INTERNATIONAL MONETARY FUND

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CABO VERDE

April 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CABO VERDE

In the context of the Cabo Verde's Request for Disbursement Under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 22, 2020 following discussions that ended on April 14, 2020 with the officials of Cabo Verde on economic developments and policies underpinning the IMF disbursement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on April 16, 2020.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Cabo Verde.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR20/184

IMF Executive Board Approves a US$32 Million Disbursement to Cabo Verde to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- *Like many countries around the globe, Cabo Verde's economy is significantly affected by the COVID-19 pandemic.*
- *To address the urgent balance of payment needs, the IMF Executive Board has approved financial assistance for Cabo Verde in the amount of US$32 million under the Rapid Credit Facility.*
- *The authorities have taken mitigating measures in fiscal, monetary and social areas. However, increased support is needed from Cabo Verde's development partners to scale-up health and social programs while preserving debt sustainability.*

Washington, DC – April 22, 2020. The Executive Board of the International Monetary Fund (IMF) today approved a disbursement of SDR 23.70 million (about US$32.3 million, 100 percent of quota) to Cabo Verde under the Rapid Credit Facility (RCF). It will help the country to meet urgent balance of payment needs generated by the economic impact of the COVID-19 pandemic.

The pandemic is severely affecting Cabo Verde's economy, which is heavily dependent on tourism, that is significantly hit by the global economic downturn, and travel restrictions. The impact of COVID-19 is also compounded by measures put in place by the authorities to prevent an extensive local spread. In the short run, the shocks generated by the pandemic are expected to result in a contraction of growth, increased external and fiscal financing needs and social hardship.

Mitigating measures taken by the authorities are aimed at preventing an extensive spread of the pandemic, and helping the private sector, households and vulnerable groups mitigate the fallouts of the pandemic. However, important challenges remain in view of the existing uncovered financing gaps and uncertainties on the duration of the pandemic, calling for financial support from Cabo Verde's development partners. IMF financing under the RCF will provide additional foreign exchange and much-needed budget support.

While addressing the impact of the COVID-19 pandemic, the authorities should stand ready to resume reforms and policies needed to return the economy to its pre-pandemic medium-term trajectory, anchored in sustained growth, stronger external and fiscal positions, and declining ratio of public debt to GDP.

Following the Executive Board's discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, issued the following statement:

"Cabo Verde has been severely hit by the COVID-19 pandemic. As a small tourist dependent island economy, the global economic downturn, travel restrictions, and the lock down have led to social hardship and is likely to result in a significant output loss and increased fiscal and external financing gaps. The authorities have acted swiftly to stem the local transmission of the virus and taken pro-active measures to help mitigate the economic and social impact of the pandemic.

“Addressing the impact of these shocks requires a combination of policy actions from the authorities with support from Cabo Verde’s development partners. There is a need to further scale-up health and social protection programs, which will put public finances under additional strain. Grants and concessional loans from Cabo Verde’s development partners are critically needed to help the authorities respond timely and effectively to the crisis while preserving debt sustainability.

“Beyond the crisis, the medium-term outlook remains broadly favorable, under the assumption of a recovery of the global economy, resumption of tourism and capital inflows, and the growth-enhancing reforms envisaged under the authorities’ Plan for Sustainable Development (PEDS). Therefore, it will be critical that after the pandemic, policies and reforms remain focused on achieving medium-term objectives in the authorities’ development program supported by the IMF’s Policy Coordination Instrument (PCI).”

More information

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)
https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar
https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

INTERNATIONAL MONETARY FUND

CABO VERDE

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

April 16, 2020

EXECUTIVE SUMMARY

Context. In recent years, economic growth has been robust, inflation low, the external and fiscal positions have been improving, and fiscal risks were reduced with progress in State-Owned Enterprises reforms. These results are at the risk of being eroded by the impact of the coronavirus pandemic. The authorities have been proactive from the outset. They have taken measures to contain the outbreak and help businesses, households and the most vulnerable mitigate the fallouts of the pandemic.

Request for Fund Support. In the attached Letter of Intent, the authorities are seeking financial assistance from the IMF under the Rapid Credit Facility (RCF) totaling SDR 23.7 million (100 percent of quota) to cover balance of payments (BOP) financing needs generated by the economic impact of COVID-19. They are also requesting that the resources be disbursed as direct budget support.

Staff's views. Staff assesses that Cabo Verde qualifies for access under the RCF and supports the authorities' request. Public debt is sustainable and capacity to repay the Fund is adequate. RCF resources will help cover about 15 percent of the estimated BOP financing needs and play an important catalytic role for financing from other development partners. Given the projected large fiscal financing needs, mainly due to the expected decline in revenues, staff supports the authorities' request for the disbursement of RCF resources as direct budget support.

Approved By
Annalisa Fedelino (AFR) and Johannes Wiegand (SPR)

Discussions took place via teleconferences during April 13–14. The staff team comprised Ms. Kabedi-Mbuyi (Head), Messrs. Amo-Yartey, Pio Perez; Mses. Parulian and Mensah (all AFR), and Mr. Feerick (ICD). The team held discussions with the Deputy Prime Minister and Minister of Finance Olavo Correia, the Central Bank Governor João Serra, and other senior officials, as well as development partners. Mr. Fachada (OED) participated in the discussions. Mr. Treilly provided support for the preparation of the report.

CONTENTS

ECONOMIC DEVELOPMENTS PRE-COVID 19

1. Before the COVID-19 global outbreak, economic performance was strong, there was progress in structural reforms implementation, and the medium-term outlook was positive.

- Significant progress was made in the last four years as evidenced by robust growth, low inflation and improving external position that helped Cabo Verde maintain an adequate level of international reserves. The fiscal position had also strengthened, thanks to sustained revenue mobilization efforts and expenditure restraint, as well as progress in State-Owned Enterprises (SOEs) reforms. The financial system had been stable, with well-capitalized and profitable banks, although non-performing loans remain high at 12 percent of total loans, mainly reflecting legacy loans related to real estate projects in 2006-08. Preliminary data at end-February 2020 show that inflation remained under control (1.9 percent); gross international reserves topped €666 million (8 months of prospective imports of goods and services) and; revenue performance was good (5 percent increase y/y) while expenditures were marked by low execution of capital outlays.

- Structural reforms advanced under the authorities' Plan for Sustainable Development (PEDS), helping reduce fiscal risks generated by inefficiencies in some SOEs, and enhancing growth, particularly in the transport sector with the privatization of the airline and the granting of concessions for maritime inter-island transport.

- Reflecting the authorities' reform efforts, performance under the Policy Coordination Instrument (PCI) program approved by the Executive Board in July 2019 has been strong; and the first PCI review was successfully completed by the Board on March 30, 2020.

- The growth momentum was expected to continue over the medium term, with real GDP expanding by 5 percent, underpinned by strong activity in the industry, services, and transport sectors; planned large infrastructure projects; and structural reforms under the authorities' PEDS. These factors were expected to help mitigate possible downside risks. Inflation was projected to remain below 2 percent, while the external current account deficit was forecast to remain below 4 percent of GDP, reflecting strong export performance and increasing remittances. International reserves were projected to remain above 5 months of prospective imports of goods and services.

- Cabo Verde's exchange rate regime is a conventional fixed peg. The escudo has been pegged to the euro at a rate of CVE 110.265 per euro since 1999. The country maintains an exchange system that is free of multiple currency practices as well as restrictions on the making of payments and transfers for current international transactions. At 8 months of prospective imports of goods and services at end-2019, international reserves are adequate to support the peg and provide some helpful buffers against external shocks.

IMPACT OF THE COVID-19 PANDEMIC

2. **The economic impact of COVID-19 on Cabo Verde, as a tourism-dependent island country, is expected to be significant**. By mid-April, there were 55 confirmed cases: 3 in the capital city Praia, located in Santiago the most populated island, 51 and 1 death in Boa Vista, one of the tourism-dominated islands, and 1 in São Vicente island. COVID-19 is affecting the economy mostly through the global economic downturn and travel restrictions. The impact of these factors, combined with mitigating measures taken by the authorities to prevent a local outbreak, notably the countrywide lockdown on non-essential activities, and restrictions on inter-island travel, will result in economic contraction, weakened external and fiscal positions, and increased social hardship.

- **Growth is projected to contract by 5.5 percent in 2020**, compared with a 5 percent increase under the PCI (Table 1). Key contributing factors are the sharp contraction in the tourism and transport sectors directly affected by the external shocks, and the decline in activity across all sectors reflecting the impact of mitigating measures put in place by the authorities, as well as spillovers from the drop in tourism and transport activities.

- **The external position is projected to deteriorate significantly** (Table 2). The current account deficit would widen to 14.7 percent of GDP mainly because of the sizable decline in export receipts, driven by tourism revenues, which more than compensate the contraction in imports demand. The latter would be caused by the decline in global fuel prices, and in capital and intermediate goods. The financial account would be adversely affected by the expected drop in foreign direct investment and other capital flows. As a result, gross international reserves are forecast to decline by €123 million, compared with an accumulation of €45 million anticipated under the PCI macroeconomic framework.

- **The fiscal position is expected to weaken** (Tables 3a, 3b, Text Table 1). The primary balance is projected to reach a deficit of 5.8 percent of GDP, compared with a surplus of 1 percent of GDP under the PCI as revenues drop by 6.3 percentage points of GDP. The contraction in growth and imports of goods and services are the main factors impacting revenues. On the expenditure side, the authorities have taken measures to contain non-priority spending in view of the weakened revenue collection. They have cut spending for travel, training, recruitment, office supplies, and promotions in the civil service. They have also reduced capital spending for new

Text Table 1. Cabo Verde: Fiscal Operations of the Central Government[1]

(In percent of GDP, unless otherwise indicated)

	2020		
	PCI	Post Covid-19	Difference
Revenue	32.5	26.2	-6.3
Tax	22.9	18.0	-4.8
Grants	2.8	3.2	0.3
Non-Tax	6.8	5.0	-1.8
Expenditure	34.2	35.0	0.8
Current expenditure	29.7	29.5	-0.1
Net acquisition of nonfinancial assets	4.6	4.3	-0.3
Primary balance	1.0	-5.8	-6.8
Overall balance	-1.7	-8.8	-7.1
Net other liabilities	-2.2	-2.5	-0.3
Onlending to SOEs for investment purpose	-1.0	-1.1	-0.1
Other onlending (net)	-0.6	-0.7	-0.1
Capitalization	-0.7	-0.8	-0.1
Other	0.1	0.1	0.0
Financing needs	3.9	11.3	7.4
Financing	3.9	4.4	`
Domestics (net)	0.4	0.4	0.0
External (net)	3.6	4.0	0.4
Financing Gap		6.9	6.9
Expected Financing (excluding IMF)			2.6
of which: grants			0.4
of which: loans			2.2
IMF Financing			1.7
Residual Financing Gap (additional domestic borrowing)			2.6
Nominal GDP (millions of CVE)	210,275	187,576	

Sources: Cabo Verdean authorities and IMF staff projections.

[1] Includes budgetary central government (BCG) and extra budgetary central government (ECG), but excludes social security funds.

domestically-financed projects that have not started yet. As a result, and taking into account health and social protection measures related to COVID-19 (1.2 percent of GDP), expenditures are expected to increase by less than 1 percentage point of GDP. Under these assumptions, financing needs are estimated at 11.3 percent of GDP, compared with 3.9 percent of GDP under the PCI baseline. They are expected to be covered with loans and grants from Cabo Verde's development partners, including RCF resources, and issuance of government securities not exceeding 3 percent of GDP as required under the law.

- **There are significant downside risks to the 2020 fiscal framework**. On the revenue side, a stronger contraction in real GDP than currently projected will translate in lower revenues, particularly if it triggers an extension of the moratorium granted by the authorities for the payment of withholding taxes. There is also potential for higher spending for health and social protection programs. The authorities are revisiting priorities for capital outlays and curtailing non-priority spending to help mitigate some of these risks while containing additional borrowing. There is, however, a risk for further downsizing of capital outlays, combined with increased domestic borrowing if some of the downside risks materialize.

