



CABO VERDE

July 2024

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATIONS OF PERFORMANCE CRITERIA, AND FIRST REVIEW OF THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY AND REQUEST OF REPHASING OF AVAILABILITY DATES—PRESS RELEASE; AND STAFF REPORT

In the context of the Fourth Review Under the Extended Credit Facility Arrangement, Request for Modification of Performance Criteria, and First Review of the Arrangement Under the Resilience and Sustainability Facility and Request of Rephasing of Availability Dates, the following documents have been released and are included in this package:

- A **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 May 10, 2024, with the officials of Cabo Verde on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 7, 2024.

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

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IMF Executive Board Completes Fourth Review of the Arrangement Under the Extended Credit Facility and First Review of the Arrangement Under the Resilience and Sustainability Facility for Cabo Verde

FOR IMMEDIATE RELEASE

- *The IMF Executive Board completed the fourth review of the 36-month arrangement under the Extended Credit Facility with Cabo Verde, providing the country with access to SDR 4.5 million (about US\$5.94 million) and the first review of the 18-month arrangement under the Resilience and Sustainability Facility, providing the country with access to SDR 5.264 million (about US\$6.94 million).*
- *Macroeconomic performance in 2023 was strong, with real GDP growth of 5.1 percent, a strong primary fiscal surplus, low inflation, and a prudent level of reserves to protect the peg. The public debt-to-GDP ratio continues on a downward path, and the financial sector remains resilient. The near-term outlook is favorable despite some downside risks.*
- *Reforms focus on climate-resilience, preserving debt sustainability, advancing strong reforms in the energy-water nexus and managing the energy transition, while targeting social spending to protect the most vulnerable from the costs of the transition. SOE reforms are key to reducing fiscal risks, and improving inter-island connectivity is critical for competitiveness.*

Washington, DC—June 25, 2024: The Executive Board of the International Monetary Fund (IMF) completed the fourth review of Cabo Verde's performance under the 36-month Extended Credit Facility (ECF) arrangement that was approved on June 15, 2022. The completion of the review allows the authorities to draw the equivalent of SDR 4.5 million (19 percent of quota or about US\$5.94 million), bringing total disbursement to SDR 36.02 million (152 percent of quota or about US\$ 48.17 million). The Executive Board also completed the first review under the 18-month Resilience and Sustainability Facility (RSF) arrangement that was approved on December 11, 2023. The completion of the review allows the authorities to draw the equivalent of SDR 5.264 million (22.22 percent of quota or about US\$6.94 million). The Executive Board's decision was taken on a lapse-of-time basis¹.

In completing the fourth review under the ECF arrangement, the Executive Board approved the authorities' request for modification of the end-June and end-December 2024 performance criteria. The Executive Board approved the authorities' request to rephrase the availability dates under the RSF arrangement.

¹ The Executive Board takes decisions under its lapse-of-time procedure when a proposal can be considered without convening formal discussions.

Cabo Verde continues to recover well from recent shocks. The authorities have successfully maintained macroeconomic and financial stability and remain committed to the program objectives. Macroeconomic performance was strong in 2023, with real GDP growth of 5.1 percent, low inflation, and a prudent level of international reserves to protect the peg. The public debt-to-GDP ratio continues on a downward path, reflecting high growth and a record 2023 primary fiscal surplus.

Performance under the ECF arrangement was strong. All quantitative performance criteria (QPCs) for end-December 2023 were met, as well as the non-quantitative continuous PCs. The indicative targets (ITs) for end-September 2023 were met, while the indicative target on social spending for end-December 2023 was missed because of a weaker-than-expected spending growth in health and education programs and delays in external grants. The Structural Benchmarks (SB) for end-December 2023 were met, and the Reform Measures (RMs) for the first review under the RSF arrangement were completed on time.

Cabo Verde's near-term economic outlook remains favorable but has moderated from recent highs. Real GDP growth is projected at 4.7 percent in 2024 as export growth (especially services) normalizes following the return to the pre-pandemic levels of visitor arrivals. The economy is projected to converge to potential growth of 4.5 percent by 2028. Inflation is forecast at 2 percent in 2024 and over the medium-term, broadly in line with Euro area inflation.

The authorities are improving the monetary and financial policy frameworks. The current monetary tightening is appropriate for narrowing the differential with the ECB policy rate—an important measure to protect the peg. Data for end-December 2023 suggests that the financial system is liquid, profitable, and well capitalized.

Reforms to foster productivity and diversification underpin the authorities' growth and climate resilience strategy. The RSF arrangement supports strong reforms in the energy-water nexus with the aim of facilitating private sector development, building the appropriate infrastructure, reducing costs, and managing the energy transition. Targeted social policies and spending are geared towards poverty reduction and compensating the most vulnerable for the costs of transition. SOE reforms are critical to improve financial performance and reduce fiscal risks. Finally, improving the inter-island connectivity is crucial for competitiveness.



CABO VERDE

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATIONS OF PERFORMANCE CRITERIA, AND FIRST REVIEW OF THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY AND REQUEST OF REPHASING OF AVAILABILITY DATES

June 7, 2024

EXECUTIVE SUMMARY

Context. Cabo Verde continues to recover well from recent shocks. The authorities have maintained macro stability and remain committed to the ECF and RSF objectives. Macroeconomic performance was strong in 2023 with real GDP growth at 5.1 percent, low inflation, and a prudent level of reserves to protect the peg. The public debt-to-GDP ratio continues on a downward path, reflecting growth and a record 2023 primary surplus. The country is politically stable.

Outlook and Risks. Cabo Verde's near-term economic outlook remains favorable but has moderated from recent highs. Real GDP growth is projected at 4.7 percent in 2024 as exports growth (especially services) normalizes following the return to the pre-pandemic levels of visitor arrivals. The economy is projected to converge to potential growth of 4.5 percent by 2028. Inflation would return to 2 percent in 2024 and stay at that level over the medium-term, broadly in line with Euro area inflation. The outlook is subject to external downside risks from geopolitical and climate-related issues. Also, the high risk of overall debt distress is a concern, notwithstanding the continued decline in the public debt-to-GDP ratio, as is the financial performance of some large state-owned enterprises (SOEs). Mitigating factors include the authorities' strong track record under the current Fund-supported program, which shows strong program ownership.

Program Issues. ECF: All quantitative performance criteria (QPCs) for end-December 2023 were met, as well as the non-quantitative continuous PCs. The indicative targets (IT) for end-September 2023 were met, while the IT on social spending for December 2023 was missed. The structural benchmarks (SBs) for end-December 2023 were met. A new SB for end-Dec 2024 on the adoption of a budget for 2025 in line with program parameters is proposed. The authorities request modifications of the end-September 2024 IT and end-December 2024 QPC on reserves. They also request changes to the definition of the QPC on net other liabilities, to better target SOE support, and attendant changes to this QPC for June, September and December of 2024. Reform measures (RMs) for the first review under the RSF arrangement (RM1 and RM3) were implemented. Other RMs are in the process of implementation. The authorities request rephasing of availability dates under the RSF to ensure sufficient time for the assessment of the RMs in advance of the reviews.

Approved By
Costas Christou
(AFR) and **Peter**
Dohlman (SPR)

The discussions in Praia took place during May 2-10, 2024. The in-person team consisted of Justin Tyson (head), Jose Sulemane, Nombulelo Gumata, Daniel Cunha, and Tomas Picca (all AFR), and Rodrigo Garcia-Verdu (Res. Rep.). Mr. Afonso Bevilaqua and Mr. Pedro Miranda (OEDBR) also participated in the mission. The mission met with Prime Minister Ulisses Correia e Silva, Vice Prime Minister and Minister of Finance and Business Development Olavo Correia, Central Bank Governor Oscar Santos, members of the National Assembly, other government and central bank officials, representatives of the private sector, and development partners. Lester Magno (AFR) assisted in the preparation of this report.

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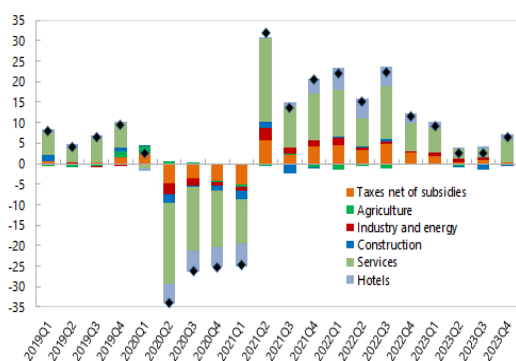
CONTEXT

1. **Cabo Verde continues to recover well from recent shocks.** Despite the various headwinds, the authorities have successfully maintained macro stability and remain committed to the program objectives. Given Cabo Verde's vulnerabilities, developments in global commodity prices, supply chain disruptions, and global uncertainties, with their potential macro-financial stability implications, could challenge near-term Cabo Verdean macroeconomic management.
2. **Economic policies and reforms are anchored under the 36-month ECF and 18-month RSF arrangements.** The ECF-supported program approved on June 15, 2022 (SDR 45.03 million, 190 percent of quota) aims to: strengthen public finances and put debt on a downward path; reduce fiscal risks from public enterprises and improve their financial management; modernize the monetary policy framework and improve resilience of the financial system; and raise the growth potential. The 18-month RSF, approved on December 11, 2023 (SDR 23.7 million, 100 percent of quota), supports government efforts to implement macro-critical climate reforms and catalyze private finance for climate adaptation and transition.

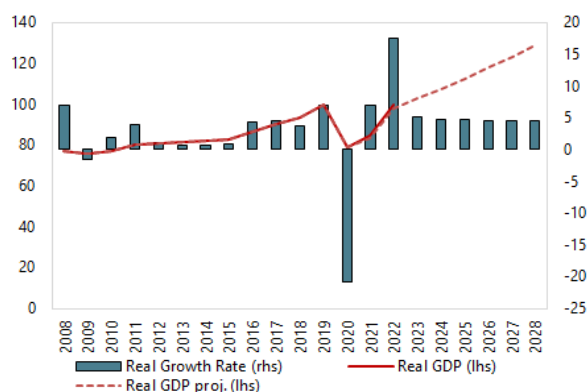
RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

3. **The Cabo Verdean authorities continued their strong macroeconomic policy implementation over 2023.**
 - **Real GDP growth is estimated at 5.1 percent** (Text Figure 1b), reflecting a strong performance in the tourism sector (Text Figure 2a). The services sector was the highest contributor to growth, while investment remains below pre-pandemic levels. Annual inflation decelerated faster than anticipated at the time of the third review to 1.3 percent at end-2023, down from 7.6 percent at end-2022, mostly driven by lower transport and communications prices (Figure 1). Inflation decelerated further in March 2024 to 0.3 percent year-on-year (y/y).
 - **The fiscal position tightened significantly in 2023 driven by under execution of investment and higher revenues.** Economic activity and policy measures supported an increase in tax revenues of 12.6 percent. Overall revenues expanded by 23 percent, due to collection of the one-off airport concession fee of CVE 3,859 million (1.5 percent of GDP) even after considering a shortfall in grants relative to the program projections of CVE 1,337 million explained by change in the disbursement schedule of new bilateral agreements. Primary expenditure grew by only 4 percent. The underperformance of capital spending by 1.5 percent of GDP relative to the program's projection, and slower growth in the wage bill and acquisition of goods and services, helped contain the overall primary expenditure growth rate. As a result, the primary balance registered a 20-year high surplus of 2 percent of GDP in 2023 (Text Figure 2.b) with an only minor impact from cyclical factors (Annex I).

