INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/71

CABO VERDE

April 2021

THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT——PRESS RELEASE; AND STAFF REPORT

In the context of the Third review of the Policy Coordination Instrument, the following documents have been released and are included in this package:

- **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on February 8, 2021, with the officials of Cabo Verde on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 10, 2021.

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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR21/89

IMF Executive Board Completes Third Review Under the Policy Coordination Instrument for Cabo Verde

FOR IMMEDIATE RELEASE

- *The economic impact of the COVID-19 shock has been significant, with an estimated output contraction of 14 percent in 2020, and lingering effects in 2021. Therefore, addressing the health crisis will remain a priority while policy actions will also aim to support the projected recovery.*
- *Execution of the 2021 budget will seek to strike a balance between accommodating pressing health and development needs and supporting medium-term debt sustainability as Cabo Verde remains at a high risk of debt distress.*
- *Cabo Verde's Policy Coordination Instrument (PCI) will expire soon, with important gains for the authorities' broad reform agenda. Despite challenges generated by the pandemic, program performance for the third review was satisfactory.*

Washington, DC – **March 26, 2021:** The Executive Board of the International Monetary Fund (IMF) completed the third and final review under the Policy Coordination Instrument for Cabo Verde (PCI).[1] The Executive Board's decision was taken without a formal meeting.[2]

The PCI for Cabo Verde was approved by the Executive Board on July 15, 2019 (Press Release No. 19/278). Its implementation supported the authorities' medium-term objectives for fiscal and debt sustainability and for broader growth-enhancing reforms under their Strategic Plan for Sustainable Development (PEDS). Policies and reforms in recent years, through the beginning of the pandemic, helped deliver higher growth, maintain low inflation, improve fiscal and external positions, and put the ratio of public-debt-to GDP on a declining trend.

Performance under the PCI has remained satisfactory throughout the program period despite challenges generated by the COVID-19 pandemic. All quantitative targets for end-September 2020 and non-quantitative continuous targets were met. All, but two reform targets (RT) set under the PCI were observed, most of them ahead of the program schedule. There has been important progress on the two remaining RTs, expected to be completed this year.

The Cabo Verdean economy has been hit hard by the COVID-19 pandemic. Economic activity is estimated to have contracted by 14 percent in 2020 due to the global economic downturn, travel restrictions and domestic containment measures that significantly reduced activities in the major sectors of the economy. Policy and social protection measures taken by the

---

[1] The PCI is available to all IMF members that do not need Fund financial resources at the time of approval. It is designed for countries seeking to demonstrate commitment to a reform agenda or to unlock and coordinate financing from other official creditors or private investors. (see https://www.imf.org/en/About/Factsheets/Sheets/2017/07/25/policy-coordination-instrument).

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions

700 19th Street NW
Washington, DC 20431
USA

authorities are supporting the economy and helping the most vulnerable groups address the impact of the pandemic.

The authorities' COVID-19 response plan received financial support from Cabo Verde's development partners, including the IMF through the Rapid Credit Facility (Press Release No. 20/184) totaling SDR 23.70 million (about US$32.3 million, 100 percent of quota).

The fiscal framework underpinning the 2021 budget addresses the lingering effects of the pandemic while setting the stage for the resumption of a declining path for public debt, after the surge caused by the economic impact of the pandemic.

The economic outlook remains challenging and uncertain. Real GDP growth is projected to rebound to 5.8 percent in 2021 and to average around 6 percent in the medium term. However, there are significant downside risks, most notably the evolution of the pandemic and its global ramifications.

In addition, economic prospects depend on key factors, including: a firm global economic rebound, the resumption and increase of tourism and capital flows to Cabo Verde; the execution of large externally-financed infrastructure projects delayed by the pandemic, decisive implementation of structural reforms, notably to restructure State-Owned enterprises and to facilitate access to finance particularly for small and medium-sized enterprises, and policies to support macroeconomic stability.

Table 1. Cabo Verde: Selected Economic Indicators, 2018–26

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			CR 20/297	Est.	CR 20/297	Proj.			Proj.		
					(Annual percent change)						
National accounts and prices 1/											
Real GDP	4.5	5.7	-6.8	-14.0	4.5	5.8	6.0	6.1	6.1	6.2	6.2
GDP deflator	1.5	0.6	1.1	0.9	1.2	1.2	1.4	1.5	1.6	1.8	1.9
Consumer price index (annual average)	1.3	1.1	1.0	0.6	1.2	1.2	1.4	1.5	1.6	1.7	1.7
Consumer price index (end of period)	1.0	1.9	1.0	-0.9	1.2	1.2	1.4	1.5	1.6	1.7	1.7
External sector											
Exports of goods and services	15.9	10.0	-47.3	-48.9	25.9	33.8	18.6	11.0	11.8	11.6	9.1
Of which: tourism	10.0	8.6	-65.7	-64.3	32.5	36.4	28.1	16.5	17.4	9.3	9.9
Imports of goods and services	8.7	2.0	-21.5	-23.7	5.1	11.2	7.6	5.5	6.4	9.4	6.3
					(Change in percent of broad money, 12 months earlier)						
Money and credit											
Net foreign assets	-2.1	7.8	-5.7	-5.1	-1.5	-0.6	-0.6	0.5	1.5	1.5	1.6
Net domestic assets	3.5	0.6	0.5	8.2	6.0	6.2	5.1	6.4	5.1	4.3	4.3
Net claims on the central government	4.3	-4.8	1.2	1.4	1.2	0.7	0.4	0.6	0.3	0.1	0.1
Credit to the economy	1.9	2.3	0.9	2.1	3.7	4.0	3.9	4.1	4.2	4.1	4.1
Broad money (M2)	1.4	8.4	-5.2	3.1	4.5	5.6	4.5	6.9	6.5	5.8	5.9
					(Percent of GDP, unless otherwise indicated)						
Savings and investment											
Domestic savings	31.3	37.1	28.0	22.7	33.0	27.7	33.8	35.9	37.7	38.2	36.0
Government	2.0	0.1	-7.7	-6.6	-3.2	-2.5	-0.1	2.7	3.7	3.9	4.2
Private	29.3	37.0	35.7	29.3	36.2	30.2	33.8	33.2	34.0	34.3	31.8
National investment	36.5	37.5	42.2	36.5	42.2	38.2	40.1	40.6	41.0	41.0	38.7
Government	4.4	3.9	3.8	2.7	5.0	5.3	4.0	4.0	4.0	4.0	4.0
Private	32.1	33.6	38.4	33.9	37.2	32.9	36.1	36.6	37.0	37.0	34.7
Savings-investment balance	-5.2	-0.4	-14.2	-13.8	-9.2	-10.6	-6.4	-4.7	-3.3	-2.8	-2.6
Government	-2.4	-3.8	-11.5	-9.2	-8.2	-7.9	-4.1	-1.3	-0.3	-0.1	0.2
Private	-2.8	3.4	-2.7	-4.6	-1.0	-2.7	-2.3	-3.4	-3.0	-2.7	-2.9
External sector											
External current account (including official transfers)	-5.2	-0.4	-14.2	-13.8	-9.2	-10.6	-6.4	-4.7	-3.3	-2.8	-2.6
External current account (excluding official transfers)	-8.0	-3.4	-18.6	-17.4	-13.6	-13.1	-9.7	-7.1	-5.3	-4.7	-3.7
Overall balance of payments	0.5	7.4	-5.4	-5.1	-0.7	0.1	0.0	0.6	1.6	1.6	1.6
Gross international reserves (months of prospective imports of goods and services)	5.5	9.0	7.3	7.2	6.7	6.7	6.3	6.1	5.9	5.8	5.8
Government finance											
Revenue	28.2	29.4	29.2	25.8	29.2	29.7	30.9	30.8	31.0	31.1	31.4
Tax and nontax revenue	26.8	26.2	24.5	22.8	25.6	27.5	28.8	29.6	29.8	29.9	30.2
Grants	1.4	3.2	4.7	3.1	3.6	2.2	2.1	1.2	1.2	1.2	1.2
Expenditure	30.9	31.2	38.8	34.7	35.8	37.6	34.6	32.5	31.7	31.4	31.3
Primary balance	-0.1	0.7	-7.0	-6.0	-3.8	-5.2	-0.7	1.0	1.9	2.2	2.4
Overall balance (incl. grants)	-2.7	-1.8	-9.7	-8.9	-6.6	-7.9	-3.6	-1.7	-0.7	-0.3	0.1
Net other liabilities (incl. onlending)	-1.0	-3.3	-2.5	-1.1	0.2	0.3	-0.2	-0.2	-0.2	-0.2	-0.2
Total financing (incl. onlending and capitalization)	2.9	5.1	12.1	9.1	6.4	7.6	3.8	2.0	0.9	0.5	0.2
Net domestic credit	1.4	1.4	2.6	3.0	2.2	1.5	0.8	1.3	0.5	0.2	0.2
Net external financing	1.5	3.6	9.5	6.1	4.2	6.1	3.0	0.6	0.3	0.3	0.0
Public debt stock and service											
Total nominal government debt	124.7	125.0	137.5	140.9	134.8	138.7	132.0	124.2	115.8	107.4	98.9
External government debt	91.4	91.4	97.0	97.6	93.8	97.3	93.0	86.8	80.8	75.1	69.3
Domestic government debt	33.3	33.5	40.5	43.4	41.0	41.4	39.1	37.4	35.0	32.3	29.6
External debt service (percent of exports of goods and	5.9	5.4	12.5	14.5	13.4	9.5	13.4	12.6	11.5	10.4	10.2
Present value of PPG external debt											
Percent of GDP (risk threshold: 55%)	60.6	60.8	69.2	74.2	65.8	70.8	67.4	63.3	59.2	55.5	51.7
Percent of exports (risk threshold: 240%)	123.8	119.9	244.3	249.2	194.8	193.3	166.0	150.7	135.8	123.4	114.0
Present value of total debt											
Percent of GDP (benchmark: 70%)	96.0	94.3	107.7	113.0	106.5	111.6	106.4	100.6	94.2	87.8	81.3
Memorandum items:											
Nominal GDP (billions of Cabo Verde escudos)	183.7	195.2	183.9	169.3	194.4	181.3	194.7	209.5	225.9	244.2	264.3
Gross international reserves (€ millions, end of period)	531.9	663.4	573.2	583.9	561.0	586.6	587.1	598.1	631.6	667.4	706.8

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/€.

INTERNATIONAL MONETARY FUND

CABO VERDE

THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT

March 10, 2021

EXECUTIVE SUMMARY

Context. The Cabo Verdean economy is in recession as a result of the economic impact of the pandemic that has shut down the tourism and transport sectors and significantly affected the rest of the economy. The number of COVID-19 cases continues to rise with concentration in the largest island, though the recovery rate is high. The economic outlook remains highly uncertain and dependent upon the duration of the pandemic, the global economic recovery, and the authorities' ability to support the expected economic recovery through the appropriate policies and reforms. Legislative and presidential elections are scheduled for April and October, respectively.

Program Implementation. The current Policy Coordination Instrument (PCI) is coming to an end and, despite the adverse impact of the pandemic, important gains were made. All end-September 2020 quantitative targets were met, all non-quantitative continuous targets were observed, and all but two reform targets (RTs) under the program were met. There has been progress on the two RTs which were missed because of constraints generated by the pandemic. The authorities plan to complete them before the end of the year. Staff recommends the completion of the third review under the Policy Coordination Instrument. The authorities have expressed interest in continued Fund engagement.

Policy Recommendations

- Focus on the health crisis by prioritizing spending. Advance revenue-enhancing reforms, contain non-priority expenditures and fiscal risks, prioritize capital outlays, and maintain prudent borrowing policies, relying on the zero limit on non-concessional loans to support medium-term fiscal and debt sustainability objectives.
- Maintain the accommodative monetary policy stance in the absence of pressures on prices and reserves. Improve AML/CFT framework further to maintain correspondent banking relationships (CBRs).
- Enhance banking supervision, anticipate financial sector vulnerabilities, and take mitigating measures in relation with the economic impact of the pandemic.
- Accelerate structural reforms when conditions permit to support broad-based recovery and increase resilience to adverse shocks.

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

Discussions were held remotely during January 25–February 8, 2021. The staff team comprised Ms. Kabedi-Mbuyi (Head), Messrs. Amo-Yartey, Darius, Picca, and Ms. Iyer (all AFR). Ms. Cruz and Mr. Velloso (both OED) participated in the discussions, and Mr. Bevilaqua (Executive Director for Cabo Verde) joined the concluding meeting. The team held discussions with Deputy Prime Minister and Minister of Finance, Olavo Correia, the Central Bank Governor Óscar Santos; other senior officials; development partners; and the private sector.

CONTENTS

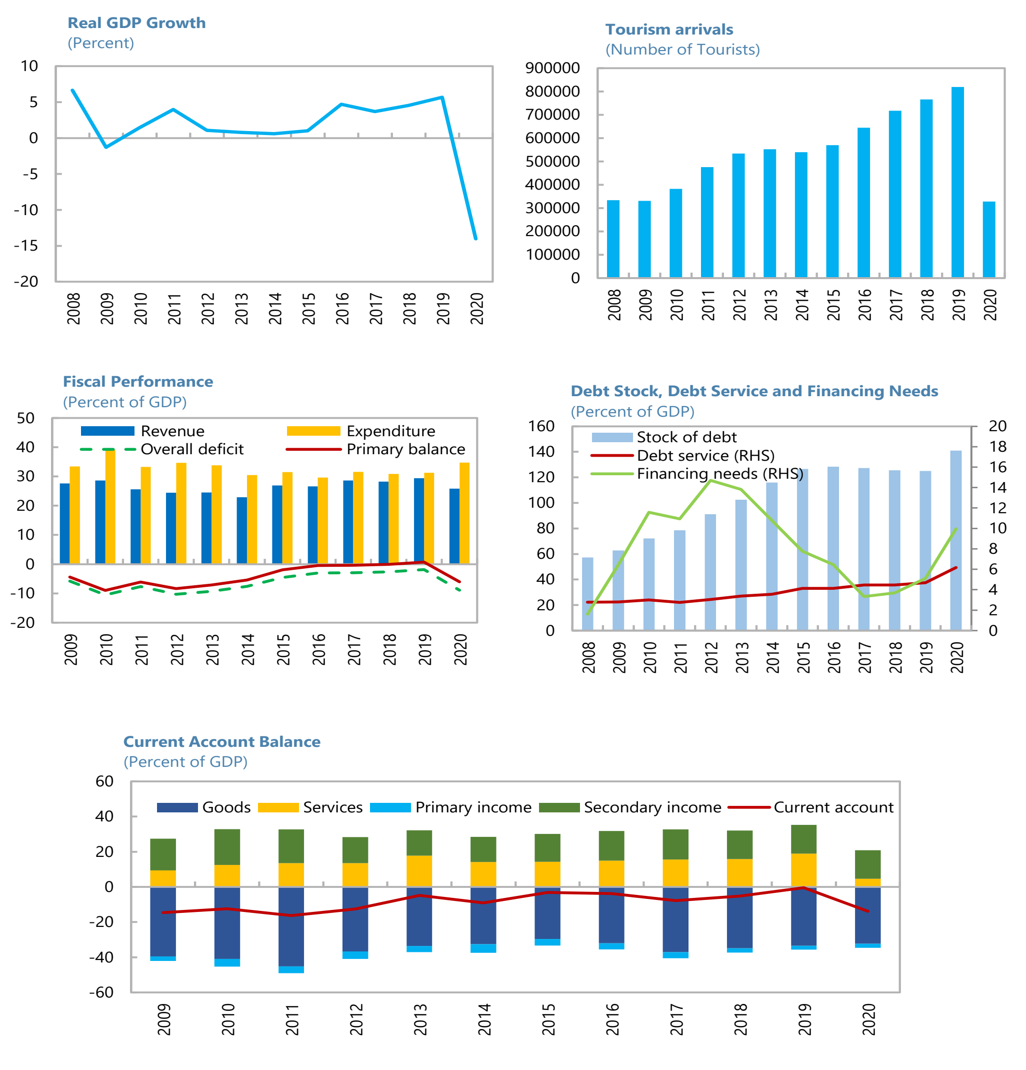
ANNEXES

APPENDIX

BACKGROUND AND RECENT DEVELOPMENTS

1. **Cabo Verde's Policy Coordination Instrument (PCI) is ending with a strong performance amid the COVID-19 shock** (PS ¶3). The program approved by the Executive Board on July 15, 2019 aimed to enhance macroeconomic stability. Its implementation helped support the authorities' medium-term objectives for fiscal and debt sustainability as well as a broader reform agenda under their Strategic Plan for Sustainable Development (PEDS) that delivered a strong performance before the health crisis: increasing growth, low inflation, improved fiscal and external positions, declining public debt-to-GDP ratio (Text figure 1), and decisive structural reforms. The PCI also supported the implementation of the authorities' response to the pandemic.

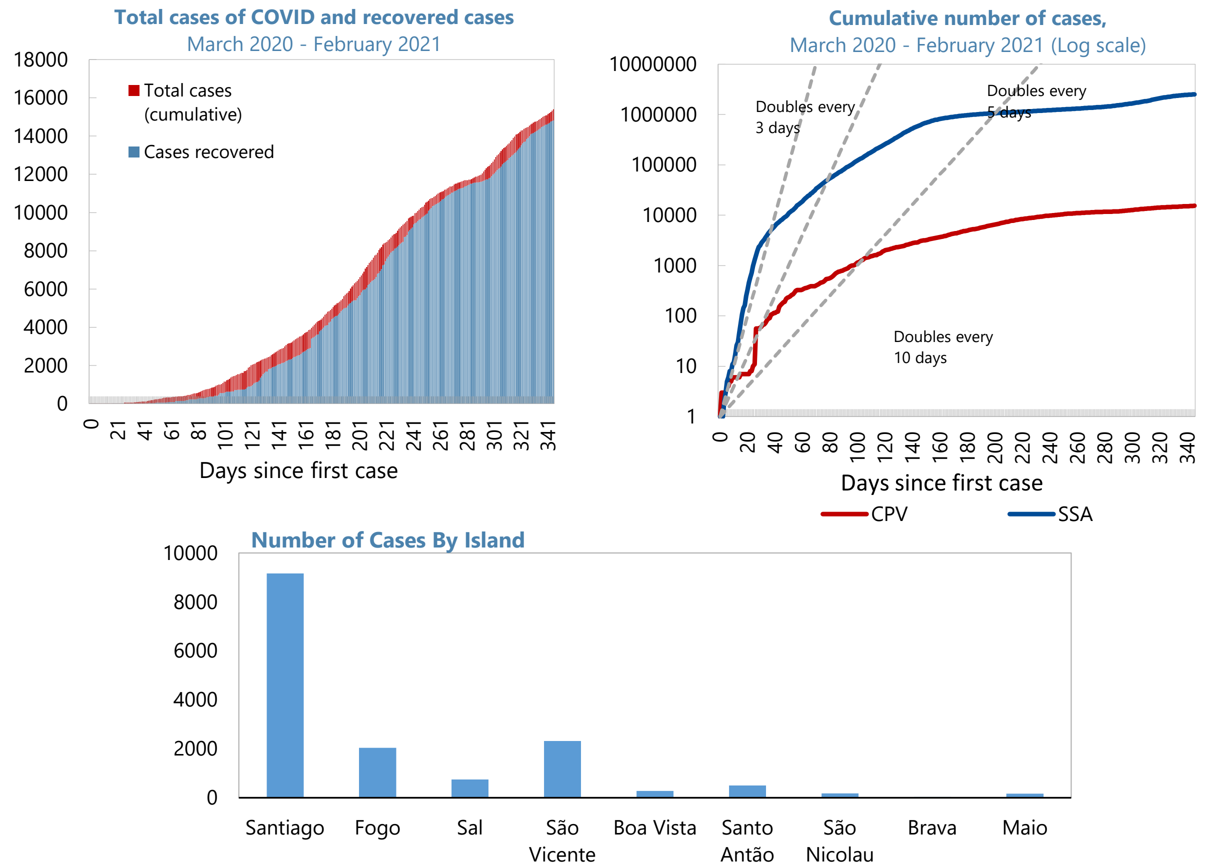
Text Figure 1. Cabo Verde: Pre-COVID-19 Macroeconomic Performance and Impact of the Pandemic



Sources: Cabo Verdean authorities; and IMF estimates.

2. The COVID-19 virus continues to spread, though the recovery rate remains high (Text Figure 2). The number of cases has risen from 2,451 at end-July 2020 to 15,400 at end-February 2021, with a concentration in the most populated island (Santiago). However, the healthcare system is not overwhelmed because hospitalizations are limited. The authorities plan to initiate vaccination in the next few weeks with external financing, notably from the World Bank.

Text Figure 2. Cabo Verde: COVID-19 Cases as of February 28, 2021



Sources: Johns Hopkins CSSE; Cabo Verdeans authorities; and IMF staff calculations.

3. The impact of the pandemic has been significant and much more severe than anticipated at the time of the second PCI review (PS ¶4,8-10)

- In 2020, following a robust expansion in the first quarter (5.9 percent, y/y), output contracted sharply in the second and third quarters (Text Figure 3), due to the global economic downturn, travel restrictions and other COVID-19 containment measures that stopped activity in the tourism and transport sectors, and significantly affected other sectors. The contraction in real GDP is estimated at 14 percent for the year (6.8 percent in the second PCI review).