- **Social indicators will deteriorate**. Households' incomes will be adversely affected, particularly by the decline in activity in the services sector, as well as the expected rise in unemployment, particularly for seasonal workers in hotels and tourism resorts. In addition, informal sector operators are being affected by lockdown measures. This is a key concern for the authorities, who have been making significant efforts to develop all the islands of Cabo Verde by providing job opportunities to all its inhabitants.

MEDIUM-TERM OUTLOOK AND RISKS

3. **The medium-term outlook remains generally favorable contingent upon a recovery in the global economy in 2021, resumption of sustained tourism and capital flows to Cabo Verde, completion of large infrastructure projects envisaged before the COVID-19 outbreak, as well as growth-enhancing reforms under the authorities' PEDS**. Under these conditions, growth is projected at 5 percent in 2021, reflecting the impact of the recovery in the global economy and some improvement in the tourism sector. Thereafter, growth is expected to accelerate in 2022 before returning to its pre-COVID-19 medium-term trajectory through the forecast horizon. However, it will take longer to recoup the output loss from the shock: nominal GDP is forecast to reach CVE 200.4 billion in 2021 and CVE 217.4 billion in 2022 compared with CVE 224.3 billion and CVE 239.8 billion respectively under the PCI. Inflationary pressures are expected to remain low. The external current account deficit is projected to improve, which, combined with higher capital inflows would contribute to international reserves build-up.

4. **However, downside risks have increased, and uncertainties on the evolution of the global health crisis weigh heavily on medium-term prospects**. The main external downside risk is a protracted global economic downturn that would continue to negatively impact tourism flows, remittances and FDI. Key domestic downside risks include a local outbreak that would overwhelm

the healthcare system, weak fiscal consolidation and structural reform efforts after COVID-19, and weather-related shocks to which Cabo Verde is highly vulnerable. Potential upside risks are expected to play a greater role over the medium term as the global economy recovers and conditions improve for a sustained implementation of the authorities' reform agenda, particularly regarding the privatization of targeted SOEs in the transport and energy sectors.

POLICY ISSUES

5. The authorities reacted swiftly to the pandemic and continuously adjusted their response to avoid a widespread local outbreak. They have taken the measures below at various stages of the pandemic, while seeking to create some fiscal space by reallocating non-priority current expenditures and containing disruptions to their public investment program.

- *Prevention and preparedness.* The authorities installed body temperature scanners in airports, suspended official travel and flights to China and other heavily affected countries, and prepared quarantine areas in hospitals. In mid-March, they introduced further travel restrictions with a few exceptions, including suspension of flights from European countries affected by COVID-19, the United States, Brazil, Senegal and Nigeria, as well as maritime traffic. In late March, with the confirmation of cases in two of the nine inhabited islands, the authorities closed the borders, put the country in lockdown on non-essential activities and restricted travel between the islands.

- *Healthcare measures.* They comprise the preparation of a National Contingency Plan and the activation of an emergency plan as well as a response team with initial funding of CVE 76 million (0.04 percent of GDP) from the reallocation of budgetary appropriations to cover additional expenses for personnel, training and medical equipment. Since the Plan was prepared before the local outbreak, it is being revised upward, and is expected to benefit from financing and donations from Cabo Verde's development partners.

- *Support to the corporate sector* covers loan guarantees amounting to some CVE 4 billion (about US$40 million); temporary tax relief, including flexible payment schedule for value-added and other withholding taxes; accelerated settlement of government invoices, and cancellation of contributions to the pension fund for three months. To benefit from these relief measures, companies need to demonstrate a quarterly revenue loss of 30 percent.

- *Social protection actions*. For the most vulnerable, mitigating measures are estimated at CVE 2.2 billion (1.2 percent of GDP). They comprise: (i) income compensation to provide financial support to individuals operating in the informal sector; (ii) social inclusion emergency measures for vulnerable people without income; (iii) social inclusion income, with support from the World Bank ; (iv) support to microfinance institutions to support interest-free loans to vulnerable households and; (v) care for the elderly with food assistance and other financial support. Similar actions were carried out in the past in response to natural disasters. Therefore, staff expects the selected measures to be well-targeted and effectively implemented. The authorities indicated that these measures will be implemented with support from municipalities, and that they are temporary.

- *Revised government budget*. The authorities are planning to revise the 2020 budget to take into account new spending priorities and outlays related to COVID-19. The revised budget is expected to be introduced in parliament in June.

- *Monetary policy measures*. In late March the central bank decided to loosen the monetary policy stance and to enhance availability of liquidity in the banking system. Key measures included a reduction in rates as follows: (i) the policy rate by 125 basis points to 0.25 percent, the minimum reserve requirements from 13 to 10 percent, and the overnight deposit rate by 5 basis points to 0.05 percent; and the setting up at the central bank (BCV) of a long-term lending instrument for banks. The BCV also called on banks to grant delayed payment of loans without implications on non-performing loans (NPLs) and provisioning. Given the high level of NPLs, staff called the authorities' attention to the risk of this measure for banks' governance and recommended that the BCV enhances its NPLs reporting and monitoring mechanisms. In particular, staff stressed the need to ensure that: (i) borrowers that were already highly unlikely to repay before the Covid-19 pandemic do not unduly benefit from wide-ranging repayment holidays, and (ii) borrowers facing temporary difficulties are not disincentivized to resume loan repayment at the end of the application of the moratorium and; (iii) banks continue to carefully assess the credit quality of exposures subject to these measures and identify situations in which borrowers are unlikely to pay. In addition, the BCV as well as banks should collect information about the scope of the moratorium, identify precisely borrowers and exposures subject to these measures, and improve the quality of disclosure. The authorities agreed with staff's advice and explained that the moratorium is only available to households and companies in good standing with their loan payment record at end-March 2020.

6. **While focusing the policy response on the impact of COVID-19, the authorities remain committed to their medium-term objectives under the PEDS and the PCI**. They are aware that the impact of COVID-19 could erode progress made in recent years, particularly in putting the fiscal position on a stronger footing and advancing SOEs reforms. They are committed to resuming the momentum interrupted by the health crisis in these two areas and to accelerating growth-enhancing reforms under the PEDS as conditions permit, to support the return to the pre-COVID-19 medium-term outlook.

MODALITIES UNDER THE RAPID CREDIT FACILITY

7. **The impact of the COVID-19 pandemic has created urgent balance of payments needs** (Text Table 2). The current account deficit is projected to widen to 14.7 percent of GDP in 2020 (3.9 percent of GDP under the PCI) which, combined with the expected drop in net capital inflows, would result in an overall deficit of €197 million, compared with a surplus of €45 million under the PCI. The authorities are therefore requesting IMF support through a disbursement under the RCF, equivalent to 100 percent of quota (SDR 23.7 million or about US$32.3 million) to help cover the financing needs that have emerged. Resources from the RCF would cover about 15 percent of the projected BOP financing gap, and the balance will be financed with loans and grants from the World Bank, the European Union, and the African Development Bank who have announced plans to

frontload their disbursements. There is a residual financing gap (7.3 percent of GDP) to be covered through a draw-down on international reserves, to a level of €543 million, about €123 million below the end-2019 level. An even faster draw-down on reserves would be undesirable and potentially destabilizing for Cabo Verde. The authorities are also requesting that RCF resources be made available as direct budget support. This will help cover part of the large fiscal financing needs generated by the economic impact of COVID-19 on government revenues, while providing the BCV with additional foreign exchange. The impact of shocks triggered by COVID-19 on the BOP is expected to be temporary.

Text Table 2. Cabo Verde: Balance of Payments
(Millions of Euros; unless otherwise indicated)

	2020			
	PCI	Covid-19	Difference	
	1st Review	Proj.		percent of GDP
Current account	-75	-250	-175	-10.3
Trade balance	-649	-511	138	8.1
Services	323	81	-242	-14.2
Of which: tourism	470	169	-301	-17.7
Primary Income	-54	-57	-3	-0.2
Secondary Income	305	238	-67	-4.0
Capital and financial account	120	53	-67	-3.9
Overall balance	45	-197	-242	-14.2
Change in reserves (increase -)		123		7.3
Expected financing				
IMF-RCF		30		1.7
Residual financing gap		**44**		**2.6**

Sources: Bank of Cabo Verde; and IMF staff projections.

8. **Cabo Verde's capacity to repay the Fund is adequate** (Table 4). The country does not have an outstanding debt to the Fund based on existing credit. Taking into account the proposed disbursement under the RCF, total obligations to the Fund are projected at 2.2 percent of exports of goods and services and 3.7 percent of international reserves at end-2025. Cabo Verde's good track record in discharging its' debt service obligations, as well as the projected favorable medium-term outlook which points to an adequate level of international reserves provide confidence for the timely payment of RCF debt service obligations.

9. **The updated Debt Sustainability Analysis (DSA) shows that Cabo Verde's risk of external and total debt distress is high, unchanged compared with the 2019 DSA**. The assessment takes into account the expected emergency financing to mitigate the impact of COVID-19. Under staff's current projections, public debt is expected to reach 137.4 percent of GDP at end-2020 (124.2 percent of GDP at end-2019) reflecting both higher borrowing and the decline in nominal GDP. It is forecast to resume its medium-term declining trend in 2021 reaching 99.4 percent of GDP by 2025. Cabo Verde's public debt is assessed as sustainable, supported by manageable debt service indicators, even under various stress scenarios. However, debt sustainability is subject to considerable downside risks, including from a more severe or prolonged impact of the COVID-19 shock. Supporting the declining trend in the ratio of public debt-to-GDP and graduating to a moderate risk of external debt distress will require that policies and reforms post COVID-19 refocus on fiscal consolidation, growth-enhancing structural reforms, notably in the SOEs sector, and on continuous prudent borrowing policies.

10. **Safeguards assessment**. In line with the IMF's safeguards assessment requirements under the RCF, the BCV has committed to undergo an updated safeguards assessment, originally

requested on a voluntary basis under the PCI. The assessment would be completed before the Executive Board's approval of any subsequent arrangement. The authorities will provide Fund staff with the central bank's annual audit report and authorize the external auditors to hold discussions with staff.

STAFF APPRAISAL

11. The COVID-19 pandemic is severely affecting Cabo Verde. The global economic downturn, travel restrictions and the country's lockdown on non-essential activities as well as restrictions on inter-island travel are expected to result in a contraction in growth, worsening external and fiscal positions, and increased social hardship. Although subject to heightened downside risks, the medium-term outlook remains generally positive, subject to a global recovery in 2021, rebound in tourism and domestic activities, and a resumption of planned reforms.

12. The authorities have taken measures to contain the spread of the COVID-19 pandemic in the country and to mitigate its economic and social impact. They put the country on lockdown in late March following the confirmation of cases in two islands; and adopted measures to help the corporate sector, households, and vulnerable groups address the impact of COVID-19, with support from Cabo Verde's development partners. While focusing on addressing these temporary shocks, the authorities will need to work towards the resumption of reforms needed to achieve developmental goals set out in the PEDS, to safeguard hard-won macroeconomic gains and to support broad-based growth. In this context, their commitment to medium-term objectives under the Policy Coordination Instrument will help anchor their efforts.

13. The economic impact of COVID-19 has generated significant fiscal and BOP financing needs that require strong financial support from Cabo Verde's development partners. The contraction in economic activity is mostly affecting revenue mobilization, while the BOP is impacted by the decline in tourism and capital flows. The authorities are doing their part, by partially reorienting policies and drawing down some of their external buffers. However, given the significant need for additional spending for social protection and healthcare measures, timely donors' support will be critical to ensure an appropriately focused response to the impact of COVID-19.