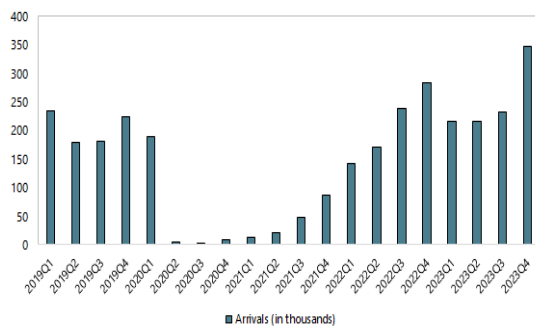
Text Figure 1a. Cabo Verde: Contributions to Growth
(Quarterly, year-on-year percent change)



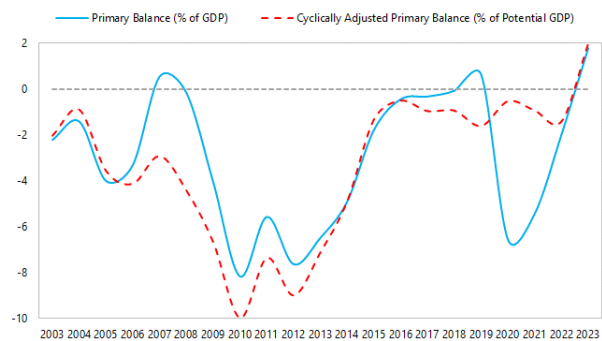
Text Figure 1b. Cabo Verde: Real Output and Growth Rates
(2019 Base = 100)



Text Figure 2a. Cabo Verde: Tourism Developments

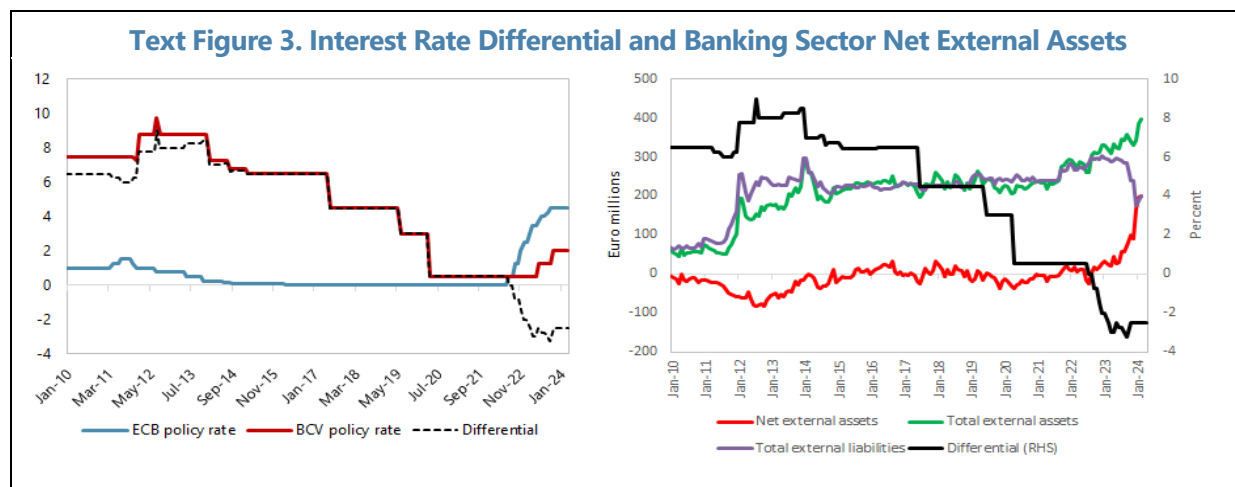


Text Figure 2b. Cabo Verde: Primary Balance and Cyclically Adjusted Primary Balance



- The external balance also improved in 2023.** The current account deficit is estimated to have narrowed reflecting stronger-than-expected recovery in tourism receipts and a slowdown in imports growth. Gross international reserves grew to around €686 million at end-December 2023, above the GIR target but below projections at the time of the 3rd Review. Although the reserve cover of 5.6 months of imports is adequate to protect the peg, reserves were lower than expected due to bank deposit outflows (to benefit from the interest rate differential with the ECB), reduced external financing for the stronger-than-expected 2023 fiscal outturn, and a slowdown in remittances.
- Monetary policy remains focused on safeguarding the peg.** The Monetary Policy Committee (MPC) raised the policy rate twice in 2023, and once more at end-April 2024 to 1.5 percent, to narrow the interest rate differential with the ECB and protect reserves (Text Figure 3). Banks have benefitted from the differential by acquiring more external assets while decreasing external liabilities. On a net basis, banks' external assets increased from €16.6 million in September 2022 to €198.7 million in February 2024. The real rate turned positive during the early months of

2024 as inflation decelerated faster than anticipated.¹ At end-2023, M2 grew at 6.3 percent (y/y), total deposits by 6.5 percent, and credit to the economy by 5.4 percent.



- **The financial sector appears stable, adequately capitalized, profitable, and liquid** (Table 5). At end-December 2023, regulatory capital to risk-weighted assets (CAR) was 23.7 percent, a slight increase relative to end-December 2022 (22.2 percent) and well above the regulatory minimum of 12 percent. The rates of return on equity and on assets stood at 18.2 and 1.8 percent, respectively, an increase compared to end-December 2022 (16.0 and 1.5 percent, respectively). The relatively low return on assets is mainly a reflection of the legacy non-performing loans (NPLs) portfolio related to the 2008 global financial crisis. NPLs decreased from 7.8 percent at end-2022 to 7.3 percent of total loans at end-2023.

4. Cabo Verde's near-term economic outlook remains favorable but has moderated from recent highs. Real GDP growth is projected at 4.7 percent in 2024 as exports growth (especially services) normalizes following the return to the pre-pandemic levels of visitor arrivals (see Box 1). The economy is projected to converge to potential growth of 4.5 percent by 2028. Inflation would return to 2 percent in 2024 and stay at that level over the medium-term, broadly in line with Euro area inflation. The current account deficit is expected to widen to about 5.2 percent of GDP in 2024 as capital-related imports grow faster than exports of goods and services, tourism, and remittances. In the medium term, the current account is largely driven by higher capital expenditures associated with the climate-related reform measures. The External Sector Assessment (Annex III) suggests that Cabo Verde's external position in 2023 was substantially stronger than the level implied by medium-term fundamentals and desirable policies, which points to an undervaluation of the exchange rate. Fragilities arising from the economy's small size, lack of export diversification, and vulnerability to exogenous shocks call for a higher level of reserves.

¹ The REER model of the ESA (Appendix III) suggests an undervaluation of the REER is mainly driven by the negative real interest rate.

5. The outlook is subject to downside risks as Cabo Verde is susceptible to external (geopolitical and climate) and internal shocks. An abrupt global slowdown and recession would have a negative impact on tourism due to weakened demand in major tourism markets. Fiscal risks could also stem from the failure to advance SOE reforms. The country's high risk of overall debt distress is a source of vulnerability and thus concessional financing to limit debt servicing cost is important. Financial stability risks may arise from large sovereign exposures, high NPLs for some banks, and high credit and deposits concentration for most banks. The effects of climate change—droughts, sea level rise, and natural disasters—will weigh on the long-term outlook via possible damage to coastal infrastructure and tourism (Annex II).

POLICY DISCUSSIONS

A. Strengthen Public Finances to Preserve Debt Sustainability

6. Fiscal policy is anchored by the primary balance path consistent with a steady reduction in the public debt-to-GDP ratio. The 2024 budget is aligned with the program (SB, December 2023). The primary balance is projected at -0.6 percent of GDP in 2024, an improvement on the programmed deficit of -1 percent of GDP, but below the surprise 2023 outturn.

- **Revenue.** Tax revenue is aligned with the third review projections in nominal terms. Scaled by GDP, the slight decrease in tax revenue relative to the third review in 2023 (0.1 percent of GDP) is attributed to an upward revision of nominal GDP (-0.5 percent of GDP) that was largely offset by higher-than-expected tax arrears collection (0.1 percent of GDP) and tax compliance measures (0.3 percent of GDP) linked to the compliance risk management system (SB, December 2023). For 2024, the tax-to-GDP ratio is projected to increase by 0.4 percentage points of GDP, in line with the third review projections after adjusting for the revision in recurrent collection of arrears² (Text Table 3). The recurrent collection of VAT, PIT, and CIT arrears is estimated to contribute 0.7 percent of GDP (Annex I). The MOF, with support from FAD and the World Bank, is working to create an independent Revenue Authority to improve tax collection and compliance. Concurrently, the implementation of the ECOWAS tariff is expected to help reduce the stock of tax expenditures by at least 0.3 percent of GDP. The harmonization of import duties across member states would entail both higher and lower rates for Cabo Verde with a net-positive revenue effect, while respecting the upper bound limits set by the WTO.
- **Spending.** The 2024 primary spending-to-GDP ratio, adjusted for the GDP rebasing,³ is projected at 0.5 percentage points below the third review projections reflecting execution rates below 100 percent for some current spending and investment. The increase in spending-to-GDP relative to 2023 is explained largely by one-off costs to assist with local elections, desired improvements in capital budget execution, and enhancements of social programs. The expansion of well-targeted

² The recurrent tax arrears collection was refined downwards from 1.1 to 0.7 percent of GDP, in collaboration with the authorities and FAD, to isolate the impact of one-off measures on the potential tax base.

³ Relative to the third review, 2024 nominal GDP increased by 1.4 percent mainly due to the rebasing.

cash transfers to poor households of around 0.2 percent of GDP in 2024 (five times larger than 2023 levels) is an important step to end extreme poverty by 2026, in line with authorities' goal.⁴ The immediate impact on economic activity derived from the investment fiscal impulse is negligible due to the high import content (90 percent), but it is important to enhance long-term growth. The authorities emphasized their commitment to ensure that the 2025 budget is in line with the agreed program parameters, implying a zero primary balance for 2025 (SB, December 2024). In this regard, they noted the unwinding of the one-off costs estimated around 1.2 percent of GDP for local elections and sectoral expenditures linked to grants. In line with the program, the support to SOEs from capitalization and on lending expenditures is expected to end from 2025 and 2027, respectively, to further incentivize SOEs to rely on their operational business rather than on the budget (Text Table 5).