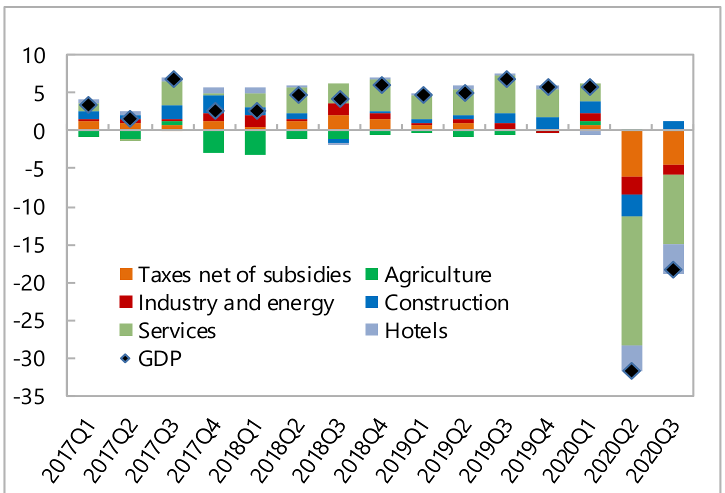
- Weak domestic demand, low international energy prices, and increased domestic food supply (thanks to good rainfall) led to a decline in inflation to -0.9 percent at end-2020.

- Preliminary data indicate that at end-September 2020, exports and imports of goods declined by 50 percent and 13 percent respectively, while services (net) contracted by 72 percent, reflecting the economic impact of COVID-19 and the collapse of tourism activities. Remittances increased, while the capital and financial accounts deteriorated. Benefitting from loans disbursements partly related to the pandemic, gross international reserves remained at comfortable levels, reaching €584 million (7.2 months of prospective imports of goods and services) at end-2020.

- Estimates show that government revenues declined by 23.8 percent in 2020 (Text Table 1), reflecting: (i) liquidity constraints for taxpayers; (ii) the recession; (iii) the decline in imports; (iv) non-payment of dividends expected from SOEs as well as loss of property income due to delays in the privatization program and; (v) the moratorium on tax payments, which did not end in September 2020 as planned. Despite additional spending to address the impact of the pandemic in the health, education, and social sectors (CVE 2.8 billion; 1.6 percent of GDP), and an increase in social outlays, total expenditures declined by 3.6 percent in 2020 due to a drop in capital outlays. As a result, the overall deficit is estimated at 8.9 percent of GDP (1.8 percent of GDP in 2019; 9.7 percent of GDP in the second PCI review). Financing needs rose to 10 percent of GDP which, combined with the decline in nominal GDP, contributed to bringing the ratio of public debt-to-GDP to 140.9 percent[1] (125 percent in 2019).

- Credit to the economy expanded by 4.4 percent at end-November 2020, reflecting the impact of COVID-19 relief measures, including the use of the special financing facility, government guaranteed loans, and the impact of the temporary credit moratorium. The latter, granted only to borrowers in good standing with their loan and tax obligations, covered about 19 percent of credit to the economy at end-November, mostly in the tourism and transport sectors.

Text Figure 3. Cabo Verde: Contributions to Growth, Q12017–Q32020



Source: Cabo Verdean authorities.

[1] The impact of the large downward revision in GDP was muted by the exchange rate appreciation against the dollar.

Text Table 1. Cabo Verde: Statement of Operations of the Central Government, 2018–20[1]
(Millions of Cabo Verde escudos)

	2018	2019	2020	Change in Percent (2020/2019)
Revenue	51,857	57,389	43,751	-23.8
Tax	40,657	42,013	32,237	-23.3
Taxes on income and profit	12,253	12,672	9,779	-22.8
Taxes on goods and services	19,887	20,658	15,196	-26.4
Taxes on international trade	7,733	8,011	6,593	-17.7
Grants	2,575	6,238	5,224	-16.3
Other revenues	8,625	9,137	6,291	-31.2
Expenditure	56,726	60,974	58,776	-3.6
Expense	48,587	53,343	54,284	1.8
Of which COVID-related expenditures	…	…	2,773	…
Net acquisition of nonfinancial assets	8,140	7,631	4,492	-41.1
Primary balance	-143	1,406	-10,216	
Overall balance	-4,869	-3,585	-15,024	
Net other liabilities	-1,903	-6,393	-1,832	
Financing needs	6,772	9,978	16,857	

Sources: Cabo Verdean authorities.
1/ Includes budgetary central government (BCG) and extra budgetary central government (ECG), but excludes social security funds.

4. **The authorities' COVID-19 response plan helped companies, households, and vulnerable groups address the impact of the pandemic, and enhanced safety requirements in the hospitality sector** (PS ¶5-7).

- Key measures under the plan were: a moratorium on tax payments, loan guarantees, a temporary reduction of the VAT rate for the tourism sector, a temporary suspension of contributions to the pension fund, a social protection program for vulnerable groups, and measures aimed at maintaining the banking system liquid and stable. Cabo Verde's development partners have supported the implementation of these measures, including the IMF through the Rapid Credit Facility (RCF) in an amount of SDR 23.7 million (100 percent of quota).[2]

- The plan had an important impact. The credit lines and guarantees set up by the government have supported more than 500 businesses helping protect about 12,300 jobs. About CVE 3.9 billion of loans have been disbursed to the corporate sector, including micro, small and medium-sized enterprises through the special financing facility for banks set up in April 2020. The suspension of employment contracts (with a cost of CVE 1.4 billion), provided by the pension fund with government's support helped safeguard jobs for some 32,000 workers by

[2] IMF Country Report No. 20/136.

preventing layoffs. Measures aimed at protecting family incomes helped guarantee the livelihood of extremely poor families and informal sector workers during the lockdown.

- The authorities also took actions to prepare the return of tourism activities, including training for personnel in the hospitality sector in safety areas, the requirement to obtain a safety seal for hotels and restaurants, and the opening of two health centers in the two tourism-dominated islands (Sal, Boa Vista).

PERFORMANCE UNDER THE PROGRAM

5. Despite the severity of the COVID shock, program performance was satisfactory (PS ¶12-14; PS Tables 1, 2). All end-September 2020 quantitative targets were met. In particular, the target on the primary balance was met with a wide margin due to the under-execution of capital expenditures; net other liabilities were below the program ceiling thanks to larger-than-projected repayments and a slower execution of capitalization operations. The authorities did not accumulate external or domestic payments arrears. The target on the nominal level of new concessional external debt of the central government was met, consistent with the lower-than-programmed financing needs at end-September. Despite the deterioration in the external current account at end-September, the target on net international reserves was exceeded thanks to additional external financing. All non-quantitative continuous targets were also met; and all, but two reform targets (RTs) under the PCI were observed, most of them ahead of schedule, at the time of the second program review. There has been progress on the two RTs that were missed because of constraints and challenges triggered by the pandemic: the streamlining of exemptions on VAT and excises (RT for end-December 2020), and the creation of a functional central registry of mobile collateral (RT for mi-January 2021). They are expected to be completed before end-2021.

OUTLOOK AND RISKS

6. The economic outlook remains highly uncertain and subject to important downside risks (Text Figure 4, Table 6).

- Under the baseline scenario, real GDP growth is projected at 5.8 percent for 2021 (4.5 percent in the second PCI review)[3] and at about 6 percent over the medium term; price pressures are expected to remain low, with inflation below 2 percent, in line with the euro area average; the current account deficit is projected to narrow to 10.6 percent of GDP in 2021 supported by the expected resumption in tourism flows, and to improve further to 2.6 percent of GDP by 2026 while gross international reserves would be around 6 months of prospective imports of goods and services over the medium term.

- Achieving these results will require favorable developments in the global economy; the resumption and gradual increase of tourism and capital flows to Cabo Verde; the execution of

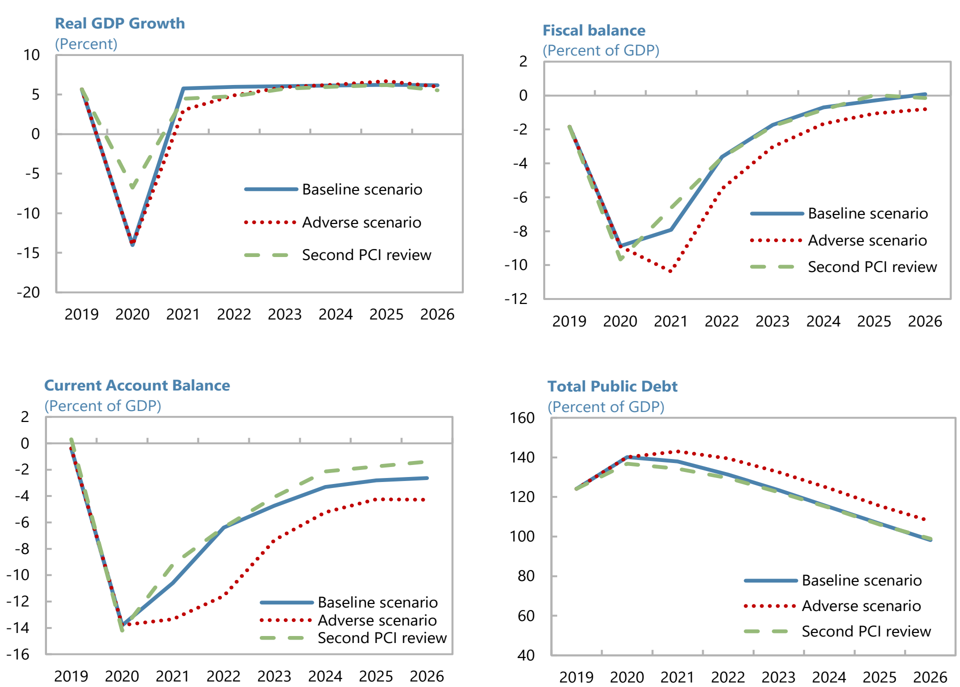
[3] The upward revision compared with the second PCI review projections reflects mostly the base effect driven by the stronger contraction now estimated for 2020.

large externally-financed infrastructure projects delayed by the pandemic, including the water and sanitation plant in Santiago, the ship terminal in São Vicente, and the port of Maio; and the acceleration of structural reforms to restructure SOEs and to ease access to finance, particularly for small and medium-sized enterprises. Successful implementation of appropriate policies to support macroeconomic stability and lay the foundation for sustained medium-term growth will be critical in the years ahead.

- **Risks to the outlook remain elevated with the balance tilted to the downside**. A prolonged pandemic with a significant economic impact globally and domestically remains the most important downside risk. Staff's projections show that if such an adverse scenario were to materialize in 2021, real GDP growth would be limited to 3 percent (Annex I); fiscal financing needs would increase to 10 percent of GDP, and a larger reserve drawdown will be needed, requiring additional fiscal adjustment and budget support compared to the baseline scenario. Weather-related shocks, lack of momentum in structural reforms, and weak fiscal consolidation efforts after the pandemic are also important downside risks. The main upside risk is a faster and stronger resumption of tourism and capital flows.

7. The authorities agreed with staff's assessment and with the downside risks. They reaffirmed their resolve to continue implementing the needed policies and reforms, while stressing that challenges and vulnerabilities triggered by the pandemic are likely to linger for the next two years.

Text Figure 4. Cabo Verde: Medium-Term Macroeconomic Indicators Under the Baseline and Adverse Scenarios, 2019–26



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

POLICY DISCUSSIONS

A. Fiscal Policy and Public Debt Sustainability

8. **Staff stressed that budget execution will continue to face challenges in 2021** (PS ¶19, 20, Text Table 2). Ongoing uncertainties are expected to impact revenue collection, while the coverage of COVID-related expenses remains a priority. At the same time, some of the key assumptions used for the preparation of the 2021 budget, particularly on the revenue side might not materialize. On this basis, the authorities agreed that the execution of the 2021 budget should be underpinned by a fiscal framework built on the narrowing of the primary deficit from an estimated 6 percent of GDP in 2020 to 5.2 percent of GDP (3.8 percent of GDP under the second PCI review), with revenues conservatively projected at 29.7 percent of GDP and expenditures at 37.6 percent of GDP. While this is in contrast to the officially approved budget—based on more optimistic revenue projections and a much more rapid acceleration in capital spending—the targeted primary adjustment will seek to strike a balance between accommodating pressing development and health needs and securing a downward correction in the debt dynamics. In addition, budget execution will be underpinned by monthly cashflow plans (see below). Revenue collection will benefit from the projected increase in economic activity, the entry into force of the 2019 reform putting in place a 5 percent tariff on imports previously exempted from customs duties, and continued implementation of reforms to increase administrative efficiency gains and tax compliance, notably inspections, audits, and improved risk management. On the expenditure side, projections reflect continued restraint of current spending and rationalization of capital outlays. The latter are projected at 6.4 percent of GDP, higher than at the time of the second PCI review (5.2 percent of GDP) reflecting mostly a base effect and the authorities' resolve to accelerate the execution of priority, externally-financed investment projects delayed by the pandemic in 2020. Staff welcomed the authorities' commitment to complete the review of the public investments portfolio initiated in 2020, to improve procurement processes, particularly for domestically financed projects, and in this context, to enhance the IT system set up to facilitate the online dissemination of information on public procurement contracts. It was noted that these efforts will benefit from technical assistance on public investment management from AFRITAC WEST 2.

Text Table 2. Cabo Verde: 2021 Budget and Revised Fiscal Framework[1]

	CR 20/297		Approved Budget		Proj.	
	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP
Revenue	56,785	29.2	58,038	31.0	53,896	29.7
Taxes	38,262	19.7	39,765	21.3	37,592	20.7
Grants	7,041	3.6	4,050	2.2	4,050	2.2
Other revenue	11,482	5.9	14,222	7.6	12,254	6.8
Expenditure	69,661	35.8	76,063	40.7	68,229	37.6
Expense	59,974	30.8	61,004	32.6	58,534	32.3
Net acquisition of nonfinancial assets	9,688	5.0	15,059	8.1	9,695	5.3
Purchase of assets	10,141	5.2	16,892	9.0	11,528	6.4
Sale of assets	-453	-0.2	-1,833	-1.0	-1,833	-1.0
Primary balance	-7,371	-3.8	-12,562	-6.7	-9,438	-5.2
Overall balance	-12,876	-6.6	-18,025	-9.6	-14,333	-7.9
Net other liabilities	375	0.2	1,130	0.6	534	0.3
Onlending to SOEs for investment purpose	-600	-0.3	-579	-0.3	-600	-0.3
Other onlending (net)	2,000	1.0	2,303	1.2	2,159	1.2
Capitalization	-1,056	-0.5	-1,100	-0.6	-1,056	-0.6
Financing needs	12,501	6.4	16,895	9.0	13,799	7.6
Financing	12,501	6.4	16,895	9.0	13,799	7.6
Domestic (net)	4,373	2.2	5,539	3.0	2,800	1.5
External (net)	8,129	4.2	11,356	6.1	10,999	6.1
Public debt (percent of GDP)	134.8		...		138.6	
Nominal GDP	194,414		187,063		181,276	

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.

9. **The 2021 fiscal framework is fully financed** (Text table 3). Domestic financing covers the issuance of government securities capped by law at 3 percent of GDP, while external financing includes loans and grants from the World Bank, the African Development Bank, bilateral development partners, and debt service suspension under the G-20 Initiative (see below). In view of ongoing uncertainties, financing constraints, and downside risks, staff urged the authorities to use available budget management tools, notably the Treasury cashflow plan to align expenditure commitments with available resources, to monitor fiscal risks and to identify contingency measures to prevent an accumulation of payment arrears. The authorities agreed with staff and indicated that contingency expenditures amounting to CVE 2.1 billion (1 percent of GDP) had been identified. These expenditures (some goods and services outlays, travel, publicity, transfers to political parties, domestically financed investment, excluding counterpart funds) will not be committed if some revenues are not collected. In addition, the authorities will curtail expenditures as needed to offset any shortfall in revenues.

Text Table 3. Cabo Verde: Sources of Financing for 2021
(Millions of Escudos)

Total financing needs	13,799
Financing sources	13,799
Domestic Financing (Net)--Issuance of treasury securities	2,800
External financing (Net)	10,999
Disbursements	17,414
Budget support	4,223
World Bank	2,034
African Development Bank	2,189
Program and project loans	10,336
JICA	6,375
OFID	870
World Bank	955
BADEA	459
Other	1,677
Onlending loans	600
African Development Bank	579
Other	21
Exceptional financing (DSSI)	2,255
Amortization	6,415

Sources: Cabo Verdean authorities and IMF staff projections.

10. **For 2022, despite some potential lingering effects of the pandemic, the fiscal position is expected to improve**. The primary deficit is projected to narrow from 5.2 percent of GDP in 2021 to 0.7 percent of GDP as revenue performance strengthens and expenditures decline. The following measures, combined with the expected pickup in growth would enhance revenue collection: the introduction of the ECOWAS Common External Tariffs in 2022 (originally planned for this year, this measure was postponed due to the continued impact of the pandemic); the streamlining of tax

exemptions on excises and VAT; electronic invoicing; enhanced controls at customs, collection of tax arrears; and improved monitoring of the VAT payments. Through these measures, tax and nontax revenues are projected to increase from 27.5 percent of GDP in 2021 to 28.8 percent of GDP. Expenditures are projected to decline sharply in 2022 as one-off spending related to the elections and to COVID-19 are phased out. They are projected at 34.6 percent of GDP (37.6 percent of GDP in 2021), with priority social spending stabilizing at 9 percent of GDP, and capital outlays declining to 4.2 percent of GDP (6.4 percent of GDP in 2021) as the authorities plan to continue prioritizing and enhancing management for the public investment program. With these assumptions, financing needs are projected to decline from 7.6 percent of GDP in 2021 to 3.8 percent of GDP, helping keep domestic financing below 1 percent of GDP.

11. The authorities reaffirmed commitments to anchor medium-term fiscal policy on building fiscal buffers and supporting debt sustainability (PS ¶22-24). To this end, they intend to refocus policies and reforms after the pandemic to return to the pre-pandemic fiscal and public debt trajectories, and to their goal of bringing public debt below 100 percent of GDP in the medium term. They expect the fiscal position to strengthen further over the medium term, with the primary balance progressively improving to a surplus in 2023 and reaching 2.4 percent of GDP by 2026. The authorities agreed with staff that this would require sustained implementation of decisive revenue measures starting in 2022 as discussed above, as well as reforms to increase administrative efficiency gains. Continued restrain on non-priority expenditures will also remain essential. Such a fiscal adjustment would help reduce the ratio of public debt-to-GDP from 140.9 percent 2020 to 98.9 percent in 2026.

12. The authorities reiterated their commitment regarding the transparency and governance for the execution of COVID-related spending. They noted that these expenditures continue to be monitored and tracked regularly and execution reports are published on the official website of the Ministry of Finance. In addition, they will be audited along with the 2020 budget as soon as the annual financial accounts are finalized.

13. Cabo Verde's risk of debt distress is high, though public debt is assessed as sustainable (PS ¶25). The last joint World Bank/IMF Debt Sustainability Analysis (DSA)[4] showed that the risk of external and total debt distress was high. The results also showed that public debt is sustainable, supported by manageable debt service, since public debt is largely concessional. They also indicated that debt sustainability is subject to significant downside risks from a more severe or prolonged impact of the pandemic, contingent liabilities associated with SOEs, and exports as well as growth shocks. Key assumptions underpinning the assessment include a rebound in economic activity in 2021, the resumption of fiscal consolidation and structural reforms after the pandemic, and continued reliance on concessional borrowing for the foreseeable future. However, uncertainties on economic prospects weigh heavily on the public debt trajectory. In particular, as discussed in Annex I, if the adverse scenario were to materialize, fiscal adjustment measures would need to be complemented with additional concessional financing—in the absence of both, the debt dynamics would significantly deteriorate compared with the baseline scenario.

[4] IMF Country Report No. 20/297.

14. Cabo Verde is receiving debt relief under the G-20 Initiative (DSSI). Participating creditors granted some US$ 15.5 million of debt service suspension in 2020. Under the DSSI extension to end-June 2021, the authorities have contacted their bilateral creditors and expect to receive US$ 24.9 million, much higher than last year because of a broader coverage by some creditors.

B. Monetary Policy

15. Staff took the view that the current monetary policy stance is appropriate (PS ¶27). Monetary policy has been accommodative in recent years, in the absence of pressures on prices and reserves. In 2020, to support the authorities' response to the pandemic, measures put in place included the lowering of the policy rate by 125 basis points to 0.25 percent; a reduction in minimum reserve requirements from 13 to 10 percent, and in the overnight deposit rate by 5 basis points to 0.05 percent; and the setting up of a long-term financing facility for banks. It was noted that the implementation of these measures led to a reduction in banks' lending rates and supported credit expansion. They have been extended to end-December 2021.

16. Cabo Verde's exchange regime is a conventional fixed peg with the currency pegged to the euro (CVE 110.265 per euro). The country maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions. International reserves remain at comfortable levels (over 7 months of prospective imports of goods and services at end-2020) and have helped address the impact of the COVID-19 shock. To protect the peg, the BCV continues to monitor economic developments in the euro area and stands ready to take corrective measures if pressures emerge on prices or reserves.

17. Staff welcomed the BCV's continued efforts to improve the monetary policy transmission mechanism and to enhance analytical capacity to track developments in economic performance (PS ¶28). Measures taken in recent years to this effect, include the dissemination of minutes of the Monetary Policy Committee's meetings and the narrowing of the corridor for the overnight rates. However, structural factors like low turnover in the interbank market, excess liquidity in the banking system, and the limited development of the government securities market continue to hinder the transmission mechanism. After delays caused by the methodological revision of the National Accounts quarterly estimates, the BCV plans to complete the preparation of the composite index of economic activity this year as an important analytical tool to anticipate GDP data performance.