14. Staff supports the authorities' request for a disbursement under the Rapid Credit Facility in the amount of SDR 23.7 million (100 percent of quota). These resources will help cover about 15 percent of projected BOP needs. Given the sizeable fiscal financing gap triggered by the economic impact of COVID-19, staff also supports the authorities' request that the RCF disbursement be made as direct budget support. Together with loans and grants from Cabo Verde's other development partners, and borrowing from the domestic securities market, RCF resources will help cover the additional fiscal financing needs for 2020.

Table 1. Cabo Verde: Selected Economic Indicators, 2017–25

	2017	2018	2019		2020		2021	2022	2023	2024	2025
			PCI	Prel.	PCI	Proj.			Proj.		
					(Annual percent change)						
National accounts and prices 1/											
Real GDP	3.7	4.5	5.5	5.7	5.0	-5.5	5.0	6.4	6.0	5.7	5.5
GDP deflator	0.7	1.5	1.4	0.6	1.4	1.7	1.7	2.0	1.9	1.9	2.0
Consumer price index (annual average)	0.8	1.3	1.1	1.1	1.3	1.3	1.4	1.8	1.8	1.8	2.0
Consumer price index (end of period)	0.3	1.0	1.9	1.9	1.3	1.3	1.4	1.8	1.8	1.8	2.0
External sector											
Exports of goods and services	9.5	15.0	11.3	9.9	9.2	-37.3	24.7	18.0	16.5	13.4	11.6
Of which: tourism	13.0	8.8	9.9	11.1	9.5	-60.9	46.8	34.3	24.2	16.4	13.3
Imports of goods and services	16.7	8.4	6.4	1.6	9.1	-14.0	4.8	7.2	8.7	8.2	8.0
					(Change in percent of broad money, 12 months earlier)						
Money and credit											
Net foreign assets	1.3	-2.1	3.4	5.3	2.5	-7.0	-3.4	0.8	2.7	2.6	4.6
Net domestic assets	5.2	3.5	3.6	0.3	3.7	1.5	6.5	5.7	4.9	4.7	4.0
Net claims on the central government	1.5	4.3	0.4	-2.9	0.2	1.4	1.6	0.8	0.4	0.7	0.2
Credit to the economy	4.4	1.9	2.1	0.7	2.5	-1.1	3.7	3.8	3.6	3.4	3.2
Broad money (M2)	6.5	1.4	7.0	5.7	6.2	-5.5	3.1	6.5	7.5	7.2	8.6
					(Percent of GDP, unless otherwise indicated)						
Savings and investment											
Domestic savings	30.2	31.0	32.7	42.6	31.3	23.9	29.2	33.1	36.4	37.6	39.8
Government	0.9	1.8	1.4	0.1	1.7	-4.5	-1.6	1.9	2.9	3.1	3.2
Private	29.3	29.1	31.3	42.5	29.5	28.5	30.7	31.2	33.5	34.6	36.6
National investment	38.1	36.3	35.7	42.8	35.2	38.3	37.7	37.8	39.0	39.3	40.2
Government	5.7	4.4	3.7	3.9	4.6	4.3	3.1	3.7	3.7	3.7	3.7
Private	32.4	31.9	32.0	38.9	30.6	34.0	34.6	34.1	35.3	35.6	36.5
Savings-investment balance	-7.9	-5.4	-3.0	-0.2	-3.9	-14.3	-8.6	-4.7	-2.6	-1.7	-0.5
Government	-4.8	-2.6	-2.3	-3.8	-2.8	-8.8	-4.6	-1.8	-0.8	-0.6	-0.5
Private	-3.2	-2.8	-0.7	3.6	-1.1	-5.5	-3.9	-2.9	-1.9	-1.0	0.0
External sector											
External current account (including official transfers) 2/	-7.9	-5.4	-3.0	-0.2	-3.9	-14.3	-8.6	-4.7	-2.6	-1.7	-0.5
External current account (excluding official transfers)	-11.4	-8.1	-6.1	-3.2	-7.2	-18.8	-11.7	-7.6	-4.6	-3.4	-2.1
Overall balance of payments	-0.7	0.5	4.1	7.6	2.4	-7.3	-2.5	1.2	2.3	2.3	4.0
Gross international reserves (months of prospective imports of goods and services)	5.5	5.5	5.5	8.0	5.5	6.3	5.3	5.2	5.2	5.3	5.6
Government finance											
Revenue	28.6	28.4	29.4	29.4	32.5	26.6	27.5	29.4	29.0	28.7	28.8
Tax and nontax revenue	24.9	27.0	26.8	26.2	29.7	23.0	25.0	27.5	28.0	27.7	27.8
Grants	3.7	1.4	2.6	3.2	2.8	3.5	2.5	1.9	1.1	1.0	1.0
Expenditure	31.6	31.2	31.3	31.2	34.2	33.8	31.6	30.8	30.1	29.6	29.5
Primary balance	-0.4	-0.3	0.7	0.7	1.0	-5.4	-1.6	1.0	1.2	1.2	1.3
Overall balance (incl. grants)	-3.0	-2.8	-1.9	-1.8	-1.7	-8.4	-4.1	-1.4	-1.1	-0.9	-0.7
Net other liabilities (incl. onlending)	-0.4	-1.0	-3.1	-3.3	-2.2	-2.5	-1.0	-0.8	-0.2	-0.2	-0.2
Total financing (incl. onlending and capitalization) 2/	4.0	3.9	5.0	5.1	3.9	10.9	5.1	2.2	1.3	1.1	0.9
Net domestic credit	0.2	1.4	0.8	0.7	0.4	3.0	2.9	1.3	0.8	1.2	0.3
Net external financing	4.0	1.5	4.2	3.6	3.6	8.0	2.2	0.8	0.5	-0.2	0.6
Public debt stock and service											
Total nominal government debt	125.9	124.7	123.0	124.2	118.1	137.4	132.0	122.5	114.0	106.3	99.4
External government debt	93.7	91.4	90.6	90.6	87.2	98.6	93.5	86.5	80.1	73.8	69.2
Domestic government debt	32.2	33.3	32.4	33.6	30.9	38.8	38.5	36.0	33.8	32.4	30.1
External debt service (percent of exports of goods and services)	6.4	5.9	7.4	5.3	6.8	12.4	11.5	11.6	10.3	9.2	8.3
Present value of PPG external debt											
Percent of GDP (risk threshold: 55%)	…	60.6	62.9	58.7	62.1	68.0	65.3	60.8	56.8	52.8	50.0
Percent of exports (risk threshold: 240%)	…	123.8	123.6	115.3	118.8	205.1	168.5	144.4	125.0	110.2	100.7
Present value of total debt											
Percent of GDP (benchmark: 70%)	…	96.0	95.8	92.3	92.7	106.6	103.5	96.7	90.5	85.0	80.0
Memorandum items:											
Nominal GDP (billions of Cabo Verde escudos)	173.1	183.7	197.4	195.2	210.3	187.6	200.4	217.4	234.9	252.9	272.3
Gross international reserves (€ millions, end of period)	519.9	531.9	606.6	666.1	651.7	542.8	497.5	521.9	571.8	623.9	721.7

Sources: Cabo Verdean authorities; and IMF staff estimates and projections.

1/ The Cabo Verdean exchange rate has been pegged to the Euro since 1999, at a rate of 110.265 CVE/€.

2/ For 2020 projections, to reflect a fully financed fiscal financing gap for the purpose of DSA update, financing needs reflect new grants related to the COVID-19 pandemic.

Table 2. Cabo Verde: Balance of Payments, 2017–25

(Millions of Euros; unless otherwise indicated)

	2017	2018	2019		2020		2021	2022	2023	2024	2025
			PCI	Est.	PCI	Proj.			Proj.		
Current account balance (incl. official transfers)	**-124**	**-89**	**-54**	**-4**	**-75**	**-250**	**-155**	**-93**	**-56**	**-38**	**-12**
Trade balance	-582	-582	-594	-595	-649	-511	-493	-528	-572	-617	-627
Exports, f.o.b.	167	231	277	237	309	179	213	225	249	275	306
Imports, f.o.b.	749	813	871	832	958	690	706	754	821	893	933
Services (net)	244	262	295	339	323	81	155	242	325	401	432
Receipt	545	588	635	663	687	386	491	605	718	823	919
Of which: tourism	358	390	429	433	470	169	249	334	415	483	547
Payment	301	325	340	324	364	305	336	363	393	421	487
Primary Income (net)	-54	-39	-42	-38	-54	-57	-51	-50	-50	-72	-79
Of which: interest on public debt	-16	-17	-18	-17	-18	-20	-18	-19	-19	-19	-19
Secondary Income (net)	267	269	287	290	305	238	234	244	241	251	262
General Government	54	46	55	53	64	69	58	58	43	41	39
Other Sectors	213	223	232	237	242	168	176	187	198	210	222
Capital and financial account balance	**114**	**137**	**127**	**152**	**120**	**53**	**110**	**117**	**106**	**90**	**110**
Capital account	16	13	22	9	17	17	22	14	14	14	14
Financial account	-98	-124	-105	-143	-103	-36	-88	-103	-92	-76	-95
Foreign direct investment	-86	-67	-73	-72	-92	-13	-45	-77	-81	-81	-81
Portfolio investment	37	36	33	3	32	39	5	5	5	5	5
Other investment	-48	-93	-65	-74	-42	-63	-48	-31	-16	-1	-20
Net acquisition of financial assets	53	-70	-36	-2	-15	5	-7	-7	3	3	4
Net incurrence of liabilities	102	23	29	73	28	68	42	25	20	5	24
Errors and omissions	**0**	**-39**	**0**	**-14**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-11**	**8**	**73**	**134**	**45**	**-197**	**-45**	**24**	**50**	**52**	**98**
Financing											
Reserve assets (increase -)	**11**	**-8**	**-73**	**-134**	**-45**	**123**	**45**	**-24**	**-50**	**-52**	**-98**
Prospective financing	…	…	…	…	…	**74**	…	…	…	…	…
Loans:	…	…	…	…	…	**67**	…	…	…	…	…
Prospective RCF	…	…	…	…	…	30	…	…	…	…	…
Prospective financing from WB	…	…	…	…	…	23	…	…	…	…	…
Prospective financing from AfDB	…	…	…	…	…	15	…	…	…	…	…
Grants:	…	…	…	…	…	**6**	…	…	…	…	…
Financing gap	…	…	…	…	…	**0**	…	…	…	…	…
Memorandum items:											
Current account (percent of GDP)	-7.9	-5.4	-3.0	-0.2	-3.9	-14.7	-8.6	-4.7	-2.6	-1.7	-0.5
Gross international reserves	519	531	607	666	652	543	497	522	572	624	722
Months of next year's imports of goods and services	5.5	5.5	5.5	8.0	5.5	6.3	5.3	5.2	5.2	5.3	5.6

Sources: Bank of Cabo Verde; and IMF staff estimates and projections.

