



THE 4-4-2

4 NEWS – 4 GLANCES – 2 QUESTIONS

ECONOMIC BULLETIN

JANUARY 2021

INTRODUCTION

The 4-4-2 aimed at sharing, at the end of each month, some punctual insights from calculations and analysis made in the past weeks by the UN and its partners on economic development and SDGs. It will stay away from subjective analysis, to focus on objective data, most of them published by the National Statistics Office and the Central Bank.

In this issue:



**4 NEWS
OF FINANCING
FLOWS**



**4 GLANCES AT SDG
AND
STATE BUDGET**



**2 QUESTIONS
TO
RICARDO GODINHO**

4 NEWS OF ... FINANCING FLOWS UNDER PRESSURE



GDP decreased by 14.7% in the first three quarters of 2020



FDI decreased by 31% (-55% for Boa Vista, -75% for Sal) in the same period



Remittances increased by 15% in the first semester, then went down 14.5% in the third quarter



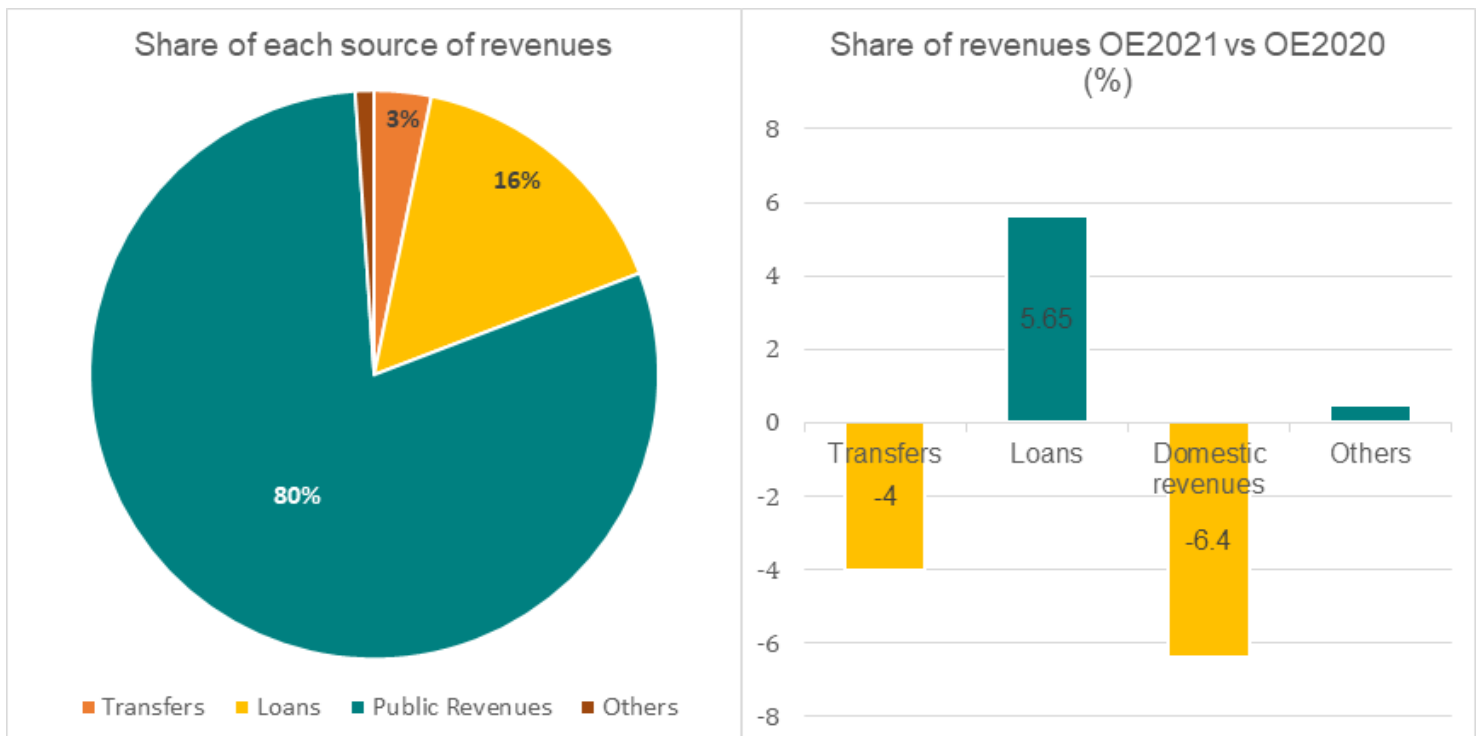
External trade suffered too: -10% imports, -25% exports, with current account deficit increasing more than tenfold