18. The external sector assessment shows that Cabo Verde's external position in 2020 was substantially stronger than suggested by fundamentals and desirable policy settings, pointing to an undervaluation (Annex II). The high and negative net international investment position is a source of vulnerability. However, the risks that it poses are partly contained by the structure of Cabo Verde's external liabilities which are dominated by foreign direct investment and long-term maturity debt. Reserve adequacy is assessed as satisfactory based on the IMF LIC/MIC framework that indicates an optimal reserves level of 3.3 months of prospective imports of goods and services, compared with the actual level of 9 months (end-2019) and a projected level close to 6 months in the medium term. Commenting these results, staff stressed that fragilities arising from the economy's small size and its undiversified production base, as well as its vulnerability to exogenous shocks call for a higher level of reserves than implied by the IMF MIC/LIC framework. The authorities agreed with the assessment and staff's advice to advance reforms aimed at improving the business environment to address nonprice competitiveness factors, and to take all opportunities to rebuild external buffers post-pandemic.

C. Financial Sector Issues

19. The financial sector is stable, adequately capitalized and liquid (PS ¶30-33; Table 5). Most financial stability indicators were satisfactory at end-September 2020. In particular, the regulatory capital to risk weighted assets (CAR) was well-above the regulatory minimum of 12 percent; and the return on equity was at 12.7 percent. However, non-performing loans (NPLs) remained elevated at 10.5 percent of total loans, in slight increase compared with end-March (10.1 percent). The BCV has enhanced monitoring of the banking system in relation with the implementation of COVID-19 relief measures, including for risk management, lending practices, and reporting of NPLs. Banks remain generally liquid.

20. The BCV agreed with staff that the end of the credit moratorium could translate into a spike in NPLs, erosion in banks' assets quality, and solvency. Staff urged the BCV to continue enhancing banking supervision, to anticipate vulnerabilities generated by the economic impact of the pandemic, and to carry out a comprehensive study of loan losses and provisions when conditions permit.

21. The authorities reaffirmed commitment to continue improving the AML/CFT framework to preserve correspondent banking relationships (CBRs) given the importance of migrants deposits and remittances for the economy. In 2021, the focus will be on the implementation of EU's recommendations on combating cybercrimes.

22. Staff encouraged the authorities to advance the unfinished reform agenda for the financial sector (PS ¶33). Priority will remain on the implementation of recommendations from the latest asset-quality review (2015), enhancing risk-based supervision, and deepening financial intermediation. In this context, the establishment of a functional central registry for mobile collateral, originally planned for mid-January under the PCI, will be completed by end-May.

D. Structural Reforms

23. Staff stressed that accelerating the pace of structural reforms should be a key post-pandemic priority (PS ¶34,35). To support the economic recovery, enhance medium-term growth prospects, and reduce fiscal risks, the key priority areas remain: restructuring SOEs, facilitating access to finance, particularly for small and medium-sized enterprises, and improving the business environment.

- *Public enterprises reforms*. The authorities indicated that the economic impact of the pandemic has increased vulnerabilities, and therefore, new strategies are needed for SOEs to be privatized. In the meantime, their financial situation will continue to be monitored, and a report on their contingent liabilities, and implications for the government budget will be prepared. The authorities also noted that, other than access to COVID relief measures put in place for the corporate sector, direct financial support was not granted to SOEs in 2020. This was also the case for the airline company in which the State holds 39 percent of shares.

- *Regarding the Sovereign Private Investment Guarantee Fund (SPIGF*), which aims to support access to capital markets for large capital-intensive private sector projects, the authorities have appointed the Board of Directors and plan to capitalize the Fund with resources at the central bank of Portugal by end-March as set by parliament. They emphasized that the operationalization of the SPIGF will proceed according to the principles presented in the Concept Note prepared in April 2020 under the PCI.[5]

- *The next generation of structural reforms will be presented in PEDS II* (2022-2026). The new five-year strategy will be prepared later this year based on the recently completed long-term development plan (*Cabo Verde Ambition 2030)* that will be presented for parliament's endorsement this year.

PROGRAM MODALITIES

24. Objectives under the PCI. The authorities reaffirmed commitments to implement policies and reforms in line with understandings reached during the third PCI review discussions, to safeguard medium-term objectives under the PCI. They have expressed interest in continued active engagement with the Fund.

25. Capacity to repay the Fund (Table 7). Cabo Verde's capacity to repay the Fund is adequate. Outstanding Fund credit covers financing under the RCF. It is projected at 1.8 percent of exports of goods and services and 2.8 percent of gross international reserves at end-2026. The country's good track record on external debt payment as well as the generally positive medium-term outlook provide confidence for the timely payment of debt service obligations to the Fund.

26. Safeguards assessment. A safeguard assessment will be conducted in connection with the RCF approved in April 2020 and will need to be ideally completed before the approval of a new financing arrangement.

27. Financing assurances. The program financing is fully covered through government securities, external loans, and debt service suspension under the G-20 Initiative.

[5] IMF Country Reports No. 20/135 (April 2020); No. 20/297 (November 2020).

STAFF APPRAISAL

28. The COVID-19 shock has been stronger than anticipated, and the economic outlook is subject to uncertainties and downside risks. Although relief measures taken by the authorities helped contain the impact of the shock, output contraction in 2020 was significant as activity plummeted in key sectors. Continued and high uncertainties on the duration of the pandemic weigh heavily on the expected rebound in 2021. Staff urges the authorities to prepare mitigating measures against downside risks. After the crisis, the authorities should sustain the implementation of policies to support macroeconomic stability and accelerate growth-enhancing structural reforms to rebuild eroded gains and return to pre-pandemic medium-term trajectories.

29. Budget execution will need to be carefully monitored. The uncertain economic outlook and downside risks are likely to generate challenges for the government budget in 2021. While welcoming expenditures contingency measures identified by the authorities, staff urges them to use available budget management tools to align expenditure commitments with resources to avoid an accumulation of payments arrears, while continuing to enhance revenue mobilization through tax administration reforms. In this vein, COVID-19 relief measures should continue to be monitored closely and phased out when conditions permit.

30. Transparency and accountability in the execution of COVID-19 related expenditures remain critical. Staff welcomes the continued publication of these expenses on the authorities' official website, the commitment to audit them along with the 2020 budget, and the availability of information on related contracts to the public, on request at the Ministry of Finance.

31. The authorities' resolve to maintain the focus on medium-term fiscal and debt sustainability objectives is welcome. On the revenue side, this will require sustained implementation of measures to broaden the tax base, increase the tax compliance rate, improve efficiency in customs control, and overhaul exemptions. On the expenditure side, it will be critical to continue restraining non-priority outlays while enhancing efficiency in capital expenditure management. Cabo Verde is at a high risk of debt distress, though public debt is assessed as sustainable. In addition, debt sustainability is subject to important downside risks, notably from a more severe and prolonged impact of the pandemic. Therefore, fiscal consolidation, progress in structural reforms to restructure SOEs and enhance broad-based growth prospects, and continued reliance on concessional borrowing remain critically important to improve debt dynamics.

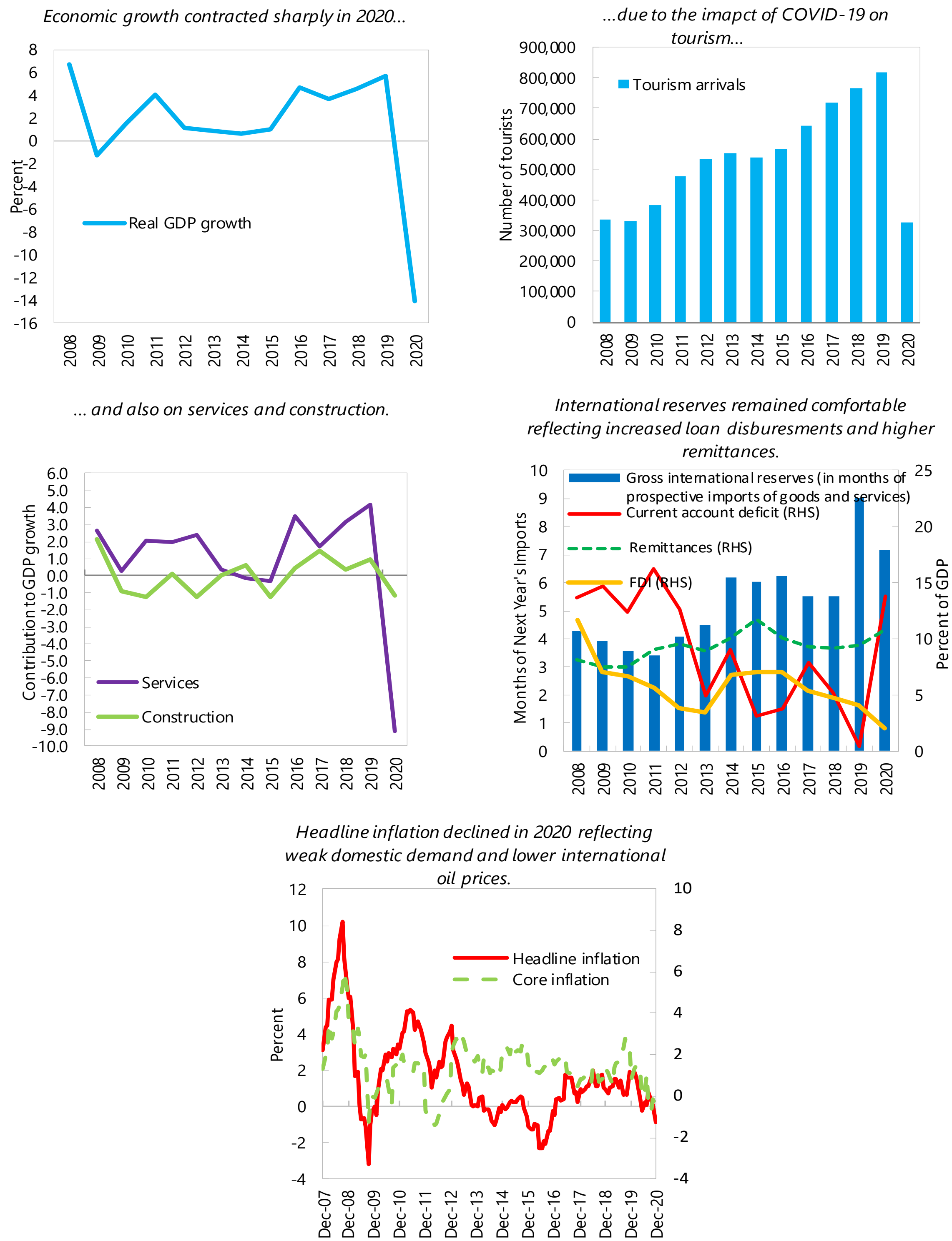
32. The current accommodative monetary policy stance is appropriate. Measures taken by the authorities in response to the pandemic have helped support liquidity in the banking system and credit expansion. Staff encourages the BCV to anticipate on vulnerabilities in the financial system and stand ready to take corrective measures to protect the credibility of the peg, should pressures arise on prices or reserves.

33. Results from the external sector assessment show that Cabo Verde's external position in 2020 was substantially stronger than suggested by fundamentals and desirable policy settings, pointing to an undervaluation. Cabo Verde's high and negative net international investment position is a source of vulnerability, though the risks that it poses are partly contained by the structure of external liabilities which are dominated by foreign direct investment and long-term maturity debt. Reserve adequacy is assessed as satisfactory based on the IMF LIC/MIC framework that indicates an optimal reserve level of 3.3 months of prospective imports of goods and services. Staff stresses, however, that fragilities arising from the economy's small size, lack of diversification and vulnerability to exogenous shocks indicate that a higher level of reserves is desirable. The BCV should continue to seize all opportunities to rebuild external buffers eroded by the economic impact of the pandemic.

34. The authorities have maintained a strong performance under the program despite challenging circumstances. All quantitative and continuous non-quantitative targets for the third review were met. All reform targets under the program were observed, except for two measures that the authorities plan to complete before the end of the year. Based on the program performance, and in view of the authorities' commitment to medium-term objectives under the PCI as presented in their Program Statement, staff supports the completion of the third review under the Policy Coordination Instrument.

35. Staff proposes that, upon the completion of this last review under the PCI, Article IV consultation with Cabo Verde be held on a 24-month cycle.

Figure 1. Cabo Verde: Recent Economic Developments

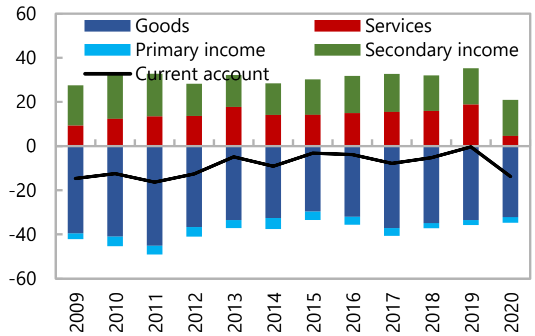


Sources: Cabo Verdean authorities; and IMF staff estimates.

Figure 2. Cabo Verde: External Sector Developments

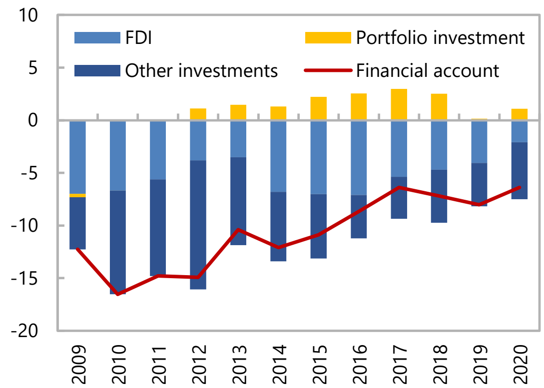
The current account deficit worsened in 2020 due to the impact of COVID-19 on tourism.

Current Account Balance
(Percent of GDP)



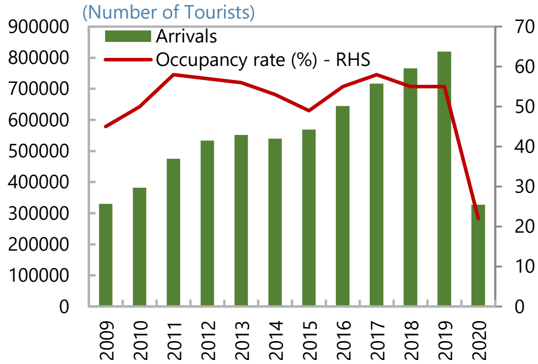
The financial account remained stable reflecting increased loan disbursements.

Financial Account Composition
(Percent of GDP)



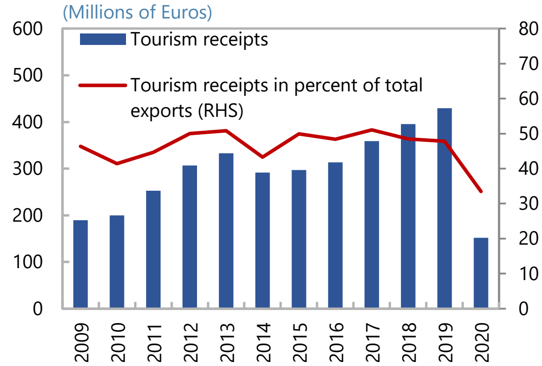
Tourism arrivals declined significantly in 2020 due to the impact of the pandemic.

Tourism Arrivals and Occupancy Rate
(Number of Tourists)



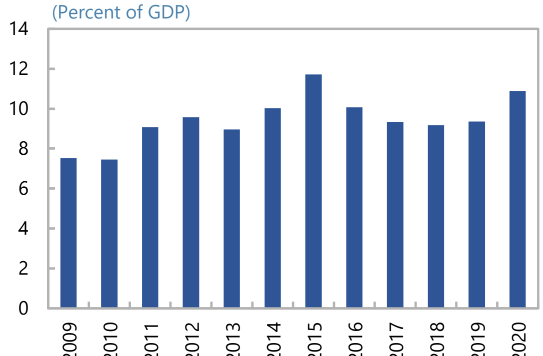
As a result, tourism receipts declined in 2020 but remained an important contributor to export performance.

Tourism Receipts
(Millions of Euros)



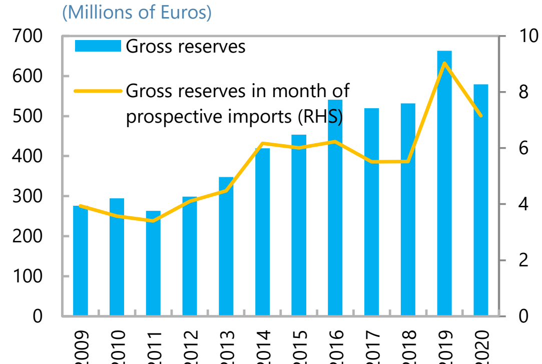
Remittances increased in 2020 and remained an important source of foreign currency...

Remittances
(Percent of GDP)



... supporting the country's strong reserve position.

Reserves
(Millions of Euros)



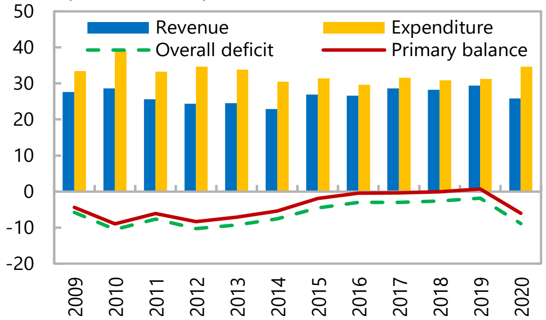
Sources: Cabo Verdean authorities; and IMF estimates.

Figure 3. Cabo Verde: Fiscal Sector Developments

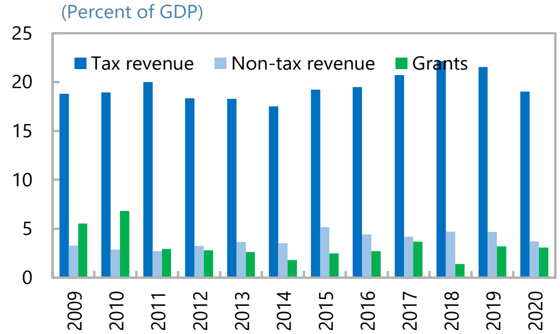
Fiscal performance worsened in 2020 due to COVID-19...

...as tax revenues declined reflecting lower economic growth and the moratorium on tax payments...

Fiscal Performance
(Percent of GDP)



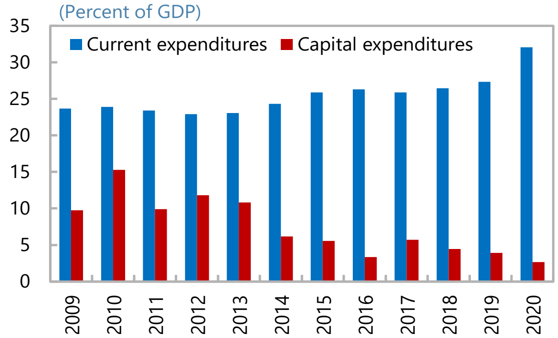
Revenue Composition
(Percent of GDP)



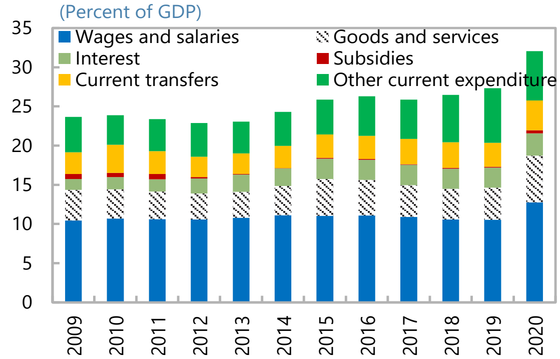
... and current expenditures increased...

...partly due to higher COVID-19 related expenditures on goods and services.

Expenditures
(Percent of GDP)



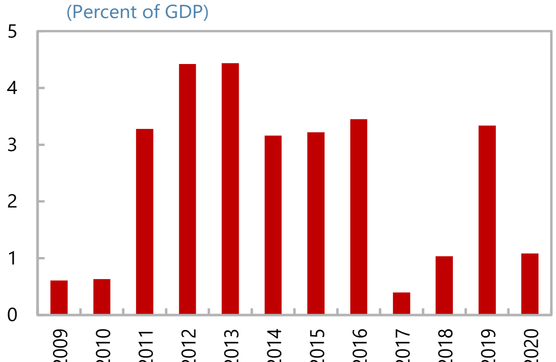
Current Expenditures Composition
(Percent of GDP)



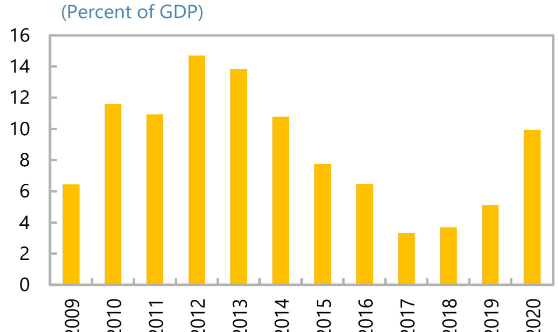
Net other liabilities declined in 2020 reflecting lower capitalization operations.

Financing needs increased in 2020 as revenues dropped due to the economic impact of COVID-19.