Table 3a. Cabo Verde: Statement of Operations of the Central Government, 2017–25[1]

(Millions of Cabo Verde Escudos)

	2017	2018	2019	2020		2021		2022	2023	2024	2025
			Prel.	PCI	Proj.	PCI	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	49,505	52,097	57,392	68,395	49,173	70,071	55,151	63,854	68,148	72,535	78,383
Tax	35,842	40,657	42,016	48,066	33,793	50,780	39,498	47,801	53,024	57,157	61,828
Taxes on income and profit	11,292	12,253	12,674	14,448	11,493	15,092	13,183	15,737	16,999	18,307	19,707
Taxes on goods and services	16,777	19,887	20,660	23,759	15,494	24,838	17,948	22,398	25,126	27,059	29,129
Taxes on international trade	7,224	7,733	8,011	8,972	6,240	9,904	7,698	8,868	10,041	10,868	11,998
Other taxes	549	784	672	887	566	946	669	798	857	923	994
Grants	6,389	2,575	6,238	5,959	5,959	5,041	5,041	4,110	2,488	2,508	2,700
Other revenue	7,273	8,865	9,137	14,370	9,421	14,250	10,612	11,942	12,635	12,870	13,855
Fees and penalties	498	433	408	375	375	388	388	400	407	415	423
Property Income	976	1,828	2,301	4,632	2,280	4,261	1,700	2,339	2,339	2,339	2,386
Sale of Goods and Services	5,189	5,732	5,991	8,256	5,840	8,577	7,725	8,383	9,055	9,218	9,403
Other (inc. social contributions)	610	873	438	1,108	926	1,023	799	820	834	898	1,643
Expenditure	54,650	57,301	60,974	71,965	65,677	72,626	63,395	66,913	70,695	74,814	80,291
Current expenditure	44,760	49,162	53,343	62,386	55,415	64,454	57,223	58,868	62,005	65,455	70,217
Compensation of employees	18,891	19,741	20,595	24,000	23,500	24,928	24,928	25,285	26,189	26,599	28,334
Use of goods and services	6,961	7,415	8,001	13,375	10,200	12,771	10,895	11,823	12,252	13,075	14,075
Interest	4,523	4,726	4,991	5,662	5,700	5,253	4,989	5,244	5,310	5,419	5,579
Domestic	2,684	2,811	1,867	3,337	3,375	3,054	2,889	3,085	3,113	3,191	3,337
External	1,790	1,822	3,083	2,229	2,229	2,103	2,003	2,063	2,100	2,131	2,146
Other Charges	50	93	41	96	96	97	97	97	97	97	97
Subsidies	124	153	160	729	729	691	691	716	726	746	761
Current transfers	6,001	6,283	6,015	6,477	5,400	7,481	5,768	5,259	5,851	6,301	6,783
Social benefits	5,541	6,237	7,270	7,486	7,500	7,717	7,717	8,165	8,777	9,393	10,062
Other expense (incl. capital transfer)	2,718	4,606	6,310	4,658	2,386	5,614	2,235	2,375	2,900	3,923	4,623
Net acquisition of nonfinancial assets	9,890	8,140	7,631	9,579	8,029	8,172	6,172	8,045	8,690	9,359	10,074
Purchase of assets	10,059	8,194	7,971	10,803	8,396	8,910	6,910	8,510	9,161	9,830	10,546
Sales of assets (-)	-168	-54	-339	-1,224	-367	-738	-738	-465	-471	-471	-471
COVID 19 related spending					2,233						
Primary balance	-622	-478	1,409	2,093	-10,804	2,698	-3,255	2,185	2,762	3,140	3,671
Overall balance	-5,145	-5,204	-3,582	-3,569	-16,504	-2,555	-8,244	-3,059	-2,547	-2,279	-1,909
Net other liabilities	-615	-1,903	-6,396	-4,718	-4,718	-2,061	-2,061	-1,633	-499	-399	-584
Onlending to SOEs for investment purpose	-4,098	-1,541	-1,531	-2,101	-2,101	-1,197	-1,197	-252	-643	-543	-584
Other onlending (net)	4,565	3,606	-563	-1,294	-1,294	144	144	-1,392	144	144	0
Disbursement	0	0	-2,299	-1,437	-1,437	0	0	-1,536	0	0	0
Repayment	4,565	3,606	1,736	144	144	144	144	144	144	144	0
Capitalization	-1,157	-3,968	-4,303	-1,448	-1,448	-1,056	-1,056	0	0	0	0
Other	75	0	0	125	125	49	49	11	0	0	0
Financing needs	5,760	7,107	9,978	8,288	21,222	4,616	10,305	4,692	3,046	2,678	2,493
Total financing	7,197	5,239	8,491	8,288	8,288	4,616	10,305	4,692	3,046	2,678	2,493
Net domestic financing	273	2,517	1,381	797	797	127	5,816	2,888	1,799	3,091	745
Net external financing	6,924	2,723	7,110	7,491	7,491	4,489	4,489	1,805	1,246	-414	1,748
Disbursement	10,137	6,202	11,277	12,137	12,137	10,677	10,677	10,340	10,158	8,621	10,881
Budget Loans	2,205	2,205	6,148	3,136	3,136	3,320	3,320	3,124	3,124	3,124	3,124
Project and Program Loans	3,834	2,456	3,599	6,899	6,899	6,160	6,160	6,964	6,391	4,954	7,173
Loans to on lend to SOEs 2/	4,098	1,541	1,531	2,101	2,101	1,197	1,197	252	643	543	584
Amortization	3,213	3,479	4,167	4,645	4,645	6,188	6,188	8,536	8,911	9,035	9,133
Net errors and omissions (+ overfinancing)	1,437	-1,868	-1,487	0	0	0	0	0	0	0	0
Additional Financing Needs:					**12,935**						
Prospective Financing:					**12,935**		...	...	...	...	...
Additional Grants:					**689**		...	...	...	...	...
EU					673		...	...	...	...	...
UN Agencies					0		...	...	...	...	...
Luxemburg					0		...	...	...	...	...
China					0		...	...	...	...	...
Others					16		...	...	...	...	...
Additional Loans:					**7,426**		...	...	...	...	...
Prospective RCF					3,257		...	...	...	...	...
Prospective Additional Financing from the WB					2,515		...	...	...	...	...
Prospective Additional Financing from AfDB					1,654		...	...	...	...	...
Additional Domestic Financing:					**4,820**		...	...	...	...	...

Sources: Cabo Verdean authorities; and IMF staff estimates and projections.

1/ Includes budgetary central government (BCG) and extra budgetary central government (ECG), but excludes social security funds.

2/ On lend to SOEs for public investment execution.

Table 3b. Cabo Verde: Statement of Operations of the Central Government, 2017–25[1]

(Percent of GDP)

	2017	2018	2019	2020		2021		2022	2023	2024	2025
		Prel.	Prel.	PCI	Proj.	PCI	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	28.6	28.4	29.4	32.5	26.2	28.9	27.5	29.4	29.0	28.7	28.8
Taxes	20.7	22.1	21.5	22.9	18.0	22.5	19.7	22.0	22.6	22.6	22.7
Taxes on income and profit	6.5	6.7	6.5	6.9	6.1	6.7	6.6	7.2	7.2	7.2	7.2
Taxes on goods and services	9.7	10.8	10.6	11.3	8.3	11.0	9.0	10.3	10.7	10.7	10.7
Taxes on international trade	4.2	4.2	4.1	4.3	3.3	4.4	3.8	4.1	4.3	4.3	4.4
Other taxes	0.3	0.4	0.3	0.4	0.3	0.4	0.3	0.4	0.4	0.4	0.4
Grants	3.7	1.4	3.2	2.8	3.2	0.9	2.5	1.9	1.1	1.0	1.0
Other revenue	4.2	4.8	4.7	6.8	5.0	5.5	5.3	5.5	5.4	5.1	5.1
Fees and penalties	0.3	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Property Income	0.6	1.0	1.2	2.2	1.2	1.2	0.8	1.1	1.0	0.9	0.9
Sale of Goods and Services	3.0	3.1	3.1	3.9	3.1	3.7	3.9	3.9	3.9	3.6	3.5
Other (inc. social contributions)	0.4	0.5	0.2	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.6
Expenditure	31.6	31.2	31.2	34.2	35.0	30.1	31.6	30.8	30.1	29.6	29.5
Current expenditure	25.9	26.8	27.3	29.7	29.5	26.6	28.6	27.1	26.4	25.9	25.8
Compensation of employees	10.9	10.7	10.6	11.4	12.5	10.7	12.4	11.6	11.2	10.5	10.4
Use of goods and services	4.0	4.0	4.1	6.4	5.4	4.8	5.4	5.4	5.2	5.2	5.2
Interest	2.6	2.6	2.6	2.7	3.0	2.3	2.5	2.4	2.3	2.1	2.0
Domestic	1.6	1.5	1.0	1.6	1.8	1.3	1.4	1.4	1.3	1.3	1.2
External	1.0	1.0	1.6	1.1	1.2	1.0	1.0	0.9	0.9	0.8	0.8
Other Charges	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies	0.1	0.1	0.1	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Current transfers	3.5	3.4	3.1	3.1	2.9	3.0	2.9	2.4	2.5	2.5	2.5
Social benefits	3.2	3.4	3.7	3.6	4.0	3.6	3.9	3.8	3.7	3.7	3.7
Other expense (incl. capital transfer)	1.6	2.5	3.2	2.2	1.3	2.0	1.1	1.1	1.2	1.6	1.7
Net acquisition of nonfinancial assets	5.7	4.4	3.9	4.6	4.3	3.4	3.1	3.7	3.7	3.7	3.7
Purchase of assets	5.8	4.5	4.1	5.1	4.5	3.6	3.4	3.9	3.9	3.9	3.9
Sales of assets (-)	-0.1	0.0	-0.2	-0.6	-0.2	-0.2	-0.4	-0.2	-0.2	-0.2	-0.2
COVID 19 related spending					1.2						
Primary balance	-0.4	-0.3	0.7	1.0	-5.8	1.2	-1.6	1.0	1.2	1.2	1.3
Overall balance	-3.0	-2.8	-1.8	-1.7	-8.8	-1.2	-4.1	-1.4	-1.1	-0.9	-0.7
Net other liabilities	-0.4	-1.0	-3.3	-2.2	-2.5	-0.9	-1.0	-0.8	-0.2	-0.2	-0.2
Onlending to SOEs for investment purpose	-2.4	-0.8	-0.8	-1.0	-1.1	-0.5	-0.6	-0.1	-0.3	-0.2	-0.2
Other onlending (net)	2.6	2.0	-0.3	-0.6	-0.7	0.1	0.1	-0.6	0.1	0.1	0.0
Disbursement	0.0	0.0	-1.2	-0.7	-0.8	0.0	0.0	-0.7	0.0	0.0	0.0
Repayment	2.6	2.0	0.9	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Capitalization	-0.7	-2.2	-2.2	-0.7	-0.8	-0.5	-0.5	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing Needs	3.3	3.9	5.1	3.9	11.3	2.1	5.1	2.2	1.3	1.1	0.9
Total financing	4.2	2.9	4.3	3.9	4.4	2.1	5.1	2.2	1.3	1.1	0.9
Net domestic financing	0.2	1.4	0.7	0.4	0.4	0.4	2.9	1.3	0.8	1.2	0.3
Net external financing	4.0	1.5	3.6	3.6	4.0	1.7	2.2	0.8	0.5	-0.2	0.6
Disbursement	5.9	3.4	5.8	5.8	6.5	4.8	5.3	4.8	4.3	3.4	4.0
Budget Loans	1.3	1.2	3.1	1.5	1.7	1.5	1.7	1.4	1.3	1.2	1.1
Project and Program Loans	2.2	1.3	1.8	3.3	3.7	2.7	3.1	3.2	2.7	2.0	2.6
Loans to on lend to SOEs 2/	2.4	0.8	0.8	1.0	1.1	0.5	0.6	0.1	0.3	0.2	0.2
Amortization	1.9	1.9	2.1	2.2	2.5	3.0	3.1	3.9	3.8	3.6	3.4
Net errors and omissions (+ overfinancing)	0.8	-1.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additional Financing Needs:					**6.9**						
Prospective Financing:					**6.9**		...	...	...	...	...
Additional Grants:					**0.4**		...	...	...	...	...
EU					0.4		...	...	...	...	...
Others					0.0		...	...	...	...	...
Additional Loans:					**4.0**		...	...	...	...	...
Prospective RCF					1.7		...	...	...	...	...
Prospective Additional Financing from the WB					1.3		...	...	...	...	...
Prospective Additional Financing from AfDB					0.9		...	...	...	...	...
Additional Domestic Financing:					**2.6**		...	...	...	...	...
Memorandum items:											
GDP at current market prices (billions of CVEsc)	173.1	183.7	195.2	210.3	187.6	224.3	200.4	217.4	234.9	252.9	272.3

Sources: Cabo Verdean authorities; and IMF staff estimates and projections.