Highlights from the Official Gazette

- Lay-off regime has been extended from December 2020 to March 2021
- Credit moratorium for families, businesses and CSOs extended until September 2021

4 GLANCES AT...

SDG AND STATE BUDGET 2021 (last year of the PEDS)

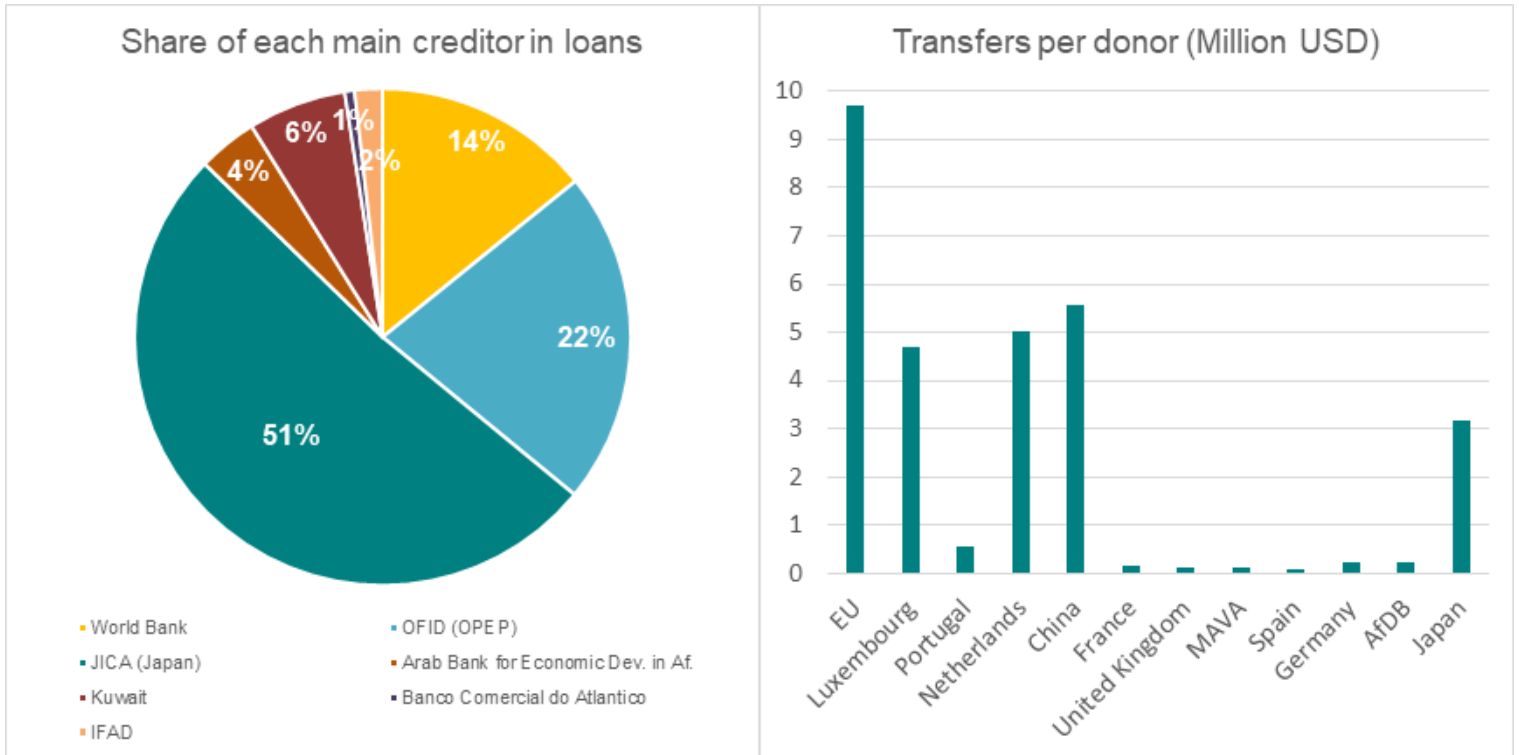


Glance #1

Important budget increase (6.5%), mostly driven by an increase in loans' share (6%). Reduction in public revenues (-17% in the first three quarters of 2020) and increase in budget deficit (10% of GDP vs 2.8% in 2019). Loans opportunities have great influence on budget choices. Despite increased social protection support, long-term investments on SDGs and LNOB are under pressure.