Net Other Liabilities
(Percent of GDP)

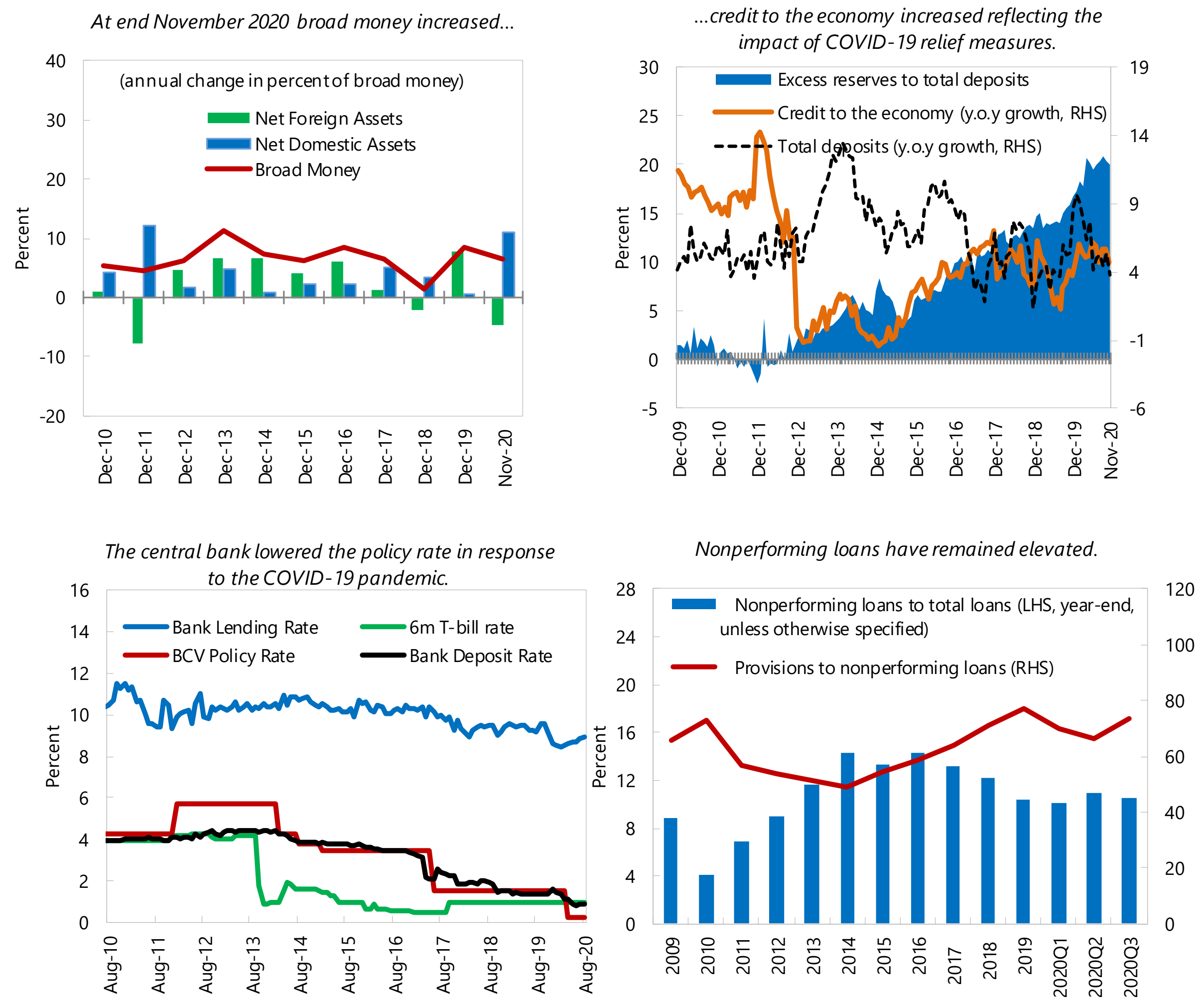


Financing Needs
(Percent of GDP)



Sources: Cabo Verdean authorities; and IMF staff estimates.

Figure 4. Cabo Verde: Monetary Developments



Source: Cabo Verdean authorities.

Table 1. Cabo Verde: Selected Economic Indicators, 2018–26

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			CR 20/297	Est.	CR 20/297	Proj.			Proj.		
	(Annual percent change)										
National accounts and prices 1/											
Real GDP	4.5	5.7	-6.8	-14.0	4.5	5.8	6.0	6.1	6.1	6.2	6.2
GDP deflator	1.5	0.6	1.1	0.9	1.2	1.2	1.4	1.5	1.6	1.8	1.9
Consumer price index (annual average)	1.3	1.1	1.0	0.6	1.2	1.2	1.4	1.5	1.6	1.7	1.7
Consumer price index (end of period)	1.0	1.9	1.0	-0.9	1.2	1.2	1.4	1.5	1.6	1.7	1.7
External sector											
Exports of goods and services	15.9	10.0	-47.3	-48.9	25.9	33.8	18.6	11.0	11.8	11.6	9.1
Of which: tourism	10.0	8.6	-65.7	-64.3	32.5	36.4	28.1	16.5	17.4	9.3	9.9
Imports of goods and services	8.7	2.0	-21.5	-23.7	5.1	11.2	7.6	5.5	6.4	9.4	6.3
	(Change in percent of broad money, 12 months earlier)										
Money and credit											
Net foreign assets	-2.1	7.8	-5.7	-5.1	-1.5	-0.6	-0.6	0.5	1.5	1.5	1.6
Net domestic assets	3.5	0.6	0.5	8.2	6.0	6.2	5.1	6.4	5.1	4.3	4.3
Net claims on the central government	4.3	-4.8	1.2	1.4	1.2	0.7	0.4	0.6	0.3	0.1	0.1
Credit to the economy	1.9	2.3	0.9	2.1	3.7	4.0	3.9	4.1	4.2	4.1	4.1
Broad money (M2)	1.4	8.4	-5.2	3.1	4.5	5.6	4.5	6.9	6.5	5.8	5.9
	(Percent of GDP, unless otherwise indicated)										
Savings and investment											
Domestic savings	31.3	37.1	28.0	22.7	33.0	27.7	33.8	35.9	37.7	38.2	36.0
Government	2.0	0.1	-7.7	-6.6	-3.2	-2.5	-0.1	2.7	3.7	3.9	4.2
Private	29.3	37.0	35.7	29.3	36.2	30.2	33.8	33.2	34.0	34.3	31.8
National investment	36.5	37.5	42.2	36.5	42.2	38.2	40.1	40.6	41.0	41.0	38.7
Government	4.4	3.9	3.8	2.7	5.0	5.3	4.0	4.0	4.0	4.0	4.0
Private	32.1	33.6	38.4	33.9	37.2	32.9	36.1	36.6	37.0	37.0	34.7
Savings-investment balance	-5.2	-0.4	-14.2	-13.8	-9.2	-10.6	-6.4	-4.7	-3.3	-2.8	-2.6
Government	-2.4	-3.8	-11.5	-9.2	-8.2	-7.9	-4.1	-1.3	-0.3	-0.1	0.2
Private	-2.8	3.4	-2.7	-4.6	-1.0	-2.7	-2.3	-3.4	-3.0	-2.7	-2.9
External sector											
External current account (including official transfers)	-5.2	-0.4	-14.2	-13.8	-9.2	-10.6	-6.4	-4.7	-3.3	-2.8	-2.6
External current account (excluding official transfers)	-8.0	-3.4	-18.6	-17.4	-13.6	-13.1	-9.7	-7.1	-5.3	-4.7	-3.7
Overall balance of payments	0.5	7.4	-5.4	-5.1	-0.7	0.1	0.0	0.6	1.6	1.6	1.6
Gross international reserves (months of prospective imports of goods and services)	5.5	9.0	7.3	7.2	6.7	6.7	6.3	6.1	5.9	5.8	5.8
Government finance											
Revenue	28.2	29.4	29.2	25.8	29.2	29.7	30.9	30.8	31.0	31.1	31.4
Tax and nontax revenue	26.8	26.2	24.5	22.8	25.6	27.5	28.8	29.6	29.8	29.9	30.2
Grants	1.4	3.2	4.7	3.1	3.6	2.2	2.1	1.2	1.2	1.2	1.2
Expenditure	30.9	31.2	38.8	34.7	35.8	37.6	34.6	32.5	31.7	31.4	31.3
Primary balance	-0.1	0.7	-7.0	-6.0	-3.8	-5.2	-0.7	1.0	1.9	2.2	2.4
Overall balance (incl. grants)	-2.7	-1.8	-9.7	-8.9	-6.6	-7.9	-3.6	-1.7	-0.7	-0.3	0.1
Net other liabilities (incl. onlending)	-1.0	-3.3	-2.5	-1.1	0.2	0.3	-0.2	-0.2	-0.2	-0.2	-0.2
Total financing (incl. onlending and capitalization)	2.9	5.1	12.1	9.1	6.4	7.6	3.8	2.0	0.9	0.5	0.2
Net domestic credit	1.4	1.4	2.6	3.0	2.2	1.5	0.8	1.3	0.5	0.2	0.2
Net external financing	1.5	3.6	9.5	6.1	4.2	6.1	3.0	0.6	0.3	0.3	0.0
Public debt stock and service											
Total nominal government debt	124.7	125.0	137.5	140.9	134.8	138.7	132.0	124.2	115.8	107.4	98.9
External government debt	91.4	91.4	97.0	97.6	93.8	97.3	93.0	86.8	80.8	75.1	69.3
Domestic government debt	33.3	33.5	40.5	43.4	41.0	41.4	39.1	37.4	35.0	32.3	29.6
External debt service (percent of exports of goods and	5.9	5.4	12.5	14.5	13.4	9.5	13.4	12.6	11.5	10.4	10.2
Present value of PPG external debt											
Percent of GDP (risk threshold: 55%)	60.6	60.8	69.2	74.2	65.8	70.8	67.4	63.3	59.2	55.5	51.7
Percent of exports (risk threshold: 240%)	123.8	119.9	244.3	249.2	194.8	193.3	166.0	150.7	135.8	123.4	114.0
Present value of total debt											
Percent of GDP (benchmark: 70%)	96.0	94.3	107.7	113.0	106.5	111.6	106.4	100.6	94.2	87.8	81.3
Memorandum items:											
Nominal GDP (billions of Cabo Verde escudos)	183.7	195.2	183.9	169.3	194.4	181.3	194.7	209.5	225.9	244.2	264.3
Gross international reserves (€ millions, end of period)	531.9	663.4	573.2	583.9	561.0	586.6	587.1	598.1	631.6	667.4	706.8

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/€.

Table 2. Cabo Verde: Balance of Payments, 2018–26
(Millions of Euros, unless otherwise indicated)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			CR 20/297	Est.	CR 20/297	Proj.			Proj.		
Current account	-87	-7	-237	-212	-162	-174	-113	-90	-68	-62	-63
Trade balance	-582	-593	-418	-496	-395	-485	-524	-549	-577	-604	-654
Exports, f.o.b.	232	237	184	152	224	217	230	260	295	340	379
Imports, f.o.b.	814	830	602	648	618	701	754	808	872	944	1032
Consumer goods	278	278	208	205	210	210	232	247	268	289	313
Intermediate goods	158	158	97	113	105	125	138	148	160	172	191
Capital goods	99	99	61	78	67	87	96	107	116	128	142
Others (including fuel)	279	296	236	251	236	279	288	307	328	354	387
Fuel	82	82	50	43	57	68	69	72	75	80	87
Services (net)	264	334	-7	72	47	116	196	242	294	314	373
Receipt	584	659	289	306	372	396	497	547	606	666	718
Of which: tourism	395	429	147	153	195	209	268	312	367	401	440
Payment	319	325	295	234	325	279	301	305	313	352	345
Primary Income (net)	-39	-38	-52	-37	-48	-29	-34	-35	-48	-51	-55
Of which: interest on public debt	-17	-17	-13	-16	-18	-13	-19	-20	-20	-21	-22
Secondary Income (net)	270	289	240	249	234	223	250	253	264	279	273
General Government	46	53	74	55	77	42	59	45	42	43	26
Other Sectors	224	236	166	194	157	181	191	208	222	236	247
Of which: remittances	153	166	139	167	146	171	185	202	215	229	239
Capital account	13	9	38	29	22	29	15	15	17	15	16
Of which: Grants	11	5	34	24	18	24	10	10	12	10	10
Financial account 1/	-112	-11	-199	-183	-140	-145	-97	-75	-51	-47	-48
Foreign direct investment	-78	-72	-14	-32	-49	-45	-50	-75	-79	-79	-98
Portfolio investment	42	3	39	11	5	5	5	5	5	5	5
Other investment	-84	-73	-134	-83	-84	-108	-53	-16	-11	-10	6
Net acquisition of financial assets	-53	-1	6	6	-8	-8	8	4	4	5	5
Net incurrence of liabilities	31	72	140	89	76	100	62	20	15	15	-1
Monetary authority	0	0	1	1	0	0	0	0	0	0	0
Central government	32	64	133	82	69	93	53	12	7	6	-7
Disbursements	64	96	173	126	130	137	132	93	90	90	83
of which RCF			29	29							
Amortization	-32	-32	-46	-50	-61	-45	-78	-81	-83	-84	-90
Exceptional financing 2/	0	0	8	14	0	21	0	0	0	0	0
Commercial banks	4	4	4	4	5	5	5	5	5	5	5
Non-bank flows	-5	4	3	3	3	3	3	3	3	3	0
Reserve assets (+ accumulation)	8	132	-90	-79	-12	2	1	11	33	36	39
Errors and omissions 3/	-38	-13	0	0	0	0	0	0	0	0	0
Overall balance	8	132	-90	-79	-12	2	1	11	33	36	39
Memorandum items:											
Current account (incl. official transfers, percent of GDP)	-5.2	-0.4	-14.2	-13.8	-9.2	-10.6	-6.4	-4.7	-3.3	-2.8	-2.6
Current account (excl. official transfers, percent of GDP)	-8.0	-3.4	-18.6	-17.4	-13.6	-13.1	-9.7	-7.1	-5.3	-4.7	-3.7
Overall balance (percent of GDP)	0.5	7.4	-5.4	-5.1	-0.7	0.1	0.0	0.6	1.6	1.6	1.6
Gross international reserves	532	663	573	584	561	587	587	598	632	667	707
Months of current year's imports of goods and services	5.6	6.9	7.7	8.0	7.1	7.2	6.7	6.4	6.4	6.2	6.2
Months of next year's imports of goods and services	5.5	9.0	7.3	7.2	6.7	6.7	6.3	6.1	5.9	5.8	5.8
External public debt	1720	1805	1802	1683	1836	1782	1822	1829	1833	1838	1838
External aid (grants and loans, percent of GDP)	7.2	8.7	16.8	13.3	12.8	12.4	11.4	7.8	7.0	6.4	5.0
Nominal GDP	1666	1770	1668	1536	1763	1644	1766	1900	2049	2215	2397

Sources: Bank of Cabo Verde; and IMF staff estimates and projections.
1/ Including international reserves and exceptional financing.
2/ Debt service suspension under the G-20 Initiative.
3/ Including banks' delays on trade credit reporting.

Table 3a. Cabo Verde: Statement of Operations of the Central Government, 2018–26[1]

(Millions of Cabo Verde Escudos)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			CR 20/297	Prel.	CR 20/297	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	51,857	57,389	53,677	43,751	56,785	53,896	60,251	64,489	70,060	76,031	82,943
Tax	40,657	42,013	33,952	32,237	38,262	37,592	44,158	49,611	54,711	59,633	65,408
Taxes on income and profit	12,253	12,672	11,558	9,779	11,554	10,404	12,088	13,596	15,123	16,677	18,409
Personal income tax	6,877	7,201	6,249	6,438	6,738	6,834	7,487	8,299	9,126	10,064	10,893
Corporate income tax	5,376	5,471	5,309	3,341	4,816	3,570	4,601	5,298	5,997	6,613	7,516
Taxes on goods and services	19,887	20,658	15,582	15,196	17,985	18,686	21,493	23,920	26,562	29,004	31,595
Of which: customs VAT (IVA DGA)	7,801	8,260	6,424	6,670	7,177	7,718	8,539	9,464	10,509	11,475	12,421
Of which: domestic VAT (IVA DGCI)	8,422	8,476	6,471	5,932	7,228	7,910	9,176	10,269	11,403	12,452	13,478
Taxes on international trade	7,733	8,011	6,240	6,593	8,106	7,778	9,761	11,173	12,031	12,877	14,240
Other taxes	784	672	572	669	617	724	816	922	994	1,075	1,163
Grants	2,575	6,238	8,566	5,224	7,041	4,050	4,110	2,488	2,683	2,901	3,140
Other revenue	8,625	9,137	11,159	6,291	11,482	12,254	11,982	12,390	12,666	13,497	14,396
Fees and penalties	433	408	299	198	303	200	303	326	352	380	412
Property Income	1,828	2,301	3,289	1,132	2,638	4,984	3,554	3,404	3,154	3,207	3,262
Sale of Goods and Services	5,732	5,991	6,389	3,633	7,610	5,866	6,701	7,210	7,626	8,244	8,924
Other (inc. social contributions)	633	438	1,182	1,328	932	1,204	1,425	1,449	1,535	1,665	1,798
Expenditure	56,726	60,974	71,444	58,776	69,661	68,229	67,280	68,118	71,622	76,741	82,744
Expense 2/	48,587	53,343	64,537	54,284	59,974	58,534	59,492	59,737	62,586	66,972	72,170
Compensation of employees	19,425	20,595	23,654	21,569	24,127	24,047	24,528	25,018	25,419	26,944	29,165
Use of goods and services	7,185	8,001	15,206	10,148	11,409	10,753	10,320	10,476	11,295	12,211	13,217
Interest	4,726	4,991	4,957	4,808	5,505	4,894	5,578	5,723	5,897	5,973	6,193
Domestic	2,811	3,083	2,939	1,605	3,371	3,317	3,362	3,410	3,546	3,588	3,699
External	1,822	1,867	1,922	3,156	2,037	1,480	2,119	2,217	2,254	2,288	2,397
Other Charges	93	41	96	48	97	97	97	97	97	97	97
Subsidies	153	160	891	628	691	629	637	647	707	769	782
Current transfers	6,283	6,015	7,556	6,482	6,512	7,389	6,815	6,495	7,003	7,571	8,195
Social benefits	6,237	7,270	8,046	8,265	7,717	8,071	8,503	8,234	8,877	9,598	10,389
Other expense (incl. capital transfer)	4,577	6,310	4,227	2,384	4,014	2,751	3,111	3,143	3,388	3,907	4,230
Net acquisition of nonfinancial assets	8,140	7,631	6,907	4,492	9,688	9,695	7,788	8,381	9,036	9,769	10,574
Purchase of assets	8,194	7,971	7,358	4,592	10,141	11,528	8,253	8,852	9,507	10,240	11,045
Sales of assets (-)	-54	-339	-451	-100	-453	-1,833	-465	-471	-471	-471	-471
Primary balance	-143	1,406	-12,810	-10,216	-7,371	-9,438	-1,452	2,095	4,335	5,262	6,392
Overall balance	-4,869	-3,585	-17,767	-15,024	-12,876	-14,333	-7,030	-3,628	-1,562	-710	199
Net other liabilities	-1,903	-6,393	-4,569	-1,832	375	534	-407	-499	-399	-587	-635
Onlending to SOEs for investment purpose	-1,541	-1,531	-3,379	-1,377	-600	-600	-561	-643	-543	-587	-635
Other onlending (net)	3,606	-563	-894	307	2,000	2,159	143	144	144	0	0
Disbursement	0	-2,299	-1,285	0	0	0	0	0	0	0	0
Repayment	3,606	1,736	392	307	2,000	2,159	144	144	144	0	0
Capitalization	-3,968	-4,425	-1,445	-769	-1,056	-1,056	0	0	0	0	0
Other	0	124	1,148	7	31	31	11	0	0	0	0
Financing needs	6,772	9,978	22,336	16,857	12,501	13,799	7,436	4,127	1,961	1,297	436
Total financing	5,239	9,926	22,336	15,478	12,501	13,799	7,436	4,127	1,961	1,297	436
Net domestic financing	2,517	2,816	4,847	5,080	4,373	2,800	1,560	2,837	1,188	600	530
Net external financing	2,723	7,110	17,489	10,397	8,129	10,999	5,876	1,290	773	697	-94
Disbursement	6,202	11,277	20,607	16,024	14,317	17,414	14,512	10,271	9,951	9,979	9,834
Budget Loans	2,205	6,148	9,125	9,125	3,388	4,223	6,124	3,124	3,124	3,124	3,124
Of which RCF disbursement			3,213	3,213							
Project and Program Loans	2,456	3,599	7,213	4,025	10,329	10,336	7,827	6,504	6,284	6,268	6,075
Loans to on lend to SOEs 3/	1,541	1,531	3,379	1,377	600	600	561	643	543	587	635
Amortization	3,479	4,167	3,118	5,627	6,188	6,415	8,636	8,980	9,178	9,282	9,928
Exceptional financing (DSSI)			890	1,498	0	2,255					
Net errors and omissions (+ overfinancing)	-1,533	-52	0	-1,379	0	0	0	0	0	0	0
Memorandum items:											
Social Spending	14,008	14,996	18,067	15,278	17,100	16,356	17,568	18,904	20,381	22,034	23,850
Total Public Investment	9,735	9,501	10,736	5,969	10,741	12,128	8,815	9,495	10,049	10,827	11,680
of which: public investment done by SOEs	1,541	1,531	3,379	1,377	600	600	561	643	543	587	635

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/ Higher expenditures on compensation of employees and on goods and services for 2020 partly reflect the broadening of the fiscal coverge.
3/ On lend to SOEs for public investment execution.

