



UNITED
NATIONS
CABO VERDE



THE SUSTAINABLE DEVELOPEMENT

BULLETIN

The Sustainable Development Bulletin published at the end of each month, provides empirical and objective analysis on macroeconomic trends and other relevant sustainable development issues in Cabo Verde.

The bulletin is prepared by the UN in Cabo Verde, based on national and international data, as well as the work of the UN on the ground.





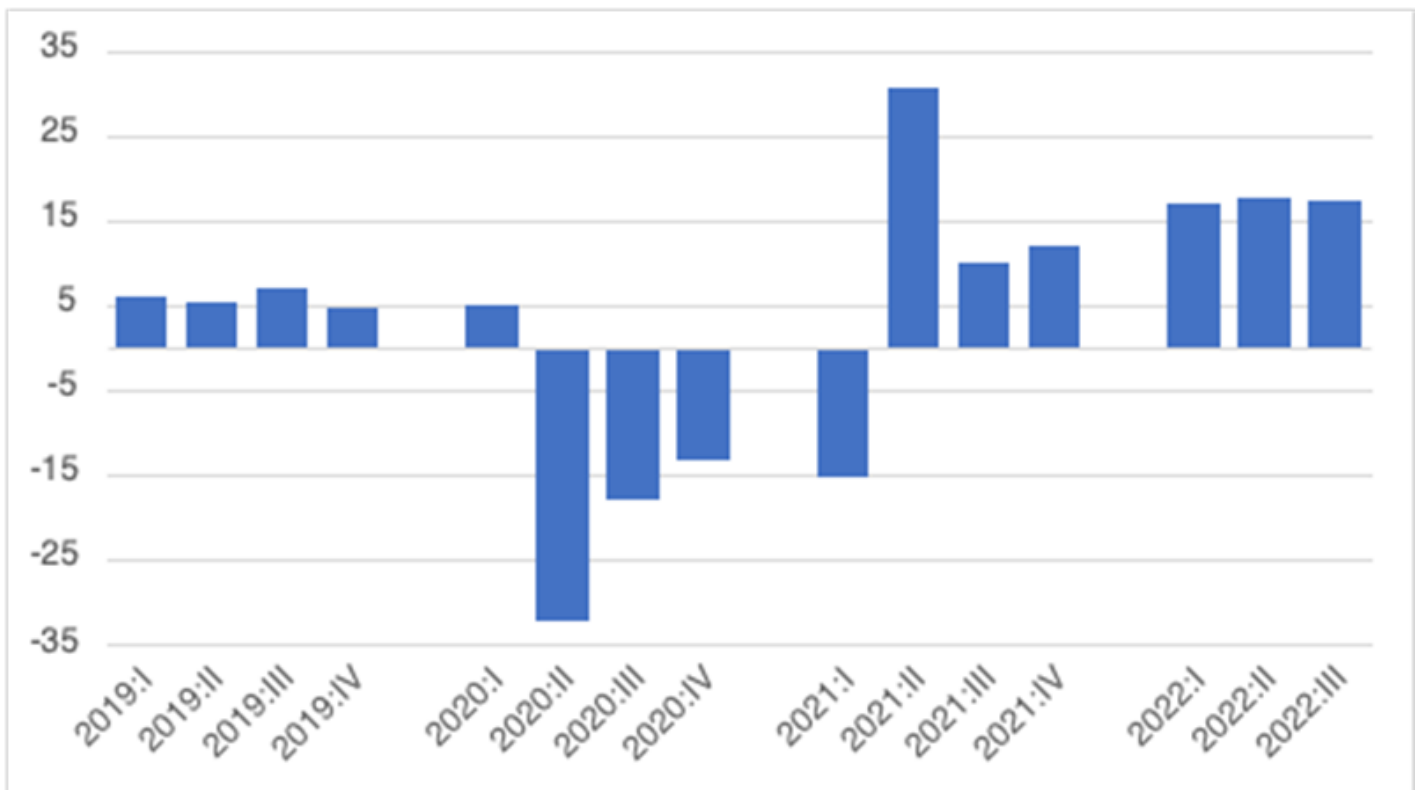
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MACROECONOMIC SITUATION

