3.7	-3.5	-3.8	-5.3	-4.0
Fiscal Balance (% of GDP)	-1.7	-9.1	-7.3	-9.0	-7.2	-5.8
Debt (% of GDP)	114.0	142.6	143.0	147.7	143.9	141.1
Primary Balance (% of GDP)	0.6	-6.5	-5.1	-6.3	-4.2	-3.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.0	5.1	4.3	3.8	3.4	3.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	14.5	20.4	18.5	17.2	15.8	14.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	44.5	52.2	49.8	48.4	46.6	44.5
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.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2015-IDRF. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2015) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.