Table 3b. Cabo Verde: Statement of Operations of the Central Government, 2018–26[1]
(Percent of GDP)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			CR 20/297	Prel.	CR 20/297	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	28.2	29.4	29.2	25.8	29.2	29.7	30.9	30.8	31.0	31.1	31.4
Taxes	22.1	21.5	18.5	19.0	19.7	20.7	22.7	23.7	24.2	24.4	24.7
Taxes on income and profit	6.7	6.5	6.3	5.8	5.9	5.7	6.2	6.5	6.7	6.8	7.0
Taxes on goods and services	10.8	10.6	8.5	9.0	9.3	10.3	11.0	11.4	11.8	11.9	12.0
Taxes on international trade	4.2	4.1	3.4	3.9	4.2	4.3	5.0	5.3	5.3	5.3	5.4
Other taxes	0.4	0.3	0.3	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Grants	1.4	3.2	4.7	3.1	3.6	2.2	2.1	1.2	1.2	1.2	1.2
Other revenue	4.7	4.7	6.1	3.7	5.9	6.8	6.2	5.9	5.6	5.5	5.4
Fees and penalties	0.2	0.2	0.2	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Property Income	1.0	1.2	1.8	0.7	1.4	2.7	1.8	1.6	1.4	1.3	1.2
Sale of Goods and Services	3.1	3.1	3.5	2.1	3.9	3.2	3.4	3.4	3.4	3.4	3.4
Other (inc. social contributions)	0.3	0.2	0.6	0.8	0.5	0.7	0.7	0.7	0.7	0.7	0.7
Expenditure	30.9	31.2	38.8	34.7	35.8	37.6	34.6	32.5	31.7	31.4	31.3
Expense 2/	26.4	27.3	35.1	32.1	30.8	32.3	30.6	28.5	27.7	27.4	27.3
Compensation of employees	10.6	10.6	12.9	12.7	12.4	13.3	12.6	11.9	11.3	11.0	11.0
Use of goods and services	3.9	4.1	8.3	6.0	5.9	5.9	5.3	5.0	5.0	5.0	5.0
Interest	2.6	2.6	2.7	2.8	2.8	2.7	2.9	2.7	2.6	2.4	2.3
Domestic	1.5	1.6	1.6	0.9	1.7	1.8	1.7	1.6	1.6	1.5	1.4
External	1.0	1.0	1.0	1.9	1.0	0.8	1.1	1.1	1.0	0.9	0.9
Other Charges	0.1	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Subsidies	0.1	0.1	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Current transfers	3.4	3.1	4.1	3.8	3.3	4.1	3.5	3.1	3.1	3.1	3.1
Social benefits	3.4	3.7	4.4	4.9	4.0	4.5	4.4	3.9	3.9	3.9	3.9
Other expense (incl. capital transfer)	2.5	3.2	2.3	1.4	2.1	1.5	1.6	1.5	1.5	1.6	1.6
Net acquisition of nonfinancial assets	4.4	3.9	3.8	2.7	5.0	5.3	4.0	4.0	4.0	4.0	4.0
Purchase of assets	4.5	4.1	4.0	2.7	5.2	6.4	4.2	4.2	4.2	4.2	4.2
Sales of assets (-)	0.0	-0.2	-0.2	-0.1	-0.2	-1.0	-0.2	-0.2	-0.2	-0.2	-0.2
Primary balance	-0.1	0.7	-7.0	-6.0	-3.8	-5.2	-0.7	1.0	1.9	2.2	2.4
Overall balance	-2.7	-1.8	-9.7	-8.9	-6.6	-7.9	-3.6	-1.7	-0.7	-0.3	0.1
Net other liabilities	-1.0	-3.3	-2.5	-1.1	0.2	0.3	-0.2	-0.2	-0.2	-0.2	-0.2
Onlending to SOEs for investment purpose	-0.8	-0.8	-1.8	-0.8	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2
Other onlending (net)	2.0	-0.3	-0.5	0.2	1.0	1.2	0.1	0.1	0.1	0.0	0.0
Disbursement	0.0	-1.2	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment	2.0	0.9	0.2	0.2	1.0	1.2	0.1	0.1	0.1	0.0	0.0
Capitalization	-2.2	-2.3	-0.8	-0.5	-0.5	-0.6	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.1	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Needs	3.7	5.1	12.1	10.0	6.4	7.6	3.8	2.0	0.9	0.5	0.2
Total financing	2.9	5.1	12.1	9.1	6.4	7.6	3.8	2.0	0.9	0.5	0.2
Net domestic financing	1.4	1.4	2.6	3.0	2.2	1.5	0.8	1.4	0.5	0.2	0.2
Net external financing	1.5	3.6	9.5	6.1	4.2	6.1	3.0	0.6	0.3	0.3	0.0
Disbursement	3.4	5.8	11.2	9.5	7.4	9.6	7.5	4.9	4.4	4.1	3.7
Budget Loans	1.2	3.1	5.0	5.4	1.7	2.3	3.1	1.5	1.4	1.3	1.2
Of which RCF disbursement			1.7	1.9							
Project and Program Loans	1.3	1.8	3.9	2.4	5.3	5.7	4.0	3.1	2.8	2.6	2.3
Loans to on lend to SOEs 3/	0.8	0.8	1.8	0.8	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Amortization	1.9	2.1	1.7	3.3	3.2	3.5	4.4	4.3	4.1	3.8	3.8
Exceptional financing (DSSI)			0.5	0.9	0.0	1.2					
Net errors and omissions (+ overfinancing)	-0.8	0.0	0.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Social Spending	7.6	7.7	9.8	9.0	8.8	9.0	9.0	9.0	9.0	9.0	9.0
Total Public Investment	5.3	4.9	5.8	3.5	5.5	6.7	4.5	4.5	4.4	4.4	4.4
Of which: public investment done by SOEs	0.8	0.8	1.8	0.8	0.3	0.3	0.3	0.3	0.2	0.2	0.2
GDP at current market prices (billions of CVEsc)	183.7	195.2	183.9	169.3	194.4	181.3	194.7	209.5	225.9	244.2	264.3

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/ Higher expenditures on compensation of employees and on goods and services for 2020 partly reflect the broadening of the fiscal coverge.

3/ On lend to SOEs for public investment execution.

Table 4. Cabo Verde: Monetary Survey, 2018–26
(Millions of Cabo Verde escudos, unless otherwise indicated)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			CR 20/297	Est.	CR 20/297	Proj.			Proj.		
Net foreign assets	56,396	70,782	59,399	60,638	56,545	59,365	58,057	59,171	62,755	66,684	71,019
Foreign assets	83,533	98,658	87,603	88,841	85,282	88,101	87,339	89,008	93,158	97,665	102,588
Of which: gross international reserves	58,649	73,453	63,206	64,444	61,861	64,680	64,737	65,954	69,643	73,586	77,932
Foreign liabilities	-27,233	-27,876	-28,203	-28,203	-28,737	-28,737	-29,281	-29,837	-30,403	-30,981	-31,570
Net domestic assets	127,234	128,361	129,295	144,694	140,642	157,447	168,430	182,993	195,235	206,230	218,000
Net domestic credit	156,614	152,510	151,995	154,353	161,185	163,919	173,283	184,207	195,248	206,236	218,002
Net claims on general government (net)	40,284	31,929	29,599	29,643	31,735	31,026	31,935	33,501	34,263	34,754	35,332
Investment in TCMFs 1/	11,070	11,112	4,679	4,679	4,679	4,679	4,679	4,679	4,679	4,679	4,679
Net claims on the central government	32,659	23,909	26,333	26,609	28,519	28,019	28,851	30,322	30,968	31,317	31,627
Credit to central government	46,866	41,943	44,367	44,643	46,553	46,053	46,885	48,356	49,003	49,351	49,661
Deposits of central government	-14,207	-18,034	-18,034	-18,034	-18,034	-18,034	-18,034	-18,034	-18,034	-18,034	-18,034
Of which: project deposits	-56	-68	-68	-68	-68	-68	-68	-68	-68	-68	-68
Net claims on local government and other agencies 2/	-3,446	-3,093	-1,413	-1,645	-1,463	-1,672	-1,595	-1,500	-1,385	-1,243	-974
Credit to the economy	116,330	120,581	122,396	124,710	129,450	132,893	141,348	150,706	160,985	171,482	182,670
Other items (net)	-29,380	-24,148	-22,700	-9,659	-20,543	-6,472	-4,854	-1,213	-12	-6	-1
Broad money (M2)	183,630	199,143	188,694	205,332	197,187	216,812	226,487	242,165	257,990	272,914	289,019
Narrow money (M1)	86,806	97,273	92,169	100,296	96,318	105,903	110,629	118,287	126,017	133,307	141,174
Currency outside banks	9,571	9,980	9,457	10,290	9,882	10,866	11,351	12,136	12,930	13,677	14,485
Demand deposits	77,235	87,293	82,713	90,006	86,435	95,038	99,279	106,151	113,088	119,630	126,689
Quasi-money	91,862	96,444	91,382	99,440	95,495	104,999	109,685	117,277	124,941	132,169	139,968
Foreign currency deposits	4,963	5,428	5,143	5,596	5,374	5,909	6,173	6,600	7,031	7,438	7,877
(Change in percent of broad money, 12 months earlier)											
Net foreign assets	-2.1	7.8	-5.7	-5.1	-1.5	-0.6	-0.6	0.5	1.5	1.5	1.6
Net domestic assets	3.5	0.6	0.5	8.2	6.0	6.2	5.1	6.4	5.1	4.3	4.3
Net domestic credit	5.9	-2.2	-0.3	0.9	4.9	4.7	4.3	4.8	4.6	4.3	4.3
Net claims on the central government	4.3	-4.8	1.2	1.4	1.2	0.7	0.4	0.6	0.3	0.1	0.1
Credit to the economy	1.9	2.3	0.9	2.1	3.7	4.0	3.9	4.1	4.2	4.1	4.1
Other items (net)	-2.4	2.8	0.7	7.3	1.1	1.6	0.7	1.6	0.5	0.0	0.0
Broad money (M2)	1.4	8.4	-5.2	3.1	4.5	5.6	4.5	6.9	6.5	5.8	5.9
Memorandum items:											
Emigrant deposits	63,869	65,365	61,735	67,179	64,514	70,934	74,100	79,229	84,407	89,289	94,558
Emigrant deposits/total deposits (percent)	36.7	34.6	34.4	34.4	34.4	34.4	34.4	34.4	34.4	34.4	34.4
Excess reserves/total deposits (percent)	13.4	16.7	…	…	…	…	…	…	…	…	…
Money multiplier (M2/M0)	3.2	2.9	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Money velocity (Nominal GDP/M2)	1.0	1.0	1.0	0.8	1.0	0.8	0.9	0.9	0.9	0.9	0.9
Credit to the economy (percent change) 3/	3.1	3.7	1.5	3.4	5.8	6.6	6.4	6.6	6.8	6.5	6.5
Broad money (M2 in percent of GDP)	100.0	102.0	102.6	121.3	101.4	119.6	116.3	115.6	114.2	111.8	109.3

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

1/ TCMFs (Títulos Consolidados de Mobilização Financeira) are bonds in CVE, backed by an offshore account managed by Banco de Portugal. They matured in late 2018; and in 2019 the authorities decided to redeem a portion of them and to replace the balance with new bonds.

2/ Includes Cabo Verde's National Pension Institute (INPS).

3/ Percent change, year over year.

Table 5. Cabo Verde: Financial Soundness Indicators of the Banking Sector, 2010–20Q3

(End-year; percent unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020Q1	2020Q2	2020Q3
Capital adequacy													
Regulatory capital to risk-weighted assets	12.8	15.2	14.2	15.1	15.6	16.2	17.1	17.3	16.2	17.7	18.1	18.3	18.6
Regulatory Tier 1 capital to risk-weighted assets	13.0	15.9	13.9	13.7	14.4	15.0	15.9	16.4	16.1	18.2	18.6	18.8	19.0
Asset quality 1/													
Nonperforming loans to total loans	4.1	6.9	8.9	11.7	14.3	13.3	14.2	13.2	12.2	10.4	10.1	11.0	10.5
Nonperforming loans net of provisions to capital	17.1	40.2	47.9	53.5	62.8	49.4	42.5	35.0	26.0	15.0	20.4	23.9	16.6
Provisions to nonperforming loans	73.1	57.0	53.7	51.6	48.8	54.4	58.5	64.1	71.0	77.0	70.1	66.5	73.3
Earnings and profitability													
Return on assets	0.7	0.4	0.2	0.3	0.2	0.4	0.3	0.4	0.3	1.3	0.4	0.6	1.0
Return on equity	9.1	5.6	2.7	3.5	3.1	4.8	4.2	6.4	4.8	17.8	5.3	7.9	12.7
Interest margin to gross income	76.1	76.2	75.5	75.3	71.8	73.1	76.7	77.0	79.6	81.1	78.2	85.8	86.7
Noninterest expenses to gross income	67.0	68.5	76.5	78.1	72.5	75.8	66.4	60.2	69.6	49.4	46.4	49.3	48.9
Liquidity 2/													
Liquid assets to total assets	8.1	7.1	15.0	22.1	30.3	30.3	23.7	22.1	21.4	24.3	23.8	25.4	25.9
Liquid assets to short-term liabilities	10.5	9.7	21.1	29.0	37.3	37.0	28.6	26.6	25.5	28.3	27.8	30.0	30.8
Additional indicators													
Government deposits over total deposits	9.5	7.6	9.7	11.4	13.5	12.6	14.6	15.8	18.3	19.1	19.6	19.1	19.7
Demand deposits over total deposits	43.8	43.4	42.0	45.5	43.2	42.8	44.0	48.3	50.5	50.9	51.8	51.6	51.7
Total credit over total deposits	79.1	85.9	79.0	67.4	61.5	59.5	55.6	55.8	55.2	52.9	52.9	53.2	53.6
Personnel cost over cost of operations	49.0	49.9	50.1	48.4	54.8	56.6	58.8	58.3	66.6	56.6	59.2	57.8	57.7

Source: Bank of Cabo Verde.

1/ Based on IAS/IFRS definition.

2/ Liquid assets include cash in vault and marketable securities. Short-term liabilities include demand deposits.

Table 6. Cabo Verde: Risk Assessment Matrix[1]

(Scale—high, medium, or low)

Source of Risks	Relative Likelihood[2]	Impact if Realized	Policy Response
External			
Unexpected shifts in the Covid-19 pandemic	Medium **Asynchronous progress.** Limited access to and longer than expected deployment of vaccines combined with dwindling policy space prompt a reassessment of growth prospects. **Prolonged pandemic**. The disease proves harder to eradicate, requiring costly containment efforts and prompting persistent behavioral changes rendering many activities unviable. **Faster containment**. Pandemic is contained faster than expected due to the rapid production and distribution of vaccines, boosting confidence and economic activity	High Limited access to vaccines could delay the recovery in tourism with negative impact on economic growth and the external and fiscal positions. Widespread and prolonged disruptions to economic activity resulting from the coronavirus could depress tourism with negative impact on economic growth and the external position. Faster containment of the pandemic will lead to a rebound in tourism and other activities and improve the fiscal and external positions.	Build resilience to shocks and accelerate growth-enhancing reforms.
Widespread social discontent and political instability	High Social tensions erupt as the pandemic and inadequate policy response cause socio-economic hardship, or due to unequal access to vaccines.	Medium Widespread social discontent and political instability could disrupt tourism, remittances and FDI flows with adverse impact on growth.	Build external and fiscal buffers and accelerate growth-enhancing reforms.
Cyber attacks	Medium Cyber-attacks on critical infrastructure, institutions, and financial systems trigger systemic financial instability or widespread disruptions in socio-economic activities and remote work arrangements.	Medium Cyber-attacks could generate weaker confidence, cause instability in the financial system and disrupt domestic activity	Strengthen information security particularly in the government sector. Improve financial regulation and supervision to enhance the resilience of the financial system.
Higher frequency and severity of natural disasters related to climate change.	Medium/Low Higher frequency and severity of natural disasters cause severe economic damage to smaller economies susceptible to disruptions and accelerate emigration from these economies.	Medium/High Prolonged drought or other climate-related shocks would undermine agricultural production with negative impact on GDP growth and inflation.	Build resilience to weather-related shocks and accelerate growth-enhancing reforms.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path—the scenario most likely to materialize in the view of the Staff. The relative likelihood of risks listed is the Staff's subjective assessment of the risks surrounding this baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects Staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. Short term and medium term are meant to indicate that the risk could materialize within 1 year and 3 years, respectively."

[2] In case the baseline does not materialize.

Table 6. Cabo Verde: Risk Assessment Matrix (Concluded)			
Domestic			
Faltering fiscal consolidation efforts.	**Medium/High** Less ambitious and slower fiscal consolidation efforts and delayed SOEs reforms after the health crisis.	**High** Delayed resumption of fiscal consolidation efforts and SOEs reforms after COVID-19 would undermine macroeconomic stability and hinder the return to pre-COVID medium-term fiscal and debt sustainability trajectory.	Ensure that relief measures taken to address the impact of COVID-19 are temporary and, as soon as the health crisis abates, advance revenue-enhancing reforms, improve capital expenditure management, reduce fiscal risks, notably linked to SOEs, and contain non-priority spending.
Delays in implementing measures to increase productivity and restructure SOEs.	**Medium** Delays in structural reforms implementation, particularly in the public enterprises sector.	**Medium** Delays in advancing the structural reform agenda after COVID-19 would hinder competitiveness, potential GDP growth and employment.	Accelerate structural reforms as soon as the epidemic subsides, to improve the business environment, reduce the State's role in productive activities and enhance growth potential.

Table 7. 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	3.5	7.0	7.0	7.0	7.0	3.5	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	0.3	0.5	0.5	0.4	0.4	0.2	0.0	0.0	0.0	0.0
Percent of debt service	0.0	0.0	0.0	0.0	0.0	2.1	3.9	3.8	3.7	3.4	1.7	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	0.8	0.7	0.7	0.6	0.3	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	33.0	34.4	34.7	34.9	35.0	31.6	24.6	17.5	10.5	3.5	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	6.3	4.7	3.9	3.5	3.2	2.6	1.8	1.2	0.6	0.2	0.0	0.0	0.0	0.0	0.0
Percent of debt service	32.4	26.0	21.7	21.0	20.6	18.7	13.8	9.6	5.5	1.7	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	5.0	4.8	4.8	4.7	4.5	3.9	2.8	1.9	1.0	0.3	0.0	0.0	0.0	0.0	0.0
Percent of GDP	1.9	1.7	1.6	1.5	1.4	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)	522.2	733.1	885.0	987.4	1107.1	1234.8	1346.4	1498.3	1645.4	1798.5	1966.0	2132.1	2333.1	2545.4	2792.2
Debt service (millions of U.S. dollars)	102.0	132.2	159.7	165.6	170.1	169.0	178.3	182.8	191.6	206.2	202.3	206.4	213.9	220.9	231.0
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	666.8	711.1	721.7	734.5	774.4	818.2	864.3	944.9	1036.6	1123.0	1214.2	1308.7	1403.0	1500.2	1594.2
GDP (millions of U.S. dollars)	1752.8	2031.4	2210.4	2384.0	2574.4	2783.4	3012.9	3236.4	3476.7	3735.0	4012.4	4311.2	4633.1	4980.1	5354.0

Sources: IMF staff estimates and projections.

Annex I. Adverse Scenario

1. **This scenario presents the macroeconomic impact of a more severe COVID-19 shock in 2021 than assumed under the baseline scenario** (Text Table 1). The adverse scenario assumes a more gradual global economic recovery and the intensification of the domestic spread of the disease that would prolong the pandemic, thus triggering new containment measures. Under such circumstances, domestic demand would be weaker, tourism flows, transport services, and FDI would continue to be severely impacted thereby weakening the recovery. Real GDP growth would be much lower than under the baseline before accelerating to an average of 6 percent in the medium term.

2. **The fiscal and external positions would weaken significantly in 2021 under the adverse scenario**. Tax revenues would recover more slowly, reflecting the sluggish economic activity and lower tourism flows. The deterioration of the domestic health conditions would necessitate additional spending on health and social protection programs. The combination of lower revenues and higher expenditures would increase the fiscal deficit to 10.4 percent of GDP in the absence of additional fiscal consolidation measures, and financing needs to 10 percent of GDP. Hence, public debt would rise to 143.6 percent of GDP at end-2021 before declining to 107.8 percent of GDP at end-2026, some 9 percentage points higher than under the baseline scenario. On the external front, the current account deficit would remain elevated at 13.3 percent of GDP in 2021, compared with a narrowing to 10.6 percent of GDP under baseline scenario projections. At the same time, the financial account would come under pressure from lower FDI and portfolio inflows. As a result, gross international reserves would decline to €526.7 million in 2021, equivalent to 6.2 months of prospective imports of goods and services, and remain low over the medium term, stabilizing around 4 months of prospective imports of goods and services.

3. **Policy implications**. The above results highlight the importance of contingency planning, credible fiscal consolidation, increased external financing, and continued structural reforms that would help the authorities anticipate and mitigate the effects of downside risks. In particular, fiscal policy would need to focus on reducing non-priority spending as well as domestically-financed investment other than counterpart funds for priority externally-financed investments. The aim would be to contain the fiscal deficit at about 8 percent of GDP. This would help improve the external position and support medium-term debt sustainability. With financing constraints likely to be amplified, staff recommend sourcing additional concessional financing from Cabo Verde's development partners, including the AfDB, the EU, and the World Bank. A Fund financing arrangement could also help provide resources while playing a catalytic role. Under the adverse scenario, accelerating structural reforms will be even more crucial to support economic recovery, and progress towards the pre-pandemic medium-term trajectory for growth, fiscal deficit, and public debt.