4 GLANCES AT...

SDG AND STATE BUDGET 2021 (last year of the PEDS)

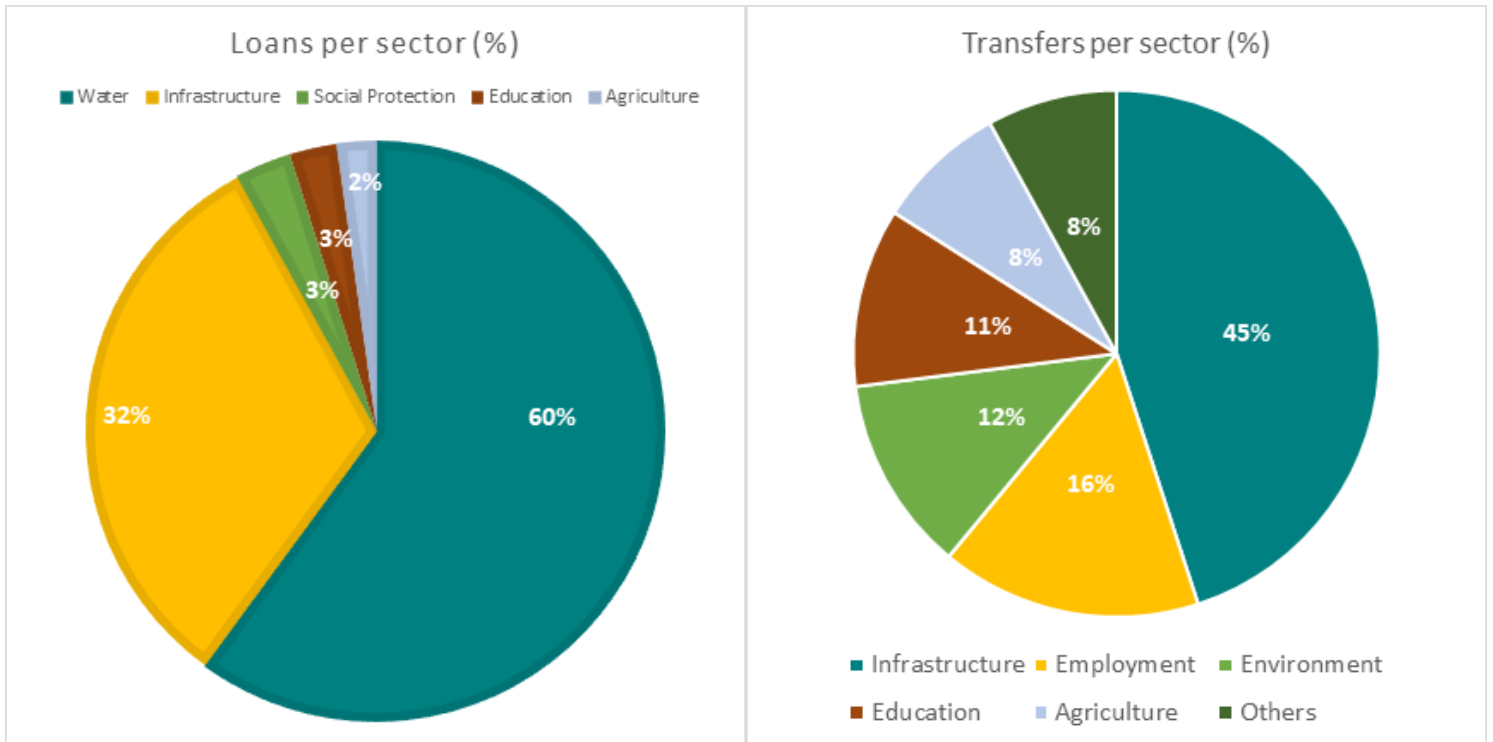


Glance #2

ODA halved compared to OR2020. New big creditors enter the budget: Japan and OFID (the OPEP International Development Foundation). Deficit to be paid by external and internal debt, which reaches 145.9% of GDP. The burden of debt service reaches 10.1% of GDP (from 7.5% in 2019)

4 GLANCES AT...

SDG AND STATE BUDGET 2021 (last year of the PEDS)

