



Casa África – Business Opportunities

Republic of Cape Verde

Cape Verde's strong economic recovery from the euro crisis in 2015 has been suddenly halted by the pandemic. GDP is projected to contract by 4% by 2020 at best, which could be as much as 7% if the pandemic drags on. However, growth could recover by 2021, albeit slightly, to 1.3% driven by increased public spending and credit stimulus measures. The slowdown is due to a 61.6% decline in tourism revenue - which accounts for approximately 20% of GDP -, revenue losses in fisheries - which generates 31% of total exports - and stagnant activity in manufacturing, transport and logistics due to disruptions in global supply chains. Foreign direct investment and other capital inflows, mainly from the UK, Portugal, Spain and Italy, are expected to contract by more than half, delaying investment in key sectors including tourism, construction, transport and ICT. Remittances are projected to decline by 2020, reducing the income and consumption of vulnerable youth, women and informal workers, thus worsening poverty and income inequality. Inflation will increase slightly, reflecting monetary policy stabilization and supply shocks to food and industrial production. The fiscal deficit will reach 7.9% of GDP in 2020, as total public debt is expected to increase to 137.4% of GDP by the end of 2020. With regard to the external position, the collapse of the oil price would generate significant savings through a reduced import bill; however, lower global demand and reduced tourism inflows would weigh negatively on exports, reducing the accumulation of foreign income and causing a deterioration in the balance of payments.

Despite the strength of its tourism sector, now affected by the pandemic, the country's cargo handling infrastructure and airport facilities, among others, are inadequate and greatly limit inter-island mobility and improved tourism development. Furthermore, the lack of logistics to support intermodal transport increases the costs of tourism services and limits the development of the value chain, so both tourism and international trade could benefit from well-planned infrastructure investments, especially the construction of the port on the island of Maio and the Praia-Dakar-Abidjan multimodal regional transport corridor.

Due to the small size of the Cape Verdean market, its trade relations have also been historically small. Its main trading partners are Spain, Portugal, the United States and Italy, and with data from 2017 its main suppliers were Portugal and in second place Spain, followed by China and Italy. The Canary Islands are the main export community for the country.

To develop a more diversified economy, Cape Verde could address the bottlenecks in its logistics and transport infrastructure by capitalizing on its oceanic wealth. Proof of this are the privatisations carried out in 2019 of Cape Verde Airlines and the entry of the Cape Verde Inter-ilhas maritime transport concessionaire, thus improving market integration and the flow of goods and people. Interregional trade could be boosted by the adoption of the future single regional currency (eco) and the adoption of the common external tariff. In addition, despite the Government's emphasis on skills development through education spending, they still present a challenge for the private sector.

AEO: <https://www.afdb.org/en/documents/african-economic-outlook-2020>

AEO (Suplemento COVID-19): <https://www.afdb.org/en/documents/african-economic-outlook-2020-supplement>

MAEC: http://www.exteriores.gob.es/Documents/FichasPais/CABOVERDE_FICHA%20PAIS.pdf

ANNEX: Economic tables

Table 1: Macroeconomic indicators

	2017	2018	2019	2020 (p)
Real GDP growth	3,7	5,1	5,0	5,0
Real per capita GDP growth	2,5	3,9	3,8	3,8
Inflation	0,8	1,3	1,5	2,0
Budget balance (% GDP)	-3,0	-2,8	-2,2	-2,6
Current account (% GDP)	-8,1	-3,7	-3,4	-3,3

Source: African Development Bank, (p) predictions before the COVID-19