Cabo Verde

Recent macroeconomic and financial developments

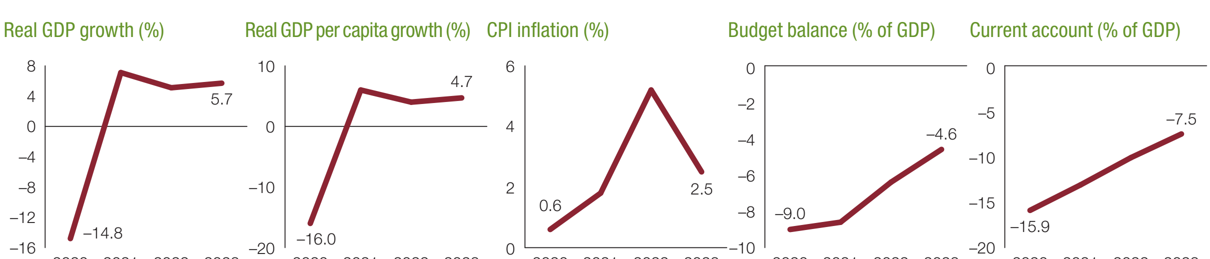
Cabo Verde's economic growth was estimated at 7.1% in 2021, after a 14.8% contraction in 2020, for a 6% gain in per capita income, yet is insufficient to offset the 16% loss in 2020. On the supply side, growth was supported by transport and construction, amid weak tourism activity. Public expenditure increased by 11.7% in 2021, bolstering growth on the demand side. Inflation rose to 1.8% in 2021 from 0.6% in 2020, driven by high energy prices, rising domestic demand, accommodative monetary policy, and a COVID-19 credit line of €400 million, which boosted liquidity. The overall fiscal deficit declined from 9% of GDP in 2020 to 8.6% in 2021, owing to tax and administration reforms and COVID-19-related expenditure restraint. Concessional loans, domestic borrowing, and use of the $32.2 million SDR allocation covered the fiscal deficit. Public debt increased from 155% of GDP in 2020 to 156.7% in 2021, driven by high interest payments on domestic debt, and the risk of debt distress remains high. Despite narrowing from 15.9% of GDP in 2020 to 13.1% in 2021, the current account deficit prompted a drawdown in reserves from 7.2 months of imports in 2020 to 6.7 months in 2021. Foreign direct investment (FDI), portfolio inflows, and remittances financed the current account deficit. Liquidity and capital ratios in the banking system are adequate, but exposure to NPLs remained high. The pandemic reversed progress in social conditions and raised poverty from 26% in 2019 to 31.6% in 2020, and unemployment from 11.3% to 14.5% in the same period.

Outlook and risks

The outlook remains uncertain due to the COVID-19 pandemic, prolonged drought, and the Russia–Ukraine conflict because Cabo Verde imports an estimated 11% of its oil and 8.6% of its cereals from Russia. Growth is projected to remain below pre-COVID-19 levels, at 5.1% in 2022 and 5.7% in 2023, driven by services and renewable energy. Public investment and credit growth are projected to help reduce poverty and unemployment to 29.1% and 12.4% in 2022. Inflation will reach 5.2% in 2022, affected by rising fuel and food prices due to the Russia–Ukraine conflict, before normalizing at 2.5% in 2023 as global supply chains improve. The fiscal deficit is projected to narrow from 6.4% of GDP in 2022 to 4.6% in 2023 on fiscal consolidation. The current account deficit is projected at 10.1% of GDP in 2022 and 7.5% in 2023, supported by tourism and remittances, while foreign reserves will stabilize at 5 months of imports. The NPL ratio is projected to be above 12.5% in 2022 and 2023, contained somewhat by loan resolution and provision for loan losses.

Climate change issues and policy options

Cabo Verde is 130 on the 2021 GCRI. Erratic rainfall leads to $2 million losses of income in agricultural crops annually. Losses from volcanic eruption of 2014–15 in Fogo Island reached $30.5 million (1.7% of GDP). In September 2020, floods affected 150,000 people and damaged houses, land, and crops. Overall, Cabo Verde could lose between 0.1% and 0.27% of per capita GDP by 2030 and 2050 if the Paris Agreement is not met. The government is addressing climate change and building resilience through investments in blue economy, reforestation, and restoration of environmental ecosystems. Government is also promoting a just energy transition through renewable energy investments, notably a 10 MW wind farm in Santiago in 2022, and an additional 150 MW of photovoltaic energy by 2030, increasing the renewable energy share from 18.4% in 2020 to 30% in 2025 and to 50% by 2030. The country is on track to meet SDG 13 on climate action, but climate financing needs are huge (€2 billion). Adoption of blue bonds and debt swaps for environmental protection, domestic resource mobilization, and coherent tax policies are recommended to scale up climate finance.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.