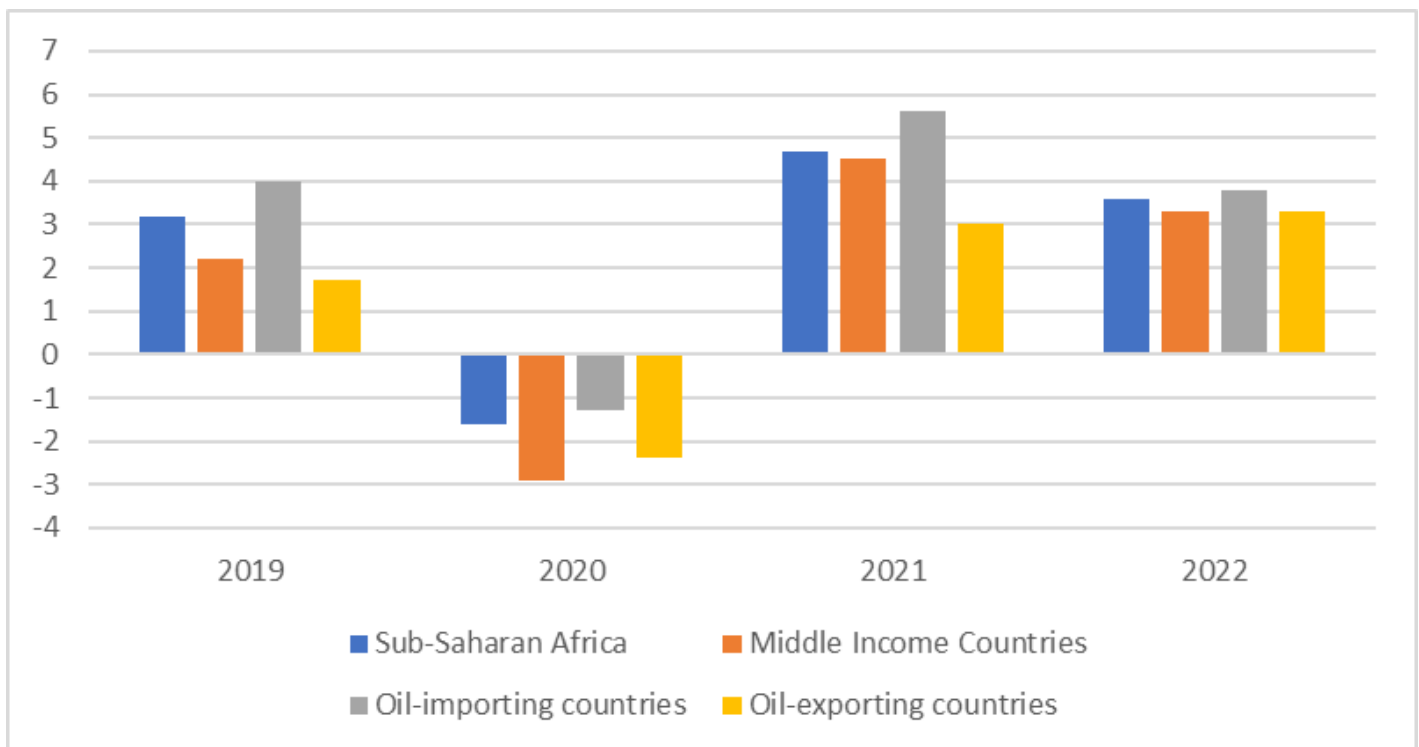


IN 2022, GDP GROWTH IN CABO VERDE HAS ACCELERATED FASTER THAN ANTICIPATED.

Figure 1: Quarterly GDP growth (percentage change year-on-year in volume) - 2019 (I) to 2022 (III)



Source: INE – Contas Nacionais Trimestrais – 3º trimestre 2022 (published in December 2022)

Figure 2: Annual GDP growth in African – by groups of countries 2019-2022


Source: IMF – World Economic Outlook – October 2022

According to the latest data, **in the third quarter of 2022, Gross Domestic Product (GDP) grew by 17.1%** in real terms (year-on-year) (figure 1). This brings the average for the last four quarters to 15.9%, well above previous projections. This is obviously positive news for the economy of Cabo Verde, which is still recovering from the deep contraction in 2020 (-14.8% of GDP).

The main driver of the economy has been the tourism sector, which grew by 394% during the third quarter (year-on-year). While the strong rebound of the tourism sector is determinant for the economic recovery of Cabo Verde, other key sectors have underperformed. The agriculture and fisheries sectors contracted by 14.3% and 28.8% (year-on-year) respectively, impacting food supply and prices.