Text Table 1. Cabo Verde: Macroeconomic Indicators Under Alternative Scenarios, 2020–26
(Percent of GDP, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026
				Baseline Scenario			
Real GDP growth (percent)	-14.0	5.8	6.0	6.1	6.1	6.2	6.2
Primary balance	-6.0	-5.2	-0.7	1.0	1.9	2.2	2.4
Fiscal balance	-8.9	-7.9	-3.6	-1.7	-0.7	-0.3	0.1
Total financing needs	10.0	7.6	3.8	2.0	0.9	0.5	0.2
Current account balance	-13.8	-10.6	-6.4	-4.7	-3.3	-2.8	-2.6
Gross reserves (millions of euros)	583.9	586.6	587.1	598.1	631.6	667.4	706.8
Gross reserves (months of prospective imports)	7.2	6.7	6.3	6.1	5.9	5.8	5.8
Public debt	140.9	138.7	132.0	124.2	115.8	107.4	98.9
Nominal GDP (billions of Cabo Verde escudos)	169.3	181.3	194.7	209.5	225.9	244.2	264.3
				Adverse Scenario			
Real GDP growth (percent)	-14.0	3.0	4.9	5.9	6.3	6.7	6.0
Primary balance	-6.0	-7.3	-2.3	0.1	1.4	1.8	1.9
Fiscal balance	-8.9	-10.4	-5.5	-3.0	-1.7	-1.1	-0.8
Total financing needs	10.0	10.1	5.7	3.3	1.8	1.3	1.0
Current account balance	-13.8	-13.3	-11.6	-7.3	-5.2	-4.3	-4.3
Gross reserves (millions of euros)	583.9	526.7	424.8	404.1	450.7	471.7	500.7
Gross reserves (months of prospective imports)	7.2	6.2	4.9	4.3	4.3	4.2	4.2
Public debt	140.9	143.6	140.0	133.0	124.8	115.8	107.8
Nominal GDP (billions of Cabo Verde escudos)	169.3	176.5	187.6	201.6	217.7	236.7	255.6

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

Annex II. External Sector Assessment

Cabo Verde's external position in 2020 is assessed to be substantially stronger than the level implied by fundamentals and desirable policy settings, which points to an undervaluation. The high and negative net international investment position is a source of vulnerability, but the risks that it poses are partly contained by the structure of Cabo Verde's external liabilities, largely composed of FDI and long-term maturity debt. Reserve adequacy is assessed as satisfactory based on the IMF LIC/MIC framework that indicates an optimal level of reserves of 3.3 months of prospective imports of goods and services, while the actual level was 9 months and the projected level is close to 6 months. The COVID-19 shock has generated pressures on the external position reflecting the collapse in tourism receipts and a decline in capital flows. Cabo Verde's business environment has improved in recent years, however continued structural reforms remain critical to address nonprice competitiveness.

A. Current Account

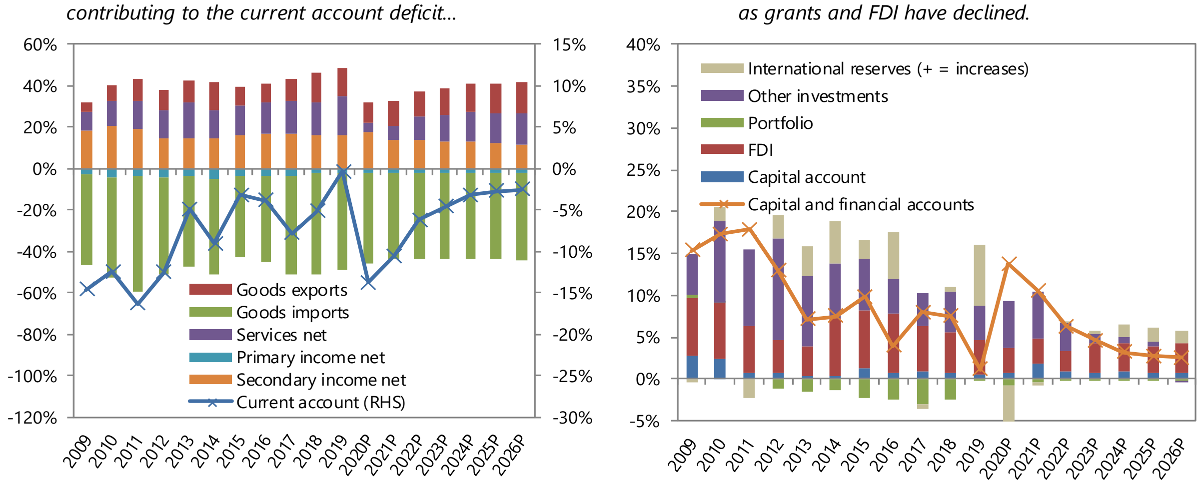
1. Background. In 2019, the current account balance narrowed from an annual average deficit of 9.0 percent of GDP during 2009-18, to 0.4 percent of GDP, reflecting robust export growth, that outpaced the increase in import demand, and strong inflows of remittances (Text Figure 1). Financial inflows remained important during the period, covering the largest share of the current account deficits. Estimates for 2020 point to a current account deficit of 13.8 percent of GDP as export receipts declined due to the impact of COVID-19 on tourism, while remittances increased. With the expected gradual recovery in 2021, the current account deficit is projected to narrow to 10.6 percent of GDP. It is expected to continue improving, to a projected 2.6 percent of GDP by 2026 in line with the expected sustained increase in tourism flows and remittances.

Text Figure 1. Cabo Verde: Balance of Payments, 2009–26

(In percent of GDP)

Large imports of goods have been the main factor contributing to the current account deficit...

... while the structure of external financing has changed as grants and FDI have declined.



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

2. Assessment. The EBA-lite methodology is based on the current account (CA) model from a panel regression of the current account which generates an estimated "norm" consistent with medium-term fundamentals and desirable policies. The CA model shows that the cyclically adjusted current account balance is estimated at -12.6 percent of GDP in 2020 and -0.5 percent of GDP after adjusting the services account to reflect the temporary effect of the pandemic on tourism flows, while the multilaterally consistent cyclically adjusted current account norm is -12.2 percent of GDP (Text Table 1). This suggests a current account gap of 11.6 percent of GDP. Using the estimated current account elasticities, this implies an undervaluation of the Real Effective Exchange Rate (REER) of about 33.1 percent. The CA model does not fully capture Cabo Verde's need to save externally to guard against the country's vulnerability to natural disasters and is not robust to shocks of the magnitude experienced by Cabo Verde due to the COVID-19 pandemic.

B. Real Effective Exchange Rate

3. Background. Over the past decade Cabo Verde's REER has been relatively stable and recorded an average annual depreciation of less than 1 percent during 2015-2019. In 2020, the REER remained broadly unchanged compared with 2019.

4. Assessment. The EBA-lite methodology is based on a REER panel regression model of the real effective exchange rate that generates an estimated "norm" consistent with medium-term fundamentals and desirable policies. The REER model suggests an undervaluation of the REER of about 13.6 percent (Text Table 1).

Text Table 1. Cabo Verde: Results from EBA-lite Assessment

(In percent of GDP)

CA Approach		REER Approach	
CA-Actual	-13.8	Ln(REER) Actual	4.57
Cyclical Contributions (from model)	-0.2	Ln(REER) Fitted	4.71
Cyclically adjusted CA	-12.6	Ln(REER) Norm	4.71
Temporary factors (tourism adjustment COVID19)	-12.1	Residual	-0.14
Adjusted CA	-0.5	REER Gap	-13.6
CA-Norm	-12.8	Policy Gap	0.0
Cyclically adjusted CA Norm	-12.5	Natural Disasters and Conflicts	0.0
Multilaterally Consistent Cyclically adjusted CA Norm	-12.2		
CA-Gap	11.6		
of/which Policy gap	3.4		
Elasticity	-0.35		
REER Gap	-33.1		
CA-Fitted	-10.3		
Residual	-3.5		
Natural Disasters and Conflicts	-0.9		

Source: IMF Staff estimates

C. Capital and Financial Flows

5. Background. Private capital flows slowed in 2019 reflecting slightly lower foreign direct and portfolio investments, and they are expected to decrease in 2020 due to the impact of the pandemic. The net financial account balance stood at less than 1 percent of GDP in 2019, compared to an estimated 13.1 percent of GDP in 2020 on account of increased net official borrowing.

6. Assessment. Following a post-pandemic recovery in 2021-22, net capital and financial flows are expected to trend downwards over the medium term and stabilize at below 3 percent of GDP. Nonetheless, the overall balance of payments is projected to record surpluses starting in 2021 in line with the projected improvement in the current account.

D. Reserve Adequacy

7. Background. Gross international reserves increased by €131.5 million in 2019, bringing the stock to €663.4 million at end-December, equivalent to 9 months of prospective imports of goods and services. However, some of these gains were reversed in 2020 with reserves falling to €584 million as exports receipts and private capital flows declined due to the economic impact of COVID-19. Over the medium term, reserves are projected to increase steadily, remaining at about 6 months of prospective imports of goods and services.

8. Assessment. Results from the Fund's LIC/MIC framework suggests that the optimal level of reserves for Cabo Verde is about 3.3 months of prospective imports of goods and services. However, as noted in the previous assessment[1], fragilities arising from the economy's small size, lack of export diversification, and vulnerability to exogenous shocks call for a higher level of reserves. Staff's medium-term projections point to a level of reserves close to 6 months of prospective imports of goods and services.

E. External Balance Sheet

9. Background. Cabo Verde's net international investment position (NIIP, excluding short-term migrants' deposits) increased in 2020 and reached -177 percent of GDP. At end-2020, gross external assets and liabilities stood at 80 percent of GDP and 256 percent of GDP respectively. This persistent and large negative position is a significant source of external vulnerability.

10. Assessment. The external sustainability approach (ES) calculates the REER adjustment required to satisfy the inter-temporal budget constraint as a measure of the external adjustment required to restore external sustainability. The ES approach suggests that the projected current account is stronger than the level required to stabilize the NIIP at its end-2020 level with a CA gap of about 7 percent of GDP, implying a REER undervaluation. This is due to the favorable interest rate-growth differential which has a positive impact on Cabo Verde's debt dynamics.

[1] IMF Country Report No. 19/255.

F. Non-Price Competitiveness

11. Background. Cabo Verde's business environment has improved in recent years. However, there are several areas in which competitiveness could be further strengthened. Based on the World Economic Forum index[2], Cabo Verde's overall score for global competitiveness increased to 50.8 in 2019, achieving gains in human capital, particularly for health, labor markets and innovation capability. The country lost ground in ICT adaptation, product market and infrastructure (Text Table 2).

Text Table 2. Cabo Verde: Global Competitiveness Indicators
Score: 0-100 (best)

	2018	2019	Change[1]
Overall score	50.2	50.8	0.6
Enabling environment component	55.8	54.9	-0.9
Institutions	51.5	51.2	-0.3
Infrastructure	54.7	53.7	-1.0
ICT adoption	48.1	44.7	-3.4
Macroeconomic stability	68.9	70.0	1.1
Human capital component	62.8	67.0	4.2
Health	75.6	80.8	5.2
Skills	53.3	53.2	-0.1
Markets components	46.2	46.9	0.7
Product market	52.8	50.1	-2.7
Labour market	57.6	61.4	3.8
Financial system	57.3	58.5	1.2
Market size	17.1	17.5	0.4
Innovation ecosystem component	32.7	34.4	1.7
Business dynamism	44.0	44.0	0.0
Innovation capability	21.4	24.8	3.4

Sources: World Economic Forum, Global Competitiveness Index.
[1]Negative sign indicates decrease in score.

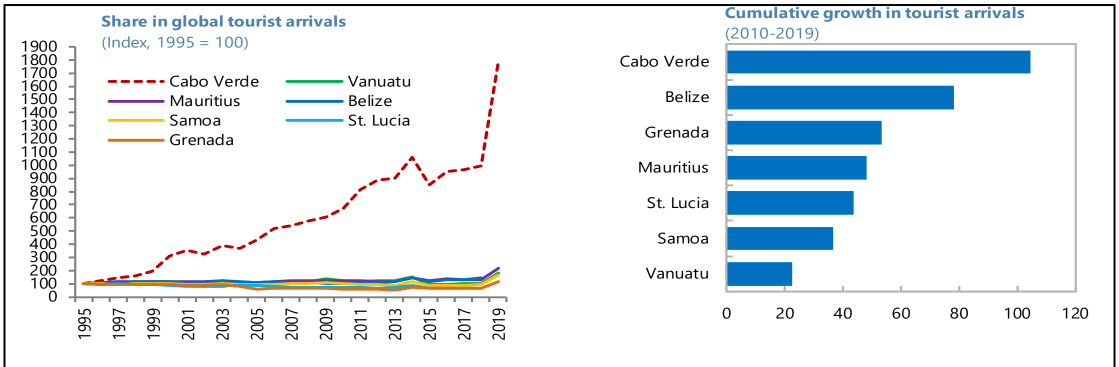
12. Assessment. Despite the abovementioned strides, decisive structural reforms aimed at improving the business environment and attracting private investment remain critical to boost competitiveness. Key areas in need of improvement include reliable power supply, access to finance, protecting minority investors, paying taxes and trading across borders. In terms of tourism competitiveness, Cabo Verde is a top performer among small middle-income countries (Box 1).

[2] The World Economic Forum's Global Competitiveness Index combines both official data and survey responses from business executives on several dimensions of competitiveness.

Box 1. Tourism Sector Competitiveness

Cabo Verde is a tourism-based economy. The sector has experienced robust growth, particularly over the past decade when visitor arrivals increased at an average annual rate of 10 percent. Europe is Cabo Verde's primary source market, and the 2008 financial crisis had a negative impact on the industry but recovered at a faster pace compared to other tourism dependent small states. Tourism arrivals rose by 7 percent in 2019 and plummeted in 2020 due to the domestic and international travel restrictions related to the COVID-19 pandemic.

Cabo Verde is a top performer among small middle-income tourism dependent states on indicators of travel and tourism competitiveness. The strong gains in world market share relative to comparators suggest that Cabo Verde is highly competitive in the industry. However continued improvements in cultural and business travel, international openness and ground and transport infrastructure are required to maintain Cabo Verde's competitive advantage particularly during the post COVID-19 period.



Note: There is no data for Belize in 2019.
Sources: World Tourism Organization, Compendium of Tourism Statistics dataset; and IMF staff estimates.

G. Overall Assessment and Recommendations

13. Results from staff's assessment of Cabo Verde's external position in 2020 suggest that the exchange rate is undervalued. The three methodologies used: the external sustainability approach, the EBA-lite methodology based on the current account model and, the REER model point to an undervaluation of the real effective exchange rate. Given the existing large external liabilities, staff's policy recommendations are underpinned by the results from the external sustainability approach, which suggest that Cabo Verde's external position would be highly vulnerable to growth shocks or a move away from highly concessional borrowing.

14. Sustained medium-term fiscal consolidation and accelerated structural reforms are needed to contribute to improvements in the external position. Fiscal adjustment as envisioned under the baseline scenario (discussed in the main report) is expected to help lower external liabilities and thereby support medium-term external sustainability. Continued implementation of structural reforms is also needed to reduce transaction costs, increase labor market flexibility, boost productivity, and support private sector development. Although the current level of reserves is assessed as adequate based on results from the application of the IMF LIC/MIC framework, building strong external buffers is critical given existing vulnerabilities, and the need to protect the peg.

Program Statement

Praia, March 10, 2021

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

Madame Managing Director:

The attached Program Statement (PS) reviews recent economic developments and performance under the Policy Coordination Instrument (PCI) approved by the Executive Board of the International Monetary Fund (IMF) in July 2019. It also updates the Government's policies and objectives for 2021 and the medium term in an environment marked by extreme uncertainty due to the COVID-19 global pandemic. The Government acted swiftly to tackle this health crisis through confinement measures and closing of international borders. Also, it has implemented a comprehensive response centered around increased health spending and an economic, social, and humanitarian response aimed at containing the spread of the virus and helping the most affected economically. In this regard, the Government expresses its gratitude to the IMF and other development partners for the financial and technical support that facilitated the implementation of its response to this unprecedented health, economic and social crisis.

The global pandemic is having severe economic and social impacts in Cabo Verde. Real GDP, after reaching 5.9 percent in the first quarter, contracted sharply in the second and third quarters of 2020, leading to a contraction of about 14.8 percent in the first nine months of the year. This was driven by a very significant retrenchment in the tourism and transportation sectors and weak activity across the other sectors of the economy, contributing to higher unemployment and social hardship. Given the depth and protracted nature of the crisis, the Government has extended into 2021 the COVID-19 relief measures that were originally expected to expire at end-2020.

Despite this extremely challenging environment, performance under the PCI has been strong as documented in the attached PS. For the third and final review of the PCI, all end-September 2020 quantitative and non-quantitative targets were met; and all reform targets were observed, except for two that were delayed because of constraints related to the global pandemic.

The Government has implemented sound macroeconomic policies. While priority was given to addressing the impact of the health crisis, policies and reforms remained also focused on maintaining medium-term fiscal and debt sustainability and enhancing further the country's growth potential and resilience to shocks. In this context, the Government produced a long-term development agenda (*Cabo Verde Ambition 2030, CVA 2030*) highlighting the main strategies for the

2030 horizon, aligned with the Sustainable Development Goals (SDGs). The CVA 2030 will underpin the preparation of five-year strategies (*Strategic Plan for Sustainable Development, PEDS II and III*) in support of the SDGs for Cabo Verde. The current PEDS will expire at end-2021, and PEDS II (which will be a continuation of the previous PEDS) will be in effect from 2022 to 2026 and will be prepared before the end of the year.

The Government believes that measures and policies described in the attached PS provide an adequate basis for attaining its economic objectives. However, it stands ready to take any additional measures that may be required to meet these objectives. The Government will consult with the IMF, in advance, on the adoption of these measures and on any revisions to the policies contained in the attached PS, in accordance with IMF policies on such consultations. Moreover, the Government will provide the IMF with information as the IMF may request in relation with progress made in implementing the economic and financial policies and in achieving the program's objectives.

Given our exceptional program performance as well as the policies and reforms outlined in the PS, we are requesting the completion of the third review of the PCI for Cabo Verde by the IMF Executive Board.

In line with our strong commitment to transparency and accountability, the Government wishes to authorize the publication of this letter and its posting on the IMF's official webpage along with the attached PS and Technical Memorandum of Understanding (TMU), as well as the Staff Report for the third review of the PCI. The Government will also post these documents, including the Portuguese versions, on the Government's official webpage.

Sincerely,

/s/	/s/
Olavo Correia	Óscar Santos
Vice-Prime-Minister and	Governor of the
Minister of Finance	Banco de Cabo Verde

Program Statement for July 2020–March 2021

A. Introduction

1. **The Executive Board of the International Monetary Fund (IMF) approved on July 15, 2019, an arrangement under the Policy Coordination Instrument (PCI) in support of Cabo Verde's reform program**. The overall objective of the program was to lay the foundations for stronger, more inclusive growth and to support the Government's reform agenda underpinned by the Strategic Plan for Sustainable Development (PEDS). Under the PCI, strong policy measures and reforms have been implemented to strengthen the fiscal and external positions, reduce fiscal risks, strengthen the monetary policy transmission mechanism, improve access to finance, and enhance further medium-term growth prospects.

2. **This Program Statement (PS) updates the one presented for the second review of the PCI that was completed by the IMF Executive Board on October 21, 2020**. It describes recent economic and financial developments, outlines the Government's economic program for 2021 and the medium term, discusses the economic outlook, risks, and mitigating measures, and describes performance under the third and final review of the program.

B. Recent Economic and Financial Developments

3. **Macroeconomic performance prior to the outbreak of the global pandemic was remarkable**. Economic growth averaged 5 percent during 2016–19, reaching 5.7 percent in 2019 with low and stable inflation. The growth dynamics was supported by the tourism (tourist arrivals increased from 644,429 in 2016 to 819,308 in 2019), transport, construction, and other services sectors. The Government's fiscal position improved significantly, with the overall fiscal deficit declining from 3 percent of GDP in 2016 to 1.8 percent of GDP in 2019 due primarily to enhanced domestic revenue mobilization, partly thanks to tax and administrative reforms, and expenditure restraint. Fiscal consolidation, combined with sustained real GDP growth, helped reduce the public debt-to-GDP ratio from 127.8 percent in 2016 to 125 percent in 2019. The external position also strengthened, with the current account deficit moving from 5.1 percent of GDP in 2016 to 0.4 percent of GDP in 2019, helping increase international reserves from €541 million in 2016 to €663.4 million in 2019.

4. **This strong macroeconomic performance was interrupted by the outbreak of the COVID-19 global pandemic**. Tourism—the mainstay of the economy—has come to a halt due to domestic and international containment measures against the pandemic. Consequently, real GDP contracted sharply in the second and third quarters of 2020, leading to a cumulative contraction of 14.8 percent, year-on-year (y/y), at end-September 2020. For the year as a whole, real GDP contraction is estimated at 14 percent. In addition, the unemployment rate is estimated at 19 percent, up from 11.3 percent in 2019. Inflation declined from a peak of 1.9 percent y/y in February 2020 to -0.9 percent (y/y) in December, reflecting continued weak domestic demand, low international oil prices, and lower domestic food prices.

5. The Government implemented several measures to minimize the health, economic and social impacts of the pandemic on households and businesses. The 2020 budget was revised, notably by expanding expenditures on health and social protection programs. The Government also provided support to businesses that were hard hit by the global pandemic. This included loan guarantees amounting to CVE 4 billion; a moratorium on the payment of corporate income tax and the VAT through December 2020; a temporary reduction in the VAT rate for the tourism sector to 10 percent; and the cancellation of contributions to the pension fund for three months. To benefit from these relief measures, companies needed to demonstrate a quarterly decline in turnover of 30 percent or more. The Government also provided support to vulnerable groups through: (i) income compensation to individuals operating in the informal sector; (ii) social inclusion emergency measures for vulnerable individuals without income; (iii) social inclusion income; (iv) support to microfinance institutions for interest-free loans to vulnerable households and; (v) food assistance and financing support to the elderly.