1/ Includes budgetary central government (BCG) and extra budgetary central government (ECG), but excludes social security funds.

2/ On lend to SOEs for public investment execution.

Table 4. Cabo Verde: Indicators of Capacity to Repay the Fund, 2020–34

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Fund obligations based on existing credit (millions of SDRs)															
Principal	0.0	0.0	0.0	0.0	0.0	2.4	4.7	4.7	4.7	4.7	2.4	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit (millions of SDRs)															
Principal	0.0	0.0	0.0	0.0	0.0	2.4	4.7	4.7	4.7	4.7	2.4	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit															
Millions of SDRs	0.0	0.0	0.0	0.0	0.0	2.4	4.7	4.7	4.7	4.7	2.4	0.0	0.0	0.0	0.0
Millions of U.S. dollars	0.0	0.0	0.0	0.0	0.0	3.3	6.6	6.6	6.6	6.6	3.3	0.0	0.0	0.0	0.0
Percent of exports of goods and services	0.0	0.0	0.0	0.0	0.0	0.2	0.4	0.4	0.4	0.3	0.2	0.0	0.0	0.0	0.0
Percent of debt service	0.0	0.0	0.0	0.0	0.0	2.2	4.1	4.0	3.8	3.5	1.8	0.0	0.0	0.0	0.0
Percent of quota	0.0	0.0	0.0	0.0	0.0	10.0	20.0	20.0	20.0	20.0	10.0	0.0	0.0	0.0	0.0
Percent of gross international reserves	0.0	0.0	0.0	0.0	0.0	0.4	0.7	0.6	0.6	0.5	0.2	0.0	0.0	0.0	0.0
Percent of GDP	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Outstanding Fund credit															
Millions of SDRs	23.7	23.7	23.7	23.7	23.7	21.3	16.6	11.9	7.1	2.4	0.0	0.0	0.0	0.0	0.0
Millions of U.S. dollars	32.5	32.6	32.8	32.9	33.0	29.7	23.1	16.5	9.9	3.3	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	5.3	4.2	3.5	3.0	2.7	2.2	1.5	1.0	0.6	0.2	0.0	0.0	0.0	0.0	0.0
Percent of debt service	31.6	29.2	23.6	22.8	22.4	19.8	14.4	9.9	5.7	1.8	0.0	0.0	0.0	0.0	0.0
Percent of quota	100.0	100.0	100.0	100.0	100.0	90.0	70.0	50.0	30.0	10.0	0.0	0.0	0.0	0.0	0.0
Percent of gross international reserves	5.5	5.9	5.6	5.1	4.7	3.7	2.5	1.6	0.8	0.2	0.0	0.0	0.0	0.0	0.0
Percent of GDP	1.7	1.6	1.5	1.4	1.3	1.1	0.8	0.5	0.3	0.1	0.0	0.0	0.0	0.0	0.0
Net Use of Fund Credit (millions of SDRs)	23.7	0.0	0.0	0.0	0.0	-2.4	-4.7	-4.7	-4.7	-4.7	-2.4	0.0	0.0	0.0	0.0
Disbursements	23.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	0.0	2.4	4.7	4.7	4.7	4.7	2.4	0.0	0.0	0.0	0.0
Memorandum items:															
Exports of goods and services (millions of U.S. dollars)	618.5	777.5	923.6	1082.2	1234.9	1378.4	1534.7	1662.3	1800.7	1951.1	2114.3	2291.5	2483.5	2696.8	2930.0
Debt service (millions of U.S. dollars)	102.8	112.0	139.0	144.2	147.5	150.1	160.0	166.6	175.2	188.0	183.1	185.6	192.7	200.9	211.1
Quota (millions of SDRs)	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7
Gross international reserves	594.9	549.6	580.6	639.5	701.8	811.8	907.7	1028.1	1175.5	1346.0	1554.6	1804.2	2091.7	2425.0	2808.5
GDP (millions of U.S. dollars)	1864.5	2007.5	2193.7	2382.2	2580.5	2777.9	2992.0	3204.9	3433.6	3678.8	3941.7	4223.0	4522.6	4844.5	5190.2

Sources: IMF staff estimates and projections.

Appendix I. Letter of Intent

Praia, April 14, 2020

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A

Madame Managing Director:

This letter requests financial support from the IMF in an amount of SDR 23.7 million (100 percent of quota) under the Rapid Credit Facility (RCF) to support the Government of the Republic of Cabo Verde's efforts in dealing with the adverse economic impacts of the COVID-19 pandemic.

The pandemic is severely affecting the economy and putting pressures on the budget and the balance of payments. Even though our country has registered only few COVID-19 cases to date, as a tourism-dependent economy, the global economic slowdown and travel restrictions associated with the pandemic are severely impacting the economy. Tourism operators have estimated that tourist arrivals would decline by more than 60 percent if the current situation persists until end-September. The impact of the pandemic is also being felt through postponement of domestic investment decisions and a decline in foreign direct investment and remittances. Government revenues have also been reduced significantly in the face of the urgent need to scale up spending in health and social assistance. Our preliminary analysis shows that the economy will contract by 5.5 percent in 2020 with immediate fiscal needs of at least 10 percent of GDP (about US$192 million). While we have sought to create some fiscal space by reorienting spending and are using a large part of our external buffers, the impact of the shock cannot be contained by our efforts alone.

Given the urgent budgetary and balance of payments needs caused by the COVID-19 pandemic, the government is engaging Cabo Verde's development partners for support. From the IMF, we are requesting emergency financing under the RCF in the amount of SDR 23.7 million, equivalent to 100 percent of quota in the form of budget support to mitigate the impact of the pandemic. RCF resources will be directed to the government, to help mitigate revenue shortfalls and expenditure pressures stemming from the pandemic. In this direction, a Memorandum of Understanding between the BCV and the Ministry of Finance clarifying their respective roles and responsibilities for timely servicing of the financial obligations to the IMF will be signed. We also commit to undergo an updated safeguards assessment, provide IMF staff with access to BCV's most recently completed external audit reports, and authorize its external auditors to hold discussions with IMF staff.

The government will implement a more accommodative fiscal policy guided by the availability of financing and medium-term debt sustainability. To help the private sector mitigate the impact of the pandemic, the government will provide loan guarantees amounting to US$30 million and flexible payment schedules for tax payments, as well as a set of measures to guarantee the employment and income of workers in the formal sector of the economy. We have also taken measures to support vulnerable groups, including covering home care for the elderly, food assistance, and other financial support estimated at about US$3.7 million. While government revenues have declined significantly, the government intends to undertake tax policy reforms and strengthen revenue administration to reverse the decline in revenue collection in the immediate aftermath of the crisis. On the expenditure side, the government will continue to reallocate non-priority current expenditures to help meet some of the additional spending needs arising from the pandemic while ensuring that our public investment program is not disrupted.

Monetary and financial sector policies will aim to strike an appropriate balance between maintaining financial stability and sustaining economic activity. The BCV has announced policy measures to mitigate the impact of the pandemic with a focus on easing banks liquidity constraints and stimulating credit growth. The policy rate, reserve requirements, and overnight lending and deposit rates have all been reduced to improve liquidity in the banking system. In addition, the BCV has created a new long-term liquidity instrument to finance bank lending with a repayment period of three years. The BCV also implemented prudential measures, including the reduction in capital adequacy ratio and provision for banks depending on requests by borrowers to place a moratorium or forbearance on loan repayment for three months. The BCV will continue to actively manage liquidity in the banking system to ensure continued supply of credit to the domestic economy.

The government remains fully committed to the objectives set out in the Policy Coordination Instrument program, even though some quantitative targets will need to be reassessed in the context of the next review. As soon as the crisis abates, we will continue to implement policies and reforms to increase domestic revenues and contain public spending to help strengthen the fiscal position, protect the peg, and reduce the debt burden. The government will also proceed with plans to complete the restructuring and privatization of public enterprises and improve the business environment to promote growth and reduce poverty.

The government believes that the economic and financial policies set forth in this letter provide an adequate basis for achieving our macroeconomic promoting growth and economic development objectives and address the balance of payments and fiscal difficulties caused by the pandemic. We do not intend to introduce measures or policies that would worsen the current balance of payments difficulties. The government will not impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance of payment purposes, or multiple currency practices, or enter into bilateral payments agreements which are inconsistent with its obligations under Article VIII.

We authorize the IMF to publish this Letter of Intent and the staff report for the request for disbursement under the Rapid Credit Facility.

/s/
Olavo Correia
Vice-Prime-Minister and
Minister of Finance

/s/
João Serra
Governor of the
Banco de Cabo Verde

INTERNATIONAL MONETARY FUND

CABO VERDE

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

April 16, 2020

Approved By
Annalisa Fedelino and Johannes Wiegand (IMF) and Marcello Estevão (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

Cabo Verde
Joint Bank-Fund Debt Sustainability Analysis[1]

Risk of external debt distress	High[2]
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgment	No
Macroeconomic projections	Growth is projected to contract in 2020 with the sharp contraction in the tourism and transport sectors, directly affected by the external shocks, and the decline in activity across all sectors reflecting spillovers from the tourism and transport sectors and the impact of mitigating measures. The external and fiscal positions are projected to deteriorate significantly.
Financing strategy	Additional financing needs for 2020 will be filled by grants, Rapid Credit Facility resources and other concessional loans.
Realism tools flagged	None
Mechanical risk rating under the external DSA	High
Mechanical risk rating under the public DSA	High

Cabo Verde's risk of external and overall debt distress is rated "high" as in the previous DSA (July 2019) with risks tilted to the downside. However, public and publicly guaranteed (PPG) debt is assessed to be sustainable, conditional on the implementation of prudent fiscal policies following the COVID-19 crisis and in view of manageable debt service ratios.

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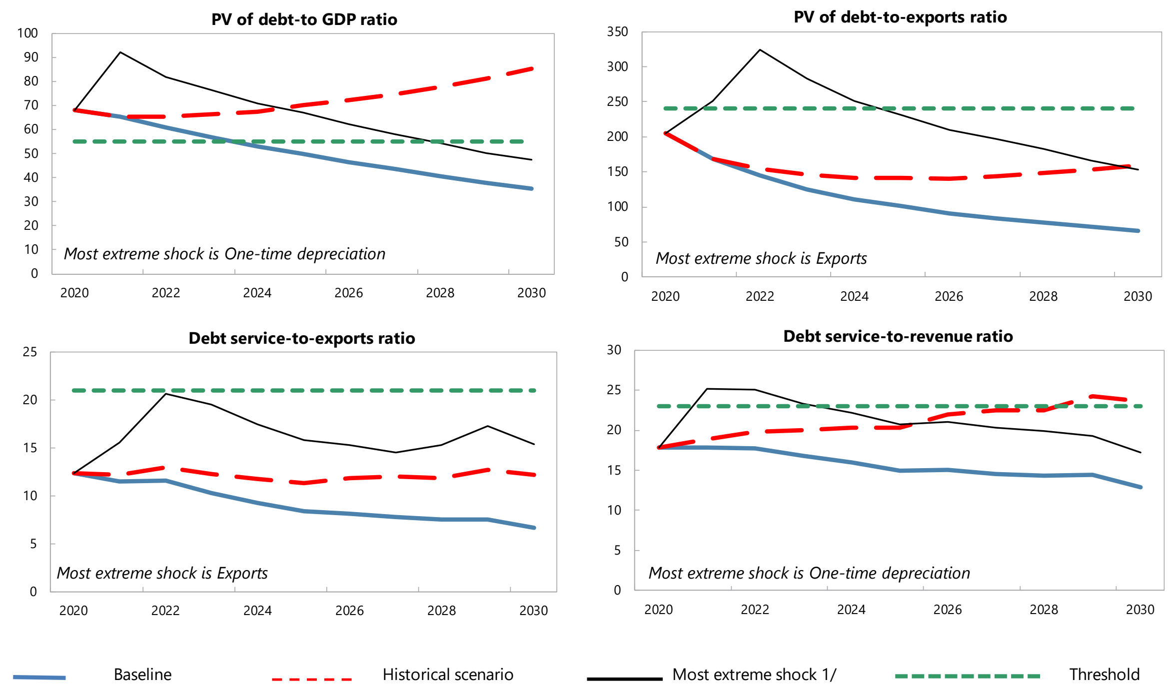
[1] Debt coverage is the same as in the last DSA.