A comparison of GDP growth data and projections with several groups of countries in Africa underscores Cabo Verde's extreme economic swings before and after the pandemic (figure 2). On the one hand, Cabo Verde, a tourism-dependent economy, was more severely affected by the Covid-19 pandemic in 2020 when the economy contracted by 32% in the second quarter. On the other hand, the economic rebound in 2022 in Cabo Verde is expected to be three to four times stronger than the average of

Sub-Saharan and middle-income African Countries.

This is in part explained by the low-base effect in Cabo Verde, but it is also the result of the high percentage (86.6% as of January 2023) ([COVID-19 Vaccination Bulletin \(Edition: N° 76, January 4th, 2023\)](#)) of fully vaccinated people in the country. That enhanced the safety for international travelers and contributed to the strong rebound of the tourism sector in Cabo Verde.

In 2023, the economic outlook for Cabo Verde remains positive, mainly driven by the tourism sector, but it is subject to several risks, as the economy is tied to developments in the global economy. The government has projected 4.8% of GDP growth in 2023 (Orçamento do Estado - 2023). However, the global economic environment remains challenging, especially in countries that are tourist markets for Cabo Verde.

The International Monetary Fund (IMF) is forecasting a global economic slowdown from 3.2% in 2022 to 2.7% in 2023, one of the slowest since 2001 (IMF, World Economic Outlook – October 2022). In addition, persistent higher international food prices may continue to add inflationary pressures in Cabo Verde, affecting the real income for families.



SUSTAINABLE DEVELOPMENT

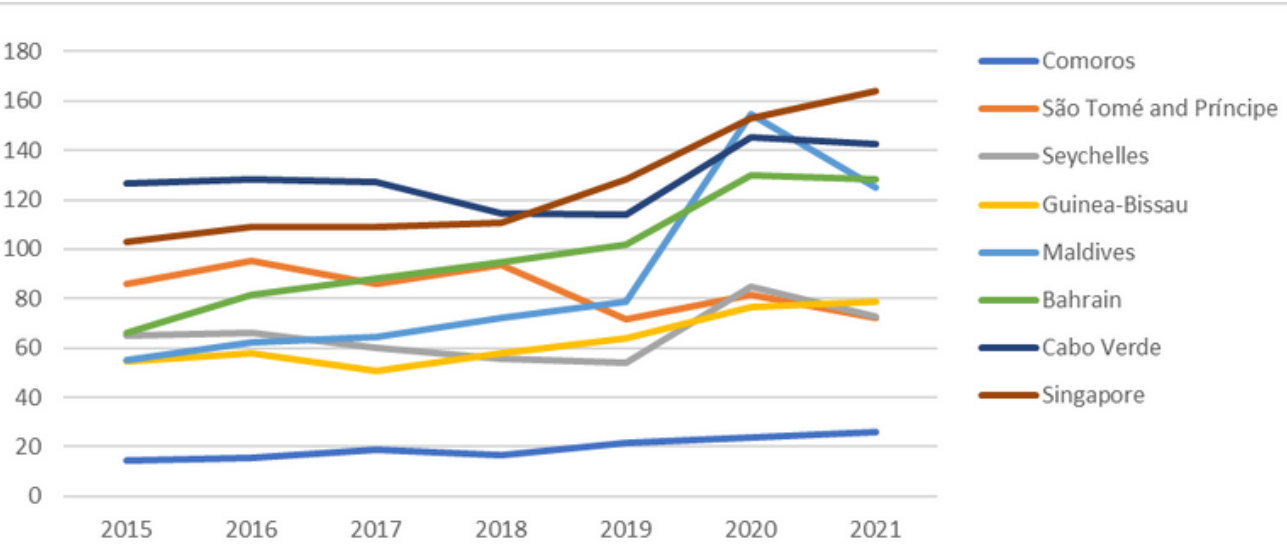
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ATTAINING LONG-TERM DEBT SUSTAINABILITY IN DEVELOPING COUNTRIES IS ONE OF THE TARGETS UNDER SDG 17, "STRENGTHEN THE MEANS OF IMPLEMENTATION AND REVITALIZE THE GLOBAL PARTNERSHIP FOR SUSTAINABLE DEVELOPMENT".

