

Cape Verde

Cape Verde's economy has suffered from a steep drop in foreign investment after the global crisis, but has been sustained by a large public infrastructure investment programme. Gross domestic product (GDP) growth has risen 5.3% in 2010, up from 3.6% in 2009.

The country faces a double challenge over the coming years: the need to continue pushing ahead with diversification of the economic structure and a looming increase in social spending following the phasing out of foreign assistance.

The archipelago has a very proactive approach to its many economic partners, concentrating on finding the maximum complementarity in investment projects as well as in development cooperation.

Cape Verde's economy showed signs of recovery from the impact of the global financial crisis with 2010 gross domestic product (GDP) growth estimated to reach 5.3% compared to 3.6% in 2009. In 2010 there were signs of recovery in tourism and air transport and strong support from the Public Investment Programme (PIP). However, in 2010 foreign direct investment (FDI) and associated construction inflows continued to shrink. The outlook remains uncertain for 2011 as investment largely originates from the European Union (EU), which is growing only slowly. Remittances remained fairly constant in 2010 after a slight decrease of 2.2% in 2009.

The inflation rate was 2.1% in 2010, down from 6.7% in 2008, mainly as a result of the euro peg and the large import component of goods and labour of the PIP. Inflation is expected to rise slightly in 2011 because of increases in commodity and fuel prices and the weak resumption in private economic activity.

The government has put in place an ambitious strategy that addresses, on the one hand, the large PIP in infrastructure and, on the other, an improvement of the business environment through the creation of marketing and certification strategies. The extent to which these strategies generate direct benefits for the population and foster high value-added tourism will affect the resilience of the economy in the face of external shocks in the medium term, the trend in poverty rates and ultimately, the success of the government's PIP. In addition, the resumption in FDI flows will be key once the PIP is over as the country depends on external financing for large investment programmes.

To counter the impact of the crisis and to restructure the economy in view of Cape Verde's graduation to Middle Income Country (MIC) status, the government reinforced the 2010-12 PIP to address binding constraints: transport (particularly ports and roads), energy and water. In line with the PIP, the fiscal balance deteriorated considerably from -6.3% in 2009 to -13.7% in 2010 and is expected to remain large in 2011. International reserves are expected to remain at prudential levels in 2010-12, since the deficit is financed by external borrowing. Donor budget support increased considerably in 2010 to counter the crisis.

To reduce its strong dependence on fuel imports, Cape Verde has a 300 million US dollar (USD) plan to cover 25% of its needs with renewable energy by 2011 and 50% by 2020. The country is developing 28 megawatt (MW) onshore wind farms expected to come into operation in June 2011 in Sal, Boavista, São Tiago and São Vicente islands. This is the first large-scale wind project in Africa and the first renewable energy Private Public Partnership (PPP) in sub-Saharan Africa.

Cape Verde is one of the few African countries that may meet the Millennium Development Goals (MDGs) by 2015. Four of the eight goals - achieving universal primary education, promoting gender equality, reducing child mortality and improving maternal health - were attained by the end of 2010. The sustainability of these outcomes largely depends on donor support. Some donors, however, phased out aid in 2010 from certain social sectors. With its graduation to the MIC category, Cape Verde faces reduced access to concessional loans and has requested an extension from 2012 to 2015 in order to access the Low Income Country (LIC) instruments under the assumption that this will prove sufficient to address key structural bottlenecks.

The PIP aims at crowding in private investment in 2011-12 by fostering growth clusters in line with the 2003 Economic Transformation Strategy (ETS): tourism, fisheries (export and processing), creating a transport hub, financial services and information technology. In spite of attempts to use its geopolitical situation and economic stability to find new partners, the country's trade and investment partners remain largely European. Diversification has been slower than expected under government plans.

Cape Verde has asked the EU to extend its LIC status until 2011 while negotiating new commercial agreements

including services, favourable rules of origin and quotas for fish exports. Co-operation with Brazil is primarily in the fields of education and capacity building. Exchanges with China are linked to the construction of infrastructure. Cape Verde is reinforcing its relationship with the Economic Community of West African States (ECOWAS). Since 2010 it has been hosting the West African Institute (WEA) and the ECOWAS Centre for Renewable Energy and Energy Efficiency (ECREEE).

On the political front, 2011 is the year of the fourth democratic legislative and presidential elections in Cape Verde. Parliamentary elections took place on 6 February. After a tight race, the ruling African Party for the Independence of Cape Verde (PAICV) won 37 out of 72 parliamentary seats. The main opposition party Movement for Democracy (MPD) picked up 33 seats. Presidential elections will take place six months later.

Table 1: Macroeconomic indicators

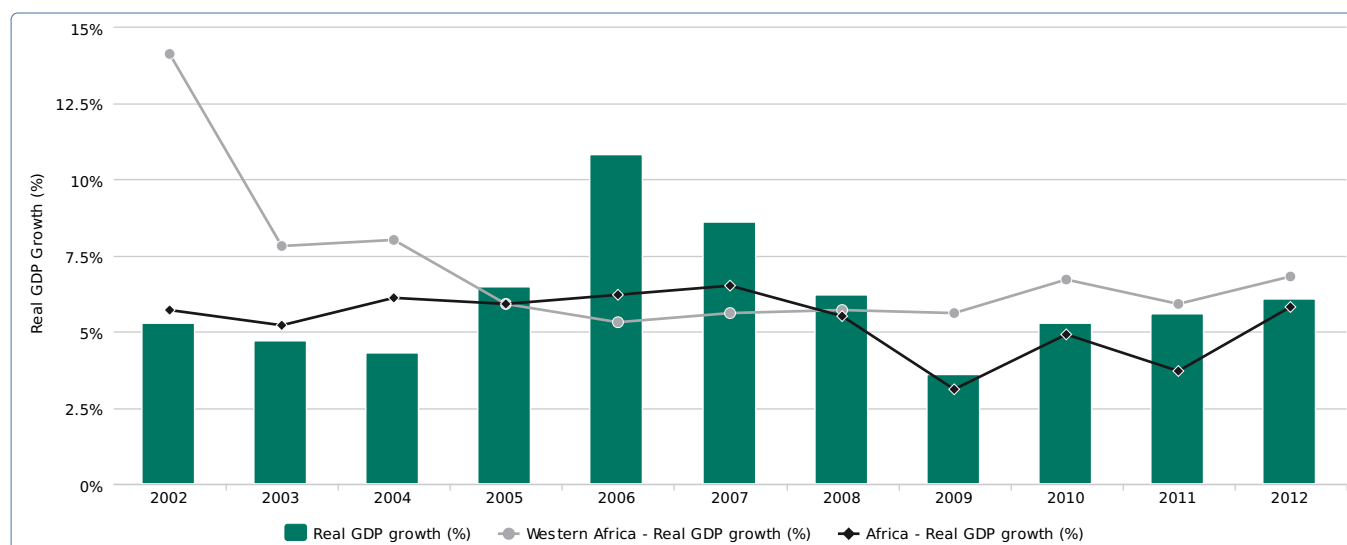
	2009	2010	2011	2012
Real GDP growth	3.6	5.3	5.6	6.1
CPI inflation	1.2	2.1	3	2.1
Budget balance % GDP	-6.3	-13.7	-11.3	-8.9
Current account % GDP	-9.9	-18.4	-15.5	-13.2

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Figure 1: Real GDP growth (W)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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