[2] The Composite Indicator score is 3.283, with a classification of strong debt-carrying capacity.

The shocks from the COVID-19 pandemic will heavily impact tourism, the most important sector of Cabo Verde's economy, and are expected to deepen current account and fiscal deficits, resulting in a higher debt path compared to the previous DSA. The baseline scenario assumes that concessional loans from multilateral institutions and grants will help cover the health costs and financing needs triggered by the global health crisis. However, debt sustainability is subject to considerable downside risks, including from a more severe or prolonged impact of the COVID-19 shock.

Both the present value (PV) of PPG external debt-to-GDP ratio and of total public debt-to-GDP ratio breach their respective thresholds over the medium term under the baseline scenario, signaling a high risk of external and overall debt distress. In addition, they are particularly sensitive to export, depreciation, and contingent liabilities shocks. However, they are both projected to gradually decline as the forecast horizon advances, falling below their thresholds from 2024 and 2028 onwards, respectively. Similarly, the PV of PPG external debt-to-exports ratio exhibits a continuous downward trend over the projection period. In addition, debt service indicators are forecast to remain below their respective thresholds. Based on PPG external and overall debt dynamics, PPG debt is deemed sustainable.

Figure 1. Cabo Verde: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2020–30



Customization of Default Settings		
	Size	Interactions
Standardized Tests		Yes
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.8%	1.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	6	6

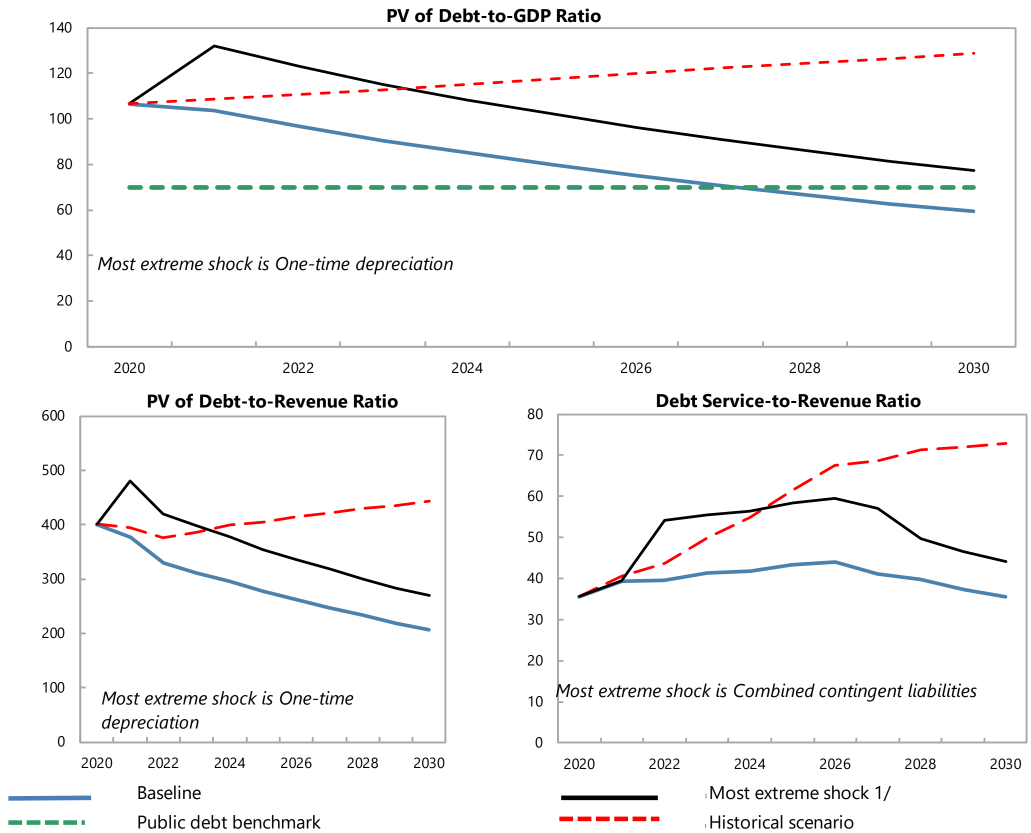
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Cabo Verde: Indicators of Public Debt Under Alternative Scenarios, 2020–30



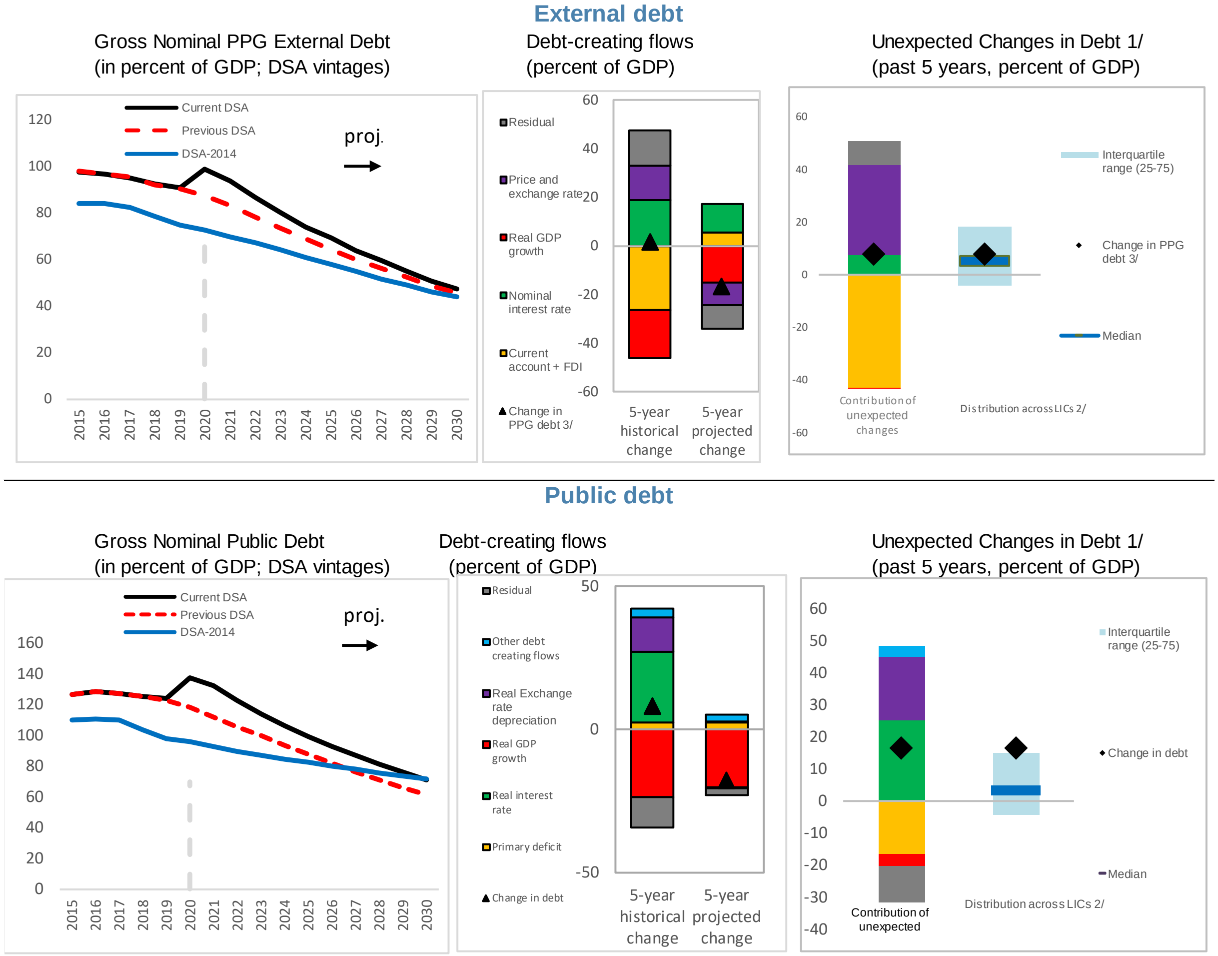
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	36%	36%
Domestic medium and long-term	62%	62%
Domestic short-term	1%	1%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.8%	1.8%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.2%	3.2%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0%	0.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Cabo Verde: Drivers of Debt Dynamics - Baseline Scenario



Sources: Country authorities; and staff estimates and projections.

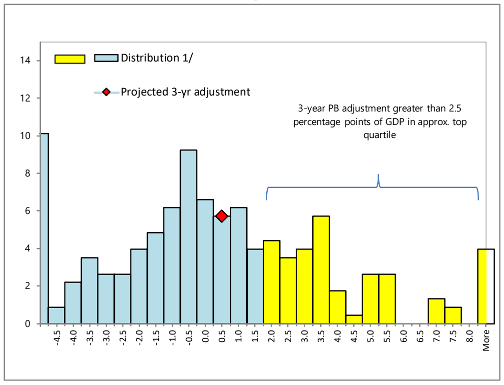
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

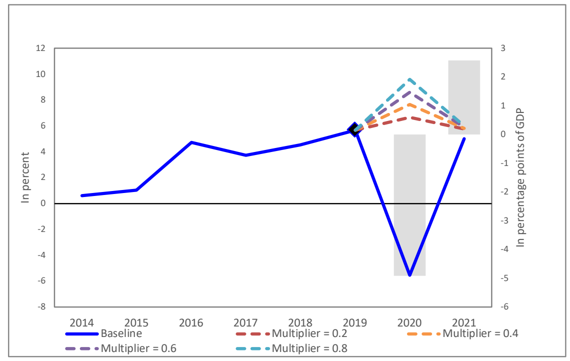
Figure 4. Cabo Verde: Realism tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



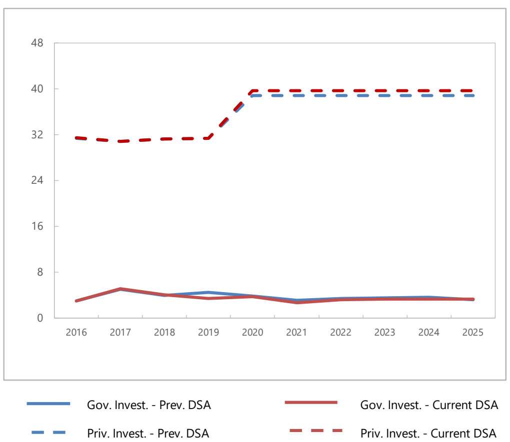
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

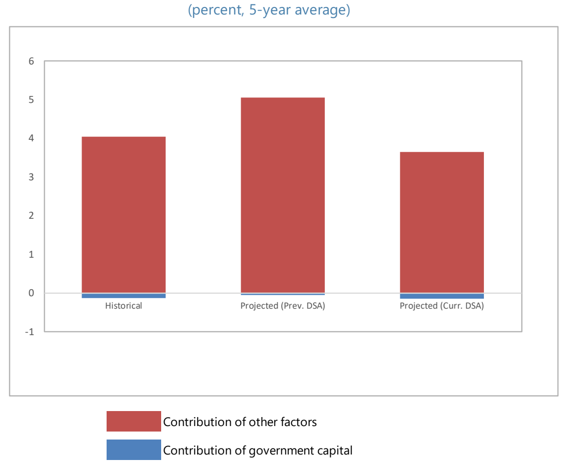


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP growth
(percent, 5-year average)



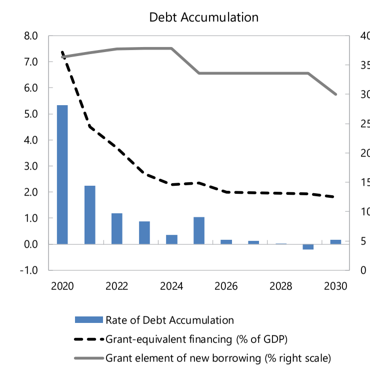
Sources: Country authorities; and staff estimates and projections.