- **Financing.** Overall financing needs are projected to be higher than in 2023, with a shift in composition towards external financing. Net external financing of 3.2 percent of GDP is projected for 2024, which is higher than the outturn for 2023 due the increase of capital expenditures that are linked to project loans, the postponement of third ECF review disbursement from 2023 to 2024, and the kicking in of RSF disbursements. Net domestic financing is projected to be 0.3 percentage points of GDP lower in relation to 2023 levels.

Text Table 1. Cabo Verde: Revised 2023-24 Fiscal Framework¹

	2023						2024					
	Budget		3rd Review-SR		Est. Outturn		Budget		3rd Review-SR		Proj.	
	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP	Millions of CVE	Percent of GDP
Revenue	64,237	27.8	65,561.8	25.5	64,824	24.6	77,050	26.9	75,720	27.6	75,727	26.9
Taxes	44,349	19.2	48,537.1	18.9	49,699	18.8	55,281	19.3	53,974	19.6	53,974	19.2
Grants	5,225	2.3	4,797.6	1.9	3,461	1.3	6,410	2.2	6,409	2.3	6,409	2.3
Other revenue	14,663	6.3	12,227.1	4.8	11,664	4.4	15,337	5.4	12,735	4.6	15,344	5.4
Expenditure	77,220	33.4	74,388.0	29.0	65,532	24.8	85,227	29.8	85,001	30.9	83,764	29.7
Expense	66,022	28.6	66,055.3	25.7	61,098	23.2	74,417	26.0	74,231	27.0	73,882	26.2
Net acquisition of nonfinancial assets	11,198	4.8	8,332.7	3.2	4,434	1.7	10,810	3.8	10,770	3.9	9,882	3.5
Purchase of assets	11,945	5.2	9,079.7	3.5	4,573	1.7	11,532	4.0	11,475	4.2	10,587	3.8
Sale of assets	-747	-0.3	-747.0	-0.3	-139	-0.1	-722	-0.3	-705	-0.3	-705	-0.3
Primary balance	-7,106	-3.1	-2,948.2	-1.1	5,159	2.0	-1,938	-0.7	-3,064	-1.1	-1,819	-0.6
Overall balance	-12,983	-5.6	-8,826.2	-3.4	-708	-0.3	-8,177	-2.9	-9,281	-3.4	-8,036	-2.9
Net other liabilities	1,936	0.8	-1,368.2	-0.5	-167	-0.1	657	0.2	-558	-0.2	-558	-0.2
o/w Onlending to SOEs for investment purp	-1,851	-0.8	-1,851.1	-0.7	-465	-0.2	-194	-0.1	-441	-0.2	-441	-0.2
o/w Other onlending (net)	194	0.1	198.0	0.1	284	0.1	-75	0.0	172	0.1	172	0.1
o/w Capitalization	-2,200	-1.0	-2,200	-0.9	-2,200	-0.8	-2,600	-0.9	-2,600	-0.9	-2,600	-0.9
Financing needs	11,047	4.8	10,194	4.0	875	0.3	7,520	2.6	9,839	3.6	8,594	3.1
Financing	11,047	4.8	9,828.3	3.8	875	0.3	7,520	2.6	9,839	3.6	8,594	3.1
Domestic (net)	6,631	2.9	3,771.7	1.5	472	0.2	3,835	1.3	-636	-0.2	-378	-0.1
External (net)	4,416	1.9	6,056.6	2.4	403	0.2	3,685	1.3	10,475	3.8	8,972	3.2
Public debt (percent of GDP)	119.9	...	113.8	...		116.2		...	110.0
Nominal GDP	231,002		256,929		263,814		286,355		274,688		281,711	

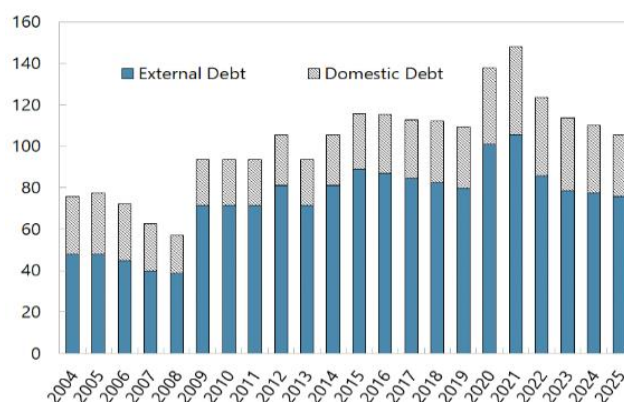
Sources: Cabo Verdean authorities and IMF staff projections.

¹ Includes budgetary central government (BCG) and

⁴ According to the National Strategy for the Eradication of Extreme Poverty 2022-2026, the social registry covers all targeted vulnerable households (12,184). The additional spending, financed by earmarked (tourism tax and customs revenue for small parcels) and non-earmarked revenues about 0.15 percent of GDP, would only increase the magnitude of per capita transfers.

7. The public debt-to-GDP ratio continues to decline, consistent with a level of around 70 percent in ten years' time. Debt decreased from 123.7 percent of GDP in 2022 to 113.8 percent at the end of 2023, mainly reflecting the stronger growth and the record 2023 primary surplus. Even with higher public investment in 2024 the public debt-to-GDP ratio is projected to improve to 110 percent, around its pre-pandemic level. The latest joint World Bank/IMF Debt Sustainability Analysis (SR No 24/9) shows that Cabo Verde's risk of external debt distress remains moderate, but the overall risk of debt distress remains high. The analysis indicates that public debt is sustainable due to manageable debt service from the favorable debt structure. The authorities believe that a target of around 70 percent of GDP by 2034 (based on current coverage) could be an appropriate guide for fiscal policy beyond the ECF horizon and will discuss scenarios with staff over the next year.

Text Figure 4. Cabo Verde: Profile of Public Debt, 2004–25



Source: Cabo Verdean authorities; and IMF staff estimates.

Note: External debt includes publicly-guaranteed SOE debt from 2015.

Text Table 2. Cabo Verde: External Borrowing Program, 2024–25

PPG external debt contracted or guaranteed	2024		2025	
	Volume of new debt, USD million 1/	Present value of new debt, USD million 1/	Volume of new debt, USD million 1/	Present value of new debt, USD million 1/
Sources of debt financing	208.7	83.2	191.4	77.0
Concessional debt, of which 2/	210.1	83.2	194.1	77.0
Multilateral debt	140.9	42.4	129.8	39.1
Bilateral debt	69.1	40.7	64.3	37.9
Non-concessional debt, of which	0.0	0.0	0.0	0.0
Semi-concessional debt 3/				
Commercial terms 4/				
Uses of debt financing	208.7	83.2	191.4	77.0
Infrastructure	98.5	41.5	98.5	41.5
Budget financing	110.2	41.7	92.9	35.5

Sources: Cabo Verdean Authorities; IMF Staff calculations

1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate. The 2024 QPC on the present value of new debt is set according to the latest DSA (SR No 24/9).

2/ Debt with a grant element that exceeds a minimum threshold. This minimum is typically 35 percent, but could be such established at a higher level.

Some of the loans are packaged with grants, that the overall financing package meets the 35 percent concessionality threshold

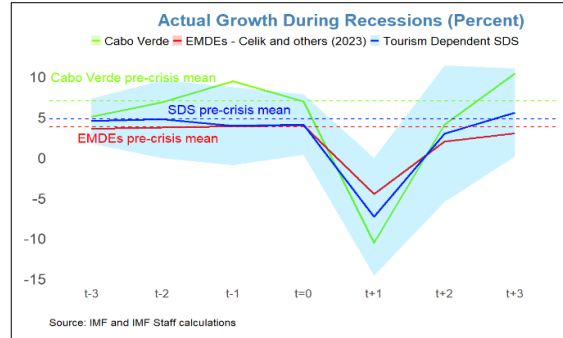
3/ Debt with a positive grant element which does not meet the minimum grant element.

4/ Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.

Box 1. Recoveries from Recessions in Tourism-dependent Small Developing States (SDS)

Tourism-dependent SDS tend to grow faster after recessions than Emerging and Developing Economies (EMDEs) peers, and Cabo Verde’s recovery has been stronger than the average for tourism-dependent SDS.

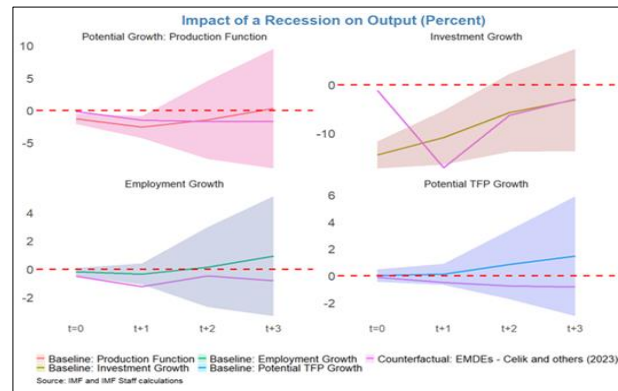
We identify recessions, following Celik and others (2023),¹ as the period starting from a peak in output preceding a business cycle through to the trough, with a trough defined as a year in which output growth is both negative and at least one standard deviation below its long-term mean. The sample analyzed includes 44 recessions in 19 tourism-dependent SDS during 1996-2023. The history of recessions reveals that post-crisis growth rates in Cabo Verde have risen above pre-crisis levels. The level of output in Cabo Verde has recovered to the post-recession level faster than other SDS and EMDEs. While Cabo Verde experienced a sharper drop in growth rates during the crisis, the differential in growth rates after the recession was substantial enough to more than offset the deeper impact initially experienced.



The impact of recessions on growth is milder in tourism-dependent SDS than in EMDEs. We apply the Local Projection Method (LPM) to estimate the impact of recessions on growth following the work of Celik and others (2023). The model estimates the impact of recessions on growth over a horizon h while controlling for other determinants of growth using the following specification:

$$y_{i,t+h} - y_{i,t-1} = \alpha_h + \beta_h shock_{i,t} + \gamma_h \Delta y_{i,t-1} + fixed\ effects_i + \varepsilon_{i,t} \quad (1)$$

where $y_{i,t-1}$ is the natural logarithm of a metric of interest in levels (potential output, investment, employment, and potential TFP) before the recession. The variable $shock_{i,t}$ is a dummy variable for a recession event, β_h denotes the impact on growth in each h year after the event shock, and $\Delta y_{i,t-1}$ controls for the short-term trend of growth. The results shown in the figures below show that tourism-dependent SDS face a temporary reduction in potential growth driven by a compression of capital, while EMDEs experience a permanent contraction explained by long-lasting declines in investment, employment, and potential TFP growth. This result is counterintuitive given that the recessions in tourism-dependent SDS are deeper on average than those in EMDEs. Mu and others (2023)² highlight that economic cycle of visitors’ countries play a crucial



role in explaining tourism developments. Accordingly, a possible explanation is that the post-recession recoveries of tourism-dependent SDS are more dependent on economic activity of advance economies (AEs), which is the main source of tourism for most of them, and that AEs themselves may experience milder cycles than EMDEs. Our results hold even after running a robustness test excluding the COVID-19 period, marked by sharp drop and strong recovery in tourism-dependent SDS, from other recession cases.