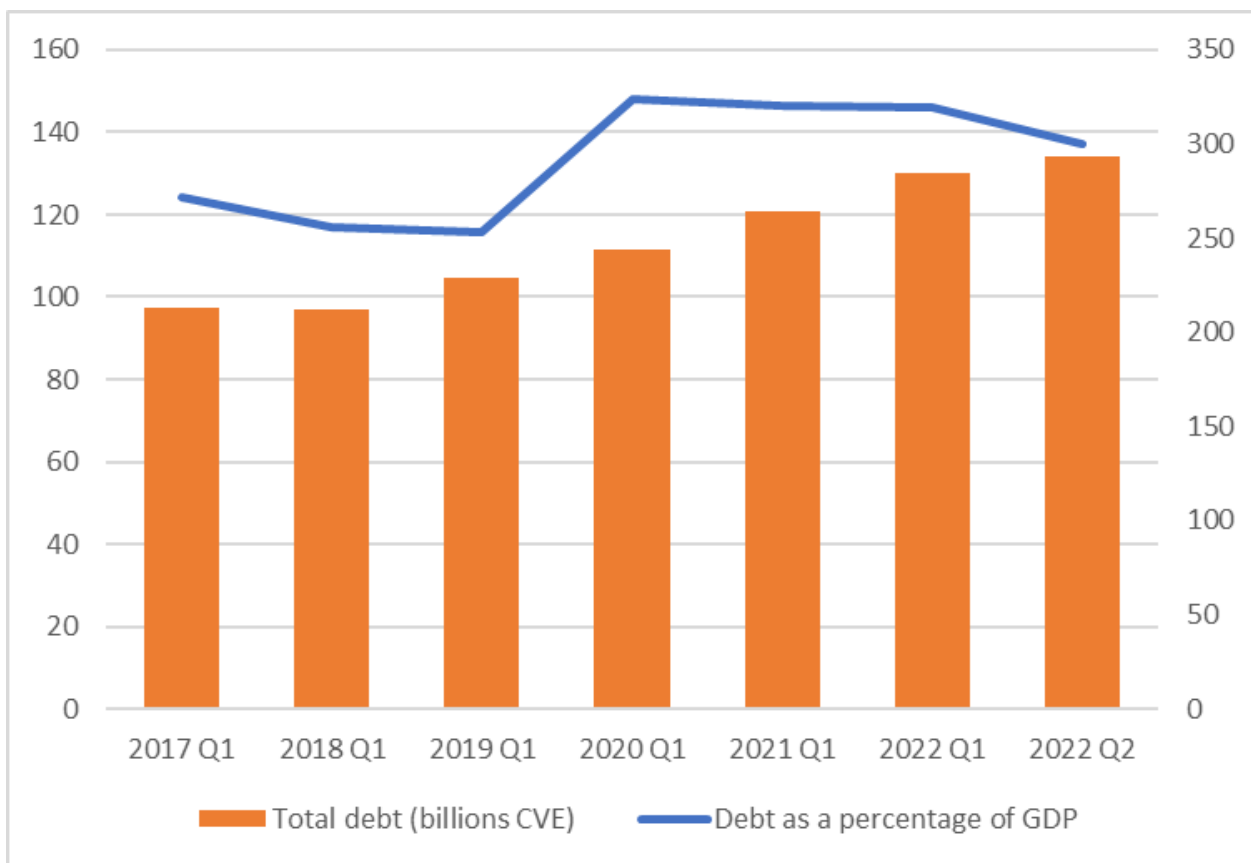
In 2019, 6 out of 9 Small Island Developing States in the Atlantic Indian Ocean and South China Sea region (SIDS AIS) were amongst the 50 countries with higher Government gross debt to GDP ratio (figure 3). As the COVID-19 crisis unfolded, the socio-economic situation deteriorated for most of these countries, requiring putting on hold fiscal consolidation and increasing public debt.

Figure 3: Central government debt (as a percentage of GDP) in selected SIDS countries (2015-2021)



Source: [IMF - Central Government Debt](#)

Figure 4: Public debt in Cabo Verde (Q1 2017-Q2 2022)



Source: Ministério das Finanças/Direção Geral do Tesouro/Boletins Estatísticos da Dívida Pública (2019-2022)

Inevitably, public debt in Cabo Verde accelerated during the Covid-19 pandemic. As a percentage of GDP, debt reached as much as 146% in the first quarter of 2022, while debt service represented 10.2% of total exports and 47.3% of public revenues.

In recent months as GDP growth accelerated, debt to GDP has been on a downward trend (figure 3), which is positive news for the country. **According to the latest available data, in October 2022 the total debt level represented 131% of GDP** – 41.1% is internal debt and 89.9% is external debt. The government is projecting this ratio to decline to 120.5% by 2024 (Ministério das Finanças).

One additional positive news is the memorandum of understanding (MoU) between Cabo Verde and Portugal regarding a debt for nature swap, which was announced on January 23rd, during the visit of the Portuguese Prime Minister to São Vicente Island.