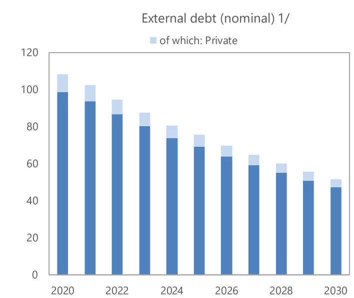
Table 1. Cabo Verde: External Debt Sustainability Framework, Baseline Scenario, 2017–40

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	107.7	102.8	99.9	108.2	102.4	94.5	87.5	80.6	75.4	51.7	23.7	93.3	77.3
of which: public and publicly guaranteed (PPG)	95.0	92.3	90.6	98.6	93.5	86.5	80.1	73.8	69.2	47.3	23.7	81.5	70.7
Change in external debt	2.2	-4.9	-2.9	8.4	-5.9	-7.8	-7.0	-6.9	-5.2	-3.9	-4.9		
Identified net debt-creating flows	-3.9	-9.5	-4.6	19.5	1.0	-5.2	-6.4	-6.4	-6.9	-7.7	-11.8	1.0	-3.7
Non-interest current account deficit	3.2	1.1	-2.0	11.6	6.1	2.4	0.4	-0.5	-1.5	-3.6	-8.6	3.7	0.5
Deficit in balance of goods and services	21.5	19.2	14.5	25.3	18.6	14.5	11.6	9.4	7.9	4.2	-0.8	20.4	10.3
Exports	45.4	49.2	50.9	33.2	38.7	42.1	45.4	47.9	49.6	53.6	61.4		
Imports	66.9	68.4	65.4	58.5	57.3	56.6	57.0	57.3	57.5	57.8	60.7		
Net current transfers (negative = inflow)	-17.0	-16.2	-16.4	-14.3	-12.9	-12.4	-11.3	-10.9	-10.6	-9.0	-8.6	-16.5	-10.8
of which: official	-3.4	-2.8	-3.0	-4.4	-3.2	-2.9	-2.0	-1.8	-1.6	-0.7	-0.4		
Other current account flows (negative = net inflow)	-1.3	-1.8	-0.1	0.6	0.4	0.3	0.1	1.0	1.2	1.2	0.7	-0.3	0.9
Net FDI (negative = inflow)	-5.5	-4.1	-4.0	-0.7	-2.5	-3.9	-3.8	-3.5	-3.3	-3.3	-3.2	-5.4	-3.1
Endogenous debt dynamics 2/	-1.6	-6.6	1.5	8.6	-2.6	-3.7	-3.0	-2.4	-2.1	-0.8	0.0		
Contribution from nominal interest rate	4.7	4.2	2.3	2.7	2.4	2.3	2.2	2.1	2.0	1.7	1.3		
Contribution from real GDP growth	-3.7	-4.4	-5.8	5.9	-5.0	-6.0	-5.2	-4.6	-4.1	-2.6	-1.3		
Contribution from price and exchange rate changes	-2.7	-6.4	5.0	...	...	...	...	...	...	...	...		
Residual 3/	6.1	4.6	1.7	-11.1	-6.9	-2.6	-0.6	-0.5	1.7	3.8	7.0	3.5	-0.7
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	58.7	68.0	65.3	60.8	56.8	52.8	50.0	35.4	17.9		
PV of PPG external debt-to-exports ratio	...	...	115.3	205.1	168.5	144.4	125.0	110.2	100.7	66.0	29.2		
PPG debt service-to-exports ratio	9.9	8.9	7.5	12.4	11.5	11.6	10.3	9.2	8.3	6.6	3.8		
PPG debt service-to-revenue ratio	18.1	16.3	14.6	17.8	17.8	17.7	16.8	15.9	14.9	12.9	8.8		
Gross external financing need (Million of U.S. dollars)	68.3	55.1	-19.4	307.5	191.1	104.0	62.8	44.1	15.7	-87.3	-683.9		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.7	4.5	5.7	-5.5	5.0	6.4	6.0	5.7	5.5	5.0	5.0	2.8	4.4
GDP deflator in US dollar terms (change in percent)	2.6	6.3	-4.6	-0.4	2.5	2.7	2.4	2.5	2.0	2.1	2.6	-0.9	2.0
Effective interest rate (percent) 4/	4.8	4.4	2.2	2.5	2.4	2.5	2.6	2.6	2.7	3.3	5.0	4.8	2.8
Growth of exports of G&S (US dollar terms, in percent)	11.6	20.4	4.2	-38.6	25.7	18.8	17.2	14.1	11.6	8.4	9.2	6.9	8.5
Growth of imports of G&S (US dollar terms, in percent)	19.0	13.5	-3.7	-15.8	5.6	7.9	9.3	8.9	8.0	7.3	8.2	3.0	5.5
Grant element of new public sector borrowing (in percent)	...	...	...	36.4	37.1	37.7	37.8	37.8	33.6	30.0	30.0	...	35.0
Government revenues (excluding grants, in percent of GDP)	24.9	27.0	26.2	23.0	25.0	27.5	28.0	27.7	27.8	27.7	26.5	23.5	27.0
Aid flows (in Million of US dollars) 5/	169.0	94.0	170.8	228.9	157.9	146.0	128.5	113.8	127.7	125.6	235.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	7.4	4.5	3.7	2.7	2.3	2.3	1.8	1.7	...	3.0
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	52.5	57.2	55.4	50.1	51.8	46.8	48.6	50.0	...	51.3
Nominal GDP (Million of US dollars)	1,770	1,967	1,982	1,864	2,008	2,194	2,382	2,581	2,778	3,942	7,930		
Nominal dollar GDP growth	6.4	11.1	0.8	-5.9	7.7	9.3	8.6	8.3	7.6	7.1	7.7	1.9	6.5
Memorandum items:													
PV of external debt 7/	...	...	68.0	77.6	74.2	68.9	64.2	59.5	56.1	39.8	17.9		
In percent of exports	...	...	133.6	234.0	191.5	163.6	141.2	124.3	113.2	74.3	29.2		
Total external debt service-to-exports ratio	13.6	11.6	10.0	16.9	15.2	14.8	13.2	11.9	10.8	8.7	5.3		
PV of PPG external debt (in Million of US dollars)			1162.5	1268.3	1309.9	1333.6	1352.8	1361.4	1388.3	1395.6	1419.8		
(PVt-PVt-1)/GDPt-1 (in percent)				5.3	2.2	1.2	0.9	0.4	1.0	0.2	-0.6		
Non-interest current account deficit that stabilizes debt ratio	1.1	6.0	0.9	3.3	12.0	10.2	7.4	6.5	3.6	0.3	-3.8		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Εα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ε=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

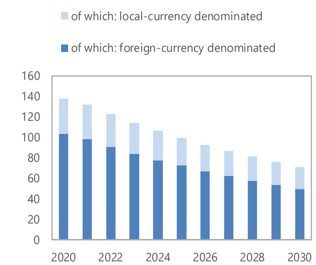
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

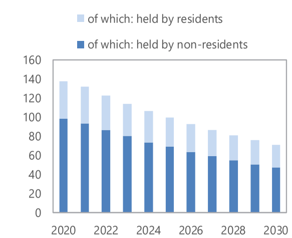
Table 2. Cabo Verde: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017–40
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	127.2	125.6	124.2	137.4	132.0	122.5	114.0	106.3	99.4	71.2	41.0	**109.2**	**101.7**
of which: external debt	95.0	92.3	90.6	98.6	93.5	86.5	80.1	73.8	69.2	47.3	23.7	**81.5**	**70.7**
Change in public sector debt	-1.1	-1.6	-1.4	13.3	-5.5	-9.5	-8.5	-7.7	-6.9	-4.7	-2.5		
Identified debt-creating flows	-8.8	5.2	-0.3	16.4	-5.6	-9.6	-8.6	-7.8	-7.0	-4.6	-1.3	**9.4**	**-4.5**
Primary deficit	0.4	0.3	-0.7	4.2	1.6	-1.0	-1.2	-1.2	-1.3	-1.2	0.7	**3.8**	**-0.5**
Revenue and grants	28.6	28.4	29.4	26.6	27.5	29.4	29.0	28.7	28.8	28.7	27.5	**26.6**	**28.5**
of which: grants	3.7	1.4	3.2	3.5	2.5	1.9	1.1	1.0	1.0	1.0	1.0		
Primary (noninterest) expenditure	29.0	28.6	28.7	30.8	29.1	28.4	27.8	27.4	27.4	27.5	28.3	**30.4**	**27.9**
Automatic debt dynamics	-9.1	5.0	-2.8	9.7	-7.3	-8.6	-7.5	-6.6	-5.6	-3.4	-1.9		
Contribution from interest rate/growth differential	1.6	0.3	-6.0	8.0	-6.7	-8.1	-7.1	-6.2	-5.6	-3.4	-1.8		
of which: contribution from average real interest rate	6.2	5.8	0.8	0.7	-0.1	-0.1	-0.1	-0.1	-0.1	0.2	0.3		
of which: contribution from real GDP growth	-4.6	-5.5	-6.7	7.3	-6.6	-8.0	-6.9	-6.1	-5.5	-3.6	-2.1		
Contribution from real exchange rate depreciation	-10.8	4.7	3.1	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	3.3	2.5	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	**1.1**	**0.2**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1		
Other debt creating or reducing flow (please specify)	0.0	0.0	3.3	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	7.6	-6.9	-1.1	-1.4	-0.4	-0.4	-0.3	-0.3	0.1	-0.1	-1.3	**-3.2**	**-0.3**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	92.3	106.6	103.5	96.7	90.5	85.0	80.0	59.3	35.1		
PV of public debt-to-revenue and grants ratio	...	...	313.8	401.0	376.1	329.1	311.8	296.6	277.8	206.7	127.7		
Debt service-to-revenue and grants ratio 3/	48.7	53.5	29.7	35.6	39.4	39.7	41.4	41.8	43.4	35.5	24.9		
Gross financing need 4/	6.4	7.0	8.0	16.2	12.5	10.6	10.8	10.8	11.1	9.0	7.5		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.7	4.5	5.7	-5.5	5.0	6.4	6.0	5.7	5.5	5.0	5.0	**2.8**	**4.4**
Average nominal interest rate on external debt (in percent)	3.6	3.2	1.1	1.2	1.1	1.1	1.1	1.1	1.1	1.4	1.8	**3.1**	**1.2**
Average real interest rate on domestic debt (in percent)	15.2	16.6	4.2	3.3	2.2	2.0	2.0	2.1	2.0	2.5	2.3	**15.3**	**2.3**
Real exchange rate depreciation (in percent, + indicates depreciation)	-11.4	5.1	3.6	...	...	...	...	...	...	...	...	**3.5**	**...**
Inflation rate (GDP deflator, in percent)	0.7	1.5	0.6	1.7	1.7	2.0	1.9	1.9	2.0	2.1	2.6	**0.9**	**2.0**
Growth of real primary spending (deflated by GDP deflator, in percent)	10.8	3.3	5.9	1.4	-0.6	3.5	4.0	4.1	5.5	5.9	5.0	**2.0**	**4.0**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	1.5	1.9	0.7	-9.1	7.1	8.5	7.3	6.5	5.5	3.5	3.2	**1.4**	**4.3**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central government plus extra budgetary funds, central bank, government-guaranteed debt. Definition of external debt is Residency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Cabo Verde: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020–30