¹ Kilic Celik, S., M. A. Kose, F. Ohnsorge, and F. U. Ruch. 2023. "Potential Growth: A Global Database." Policy Research Working Paper 10354, World Bank, Washington, DC.

² Yibin Mu, Sinem Kilic Celik, Archit Singhal; Unlocking Tourism Potential for Sustainable and Inclusive Growth in Dominica (SIP/2023/061); International Monetary Fund, Washington, DC.

Text Table 3. Cabo Verde: Tax Revenue Projections 2023-25

Tax revenue to GDP ratio 2023 (Third review)	18.9
Stronger-than-expected electronic invoicing measures	0.3
Stronger-than-expected tax arrears collection	0.1
Change in nominal GDP (rebasings)	-0.5
Tax revenue to GDP ratio 2023 (fourth review)	18.8
2024 tax measures	0.4
Third review tax policy measures	0.3
Tax administrative measures after the downward revision of the steady state tax arrears collection	0.1
Tax policy measures 2025	0.9
Reduction in tax expenditures	0.6
ECOWAS implementation	0.3
Tax revenue to GDP ratio 2025	20.1

Sources: Cabo Verdean authorities and IMF staff estimates.

8. The realization of the medium-term fiscal objectives is dependent on progress in implementing revenue mobilization measures. Cabo Verde has a broad-based revenue mobilization plan that includes tax administration reforms through digitalization of revenue collection to help improve compliance, and already implemented policy measures (tobacco, alcohol, and international arrivals tax, import duty on previously exempted goods). To support fiscal and debt sustainability, the authorities are working with the support of FAD on an action plan to (i) reduce tax expenditures and (ii) undertake phased implementation of the ECOWAS tariff. The combined impact of both measures is expected to increase revenue by nearly 1 percent of GDP (SBs, end-September 2024 and end-December 2024, respectively). Additional measures aimed at mitigating international tax avoidance and promoting a green transition, currently under consideration, may also yield further revenues in the near-term. The medium-term fiscal path could be impacted by the knock-on effects of climate-related events on the economy.

Text Table 4. Cabo Verde: Sources of Financing for 2024–26
(Millions of CVE)

	2024		2025		2026	
	Millions of Escudos	Percent of GDP	Millions of Escudos	Percent of GDP	Millions of Escudos	Percent of GDP
Total financing needs	8,594	3.1	6,312	2.1	3,428	1.1
Financing sources	8,594	3.1	6,312	2.1	3,428	1.1
Domestic Financing (Net)--Issuance of treasury securities	(378)	(0.1)	21	0.0	2,904	0.9
External financing (Net)	8,972	3.2	6,291	2.1	524	0.2
Disbursements	18,880	6.7	16,269	5.4	11,025	3.4
Of which budget support	11,028	3.9	7,422	2.5	5,276	1.6
IMF	3,959	1.4	1,683	0.6	0	0.0
Of which RSF	2,135	0.8	1,071	0.4	0	0.0
World Bank	5,416	1.9	5,341	1.8	5,049	1.6
African Development Bank	1,653	0.6	1,985	0.7	227	0.1
Program and project loans	7,411	2.6	8,219	2.7	5,158	1.6
EU GLOBAL GATEWAY	1,687	0.6	3,304	1.1	3,887	1.2
AFD	584	0.2	0	0.0	0	0.0
JICA	2,125	0.8	3,457	1.1	0	0.0
OFID	357	0.1	0	0.0	0	0.0
World Bank	1,162	0.4	379	0.1	557	0.2
BADEA	706	0.3	510	0.2	0	0.0
Kuwait	2	0.0	0	0.0	0	0.0
Other	788	0.3	569	0.2	714	0.2
Onlending loans	465	0.2	441	0.1	628	0.2
Amortization	9,908	3.8	9,978	3.3	10,501	3.5

Sources: Cabo Verdean authorities and IMF staff projections.

B. Reduce Fiscal Risks from SOEs and Improve Their Financial Management

9. SOE reforms continue to be critical for reducing fiscal risks and improving public services. Recent reforms have focused on improving fiscal transparency (quarterly publications on fiscal risk analysis “health check” and SOE budget execution, and recently the launching of the SOE Manager platform). The restructuring agenda includes privatization, partial sale, concessions, and PPPs, covering water and electricity, naval services, ports, telecom, and air transportation. Supported by the World Bank, the authorities submitted to parliament a new SOE law at end-April 2024. This legislation aims to clarify the interactions between SOEs’ commercial operations and government-related policies, and mandate provision of timely inputs to the SOE Manager platform. The implementation of law should focus on recording the different channels of government support in the SOE manager platform: subsidies, on-lending, capitalization, and provision of guaranteed debt. Continued careful management is required to avoid fiscal risks.

10. There has been progress in divesting the SOE sector. In February 2024, the government successfully sold its shares in the bank Caixa Economica de Cabo Verde (27.4 percent) through an IPO in the domestic stock exchange (its remaining share is now below 1 percent) collecting around CVE 1,500 million (0.56 percent of GDP) in line with the budget. The government also launched the privatization process for the airport logistics SOE (CV Handling) and concluded in April 2024 a public consultation for a concession potentially covering all nine ports currently managed by ENAPOR, an SOE.

11. Developments in the air transportation sector could provide an opportunity to focus on critical services and reduce fiscal risk. The concessionaire for inter-island air transport pulled out of the country. In response, the PM announced plans to establish a new SOE airline to serve the inter-island market. While this move goes against the overall objective of the government’s transition from an owner and operator to a regulator, the authorities felt it was necessary to avoid loss of inter-island connectivity. The intervention, however, appears to break even operationally and has not impacted the budget. TACV, the airline SOE focused on international routes, continues to face losses. The imminent entry of an international low-cost airline could reduce the rationale for using scarce public resources to increase competition on a few international routes. The team agreed with the government that ensuring inter-island connectivity was a priority and encouraged the authorities to reduce the fiscal cost of TACV support.

C. Modernize the Monetary Policy Framework and Improve Resilience of the Financial System

12. The monetary policy framework remains focused on safeguarding the peg. The conventional fixed peg exchange rate regime continues to provide a stable anchor for monetary policy, supported by adequate external buffers. Staff agreed that recent hikes in the policy rate were appropriate given the inverted interest rate differential with the Euro area and the need to preserve

reserves and mitigate any risks associated with banks placing deposits in the Eurozone and lower remittances. Although inflation is within the target range of 2 percent, the BCV should remain vigilant as Cabo Verde remains susceptible to inflation risks from global price shocks.

13. The BCV is improving its analytical capacity to monitor economic developments. Policy analysis was reinforced through the introduction of composite indicators of economic activity and the reinforcement of short-term forecasts. Moreover, BCV staff are working with the IMF on the development of an External Economic Stress Index (EESI) aims to capture the evolution of the external environment faced by a country (Annex V).

14. The Cabo Verdean financial sector is highly concentrated. As of end-2023, the seven banks in the system held assets equivalent to 130 percent of GDP. Two domestic systemically important banks jointly account for a large share in industry total assets and deposits. In early 2024, the sale of Portugal's Caixa Geral de Deposito (CGD)'s majority share in Banco Comercial Atlântico (BCA) neared conclusion, a process which began in 2017 and is now awaiting BCV's approval. In general, the banking system appears to be resilient to liquidity risk. However, at end-2023, the risks of the banking system's high dependence on deposits from the social security agency (INPS) materialized when INPS decided to auction some of its deposits, creating liquidity concerns for some banks (INPS represents just under 20 percent of total system deposits, but for some banks the share of INPS deposits in their total deposits is much higher). Staff discussed ways to improve the predictability of INPS deposit allocation e.g., by better coordination on scheduled moves in deposits. The authorities requested IMF CD on this topic.

15. The banking sector's large exposures warrant close monitoring. Based on data from more frequent stress tests (SB, end-December 2023), the banking system appears to be resilient to simple shocks, but vulnerable to the materialization of aggregate credit sector shocks, as well as to the risk of portfolio concentration. There is high exposure of banks to sovereign debt, mainly through loans to public and private companies with public guarantees.

Box 2. INPS – Strategic Asset Allocation

The INPS auctions, motivated by the need to attain higher yield on its deposits, have brought to the fore INPS's investment strategy. Demand and time deposits make up a large share of INPS investments, especially related to expenses. At end-2022, total deposits were equivalent to 5.7 times INPS's total annual expenses (benefits paid to retirees and active workers and all operational costs, excluding financial costs). More generally, nearly 45 percent of total financial assets at end-2022 were held in the form of low- or negative-yielding bank deposits (the average real effective rate of return in 2022 was -1.6 percent). This pattern of negative real returns on deposits is not a one-off attributable to unexpected inflation, and the higher yields on deposits registered in the past are unlikely to return. Staff encouraged INPS to seek technical assistance on an asset allocation strategy that would allow it to benefit from higher yields and achieve greater portfolio diversification, both while taking into account the long-term obligations of INPS. This should be done, in a way that does not place undue pressure on the BCV's international reserves accumulation or on the banking system's liquidity or capacity to lend.

16. The authorities continue reforms to strengthen the financial system:

- **Stress tests** will be further improved with the recent support of IMF TA, with the incorporation of macroeconomic scenarios in the exercises.
- The **bank resolution regime** is being improved in line with international best practices, with support from IMF TA.
- During 2024, BCV continues to work on the regulations and procedures on **Emergency Liquidity Assistance** (ELA) and the guarantee's framework for the instrument.
- The authorities have approached the World Bank for TA to carry out an assessment of the **digital economy** and formulate a **national Fintech strategy**, which would establish the necessary pillars for the use of financial technologies that embrace innovation and competition and reduce transaction costs.

17. The BCV continues to implement the recommendations of the 2022 safeguards assessment, albeit with some delays. Outstanding recommendations that are in progress include amendments to the Organic Law of the BCV to, inter alia, strengthen the BCV's decision-making structure, autonomy, accountability, and transparency of the central bank in line with the IMF safeguards assessment, and supported by technical assistance from the IMF (SB end-July 2024), and full implementation of International Financial Reporting Standards. Staff continues to engage with the authorities on the other outstanding recommendations.

18. The authorities are working to address weaknesses in the AML/CFT framework and address the FSSR recommendations. Since the 2019 mutual evaluation, the country has been implementing a set of measures to combat AML/CFT. With the approval, in April 2023, of the National Strategy for Preventing and Combating Money Laundering, Terrorist Financing and the Proliferation of Weapons of Mass Destruction (ENCAVE), the Government continues the process of mobilizing resources and international partnerships to implement the objectives and actions contained in the document. Among the priority measures contained in ENCAVE is the process of changing the legal and regulatory framework, institutional strengthening, especially of investigation and law enforcement entities, regulatory and supervisory entities, and the Financial Intelligence Unit. Investment in specialized staff and their training will be necessary for the sustainability of the national AML/CFT system. Special attention will be given to Designated Non-Financial Business and Professions (DNFBPs). An IMF technical assistance mission on Cybercrime is planned for 2025 to reinforce national capabilities on the subject.