6. The Banco de Cabo Verde (BCV) implemented measures to maintain liquidity in the banking system and support credit extension while safeguarding financial stability. Key policy measures included: (i) a reduction in the policy rate by 125 basis points (bps) to 0.25 percent; (ii) a reduction in the minimum reserve requirements from 13 percent to 10 percent; (iii) a reduction in the overnight deposit rate by 5 bps to 0.05 percent; (iv) a reduction in the rate of permanent lending facilities by 250 bps to 0.5 percent; and (v) the establishment of a long-term financing facility for banks. The Government with the support of BCV introduced a moratorium on loan repayments for borrowers meeting specified criteria, including being current on tax and loan obligations. The BCV also reduced the capital adequacy ratio from 12 percent in 2019 to 11 percent for 2020 and 10 percent for 2021; and recommended to banks not to distribute dividends on 2019 earnings in order to strengthen their capital positions.

7. The implementation of COVID-19 relief measures helped contain the impact of the shock. The Government has decided to extend these measures to 2021 in view of the continued strong impact of the pandemic.

- **Fiscal policy**. Total expenditures related to COVID-19 amounted to CVE 2.8 billion. Other measures taken by the Government and their impact were: (i) support to businesses and workers through unemployment allowance covering 1,947 people with a cost of CVE 109.5 million; (ii) the suspension of labor contracts, costing CVE 1.4 billion, covering about 31,987 workers. These measures helped prevent layoffs; (iii) Four credit lines and one line of guarantees amounting to approximately CVE 2.5 billion were approved. As of now, over 575 applications for loans have been approved totaling approximately CVE 3.9 billion (large corporations: CVE 1.8 billion; tourism, transport, and related activities: CVE 922 million; small and medium-sized companies: CVE 1.1 billion; and microenterprises: CVE 157 million). Support measures to businesses helped save over 12,300 jobs; (iv) accelerated settlement of invoices as well as VAT refunds; (v) tax payments moratorium; and (vi) suspension and installment payments of taxes and duties, for which about 747 applications have been considered, amounting to CVE 9.4 million.

- **Financial sector**. At end-November 2020, the measure involving the suspension of payments of interest, principal, or installments on banks loans to households, businesses, and municipal chambers had benefited 2,169 entities and 2,708 credit contracts and covered 19 percent of credit to the economy. The facility for long-term financing for banks, which has been accessed by four smaller banks in the system, has been important in ensuring that these banks can continue providing liquidity to the economy. The reduction of the central bank's reference rates and the required reserve ratio has helped improve the terms and conditions applicable to new credit contracts.

- **Social protection**. Measures aimed at protecting families and incomes announced by the Government have had a positive impact in terms of guaranteeing subsistence for extremely poor families and informal sector workers during the state of emergency. Social measures included the Solidarity income (RSO) for REMPE workers and informal-sector self-employed workers negatively impacted by the restrictions adopted by the Government. The RSO, a monthly benefit in the amount of CVE 10,000, corresponding to half the average wage of self-employed workers registered with the pension fund (INPS), has covered some 24,406 beneficiaries for a total of CVE 244 million. At the same time, the Emergency Social Inclusion Income (RSI/E) was announced. It's a social benefit in the amount of CVE 5,500 intended for families in a state of extreme vulnerability; and provision has been made for some 11,622 families in a state of extreme poverty for CVE 211.9 million. With the aim of providing a subsistence income for families affected by COVID-19, the Government has decided to extend the RSI/E for a further 6 months and has increased the number of recipients to over 18,000 families. Accordingly, measures have been adopted to provide immediate food assistance for families totaling CVE 80 million. Social protection has been secured for some 712 seniors attending the Day Centers through the State's hiring of 92 care givers in the amount of CVE 7.7 million; and support has been provided for displaced students in the amount of CVE 2 million.

8. The financial system has remained resilient. Available data for end-September 2020 show a stable, profitable, and liquid financial system. The regulatory capital-to-risk weighted assets stood at 18.6 percent, up from 15.6 percent in 2014, and well-above the regulatory minimum of 12 percent. Return-on-assets stood at 1 percent while return-on-equity was 12.7 percent, underscoring the profitability of the banking system. Banks' assets quality has improved in recent years, with nonperforming loans (NPLs) declining from 14.3 percent of total loans in 2014 to 10.5 percent at end-September 2020. This decline partly reflects a reduction in legacy NPLs through write-offs and legal resolution. The banking sector remains liquid and credit to the economy grew by 4.4 percent y/y at end-November 2020, supported by the COVID-19 related credit line and the temporary moratorium on loan payments. Demand deposits grew by an estimated 4.4 percent y/y at end-November 2020, with emigrant deposits remaining relatively stable during the period.

9. The external position deteriorated in 2020. Preliminary data for end-September 2020 show that the current account posted a substantial deficit (CVE 18.6 billion, equivalent to 15.2 percent of GDP), driven by a decline in tourism and transport services, and exports of goods. Migrant remittances, in contrast, grew by 0.5 percent, reflecting emigrants' solidarity with their families, despite the impact of the pandemic on the labor markets in host countries. The financial account posted a deficit of CVE 16.7 billion for the first nine months of the year, with foreign direct investment (FDI) falling by about 13 percent. At end-December 2020, gross international reserves stood at €584 million enough to cover 7.2 months of prospective imports of goods and services.

10. The budget deficit widened significantly in 2020. Preliminary data on budget execution show that tax revenues declined by 23.3 percent in 2020 due to lower collections of corporate income tax, VAT, and international trade taxes reflecting liquidity constraints facing the corporate sector, the impact of the moratorium on tax payments, and lower imports. Similarly, other revenues fell by 31.2 percent due to pandemic-induced delays in the implementation of the Government's privatization program, lower collections on sales of Government services, and non-payment of dividends from some State-Owned Enterprises (SOEs). According to estimates, expenditures declined by 3.6 percent in 2020 despite additional expenditures on health, education, and social protection. This decline points mostly to a slow execution of the public investment program, which was affected by the national lockdown and travel restrictions, resulting in an execution rate of about 49 percent during the year. Due to the pandemic, some high priority investment projects originally planned for 2020, such as the water and sanitation project for Santiago island financed by JICA, had to be postponed to 2021. The overall fiscal deficit is estimated at CVE 15 billion (8.9 percent of GDP), up from CVE 3.6 billion (1.8 percent of GDP) in 2019.

11. The execution of COVID-19 related expenditures has followed the Government's transparency and accountability practices. The Government has regularly published the execution of COVID-19 related expenditures on the official website of the Ministry of Finance (www.mf.gov.cv/web/dnocp). In addition, in line with public financial management guidelines, all expenditures related to fighting the pandemic will be audited by the tribunal of accounts at the time of the 2020 budget audit.

C. Performance Under the Policy Coordination Instrument

12. Despite the very challenging external environment, the Government took the necessary actions to ensure the implementation of the PCI. Since the beginning of the program in July 2019, the Government has met all quantitative targets except for the floor on tax revenues that understandably was missed in the first and second reviews. For the third and final review of the PCI, all end-September 2020 quantitative targets were met (Table 1).

- The primary balance target was met with a wide margin due primarily to lower execution of net acquisition of non-financial assets.
- The floor on tax revenue was met.
- The execution of net other liabilities was below target due to larger than projected repayments and slower execution of capitalization operations.
- There was no accumulation of domestic or external payment arrears.

- The nominal level of new concessional external debt of the central government was well-below the targeted ceiling, consistent with the budget outturn.
- The zero limit on new nonconcessional external debt of the central government was observed.
- The target on net international reserves was met with a wide margin as reserves stood at €631 million at end-September compared with a target of €600 million.

13. **All non-quantitative continuous targets were met throughout the entire program, including for the third review**. The Government did not impose or intensify restrictions on payments and transfers for current international transactions nor introduced multiple currency practices. Similarly, it did not conclude bilateral payment agreements inconsistent with Article VIII nor impose or intensify import restrictions for balance of payments purposes.

14. **The Government has continued to make good progress with its structural reform agenda, with most targets under the PCI met ahead of schedule, by the time of the second review** (Table 2). Under the PCI, the Government has enhanced the monitoring of the financial performance of public enterprises through the compilation of financial information on the cash flow performance and quarterly monitoring of actual performance of the six largest SOEs. All quarterly reports were produced on time except the June 2020 report, which was slightly delayed due to the lockdown related to the pandemic. Steps have also been taken to streamline tax exemptions on customs duties, excises and VAT to enhance revenue performance, and remaining work will be completed later this year: (i) on customs duties, Parliament adopted a law in December 2019 eliminating all exemptions and introducing a minimum tariff of 5 percent for all previously exempted goods; (ii) on excises, the Council of Ministers approved in December 2020, the elimination of exemptions on excises. The next step in the implementation of this reform is submission of tax rates to Parliament for approval; (iii) on VAT, the streamlining of exemptions will be carried out in the context on the ongoing review of the tax code. In the area of monetary policy, the BCV has strengthened the monetary policy transmission mechanism by narrowing the interest rate corridor, linking the policy rate to key interest rates, and enhancing monetary policy communication. The target on the installation of the software system to revamp the public credit registry was met at end-December, which will support the Government's efforts to promote access to finance. However, the completion of a functional central registry of mobile collateral, scheduled for mid-January 2021 is now planned for May.

15. **The Government's broader reform agenda, driven by the PEDS, progressed well during the program period (Box 1)**. Key measures put in place during June 2019-January 2021 aimed to improve budgetary processes, restructure and rehabilitate SOEs to support growth and eliminate fiscal risks, enhance regulatory processes and digitalization, improve the business environment, strengthen the AML/CFT framework and support financial sector development.

Box 1. Key Structural Reforms Implemented During 2019–21

Fiscal and Budgetary Reform:

- Completion of a review report on the exemptions identifying their potential impact and streamlining actions (December 2019).
- Streamlining of exemptions for import duties (June 2020).
- Creation of a Sovereign Private Investment Guarantee Fund (SPIGF). The law creating the Fund was approved by parliament in June 2019, and the entire structure of the Board of Directors has now been specified.
- Preparation of a Strategy Note on the assets and liabilities and management of the SPIGF (April 2020).
- Roll out of the tax arbitration center (February 2020).
- Introduction of the electronic invoicing system (January 2021).
- Introduction of the SAF-T (Standard Audit File for Tax Purposes) to complement the electronic billing system (December 2020).
- Completion of the second phase of the VAT Monitoring Strategy (April 2019).
- Introduction of the second phase of taxpayers' registration (March 2019).
- Submission of fiscal policy reform agenda and action plan to combat tax avoidance and evasion (December 2019).
- Approval of principles governing the new customs tariff by the Government (December 2020).
- Adoption of the plan for public acquisitions, E-procurement, and public purchasing (December 2019).
- Adoption of an integrated debt management system (December 2020).
- Introduction and launch of the PAYLOG System (December 2019).
- Approval of the law on budget principles (July 2019).
- Creation of the National Council of Public Finances (September 2019).

Reform of Digital Governance and Dematerialization

- Adoption of an action plan for digital governance (December 2019).
- Adoption of a plan to strengthen regulatory capacity (continuous since July 2019).

SOEs Reforms

- Privatization of the airline company (61 percent privatization by November 2019).
- Public operation to sell 2.1 percent of the authorized capital that the State holds in ENACOL, through the Cabo Verde Stock Exchange.
- Design and implementation of a platform for monitoring the public enterprise sector, generating larger amounts of more accurate data on enterprises in the public enterprise sector to facilitate access by portfolio managers and the various stakeholders that interact with the sector (December 2020).
- Implementation of quarterly monitoring of actual performance of six key State-Owned Enterprises (SOEs) against their approved budgets (continuous since July 2019).
- Compilation of financial information on cashflow performance of the six largest SOEs for FY2019 and FY2020 (continuous).

- Restructuring of the housing program managed by the housing company (IFH).
- Granting of the concession for inter-island maritime transportation (February 2019).
- Publication of Decree-Laws 28/2020 and 29/2020, of March 3, which established PARPÚBLICA, SGPS as the company managing the State's corporate investments and IMOPÚBLICA, S.A., as the company managing the State's immovable property, respectively.

Monetary and Foreign Exchange reforms

- Promotion of effective regulation and supervision of financial transactions with the rest of the world, to derive greater benefit from foreign exchange liberalization.
- Release of the minutes of the Monetary Policy Committee meetings at least one month after each meeting, starting at end-July 2019.
- Reduction of the overnight interest rate corridor to a maximum of 150-200 basis points (June 2019).

Financial Sector Reforms

- Approval and publication of the BCV Organic Law. (Lei nº 84/IX/2020:).
- Revamping of the public credit registry information system (December 2020).
- Creation of the National Commission on AML/CFT in January 2020 to help improve further the AML/CFT framework in line with the Financial Action Task Force (FATF) requirements. In addition, the country joined the Global Forum on Transparency and Exchange of Information for Tax Purposes. Cabo Verde also established a network of agreements covering all EU member states, amended harmful tax regimes, and implemented the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) minimum standard. In recognition of Cabo Verde's progress, the EU removed the country from its gray list helping to eliminate the risks associated with gray listing.

Improving the Business Climate and Diversifying the Economy

- Approval of agenda for promoting MSMEs and diversifying the economy (December 2019)
- Publication of the agenda for improving the business climate (continuous)
- Signing and ratification of the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters (November 2019).

D. Economic Policies and Structural Reforms

16. The Government's policy and reform agenda will be driven by priorities under the PEDS and the new long-term development strategy (*Cabo Verde Ambition 2030*) that is being finalized. In the near term, economic policies will aim at minimizing the impacts of the pandemic, protecting employment and vulnerable groups, and supporting the economic recovery. In this context, the implementation of COVID-19 relief measures will continue to be carefully monitored. Over the medium term, the second Strategy for Sustainable Development (PEDS II, 2022-26) to be prepared in 2021 based on *Cabo Verde Ambition 2030* will guide the implementation of policies and reforms building on progress made in the last five years, with the following priority areas: (i) enhancing domestic revenue mobilization to rebuild the revenue base eroded by the global pandemic and improve performance; (ii) strengthening expenditure management and improving the execution of public investment projects; (iii) advancing SOEs reforms to reduce fiscal risks and support medium-term fiscal and debt sustainability; (iv) improving the monetary policy transmission mechanism; (v) strengthening the financial system; (vi) increasing access to finance and improving the business environment to support private sector development and boost inclusive growth. In addition to these priority areas, PEDS II will aim to put a particular focus on the development of human capital; diversification of the tourism sector and improvement of its linkages with non-tourism sectors, particularly agriculture and fishery; development of the blue and digital economy; and enhanced productivity in the agriculture sector.

17. The economic outlook remains challenging and uncertain. After an unprecedented contraction in 2020, a rebound is expected in 2021, with the real GDP projected to expand by 5.8 percent. This projection is based on a gradual resumption of activity in the tourism and transport sectors, and on a recovery in the other sectors of the economy. Although subject to uncertainties, and despite downside risks discussed below, medium-term prospects seem positive. As the pandemic abates, the implementation of reforms and execution of planned large infrastructure projects should accelerate, leading real GDP growth to average about 6 percent during 2022-26. The current account deficit is projected to narrow to 10.6 percent of GDP in 2021 and to decline further to 2.6 percent of GDP by 2026, as the domestic and global economic environment improve, and tourism flows return to their pre-pandemic medium-term trajectory. This would help maintain gross international reserves around 6 months of prospective imports of goods and services over the medium term. Inflation is expected to remain low, and below 2 percent, consistent with projections for the euro area.

18. Risks to the outlook are high and mostly on the downside. The most significant risk remains the COVID-19 pandemic. A prolonged pandemic with its repercussions on the global economy, would continue to depress the tourism, transport, and other services sectors in Cabo Verde, preventing the expected economic recovery and generating fiscal and balance of payments financing challenges. Other downside risks include climate change and less decisive fiscal consolidation and structural reforms efforts when the pandemic ends. The Government will remain vigilant in relation with these risks and maintain efforts to implement policies and reforms described in this Program Statement to mitigate the impact of the crisis while supporting the economic recovery and medium-term growth prospects.

E. Fiscal Policy and Debt Sustainability

19. The 2021 budget aims to continue combating the COVID-19 crisis and to lay the foundations for stronger growth and improved living standards for the Cabo Verdean people. Budgeted revenues total CVE 58 billion (35 percent increase compared with 2020) while expenditures amount to CVE 76.1 billion (30 percent increase compared with 2020), leading to an overall budget deficit of CVE 18 billion. Net other liabilities are budgeted at CVE 1.1 billion and, therefore, total financing needs amount to CVE 16.9 billion. However, as some of the assumptions that supported the budget preparation might not materialize, the budget will be executed prudently in an environment marked by the continued impact of the global pandemic on the economy. On the expenditure side, increased prudence and identification of contingency measures will ensure that potential revenue shortfalls do not translate into domestic payment arrears that would further hurt economic activity or lead to excessive borrowing. In the same context, capital expenditures will be prioritized, with a focus on key externally financed projects.

20. The 2021 budget will be executed in line with the Government's objective to support lives and livelihoods and the economic recovery while being mindful of preserving medium-term fiscal and debt sustainability. Total revenues are projected at CVE 53.9 billion (29.7 percent of GDP) and total expenditures at CVE 68.2 billion (37.6 percent of GDP), leading to a projected reduction in the primary deficit from 6 percent of GDP in 2020 to 5.2 percent of GDP in 2021, which together with a pickup in real GDP growth would help reduce public debt from an estimated 140.9 percent of GDP in 2020 to 138.7 percent of GDP in 2021. The key aspects of the 2021 fiscal framework are presented below.

- **Tax revenues are projected at CVE 37.6 billion.** Tax collections improve compared with the 2020 level (CVE 32.2 billion) thanks to the expected economic recovery and continued implementation of tax administration reforms. The latter will focus on enhanced inspections, audits and post-customs clearance controls, intensified use of IT systems notably to improve monitoring of VAT payments, the introduction of the electronic invoicing, and the implementation of the 5 percent customs duties rate on previously exempted imports.

- **Other revenues are projected at CVE 12.3 billion.** They increase significantly, from a very low base due to a significant drop in 2020 as explained in paragraph 10 above. This projection assumes a resumption of Government's sales of good and services consistent with the projected economic recovery, the resumption of international flights, and higher collection on fees from medical and passport services.

- **Grants are projected at CVE 4 billion**. The decline compared with the 2020 level (CVE 5.2 billion) reflects the phasing out of COVID-19 budget aid.

- **Expenditures are projected at CVE 68.2 billion**. In this envelop, current expenditures amount to CVE 58.5 billion. They are downsized compared with the budget reflecting prudent revenue projections driven by the uncertain pandemic-dominated environment, as well as limitations on domestic and external financing. Capital expenditures are projected at CVE 9.7 billion, covering priority externally financed projects delayed from 2020 due to the pandemic, particularly three major projects in the areas of transportation (World Bank financed), water and sanitation for the island of Santiago (JICA), and information technology (African Development Bank). Although significantly higher than the 2020 estimates, capital outlays are scaled down compared with the 2021 budget (CVE 15 billion), to take into account the Government's commitment to bring public debt to a declining path.

- **Total financing needs are projected at CVE 13.8 billion**. They will be covered through domestic and external sources and debt service suspension extension from the G-20 Initiative (DSSI). Domestic financing from the government securities market is projected at CVE 2.8 billion (1.5 percent of GDP); external financing from Cabo Verde's development partners is projected at CVE 11 billion (6.1 percent of GDP), and the DSSI is projected at CVE 2.3 billion.

21. In view of the uncertainties in the economic environment, the Government will adopt measures to mitigate and control budgetary risks. As in the past, the 2021 budget has already identified contingent expenditures totaling CVE 2.1 billion that will be executed only if certain categories of revenues are collected. In addition, monthly monitoring of budget execution and Treasury cashflow management will be implemented to adjust expenditure commitments to financing capacity to offset any adverse deviation identified on the revenue side.

22. The medium-term fiscal framework aims to support Cabo Verde's development goals while preserving macroeconomic stability and debt sustainability. Efforts to strengthen the fiscal position will focus on enhancing revenue mobilization while strengthening expenditure and Treasury cash flow management. Revenue collection will benefit from tax policy measures and increased efficiency gains in tax administration thanks to the implementation of reforms described below. Domestic revenues are projected to increase from 27.5 percent of GDP in 2021 to 30.2 percent of GDP in 2026. Expenditures are projected to decline from 37.6 percent of GDP in 2021 to 31.3 percent of GDP in 2026 reflecting the elimination of COVID-19 related expenses and continued efforts to contain non-priority expenditures. As a result, the primary balance would reach a surplus of 2.4 percent of GDP by 2026, contributing to the reduction in public debt to 99 percent of GDP by 2026.

23. Sustained implementation of measures to broaden the tax base, combat tax evasion, and enhance efficiency in tax administration will support the achievement of our medium-term fiscal objectives. To this end, policies will focus on rebuilding the revenue base through tax policy measures and improvement in revenue administration, including through digitalization. The reforms initiated in 2020 to rationalize exemptions for VAT and excises will be completed at end-2021. In addition, the ECOWAS Common External Tariff (CET) originally planned for 2021 will be implemented in 2022. Current estimates show a positive impact on revenues because of the relatively higher CET rates. Other revenue-enhancing measures will include the full implementation of the electronic invoicing system to include all enterprises as well as the effective functioning of the Standard Audit File for tax purposes (SAF-T) system.

24. The Government will continue to contain non-priority spending and seek to strike a balance between scaling-up public investment and supporting debt sustainability. To this end, expenditure management and the quality of budget preparation and execution will be strengthened, and the monitoring and mitigation of fiscal risks will be improved. Regarding capital expenditures, measures will continue to be taken to enhance prioritization and increase execution capacity. They will be derived from the outcome of the projects portfolio review expected to be completed in 2021 and include improved monitoring of project execution to be initiated in 2021.