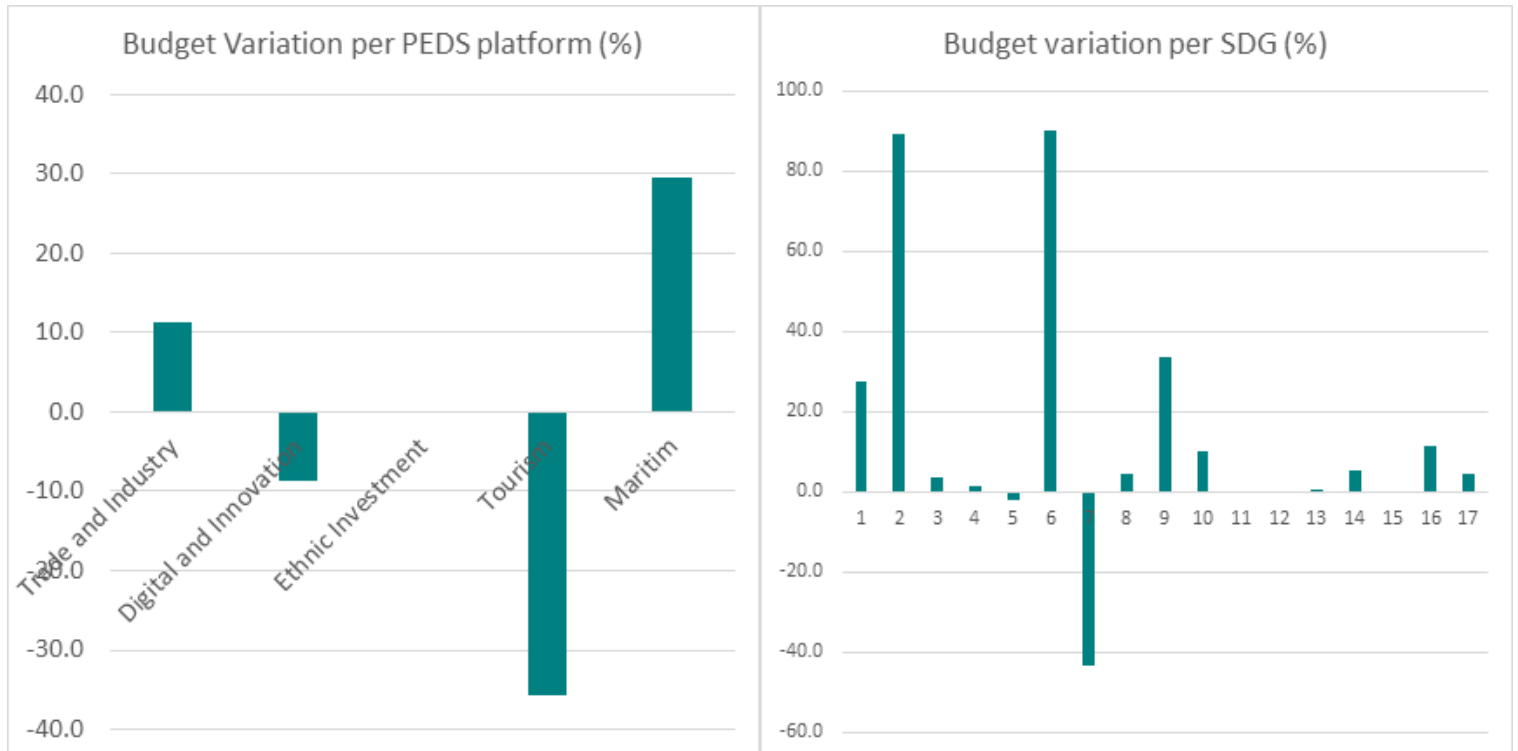


Glance #3

Donors (partly) bridge the investment gaps in environmental sustainability and agriculture. Investment in infrastructure is up by half (+49,3%), driven by important loans from OFID, World Bank and transfers from China. Human Capital - despite shrinking external support since graduation and fiscal space due to COVID - still receives the lion share of the budget

4 GLANCES AT...

SDG AND STATE BUDGET 2021 (last year of the PEDS)



Glance #4

Overall decrease in investment in PEDS platforms and the 5 SDGs accelerators (Blue Economy/Maritime Platform +29%, Human Capital +2.4%, Tourism -36%, Renewable Energies -43% and Digital Economy -8.6%). Different transversal issues see a drop in their budget: Business environment (-66%), Administration (-2.7%), State Reform (-18.1%).