D. Reforms for Broad-Based Growth and Increased Climate Resilience

19. Structural reforms and policies should help build resilience to different protracted shocks, including climate change. Key priority areas in the new five-year development strategy include: (i) completing SOE reforms; (ii) facilitating access to finance; and (iii) improving the business environment. The authorities have been advancing reforms to improve the

business environment, mainly directed to the SMEs. These are focused on plans to promote private sector-led economic diversification with the aim of supporting quality investments, employment and enhanced productivity. Reducing the high costs of finance, electricity, water and transport, which are major impediments, is an important component of these reforms. Diversification efforts are being pursued through two channels. Firstly, within the main tourism sector, actively moving towards more integrated resort projects heralded by the presence and emergence of top hotel brands. Secondly, promoting alternative sectors, such as the blue economy, digital economy, industry integrated into the regional and global value chains, and modernization of the agriculture sector using desalinated water as set up in the development strategy. Finally, the RMs under the RSF, especially those on climate governance and planning, could facilitate creating enabling environment for private climate finance, an important connection between the RSF and PEDS II priorities, in particular facilitating access to finance.

20. Cabo Verde is advancing with the reform agenda supported by the RSF. The Reform Measures (RMs) related to this review were completed. The first (RM1) was the establishment of an Inter-ministerial Council for the Environment and Climate Action (Conselho Interministerial para o Ambiente e Ação Climática), led by the Prime-Minister for coordinating climate change policy planning and strategy at a high level, with clear tasks, responsibilities, and procedures (Box 3 and Table 11). The authorities collaborated with LuxDev in the implementation of this RM. The other (RM3) amended the PPP legislation (Box 4) and incorporated climate considerations in the PPP Manual – this reform benefitted from IMF technical assistance. Both have been approved by Cabinet and published in the Official Gazette.⁵ Going beyond the RM measure, the authorities are also amending the Budget Framework Law (BFL) to clarify the prevalence of the PPP Decree-Law over sectoral legislation.

21. Work on the remaining RSF measures is ongoing. Implementation of other RMs is ongoing, especially those related to the 2nd review under the RSF (RM2, RM7, RM8, and RM9). The IMF is planning CD support to some RMs and is coordinating with other international partners and the authorities, who are also using their own resources (Table 11). On RM9, the BCV noted some implementation challenges presented by available human resources, a busy reform agenda, and the need to line up technical assistance from partners. This reform, which complements RM1 and RM4, is important in mobilizing private finance and assessing climate risks in Cabo Verde. The remaining RMs for the 3rd review under the RSF (RM4, RM5, and RM6) are also advancing with preparation on the regulations and studies on tariffs underway in collaboration with LuxDev and the regulator. Staff discussed additional support from FAD and MCM in the form of technical assistance and/or online training to support the authorities in advancing the RM implementation. Finally, the availability dates under the RSF arrangement are proposed to be slightly modified to allow the full assessment of the RMs in advance to the expected review schedule.

⁵ Resolução 38/2024 | Série no 42-1106 and Decreto-lei 21/2024, I Série no 40-1012—<https://kiosk.incv.cv>

Box 3. Climate Governance

Legal framework: Cabo Verde's Climate Governance Framework was established by Council of Ministers Resolution n° 38/2024, and published in the Official Gazette on May 10.

Functions: The Framework's objective is institutionalizing a system that ensures the functions needed to implement the National Determined Contribution (NDC) and the National Adaptation Plan (NAP). The framework covers decision-making; coordination; climate negotiation; knowledge management and early warning system (DRM); mobilization and management of climate support (including climate financing); communication and awareness raising; implementation; and transparency, monitoring, and evaluation.

Structure: The framework establishes three bodies with specific members, functions and the relationship between as well as the broader links to other relevant parties:

- i. the Inter-Ministerial Council for Environment and Climate Action (CIAC for its acronym in Portuguese), an inter-ministerial decision-making and coordination body chaired by the Prime Minister responsible for determining climate policy and sectoral policies;
- ii. the National Council for the Environment and Climate Action (CNAAC), an advisory body with representatives from the Government, municipalities, civil society organizations, the private sector and academia, tasked with issuing opinions and ensuring that political and social positions regarding integrated and sustainable environmental management are mediated; and
- iii. the National Secretariat for Climate Action (SNAC), an executive body working under CIAC that oversees coordination.

Box 4. Amendments to the PPP Legislation

Legal amendments. The amendments to the PPP Decree-Law are aligned with international good practices in integrating climate resilience into the PPP project cycle. The key areas of focus include:

- i. climate-informed preliminary project proposals during the identification stage;
- ii. conducting a climate risk screening during the pre-feasibility study, followed by a detailed and quantitative climate risk assessment in the feasibility study during the appraisal stage;
- iii. integrating these assessments into the design of tender documents and the PPP contract during the tender and award stage;
- iv. implementing monitoring mechanisms for climate risks throughout the duration of contract management stage.

PPP Manual. The implementation of the PPP Decree-Law is supported by a PPP Manual. The new version of the PPP Manual is aligned to the proposed legal and institutional amendments of the PPP framework in Cabo Verde.

22. The government will continue providing financial support to vulnerable households. Social spending, including an increase in targeted cash transfers to the poorest, will be aided by funding from the Social Protection Fund financed by the tourism tax and non-earmarked revenues. In addition, reforms to enhance the targeting regime to improve the effectiveness and reach of the social support framework, to offset the negative impacts of policies linked with climate-related reforms are advancing as part of the authorities' program supported by the RSF.

PROGRAM ISSUES AND RISKS

23. Performance under the ECF and the RSF has been strong. All quantitative performance criteria (QPCs) for end-December 2023 were met, as well the non-quantitative continuous PCs (Table 6). The indicative targets (ITs) for end-September 2023 were met, while the indicative target on social spending for end-December 2023 was missed because of a weaker-than-expected spending growth rate of health and education programs.⁶ The SBs for end-December 2023 were met (Table 7) and the RMs (RM1 and RM3) for the first review under the RSF arrangement were completed on time.

24. Additional conditionality and modification of QPCs are proposed. New ITs are proposed for end-March 2025 (Table 6). A new structural benchmark is proposed for end-Dec 2024 to adopt a budget for FY25 that is in line with program parameters (Table 7). The authorities request a modification of the end-September 2024 IT and end-December QPC on reserves, reflecting the impact of lower financing needs and remittances, as well as bank outflows caused by the negative interest differential on the end-2023 reserve levels. In this regard, the recent increase in the policy rate was important to slow bank deposit outflows and maintain adequate reserves. Additionally, it is requested to modify the QPC on net other liabilities for June and December of 2024, and IT for September of 2024 to better target SOE support (Text Table 5 and Table 6).

Text Table 5. Cabo Verde: Net Other Liabilities Decomposition from 2021–27
(Millions of CVE)

	2021	2022	2023		2024		2025	2026	2027
		Act.	SR 3rd review	Est.	SR 3rd review	Proj.	Proj.	Proj.	Proj.
Net other liabilities (original QPC)	1,691	-173	-1,368	-167	-558	-558	-401	-376	0
Support to SOEs (proposed QPC)	343	-3,594	-3,854	-2,382	-2,870	-2,870	-401	-376	0
Net onlending	1,181	-878	-1,653	-182	-269	-269	-401	-376	0
Capitalization	-838	-2,716	-2,200	-2,200	-2,600	-2,600	0	0	0
Other (use of deposits and privatization)	1,348	3,059	2,485	2,215	2,312	2,312	0	0	0

25. Use of RSF resources. RSF disbursements would increase external financing by about CVE 2.1 billion in 2024 and 1 CVE billion in 2025. The RSF substitutes more expensive domestic financing with cumulative estimated savings in debt service of 0.8 percent of GDP until 2029. These savings will help build buffers and make Cabo Verde more resilient to climate-related shocks.⁷ They will also

⁶ The combined weight of health and education programs is around 60 percent of total social spending. The underperformance of these expenditures more than offset the increase in targeted cash transfers to vulnerable households.

⁷ An MoU between the MoF and BCV was signed which details the institutional arrangements.

create fiscal space, including to support critical climate-related public investment. From the balance of payment standpoint, RSF disbursements increase international reserves by the disbursement amounts in 2024 and 2025, respectively.

26. Financing assurances. The Fund-supported program continues to be fully financed with firm commitments for the next 12 months, and good prospects that financing will be adequate for the remainder of the program. In addition to Fund support, financing in the last year of the ECF is being provided through budget support from development partners and multinational development institutions, including the World Bank and the African Development Bank.

27. Cabo Verde's capacity to repay the Fund is assessed as adequate (Table 8). Fund credit outstanding will peak at 380 percent of quota by 2025. Credit outstanding would peak at about 4.1 percent of GDP, 14.7 percent of gross international reserves, and 10.5 percent of exports by 2025. At the same time, annual repayments to the Fund would peak at 1.1 percent of exports, 1.7 percent of reserves, and almost 11.2 percent of PPG external debt service, all in 2029.

28. Risks to the program are assessed as moderate. Further global slowdown, the escalation of the wars in Ukraine and in Gaza, and tighter global and regional financial conditions may increase risks to the program. Also, the high risk of overall debt distress and financial vulnerabilities in the SOE sector remain concerns. If risks materialize, keeping the authorities' strong track record and ownership under the current Fund-supported programs will help any proactive adjustment of policies in consultation with Fund staff.

29. Capacity Development. The capacity development strategy is well aligned with the ECF-supported program and the RSF (Annex IV). IMF CD has supported the implementation of past IMF staff advice, with relatively good traction. CD priorities continue to strengthen reforms in the areas of revenue mobilization, public financial management (including the climate dimension on budgeting and public investments), central bank operations, banking supervision, financial stability, and macro statistics.