The main objective is a conversion of part of the bilateral debt (out of the US\$600 million of total bilateral debt) into a climate resilience fund.

This innovative financial initiative had been suggested a few years back by the UN Economic Commission for Africa and the UN in Cabo Verde to respond to the fact that Cabo Verde, as other SIDS, face a disproportionate impact of climate change, requiring additional financing needs for adaptation and mitigation, while they face limited fiscal space.

During the Covid-19 crisis, countercyclical economic policies to mitigate the negative effects of the pandemic added additional pressure on the fiscal balance and debt level in Cabo Verde. Thus, the MoU on the debt swap for nature between Cabo Verde and Portugal is positive news for long-term debt sustainability, while freeing up additional resources to build climate change resilience.

THE WORK OF THE UN IN CABO VERDE

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Under the ILO project Sustainable Integrated and Inclusive Finance Framework for Cabo Verde (SIIFF-CV,) the “Estudo sobre Espaço Fiscal para a Proteção Social em Cabo Verde” was presented on January 19th, 2023. The main objective of this research was to identify alternative sources of financing to expand fiscal space and to respond to the gap that prevents the fulfillment of SDG 1.3. We have invited Dinastela Curado, National Coordinator for the project SIIFF-CV in ILO Cabo Verde to share some key points.

1. Why is it important to expand social protection in Cabo Verde?



Dinastela Curado

The country signed the 2030 Agenda for Sustainable Development, which contains SDG 1.3- “Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable”.

Consistent with this objective and the country's Strategic Agenda for Sustainable Development

(Ambition 2030), the Government’s Program of the 10th Legislature (2021-2026) defined the expansion of access to social protection as one of their strategic goals. This priority was also highlighted in the National Development Plan, PEDS-II 2022-2026, based on the principle of leaving no one behind, including the eradication of extreme poverty and the reduction of absolute poverty.

The country has made progress in expanding social protection in the past years, but currently around half of the population still does not have access to the National Social Protection System (INPS), whose national coverage was 51.4% in 2020 (in Boletim Estatístico do Sistema de Proteção Social em Cabo Verde, 2016-2020).

Hence the priority established by the government and the pertinence of preparing a study on financing alternatives to expand the fiscal space, with a view to boosting national socioeconomic development and, simultaneously, responding to the gap that prevents the achievement of the SDGs, specifically the target 1.3.

2. What are the budgetary challenges for expanding social protection in Cabo Verde?

Currently in Cabo Verde, expenditure on social protection represents around 8.6% of GDP (in PEDS-II), while the government is under pressure for further fiscal consolidation. It can also be seen that in Cabo Verde, social security contributions based on the contributory system (INPS) are 16% for employers and 8.5%, which seem to be adequate to the reality of the country and very close to the world average.

Considering these budgetary limitations, one alternative would be to include the informal sector, as well as precarious employment, into the social security system. The informal sector of the economy in Cabo Verde represents 52% of workers that cannot enjoy the right to social protection. The precarious employment is around 22%, as more than a fifth of employees are seasonal workers.

Their inclusion in the social security system would automatically reduce informality and broaden the enrollment base - percentage of workers enrolled in the INPS (contributory system). This would increase contributory revenues, fiscal revenues and fiscal space for the universalization of social protection by 2030, without increasing contribution rates.

3. What are the main recommendations from this study to increase fiscal space and cover the financial gap needed to expand social protection?

Based on the ILO methodology and considering the specific case of Cabo Verde, the study points out the following recommendations, as the most viable ones, in the following order:

- a)** Expansion of social protection coverage by the contributory system (reduction of informality).
- b)** Increase in tax revenues by fighting tax evasion and the rationalization of benefits.
- c)** Public debt restructuring would create budgetary space with high potential to finance the universalization of social protection. A 10% reduction in the amount of external public debt service would free up substantial resources to cover the additional investment needs needed to achieve the SDG at this point.
- d)** Despite the reduction trend in Cabo Verde's Official Development Assistance (ODA) (as a result of the country's rise to the category of middle-income and an unfavorable global context), ODA still represents considerable potential for budgetary space to achieve the objective of universalizing social protection by 2030.



Credits:

Publication of UN Resident Coordination Office (RCO) - Cabo Verde
Coordination: Daniel Kertesz, Resident Coordinator a.i
Content, Analysis and Interview: Sergio Pires Vieira, Economist, RCO
Graphic Edition: Anita Pinto
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