(Percent)

	Projections										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio											
Baseline	68	65	61	57	53	50	47	44	41	38	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	68	65	65	66	67	70	72	74	78	81	85
B. Bound Tests											
B1. Real GDP growth	68	68	67	62	58	55	51	48	45	42	39
B2. Primary balance	68	67	65	61	57	55	51	49	46	43	41
B3. Exports	68	72	79	75	70	67	63	59	56	51	48
B4. Other flows 2/	68	68	65	61	57	54	51	47	44	41	38
B6. One-time 30 percent nominal depreciation	68	92	82	76	71	67	62	58	54	50	47
B6. Combination of B1-B5	68	74	74	69	65	61	57	54	50	47	43
C. Tailored Tests											
C1. Combined contingent liabilities	68	73	69	65	62	60	57	55	52	49	47
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	205	168	144	125	110	101	91	84	78	71	66
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	205	169	155	146	141	141	140	144	148	153	159
B. Bound Tests											
B1. Real GDP growth	205	168	144	125	110	101	91	84	78	71	66
B2. Primary balance	205	172	153	134	119	110	100	94	88	81	76
B3. Exports	205	251	325	283	252	231	210	197	182	166	153
B4. Other flows 2/	205	175	155	135	119	109	99	91	85	77	72
B6. One-time 30 percent nominal depreciation	205	168	137	119	105	95	86	79	73	67	62
B6. Combination of B1-B5	205	234	163	211	187	171	155	144	133	122	112
C. Tailored Tests											
C1. Combined contingent liabilities	205	188	164	144	129	121	111	106	99	93	88
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	12	11	12	10	9	8	8	8	8	8	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	12	12	13	12	12	11	12	12	12	13	12
B. Bound Tests											
B1. Real GDP growth	12	11	12	10	9	8	8	8	8	8	7
B2. Primary balance	12	11	12	11	9	9	8	8	8	8	7
B3. Exports	12	16	21	19	17	16	15	15	15	17	15
B4. Other flows 2/	12	11	12	11	9	9	8	8	8	8	7
B6. One-time 30 percent nominal depreciation	12	11	12	10	9	8	8	8	7	7	6
B6. Combination of B1-B5	12	14	18	16	14	13	13	12	13	13	11
C. Tailored Tests											
C1. Combined contingent liabilities	12	11	12	11	10	9	9	8	8	8	7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	18	18	18	17	16	15	15	15	14	14	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	18	19	20	20	20	20	22	23	23	24	24
B. Bound Tests											
B1. Real GDP growth	18	19	20	18	18	16	17	16	16	16	14
B2. Primary balance	18	18	18	17	16	15	15	15	15	16	14
B3. Exports	18	18	18	18	17	16	16	16	17	19	17
B4. Other flows 2/	18	18	18	17	16	15	15	15	15	16	14
B6. One-time 30 percent nominal depreciation	18	25	25	23	22	21	21	20	20	19	17
B6. Combination of B1-B5	18	18	20	19	18	17	17	16	17	18	16
C. Tailored Tests											
C1. Combined contingent liabilities	18	18	18	17	17	16	16	15	15	15	14
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	23	23	23	23	23	23	23	23	23	23	23

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Includes official and private transfers and FDI.

Table 4. Cabo Verde: Sensitivity Analysis for Key Indicators of Public Debt, 2020–30

(Percent)

	Projections										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of Debt-to-GDP Ratio											
Baseline	107	104	97	90	85	80	75	71	67	63	59
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	107	109	111	113	115	117	120	122	124	127	129
B. Bound Tests											
B1. Real GDP growth	107	109	110	106	102	99	95	93	90	87	85
B2. Primary balance	107	109	110	103	97	91	86	81	77	73	69
B3. Exports	107	110	115	108	102	97	91	86	82	76	71
B4. Other flows 2/	107	106	101	95	89	84	79	75	70	66	62
B6. One-time 30 percent nominal depreciation	107	132	123	115	108	102	96	91	86	81	77
B6. Combination of B1-B5	107	111	111	104	100	95	90	87	83	79	75
C. Tailored Tests											
C1. Combined contingent liabilities	107	130	122	115	108	102	96	91	87	82	78
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	401	376	329	312	297	278	262	247	233	219	207
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	401	394	375	387	399	405	414	422	429	436	443
B. Bound Tests											
B1. Real GDP growth	401	394	372	363	354	341	331	322	313	304	297
B2. Primary balance	401	396	373	354	338	318	300	284	269	254	240
B3. Exports	401	401	392	373	356	335	318	302	285	266	249
B4. Other flows 2/	401	385	345	327	311	292	276	261	246	231	217
B6. One-time 30 percent nominal depreciation	401	480	419	397	378	355	335	318	301	284	269
B6. Combination of B1-B5	401	402	377	359	346	329	315	301	288	274	262
C. Tailored Tests											
C1. Combined contingent liabilities	401	473	416	396	378	355	336	319	302	286	271
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	36	39	40	41	42	43	44	41	40	37	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	36	40	44	50	55	61	67	69	71	72	73
B. Bound Tests											
B1. Real GDP growth	36	41	44	47	49	52	54	53	52	51	50
B2. Primary balance	36	39	43	48	49	51	52	49	47	43	41
B3. Exports	36	39	40	43	43	45	45	42	42	42	40
B4. Other flows 2/	36	39	40	42	42	44	44	42	40	39	37
B6. One-time 30 percent nominal depreciation	36	43	47	50	51	53	55	53	52	51	49
B6. Combination of B1-B5	36	41	43	48	49	52	54	52	51	49	47
C. Tailored Tests											
C1. Combined contingent liabilities	36	39	54	56	56	58	60	57	50	47	44
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

2/ Includes official and private transfers and FDI.

Statement by Afonso Bevilaqua, Executive Director for Cabo Verde, and Pedro Fachada, Alternate Executive Director
April 22, 2020

1. On behalf of the Cabo Verdean authorities, we would like to express our gratitude to management and the staff team for the timely response to their request for a disbursement under the Rapid Credit Facility (RCF) in the amount of 100 percent of quota (SDR 23.7 million). IMF financial support will help the authorities overcome the impact of the COVID-19 shock on the health system, the economy and the livelihood of the Cabo Verdean people. This support will play an important role in the authorities' comprehensive policy response to the pandemic and will reduce fiscal and external financing gaps projected for 2020. The authorities are confident that IMF financial assistance will catalyze additional bilateral and multilateral support, including from the World Bank, the African Development Bank and other development partners.

Engagement with the Fund

2. Less than one month ago, on March 30, the Executive Board completed the first review under Cabo Verde's Policy Coordination Instrument (PCI). Performance under the PCI has been strong, underscoring the authorities' commitment to robust macroeconomic policies and reforms. The quick consideration of the RCF request has been facilitated by this positive performance. This reveals the usefulness of the PCI for countries that did not have a balance of payments needs at time of approval, but are nevertheless vulnerable to exogenous shocks, as is the case of Cabo Verde with the current global pandemic.

3. At the time of the discussions between staff and the authorities for the first review under the PCI, the Cabo Verdean economy was in a period of cyclical and structural strength. Real GDP grew 5.7 percent in 2019, the fastest rate since 2008. Inflation was subdued while the fiscal accounts registered a 0.7 percent of GDP primary surplus last year. External indicators were also robust in 2019, with a current account deficit of just 0.2 percent of GDP and a substantial accumulation of international reserves (+ €133 million, equivalent to a 25.1 percent increase compared to end-2018).

Impact of the COVID-19 pandemic

4. The macroeconomic scenario changed drastically as a result of the COVID-19 outbreak. As a small, open and tourism-dependent economy with Western Europe as its main source market, Cabo Verde has been severely impacted by the pandemic even if the number of cases in the country has remained relatively contained. As of April 20, one fatality has been registered—a British tourist vacationing in the island of Boa Vista. There is a total of 67 cases, mostly in Boa Vista—the second main tourist destination but one of the less populated islands—including several employees of the hotel where the deceased had stayed.

5. The authorities have acted decisively to contain the contagion and even in Boa Vista, community spread appears to be limited. Still in February, the authorities prohibited the entry of tourists from affected countries and later in the month banned flights from/to Italy, an important source market. Flight suspensions were later extended to other countries, before the ban of all international flights in mid-March. Inter-island travel has also been suspended. In late March, the President declared a national state of emergency, now extended until May 2 for the three most affected islands and April 26 for the remaining islands. Non-essential activities, including businesses, schools, and universities are closed and public events are prohibited until further notice. The authorities have also implemented strict social distancing guidelines.

6. Projections under the authorities' baseline scenario suggest that real GDP growth for 2020 could decline from 5.5 percent, which was expected before the COVID-19 outbreak, to -5.8 percent. The authorities estimate a decline in tourist arrivals of about 60 percent when compared to 2019, with special impact in the second and third quarters of this year. Disruptions to production and services due to containment measures will impact several activities including transportation, retail, manufacturing and construction, among others.

7. The pandemic has created significant balance of payments needs. The reduction in tourism revenues and the postponement of foreign direct investment will only partially be offset by the decline in imports. Remittances, an important source of foreign exchange, are expected to drop significantly, especially as labor market conditions deteriorate in the countries with the largest Cabo Verdean communities. Staff's estimate of a total external gap slightly above 14 percent of GDP relative to the pre-COVID-19 scenario clearly illustrates the challenges faced by the authorities.

Policy response

8. In response to the pandemic, the authorities have decided to implement a less restrictive fiscal policy. Health care spending, including the purchase of medical supplies and equipment, together with social protection are expected to increase by more than 1 percent of GDP. Social protection measures include support to informal sector workers and the population with no income, as well as the elderly—in many cases, these groups were previously supported by remittances sent by relatives living abroad, but this source of income has now become uncertain. The increase in healthcare and social expenditure will partially be compensated by reprioritizing capital spending and containing non-essential current spending. On the revenue side, the authorities project a significant drop in tax collection due to the contraction in economic activity and imports. To support the business sector and preserve jobs, the authorities have deferred certain tax payments up to the end of the year and are providing loan guarantees, especially for micro, small and medium-sized enterprises.

9. On the monetary and macroprudential fronts, the *Banco de Cabo Verde* (BCV) announced in March a series of measures to reduce interest rates, support the liquidity of the banking system

and foster credit creation. The policy rate, as well as the overnight and the discount rates were cut to record lows while reserve requirements were reduced. The BCV also introduced a new long-term liquidity instrument with a maturity up to three years. In addition, the BCV implemented important prudential measures, including allowing banks to defer loan repayments on request by borrowers with a good standing for three months, and reducing temporarily banks' capital adequacy ratios until December 2021.

10. The authorities expect that the set of fiscal, monetary and macroprudential policies will help attenuate the impact of the crisis and support employment, businesses and households, especially the most vulnerable. Nevertheless, they stand ready to take additional actions as the situation evolves. Looking beyond the COVID-19 shock, the authorities are confident that, with the suspension of travel restrictions and the gradual resumption of global activity, the Cabo Verdean economy will be in a favorable position to grow again in 2021. However, they are aware that uncertainties about the duration and potential spread of the pandemic weigh on the country's recovery prospects.

Conclusion

11. The authorities remain fully committed to the medium-term objectives outlined in their 2017/2021 Strategic Plan for Sustainable Development (PEDS). They also remain committed to the PCI program, although recognizing that quantitative fiscal targets will need to be adjusted in the next review. As soon as the crisis recedes, they will resume policies and reforms to improve the fiscal position, put public debt back on a downward trend and further improve the business environment. The authorities continue to evaluate the engagement with the Fund as an important element bolstering their structural reforms efforts.

12. The COVID-19 pandemic is posing enormous challenges to the people and to the government of Cabo Verde. This is a small island state with limited resources and the authorities count on the support and solidarity of the international community to assist during this critical period, including through grants and external debt relief.