Text Table 6. Cabo Verde: External Financing Gap 2020-25
(Millions of Euros, unless otherwise specified)

	2020	2021	2022	2023	2024	2025
Current account balance	-246	-206	-79	-71	-132	-143
Balance of goods and services	-513	-547	-433	-384	-521	-534
Exports of goods	113	151	269	271	290	330
Imports of goods	692	753	1013	1084	1270	1363
Exports of services	258	193	490	608	662	721
Imports of services	192	139	178	179	203	223
Balance on primary income	-36	-24	-27	-46	-23	-32
Balance on secondary income	303	365	381	360	411	423
Financing						
Capital account	22	23	21	19	40	41
Financial account, net ¹	-23	-162	-87	-58	-97	-92
Direct investment, net	-55	-78	-105	-110	-112	-115
Portfolio investment, net	0	1	1	1	1	1
Other investment, net	31	-85	17	51	14	22
Net acquisition of financial assets	-18	54	32	65	65	50
Net incurrence of liabilities	-49	138	83	38	15	-7
Monetary Authority	-1	0	0	-17	0	0
Central Government	-30	93	29	-18	45	-11
Disbursements 1/	10	133	122	73	135	79
Amortization	-41	-39	-93	-91	-90	-90
Exceptional financing	0	0	0	0	0	0
Commercial Banks	4	49	15	-6	7	7
Non-bank flows	-21	-4	-29	55	-2	32
Errors and omissions/2	-5	31	-28	14	0	0
Overall balance	-206	10	2	21	5	-11
Financing	206	-10	-17	-40	-22	5
Change in reserves (-:=increase, excl. ECF and RSF)	75	-10	-17	-40	-22	5
Loans (Multilaterals excl. IMF)	131	0	0	0	64	52
Financing gap	0	0	-14	-19	-17	-6
Use of ECF	0	0	14	19	17	6
Residual Gap	0	0	0	0	0	0
Use of Fund credit: RSF	0	0	0	0	19	10
Change in reserves (-:= increase, incl. ECF and RSF)	75	-10	-31	-59	-57	-10
Memorandum Items:						
Targeted reserves path as months of prospective imports	7.8	6.0	5.9	5.6	5.6	5.5

Source: Authorities and IMF staff estimates.

1/ Includes reserves and exceptional financing.

2/ Including banks' delays on trade credits reporting.

STAFF APPRAISAL

30. Cabo Verde showed strong macroeconomic performance in 2023 and the near-term outlook is favorable despite some downside risks. Real growth is estimated at 5.1 percent in 2023 and is expected to be 4.7 percent in 2024. The level of gross international reserves is projected to remain at 5.6 months of prospective imports in 2024 and broadly stable over the medium term. However, the economy remains vulnerable to external shocks impacting tourism activity, as well as climate risks. Annual inflation decelerated faster than anticipated at the time of the third review and averaged 3.7 percent in 2023.

31. Staff commends the strong headline fiscal performance in 2023 and authorities' plan to use any revenue overperformance to improve the primary deficit in 2024. Nonetheless, the under execution of capital spending in 2023 was regrettable and staff urged the authorities to resume the planned and needed investments in 2024. The risk of the economy overheating from the capital spending is minimal due to high import content (90%), but it is relevant to boost potential growth. The authorities expect to over-perform again in 2024 and smooth the medium-term fiscal adjustment path. Achievement of the program's medium-term fiscal target is dependent on the domestic revenue mobilization measures and reforms. Fiscal risks from SOEs and PPPs, and the implementation of any new SOE law, need to be closely monitored and mitigating measures adopted. Delays in SOE reforms could undermine the credibility of the authorities' reform agenda and fiscal sustainability. Staff will further analyze the authorities' views on an appropriate medium- to long-term debt target.

32. The authorities are improving the monetary and financial policy frameworks. The current monetary tightening is appropriate, and the policy stance should remain data dependent to safeguard the peg. While inflation has decreased substantially, staff supports the recent stepwise increase in the policy rate to slow bank deposit outflows and maintain adequate reserves. The BCV should remain vigilant and stand ready to tighten the policy stance as required to support the peg. Staff commends the authorities' implementation of CD recommendations to strengthen monetary policy transmission mechanisms and build analytical capacity to monitor economic developments. It would be important to submit the amendments to the BCV law to parliament as scheduled. In line with their action plan, the authorities have taken important steps to address strategic deficiencies in the AML/CFT framework and should continue to build on this progress.

33. Staff welcomes the improvement in financial stability indicators. The financial sector remains stable, adequately capitalized, profitable and liquid, and NPLs maintained their downward trend in 2023, due to the credit recovery processes and the write-off of NPLs and prudence from the banking system. Staff urges the authorities to continue working with banks to facilitate resolution of NPLs and paying attention to the role of major depositors in the system and the impact on the stability of the financial system.

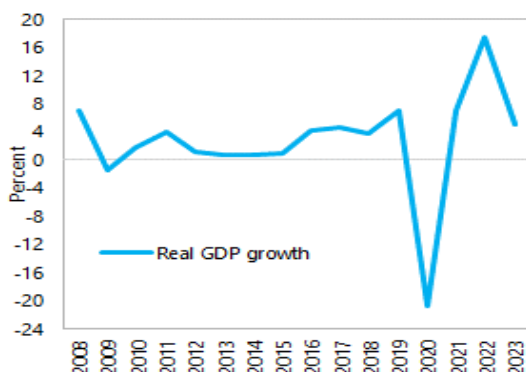
34. Reforms to foster productivity and diversification underpin the authorities' growth and climate resilience strategy. The RSF supports strong reforms in the energy-water nexus with

the aim of facilitating private sector development, building the appropriate infrastructure, reducing costs, and managing the climate transition. Targeted social policies and spending are geared towards poverty reduction, equity, and also set in place the framework to compensate the most vulnerable for costs of climate transition. Finally, SOE reforms are aimed at improving their financial performance, reducing fiscal risks, and improving the inter-island connectivity.

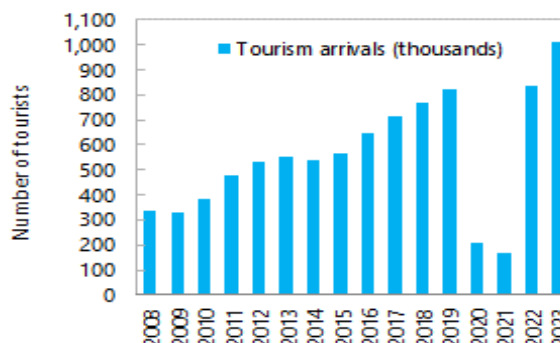
35. Staff recommends the completion of the fourth review under the ECF and the first review under the RSF arrangements. Program performance under the ECF has been strong. All end-December 2023 QPCs were met, as well as non-quantitative continuous PCs. The indicative target for end-September was met, while the one for end-December 2023 was not met. All SBs were met. RMs 1 and 3 under the RSF arrangement have been completed. Staff supports the request for modification of the indicative and QPC on reserves reflecting the impact of lower financing needs due to stronger-than expected 2023 fiscal outturn, the trend of remittances, and bank outflows due to the negative interest differential. Staff also support the modification of the QPC on other liabilities to better target SOE support. Staff noted the implementation challenges faced on RM9 and agreed to work closely with the BCV to catalyze technical support. Staff supports the authorities' rephrasing request of the availability dates under the RSF.

Figure 1. Cabo Verde: Recent Economic Developments

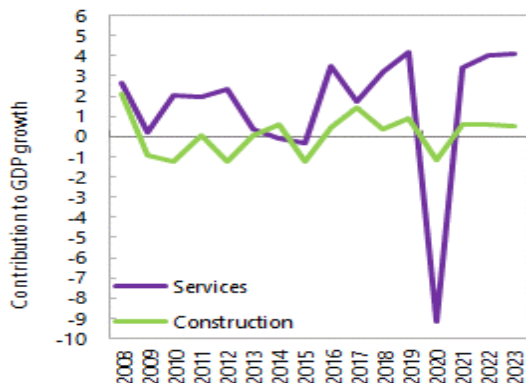
Economic growth moderated in 2023...



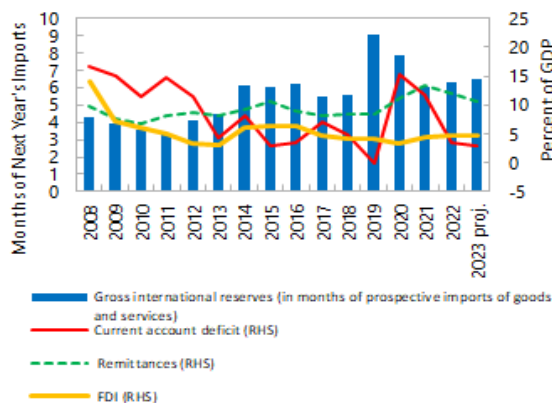
...after significant improvements in the tourism sector in 2022...



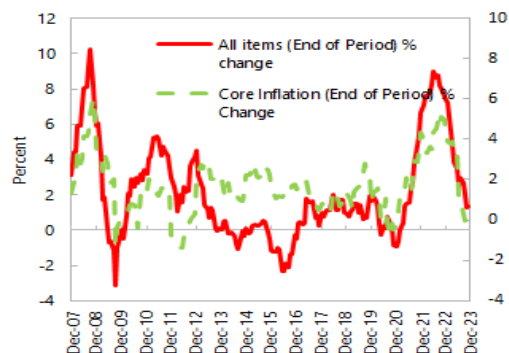
... that supported a recovery in the services sector.



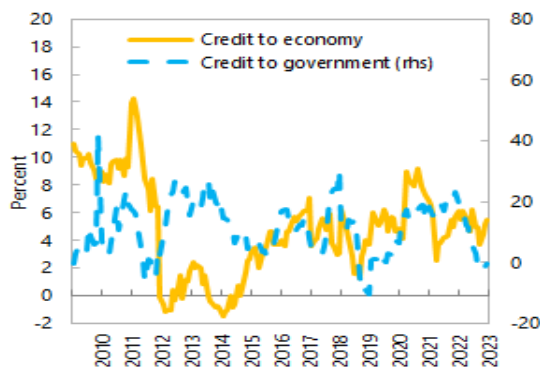
International reserves are projected to remain adequate reflecting broadly steady FDI and remittances.



Headline inflation decreased due to lower transport and communication prices.



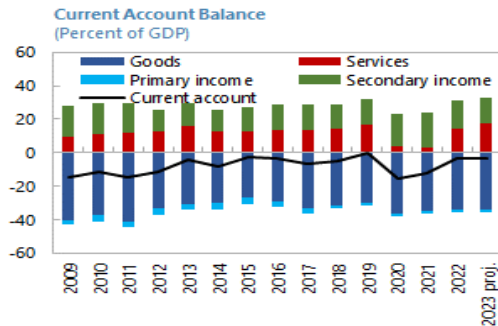
Credit to the government fell due to strong fiscal performance.



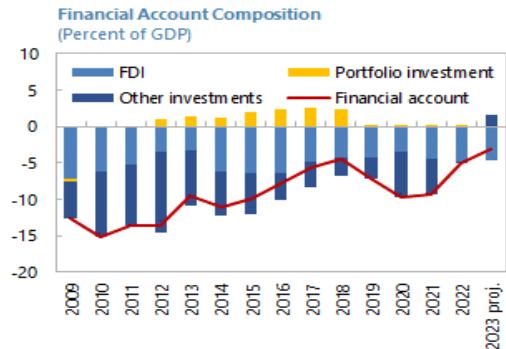
Sources: Cabo Verdean authorities; and IMF staff estimates.