25. The Government will maintain prudent borrowing policies, with reliance on concessional financing. Following the significant increase in the public debt-to-GDP ratio triggered by the global pandemic, our efforts will refocus on the pre-pandemic objective of gradually reducing this ratio to below 100 percent over the medium to reduce Cabo Verde's risk of debt distress. Under the current projections, as explained above, this objective can be achieved in 2026, thanks to the combined effect of the expected return to the pre-pandemic output level in 2023, enhanced fiscal consolidation efforts, expected acceleration in privatization and restructuring of SOEs, and continued reliance on concessional financing.

26. Efforts to strengthen public debt management will continue. They will build on the integrated debt database introduced in November 2019 that covers both domestic and external debt obligations. When fully completed, this database is expected to enhance recording and validation of debt data, facilitate payment of debt service obligations, support debt monitoring and reporting, and facilitate the review of the Medium-Term Debt Strategy for 2021-2025. The next phase of developing this database is the installation of modules that will support the production of medium-term debt management strategies and the monitoring of contingent liabilities.

F. Monetary Policy

27. The BCV has maintained an accommodative monetary policy to help cushion the economic impact of the pandemic. It has put in place several policy measures to strengthen confidence of economic agents and support liquidity in the banking system as explained above (paragraph 6). The monetary policy measures resulted in a decline of lending rates and supported the growth of domestic credit. Overall, banks remain liquid and therefore, their use of the long-term liquidity facility put in place in April 2020 has been marginal. Nonetheless, the BCV has extended the facility through 2021 and expanded the list of eligible assets to include credit guarantees by the government. The BCV will continue to monitor the implementation of COVID-19 relief measures as well as economic and financial developments. To protect the peg, the BCV stands ready to tighten monetary policy if needed. It will resume reserve accumulation to strengthen external buffers when conditions permit and maintain gross international reserves equivalent to at least 5 months of prospective imports of goods and services over the medium term.

28. Progress has been made in strengthening the transmission mechanism of monetary policy. The BCV has narrowed the overnight interest rate corridor and commenced the release of minutes of the Monetary Policy Committee's meetings to help strengthen monetary policy communication. Since July 2019 and throughout the pandemic, the interest rate corridor has been kept at a maximum of 150-200 bps and the minutes were released after each meeting. The BCV is continuing its efforts to enhance liquidity management and further strengthen the monetary policy transmission mechanism. The next phase in the reform process is the strengthening of monetary policy analysis. This has become even more important under the current circumstances marked by heightened uncertainties. Therefore, the BCV will enhance its analytical and near-term forecasting tools and complete the preparation of the composite index of economic activity initiated last year and begin work on a general equilibrium framework.

29. The recapitalization of the BCV will resume after the pandemic. Under the original plan, the recapitalization was planned for 2019-21 with CVE 2.1 billion to be disbursed over three years. The first tranche of CVE 700 million was released at end-2019. However, due to financial constraints generated by the pandemic, additional allocations have been put on hold until the end of the health crisis.

G. Financial Sector

30. The BCV is closely monitoring credit, liquidity, and operational risks to safeguard the soundness of the financial system. The economic impact of the pandemic may result in higher NPLs and some capital erosion for banks. The BCV is therefore putting greater focus on identifying the early warning signs and initiating prompt corrective actions. It will continue with ongoing efforts to strengthen banks' lending standards and risk management practices through enhanced supervision. The BCV will continue to improve its instruments and tools for monitoring credit risk through off-site and on-site inspections.

31. Macroprudential policies introduced in response to the pandemic have been extended to end-September 2021. As of end-November 2020, the moratorium on loan repayments covered 19 percent of credit to the economy, with the tourism and transport sectors accounting for roughly 51 percent. The BCV has enhanced monitoring of the banking system in relation with the implementation COVID-19 relief measures. In this context, it will discuss with banks a common framework for loan resolution given the potential for an increase in NPLs after the expiration of the moratorium. The BCV will also carry out a comprehensive study of loan losses and provisions as soon as conditions permit.

32. The Government will continue to strengthen the AML/CFT framework. Building on progress made in recent years, actions will be taken to ensure that the AML/CFT framework is in line with the FATF compliance requirements and to strengthen domestic risk management capacity as well as the regulatory environment. In this context, plans are far advanced to operationalize the National Commission on AML/CFT and to implement the recommendations on combating cybercrimes made in the assessment by the EU in the Global Action on Cybercrime Extended (GLACY+).

33. Financial sector reforms will continue to focus on improving access to finance and strengthening risk-based supervision. In 2021, priority will be given to the measures below, initially planned for 2020 that suffered delays due to challenges posed by the pandemic.

- Continued implementation of the recommendations from the 2013 and 2015 asset quality review by following up on the evolution of the exposure of the main debtors, monitoring of the evolution of assets received in kind, and reinforcement of NPLs and provisions in duly identified cases.

- Revamping of the public credit registry and information system. With the completion of the procurement and the development of the relevant software system at end-2020, banks have started reporting to the credit registry, and microfinance institutions will start reporting in April. Online dissemination of the reports to consumers is expected to begin in June.

- Development of a centralized official balance sheets database for the corporate sector to support risk-based supervision. The process will be accelerated in 2021 to make up for delays generated by the pandemic.

- Ensure that the Financial Stability Committee created in 2011 becomes operational, notably through the establishment of operating regulations and the holding of quarterly meetings.

- Operationalize the National Commission for the Development of the Financial System. Following the creation of the commission and the appointment of its members, the Government will ensure its effective operation through the holding of periodic meetings, the definition of operating regulations, and the preparation of an action plan for the development of the financial system to be adopted by the Council of Ministers.

- Continue the implementation of the main recommendations of the report on access to finance for SMEs. With the passing of the law on public credit registry on July 7, 2020, priority actions include the adoption of regulations for the new law, and the provision of quality information to banks to better assess creditworthiness for SMEs.

H. Structural Reforms

34. The Government plans to reinvigorate the implementation of reforms in the SOEs sector. The momentum in the restructuring of public enterprises initiated in 2019 was stopped by the health crisis. Nonetheless, the Government remains committed to these reforms, needed to support growth prospects, mitigate fiscal risks, and support debt sustainability. In this connection, the privatization agenda has been reprogrammed with the objective of completing most of the operations listed below as conditions permit. The Government also plans to complete a report on the liabilities of privatized SOEs, outlining their implications for the government budget.

- Privatization of CV Handling.

- Granting of a concession for airports management.

- Completion of the privatization of ELECTRA.

- Sale of the remaining State's shares (39 percent) in the airline company (CVA). The strategy remains focused on the sale of these shares on the stock exchange.

- Completion of the sale of State's shares in Caixa Económica.

- Privatization and sale of shares in two companies in the pharmaceutical sector: INPHARMA and EMPROFAC (SOE).

- Licensing of port services (ENAPOR) through a concession.

35. The Government will accelerate other growth-enhancing structural reforms to support private sector-led growth. The reform agenda focuses on improving the business environment and facilitating access to finance to support private sector development. The priority so far has been on the implementation of macroeconomic and financial policy measures to provide tax relief and guarantee programs to alleviate financing constraints faced by the corporate sector resulting from the economic impact of COVID-19. As the pandemic recedes, the Government will implement policy measures to support the economic recovery and enhance medium-term growth potential, with a focus on promoting access to finance for small and medium-sized enterprises through the efficient functioning of the financial ecosystem introduced in 2019 to facilitate guarantees, venture capital, and capacity development. In the same vein, the operationalization of the Sovereign Private Investment Guarantee Fund (SPIGF) to be completed this year, is expected to support access to financing for large capital-intensive projects. The SPIGF's Board of Directors has been appointed and its capitalization, using funds from the Trust Fund at the Bank of Portugal will be completed by end-March as required by parliament.

I. Program Monitoring

36. Program targets. Progress in the implementation of policies and reforms under the PCI are monitored through quantitative targets and standard non-quantitative continuous targets presented in Table 1, as well as reform targets presented in Table 2. Program quantitative targets are defined in the attached Technical Memorandum of Understanding.

Table 1. Cabo Verde: Quantitative Targets Under the PCI, 2019–20[1]

	Cumulative flows from the beginning of the year																
	2019					2020											
	end-September			Status	end-December	end-March			Status	end-June		end-September			Status	end-December	
	Quantitative Targets (QT)	Adjusted QT	Actual		Actual	Quantitative Targets (QT)	Adjusted QT	Actual		Prog.	Actual	Quantitative Targets (QT)	Adjusted QT	Actual		Prog.	Est.
Quantitative targets																	
Primary balance, floor [2]	841	-335	2,510	Met	1,406	-2,023	-2,319	874	Met	-1,705	-2,607	-11,685	-11,724	-4,832	Met	-12,810	-10,216
Tax revenue, floor	31,362	31,362	30,652	Not met	42,013	10,471	10,471	9,919	Not met	21,961	15,888	23,114	23,114	23,761	Met	33,952	32,237
Net other liabilities, ceiling [3]	6,345	6,345	1,657	Met	6,393	1,022	1,022	106	Met	2,700	122	3,862	3,862	1,210	Met	4,569	1,832
Nonaccumulation of domestic arrears [4]	0	0	0	Met	0	0	0	0	Met	0	0	0	0	0	Met	0.0	0.0
Non-accumulation of external payment arrears [4]	0	0	0	Met	0	0	0	0	Met	0	0	0	0	0	Met	0.0	0.0
Nominal level of new concessional external debt of central government, ceiling	9,563	9,563	7,785	Met	11,277	3,822	3,822	984	Met	5,928	2,933	14,721	14,721	9,993	Met	19,717	14,526
Nominal level of new nonconcessional external debt of central government, ceiling	0	0	0	Met	0	0	0	0	Met	0	0	0	0	0	Met	0.0	0.0
Net international reserves, floor [2]	528	514	634	Met	666	572	547	669	Met	589	650	600	567	631	Met	573	584
Non-quantitative continuous targets																	
Non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions				Met					Met						Met		
Non-introduction or modification of multiple currency practices				Met					Met						Met		
Not concluding bilateral payments agreement which are inconsistent with Article VIII				Met					Met						Met		
Non-imposition or intensification of import restrictions for balance of payments reasons				Met					Met						Met		
Memorandum items:																	
Social spending	8,685		8,149		14,996	3,024		2,606		6,076	5,721	8,426		9,366		18,067	15,278
Net onlending	3,647		-288		2,093	672		-15		1,832	-139	2,889		670		4,273	1,070
Capitalization	2,698		1,944		4,425	350		121		869	261	973		547		1,445	769
Program assumptions																	
Project and budget support grants	2,401		1,225		6,238	579		283		1,284	1,389	3,265		3,227		8,566	5,224
External debt service	5,648		5,607		6,034	1,667		1,903		3,389	3,498	5,611		5,726		5,040	8,783
Sales of assets	2		82		339	0		45		0	46	46		83		451	100
Project and budget support loans	7,231		6,828		9,747	3,151		984		4,601	2,847	12,694		9,174		16,338	13,150

Sources: Cabo Verdean authorities; and IMF staff estimates and projections.
[1] Foreign currency amounts will be converted at current exchange rates.
[2] The ceiling or floor will be adjusted as specified in the TMU.
[3] Net other liabilites includes net onlending, capitalization, and other assets.
4 Continuous.

Table 2. Cabo Verde: Reform Targets for 2019–21 Under the PCI			
Actions	**Target Date**	**Objective**	**Status**
Fiscal reforms			
• Complete a review report on exemptions identifying their potential impact and streamlining actions.	End-December 2019.	Improve tax collection.	Met.
• Streamline exemptions for Import duties, VAT, and excises.	End-June 2020; December 2020 (new target date for VAT and excises, approved at the time of the second review).	Improve tax collection.	Not met (substantial progress made).
• Submit to Parliament the budget for 2020 that is in line with commitments under the PCI.	End-October 2019.	Support fiscal and debt sustainability.	Met.
• Prepare a Strategy Note on the assets and liabilities and management of the Sovereign Private Investment Guarantee Fund (SPIGF).	End-April 2020	Provide a conceptual framework for the SPIGF.	Met.
SOEs reforms			
• Implement quarterly monitoring of actual performance of 6 key SOEs against their approved budgets, starting at end-December 2019.	Continuous.	Improve fiscal reporting and reduce fiscal risk.	Met.
• Compile financial information on cash flow performance of the 6 largest SOEs for FY2019.	End-July 2019.	Improve fiscal reporting and reduce fiscal risk.	Met.
Monetary reforms			
• Release the minutes of the Monetary Policy Committee meetings at least one month after each meeting, starting at end-July 2019.	Continuous.	Improve the communication of monetary policy.	Met.
• Reduce the excessively wide overnight interest rate corridor to a maximum of 150-200 basis points.	End-December 2019; implemented in June 2019.	Improve monetary policy transmission mechanism.	Met.
Financial sector reforms			
• Create a functional central registry of mobile collateral.	Mid-January 2021 (new target date, set at the time of the second review).	Improve access to finance.	Not met.
• Revamp the public credit registry information system by completing the procurement of the relevant software system.	End-December 2020.	Improve access to finance.	Met.

Attachment II. Technical Memorandum of Understanding

This memorandum sets out the understandings between the Cabo Verdean authorities and the IMF staff regarding the definitions of variables included in the quantitative targets and continuous targets set out in the Program Statements (PS), the key assumptions, and the reporting requirement of the Government and the Central Bank of Cabo Verde for the Policy Coordination Instrument (PCI).

QUANTITATIVE AND CONTINUOUS TARGETS

A. Floor on the Primary Balance of the Central Government

1. **The central government includes all units of budgetary central government**. It does not include local government (municipalities), extra-budgetary units, social security funds and public corporations.

2. **The central government primary balance is defined as total tax and non-tax revenues and grants minus primary expenditure** and covers non-interest government activities as specified in the budget. The central government primary balance will be measured as cumulative flow over the calendar year.

- Revenues are recorded when the funds are transferred to a government revenue account. Tax revenues are recorded as net of tax refunds.

- Central government primary expenditure is recorded on a cash basis covers recurrent expenditures and capital expenditure.

3. **The floor of primary balance will be adjusted upward adjusted upward** (downward) by the surplus (shortfall) in disbursements of grants relative to the baseline projection.

4. **For program monitoring, data will be provided to the Fund by the Directorate National of Planning (DNP) of Ministry of Finance** monthly with a lag of no more than six weeks from the end of-period.

B. Cumulative Floor on Central Government Tax Revenue

5. **Tax revenues refer to revenues from tax collection. It excludes all revenues from asset sales,** grants, and non-tax revenues. To gauge the impact of tax policy reforms and improvements in tax administration, the program will have a floor on central government tax revenues. The revenue target is calculated as the cumulative flow from the beginning of the calendar year.

6. **For program monitoring, data will be provided to the Fund by the DNP** monthly with a lag of no more than six weeks from the end of-period.

C. Ceiling on Net Other Liabilities

7. **Net Other Liabilities is defined as the sum of central government deposits, loans to state-owned enterprises (SOEs) and municipalities (onlending), capitalization, and other assets.** The ceiling of central government net other liabilities will be measured as cumulative over the calendar year. Deposits are all claims, represented by evidence of deposit, on the deposit-taking corporations (including the central bank). Onlending is defined as domestic and external loans contracted by the central government from another institution and then onlending the proceeds to SOEs. Net onlending is defined as disbursement of these loans minus repayment of previous loans by SOEs to the central government. Capitalization is defined as capital injection or equity participation made by the central government into corporations when some financial support is provided to capitalize or recapitalize these corporations. Other assets comprise of other accounts receivable/payable such as of trade credit and advances and miscellaneous other items due to be paid or received.

8. **For program monitoring, data will be provided to the Fund by the DNP of Ministry of Finance** monthly with a lag of no more than six weeks from the end of-period.

D. Non-Accumulation of Domestic Payments Arrears

9. **As part of the program, the government will not accumulate any new domestic payments arrears.** This will be monitored through the monthly execution of the cash-flow plan and the corresponding release of budget appropriations. For programming purposes, a domestic payment obligation to suppliers is deemed to be in arrears if it has not been paid within the normal grace period of 60 days (30 days for government salaries and debt service) or such other period either specified by the budget law or contractually agreed with the supplier after the verified delivery of the concerned goods and services, unless the amount or the timing of the payment is subject to good faith negotiations between the government and the creditor.

10. **Reporting requirements.** The DNP of Ministry of Finance will submit on a quarterly basis a detailed table of the stock of domestic payments arrears, including the accumulation, payment, rescheduling and write-off of domestic payments arrears during the quarter. The data are to be provided within six weeks after the end of the quarter.

E. Ceiling on Nominal Level of New Concessional External Debt of the Central Government

11. **External public debt (long-term, medium-term, and short-term) is defined as debt to nonresidents contracted or guaranteed by the central government.** The external public debt comprises the external debt of the central government and the external debt of the official sector entities and SOEs guaranteed by the central government.

12. The definition of debt is set out in Point 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014.

(a) The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

- Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

- Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

13. Under the program, ceilings on medium and long-term, as well as on short-term, concessional external debt constitute quantitative targets. The coverage of the ceiling on concessional external debt includes budget loans, projects and program loans, and on-lending loans to SOEs in line with the fiscal program. For program purpose, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[1] For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). Debt rescheduling, and debt reorganization are excluded from the limits on concessional external debt. New concessional external debt excludes normal short-term (less than one year) import-related financing.

14. Reporting requirements. The government of Cabo Verde will consult with Fund staff before assuming any liabilities in circumstances where they are uncertain whether the instrument in question falls under the quantitative target. Details of all new external debt (including government guarantees), indicating terms of debt and creditors, will be provided on a quarterly basis within six weeks of the end of each quarter.

F. Non-Concessional External Debt Contracted or Guaranteed by the Central Government

15. Under the program, ceilings on medium- and long-term, as well as on short-term, non-concessional external debt constitute quantitative target. The zero ceiling on non-concessional external debt is on a continuous basis. For program purpose, a debt is non-concessional if it includes a grant element of less than 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[1] For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). Debt rescheduling, and debt reorganization are excluded from the limits on non-concessional external debt. The quantitative target on new non-concessional external debt contracted or guaranteed by the central government, excluding borrowing from the Fund. Non-concessional external debt excludes normal short-term (less than one year) import-related financing. The Portuguese government's precautionary credit line (the "Portuguese credit line") in support of the exchange rate peg is also excluded from the definition of non-concessional external debt.

16. Reporting requirements. The government of Cabo Verde will consult with Fund staff before assuming any liabilities in circumstances where they are uncertain whether the instrument in question falls under the quantitative targets. Details of all new external debt (including government guarantees), indicating terms of debt and creditors, will be provided on a quarterly basis within six weeks of the end of each quarter.

[1] The calculation of concessionality take into account all aspects of the debt agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

G. Net International Reserves of the Central Bank

17. The floor on the stock of net international reserves (NIR) of the BCV constitutes a quantitative target under the program. The NIR of the BCV are defined as gross international reserves of the BCV net of its short-term external reserve liabilities, calculated at the current exchange rates. Gross reserves of the BCV are those that are readily available (i.e., liquid and marketable and free of any pledges or encumbrances), controlled by the BCV and held for the purposes of meeting balance of payments needs and intervening in foreign exchange markets. They include gold, holdings of SDRs, the reserve position at the IMF, holdings of foreign exchange and traveler's checks, demand and short-term deposits at foreign banks abroad, fixed-term deposits abroad that can be liquidated without penalty, and any holdings of investment-grade securities. Short term external liabilities of the BCV comprise liabilities to nonresidents contracted by the BCV with an original maturity of less than a year, any net off-balance-sheet position of the BCV (futures, forwards, swaps, or options) with either residents and nonresidents, any arrears on principal and interest to external creditors and suppliers, and purchases from the IMF. The program floors for the NIR will be adjusted downward by:

- The cumulative upward deviations in external debt service relative to program assumptions.
- The cumulative downward deviations in external financial assistance, and project and budget loans relative to program assumptions. For purposes of calculating the adjusters, these flows will be valued at current exchange rates.

18. Reporting requirements. A table on the NIR prepared by the BCV will be transmitted on monthly basis, with a maximum delay of four weeks.

H. Non-accumulation of External Payments Arrears

19. As part of the program, the government will not accumulate any new external payments arrears. This will be a continuous target under the program. This will be monitored through the monthly execution of the cash-flow plan and the corresponding release of budget appropriations.

20. External payments arrears for program monitoring purposes are defined as the amount of external debt service due and not paid within the contractually agreed period, subject to any applicable grace period, including contractual and late interests. Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is sought are excluded from this definition.

21. Reporting requirements. Data on (i) debt-service payments; and (ii) external arrears accumulation and payments will be transmitted on a quarterly basis by the DNP of Ministry of Finance, within six weeks of the end of each quarter. In addition, the government will inform the Fund staff immediately of any accumulation of external arrears.

I. Memorandum Item: Floor on Central Government Social Spending

22. The indicative floor on social spending of the central government will apply only to expenditures incurred by the central government on the following plans and programs that are intended to have a positive impact on education, health, and social protection, excluding the wages and salaries component.

23. For program monitoring, the data will be measured as cumulative over the fiscal year and it will be reported by the DNP on a quarterly basis, with a lag of no more than six weeks from the end-of-period.

J. Other Data Requirements

24. Data on exports and imports, including volume and prices and compiled by the Director of Customs and the BCV, will be transmitted on a quarterly basis within five weeks after the end of each quarter. A preliminary quarterly balance of payments, compiled by the BCV, will be forwarded within six weeks after the end of each quarter.

25. The Statement of Other Economic Flows as defined in the IMF Manual GFSM2001 or GFSM2014 relative to holding gains/losses of the previous year with ASA, Electra, EMPROFAC, ENAPOR, and IFH will be transmitted on an annual basis within three months after the end of the following year (15 months after the closing date).

26. The consolidated balance sheet of ASA, Electra, EMPROFAC, ENAPOR, and IFH relative to the previous year will be transmitted on an annual basis within three months after the end of the following year (15 months after the closing date).