2 QUESTIONS TO...

RICARDO GODINHO GOMES
CHIEF TECHNICAL ADVISOR OF
THE PRO PALOP-TL SAI PROGRAM



TRADITIONALLY, LEGISLATIVE AND PRESIDENTIAL ELECTIONS WEIGH HEAVILY ON STATE BUDGETS IN CABO VERDE, AND 2021 IS NO EXCEPTION. WHAT HAS CHANGED AND IS DISTINCTIVE IN 2021?

In December 2019, Cabo Verde parliament enacted the 2020 state budget under the sign of a virtuous cycle of public investment while trying to contain the public debt. Then came COVID19 pandemic and its unprecedented humanitarian, health, macroeconomic and socioeconomic impacts worldwide – Cabo Verde was no exception, as we know today. As many other governments, the Caboverdean executive revised the 2020 enacted state budget in July of that year with a bold strategy in mind: continuing the virtuous cycle of public investment in the context of the pandemic, while responding robustly to the humanitarian and health crises, all this without impacting dangerously the current levels of the public debt. The coordinated efforts and prompt response from Cabo Verde’s Development Partners (Multilateral and Bilateral) provided the government with the fiscal space it badly needed to prioritize public investment in strategic areas without leaving the most vulnerable exposed to the impact of COVID-19 crisis. The executive halted core sectorial and administration functioning expenditures against an increase in PIP (Public Investment Projects) – with a remarkable positive impact in public resources allocated to promote gender equality. But the pandemic did not and is not going away...

In 2021, while still needing to tackle the humanitarian, health and socioeconomic crises unleashed by the pandemic, Cabo Verde’s government had to formulate a budget proposal for an electoral year with two elections – legislative in April and presidential in October 2021. Traditionally, legislative and presidential elections weigh heavily on State budgets in Cabo Verde, and 2021 is no exception. What has changed and is distinctive in 2021? The government has made a U-turn on its strategy and options: public investment (PIP) was halted and the expenditures are now driven by the core functioning public administration budget. Why? Firstly, the fiscal space gained in 2020 due to the contributions of donor community and

development partners was reduced significantly, if not totally. Revenues resulting from these sources evaporated from 2021 executive budget proposal, resulting in an increase of taxes and, in a lesser extent, debt. Secondly, considering that most development partners are in the end of their programming cycles and that the PEDS is also in its closing year, it seems that Cabo Verde authorities are channeling 2021 expenditures to fund the State and public administration machine at the expenses of PIP. With the drop of resources allocated to PIP, down came the investments in promoting and mainstreaming gender equality (correlation between public investment projects and higher gender markers and vice-versa). Thirdly, we are in an electoral year with two of the traditionally most costly electoral operations scheduled to happen in the 2nd and 3rd quarters.

In 2020, Cabo Verde excels against the other PALOP-TL countries covered by our Programme because its Government opted to prioritize Public Investment Projects, lighten the fiscal charge and freeze the core functioning state and public administration expenditures, containing public debt – and all of it driven by gender equality investments. The other referred countries struggled to keep public investments and opted to fund the state machines (core state and public administration functioning budgets). 2021 is another story and Cabo Verde no longer manages to keep its options to channel the public resources to PIP, rather joined the other PALOP-TL in channeling the public resources to sustain the State and public administration machines in a context of limited development financing by donor community – with consequences in gender equality ambitions for all these countries, notwithstanding Cabo Verde’s baselines in this regard are substantially better.

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RICARDO GODINHO GOMES
CHIEF TECHNICAL ADVISOR OF
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WHAT ARE THE MAIN RISKS ASSOCIATED WITH THE IMPACT OF COVID-19 ON PUBLIC FINANCES?

The tendency to contract public investment seems to be resulting from the stress imposed by the pandemic to the public services and funds, but also from the volatility-uncertainty-complexity-ambiguity of the macroeconomics and the global/regional/national contexts in the post-COVID19 world (if we can refer to a post-pandemic at this stage).

The disinvestment will impact the current pace of the country to achieve the SDG national targets within the timeline with

consequences in the wealth, economic growth and human development – mostly with regards to the gender equality targets. In addition, the impact on economic growth might condition the implementation of the 2030 vision and the programming cycle. Finally, with all the pressure over the scarce resources and limited options, we might see some cutback in budget transparency gains in Cabo Verde.

Credits:

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