Figure 2. Cabo Verde: External Sector Developments

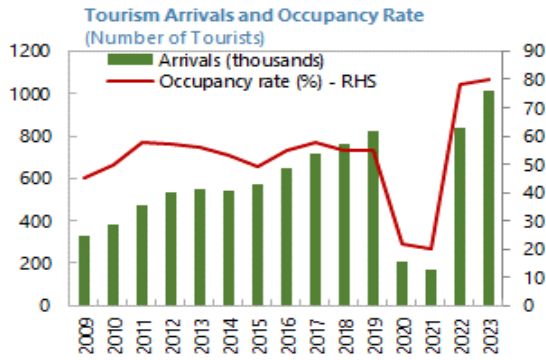
The current account deficit narrowed in 2023 as imports decline and service exports grow.



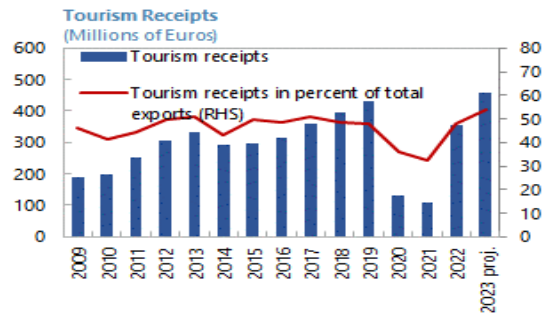
The financial account narrowed in 2023, due to lower external financing of the budget and deposit outflows.



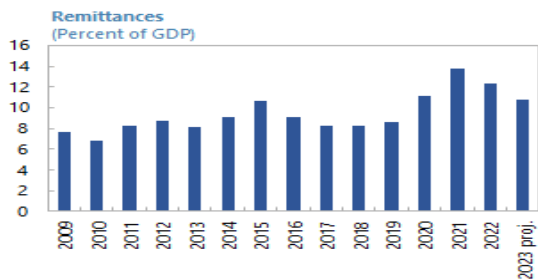
Tourism arrivals are estimated to increase and remain slightly above pre pandemic levels.



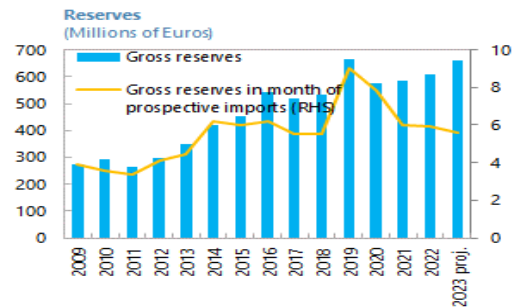
Resulting in a steady increase in tourism receipts.



Remittances declined in 2023 but remain an important source of foreign currency...



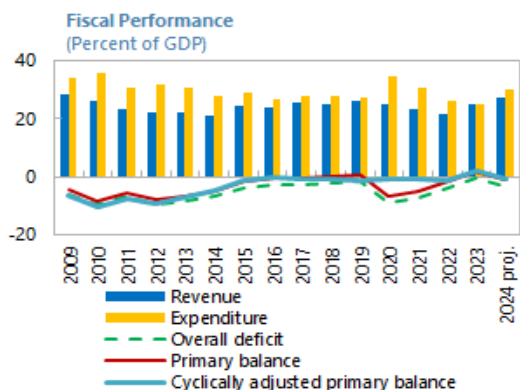
... supporting the country's strong reserve position.



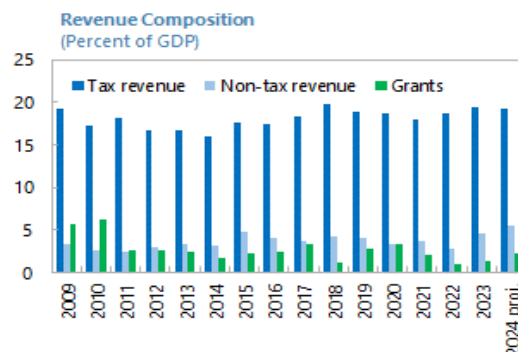
Sources: Cabo Verdean authorities; and IMF staff estimates.

Figure 3. Cabo Verde: Fiscal Sector Developments

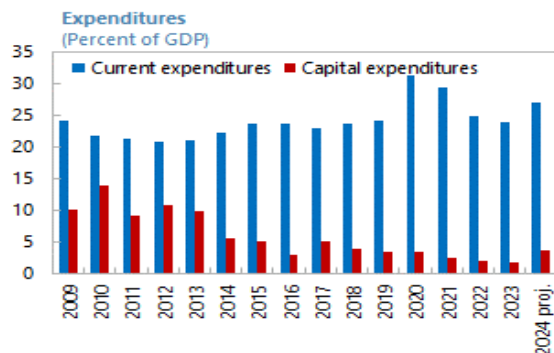
2024 fiscal projection is consistent the program path ...



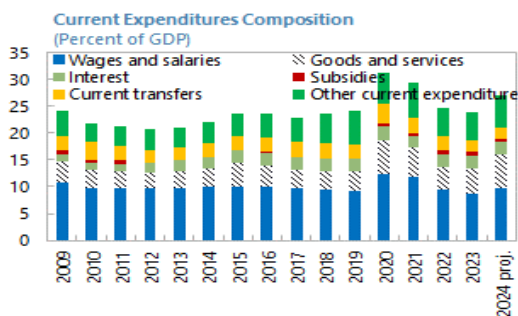
...with tax-to-GDP ratio expected to remain at the same level of 2023.



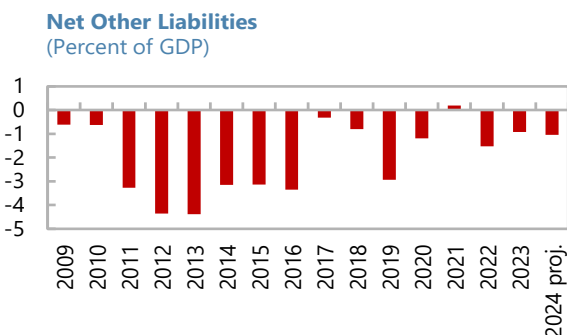
Expenditures are projected to increase mainly on account of higher capital spending.



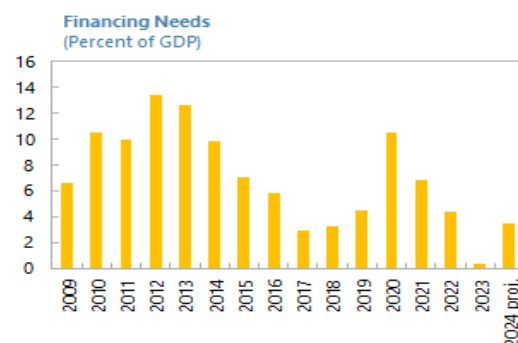
Current expenditure increases at a milder pace due to the expansion of goods and services and wage bill.



Net other liabilities are projected to be stable in 2024 constraining government support to SOEs.



As a result, financing needs are projected to increase mostly due to higher public investments.



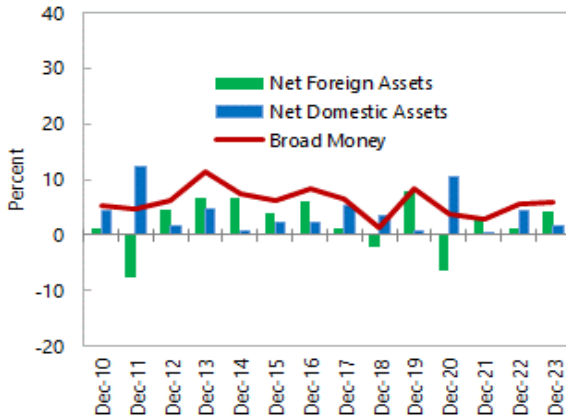
Sources: Cabo Verdean authorities; and IMF staff estimates.

Figure 4. Cabo Verde: Monetary and Financial Sector Developments

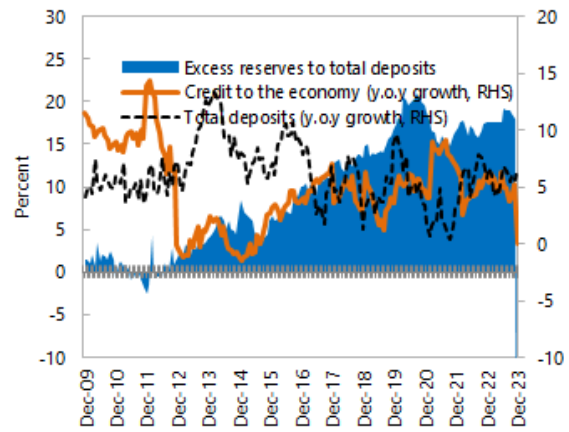
At end December 2023 broad money increased due to the increase of foreign assets,...

...credit to the economy increased even with the gradual phasing out of the COVID-19 relief measures.

Broad Money and Counterparts
(Annual change in percent of broad money)



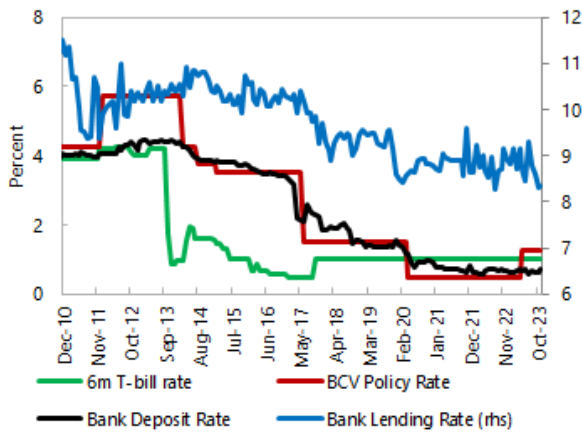
Credit to the economy and Deposits



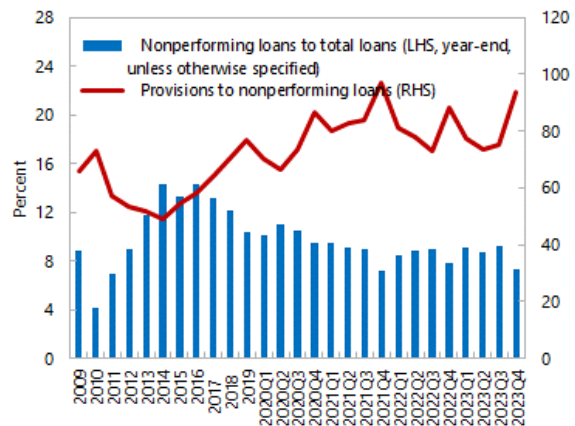
The central bank started to adjust its policy rate, narrowing the interest differential with the ECB rates.

Nonperforming loans increased in Q2 2023, in part reflecting the gradual phasing out of the credit moratorium.

Policy Rate and other Money Market Rates



Non-performing Loans and Provisions



Sources: Cabo Verdean authorities; and IMF staff estimates.

Table 1. Cabo Verde: Selected Economic Indicators, 2021–29

	2021	2022	2023	2024	2025	2026	2027	2028	2029
		Act.	SR ECF 3rd review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percent change)									
National accounts and prices 1/									
Real GDP	7.0	17.4	4.5	5.1	4.7	4.6	4.6	4.5	4.5
GDP deflator	1.0	7.5	4.7	3.9	2.0	2.0	2.0	2.0	2.0
Consumer price index (annual average)	1.9	7.9	4.0	3.7	2.0	2.0	2.0	2.0	2.0
Consumer price index (end of period)	5.4	7.6	3.0	1.3	2.0	2.0	2.0	2.0	2.0
External sector									
Exports of goods and services	-7.5	120.6	3.2	15.9	8.3	10.4	10.0	9.6	7.2
Of which: tourism	-16.4	225.4	6.5	30.3	10.6	10.4	10.4	10.2	8.2
Imports of goods and services	0.8	33.7	10.2	6.0	16.6	7.6	3.6	5.2	6.2
(Change in percent of broad money, 12 months earlier)									
Money and credit									
Net foreign assets	1.4	1.2	4.8	4.5	2.6	0.3	1.5	1.9	1.8
Net domestic assets	1.6	4.6	4.6	1.8	4.3	4.7	4.3	4.4	3.3
Net claims on the central government	2.4	3.1	0.0	0.1	-0.1	0.0	0.5	0.2	-0.3
Credit to the economy	4.2	3.9	4.5	3.5	4.3	4.6	3.7	4.1	3.5
Broad money (M2)	3.0	5.8	9.4	6.3	6.9	5.0	5.8	6.2	5.0
(Percent of GDP, unless otherwise indicated)									
Savings and investment									
Domestic savings	15.9	21.5	21.4	20.0	19.4	19.5	18.5	19.8	19.6
Government	-5.2	-0.9	0.2	2.1	0.0	1.3	0.6	0.9	0.7
Private	21.0	22.4	21.2	17.9	19.4	18.3	17.9	18.9	17.1
National investment	26.2	25.1	27.3	23.0	24.5	24.8	23.0	23.1	22.8
Government	2.3	1.9	3.2	1.7	3.5	3.8	2.3	2.6	2.9
Private	23.9	23.2	24.1	21.3	21.0	21.0	20.7	20.5	19.9
Savings-investment balance	-10.3	-3.6	-5.9	-3.0	-5.2	-5.3	-4.5	-3.3	-3.2
Government	-7.4	-2.8	-3.1	0.4	-3.5	-2.5	-1.7	-1.7	-0.4
Private	-2.9	-0.8	-2.9	-3.3	-1.7	-2.7	-2.8	-1.6	-2.8
External sector									
External current account (including official transfers)	-11.9	-3.6	-5.9	-3.0	-5.2	-5.3	-4.5	-3.3	-3.2
External current account (excluding official transfers)	-14.3	-4.9	-6.2	-3.2	-7.2	-7.1	-5.1	-3.9	-3.7
Overall balance of payments	0.6	1.1	4.4	0.9	2.2	0.7	1.3	1.6	1.5
Gross international reserves (months of prospective imports of goods and services)	6.0	5.9	6.1	5.6	5.6	5.5	5.5	5.5	5.5
Government finance									
Revenue	23.3	21.8	25.5	24.6	26.9	25.5	24.5	25.0	24.8
Tax and nontax revenue	21.2	20.9	23.6	23.3	24.6	24.0	23.8	23.8	23.7
Grants	2.1	0.9	1.9	1.3	2.3	1.4	0.7	1.2	1.1
Expenditure	30.8	25.9	28.9	24.8	29.7	27.4	25.4	25.6	25.0
Primary balance	-5.3	-1.9	-1.1	2.0	-0.6	0.0	1.0	1.0	1.0
Overall balance (incl. grants)	-7.5	-4.1	-3.4	-0.3	-2.9	-2.0	-1.0	-0.5	-0.4
Net other liabilities (incl. onlending)	0.9	-0.1	-0.5	-0.1	-0.2	-0.1	-0.1	0.0	0.0
Total financing (incl. onlending and capitalization)	6.6	4.2	4.0	0.3	3.1	2.1	1.1	0.5	0.4
Net domestic credit	1.6	2.3	-0.1	0.2	-0.1	0.0	0.9	0.4	-0.1
Net external financing	5.0	1.9	4.0	0.2	3.2	2.1	0.2	0.1	0.5
Public debt stock and service									
Total nominal government debt	148.0	123.7	119.9	113.8	110.0	105.6	100.0	94.0	83.0
External government debt	105.4	85.6	82.7	78.4	77.4	75.8	71.0	66.4	59.8
Domestic government debt	42.6	38.0	37.2	35.4	32.6	29.8	28.9	27.6	23.2
External debt service (percent of exports of goods and services)	20.2	17.6	12.3	14.8	10.9	10.1	9.6	9.2	8.5
Present value of PPG external debt									
Percent of GDP (risk threshold: 55%)	57.2	53.5	54.2	52.4	51.3	50.2	47.4	44.5	42.3
Percent of exports (risk threshold: 240%)	197.4	142.4	161.4	142.4	137.5	130.3	119.3	109.1	101.3
Present value of total debt									
Percent of GDP (benchmark: 70%)	104.3	87.4	90.8	87.4	83.9	80.1	76.3	72.1	67.8
Memorandum items:									
Nominal GDP (billions of Cabo Verde escudos)	191.3	241.6	257.1	263.8	281.7	300.9	321.2	342.7	365.1
Gross international reserves (€ millions, end of period)	595	626	728	686	743	753	792	842	898

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, 2021–29

(Millions of Euros; unless otherwise indicated)

	2021	2022	2023		2024	2025	2026	2027	2028	2029
		Act.	SR ECF 3rd review	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-206	-79	-138	-71	-132	-143	-130	-103	-106	-113
Trade balance	-602	-744	-822	-812	-980	-1032	-1028	-1063	-1133	-1216
Exports, f.o.b.	151	269	261	271	290	330	371	412	449	470
Imports, f.o.b.	753	1013	1082	1084	1270	1363	1399	1475	1582	1686
Consumer goods	241	310	329	333	354	375	384	397	421	444
Intermediate goods	133	173	164	177	181	198	198	209	225	247
Capital goods	72	86	91	94	190	210	218	239	265	285
Others (including fuel)	306	443	498	480	545	580	598	630	671	710
Fuel	77	128	128	140	148	153	160	169	176	183
Services (net)	55	311	292	429	459	498	542	603	671	739
Receipt	193	490	522	608	662	721	786	856	934	1013
Of which: tourism	112	363	387	473	523	577	637	703	774	837
Payment	139	178	230	179	203	223	244	252	263	273
Primary Income (net)	-24	-27	14	-46	-23	-32	-38	-45	-53	-53
Of which: interest on public debt	-30	-41	-14	-40	-14	-16	-16	-17	-20	-15
Secondary Income (net)	365	381	378	360	411	423	394	402	409	417
General Government	42	29	7	7	51	50	18	18	18	18
Other Sectors	324	352	371	353	361	373	376	384	391	399
Of which: remittances	232	263	270	252	247	245	247	252	257	262
Capital account	23	21	51	19	40	41	37	21	20	24
Of which: Grants	7	9	39	7	27	29	25	9	9	12
Financial account 1/	-162	-87	-138	-58	-97	-92	-132	-132	-142	-89
Foreign direct investment	-78	-105	-100	-110	-112	-115	-117	-119	-122	-125
Portfolio investment	1	1	1	1	1	1	1	1	1	1
Other investment	-85	17	-39	51	14	22	-16	-13	-21	35
Net acquisition of financial assets	54	32	4	65	65	50	32	27	27	27
Net incurrence of liabilities	138	15	44	14	51	28	48	40	49	-8
Monetary authority	0	0	0	-17	0	0	0	0	0	0
Central government	93	29	82	-18	45	-11	19	24	32	38
Disbursements	133	122	165	73	135	79	114	124	129	137
Amortization	-39	-93	-83	-91	-90	-90	-95	-100	-98	-99
Exceptional financing 2/	0	0	0	0	0	0	0	0	0	0
Commercial banks	49	15	7	-6	7	7	7	8	8	8
Non-bank flows	-4	-29	-46	55	-2	32	22	9	9	-54
Errors and omissions 3/	31	-28	0	14	0	0	0	0	0	0
Overall balance	10	2	51	21	5	-11	39	50	56	53
Financing	-10	-17	-76	-40	-22	5	-39	-51	-55	-54
Reserve assets excl ECF and RSF (-:=accumulation)	-10	-17	-76	-40	-22	5	-39	-51	-55	-54
Financing gap	0	-14	-25	-19	-17	-6	0	0	0	0
Use of ECF	0	14	25	19	17	6	0	0	0	0
Residual gap	0	0	0	0	0	0	0	0	0	0
Use of Fund credit: RSF	0	0	0	0	19	10	0	0	0	0
Change in reserves incl. ECF and RSF (-:=accumulation)	-10	-31	-102	-59	-57	-10	-39	-51	-55	-54
Memorandum items:										
Current account (incl. official transfers, percent of GDP)	-11.9	-3.6	-5.9	-3.0	-5.2	-5.3	-4.5	-3.3	-3.2	-3.2
Current account (excl. official transfers, percent of GDP)	-14.3	-4.9	-6.2	-3.2	-7.2	-7.1	-5.1	-3.9	-3.7	-3.7
Overall balance (percent of GDP)	0.6	1.1	4.4	0.9	2.2	0.7	1.3	1.6	1.7	1.5
Gross international reserves	595	626	728	686	743	753	792	842	898	951
Months of next year's imports of goods and services	6.0	5.9	6.1	5.6	5.6	5.5	5.5	5.5	5.5	5.5
Gross international reserves excl. RSF	595	626	728	686	724	724	762	813	869	922
Months of next year's imports of goods and services	6.0	5.9	6.1	5.6	5.5	5.3	5.3	5.3	5.3	5.3
External public debt	2,192	2,260	2,335	2,258	2,347	2,448	2,413	2,383	2,385	2,402
External aid (grants and loans, percent of GDP)	10.4	7.3	10.1	3.6	8.4	5.8	5.4	4.9	4.7	4.7
Nominal GDP	1,735	2,191	2,331	2,393	2,555	2,729	2,913	3,108	3,311	3,526

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, 2021–29¹
(Millions of CVE)

	2021	2022	2023		2024		2025	2026	2027	2028	2029
		Act.	SR 3rd review	Est.	SR 3rd review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	44,530	52,660	65,562	64,824	75,720	75,727	76,613	78,629	85,777	90,616	96,450
Tax	33,542	44,146	48,537	49,699	53,974	53,974	60,392	64,771	69,414	73,450	78,781
Taxes on income and profit	9,149	10,174	12,346	12,640	12,693	13,191	14,370	15,728	17,298	18,427	19,926
Taxes on goods and services	15,824	23,136	24,140	26,073	27,818	28,040	31,550	34,101	36,389	38,965	41,801
Taxes on international trade	7,894	10,025	11,199	10,157	12,353	11,857	13,526	13,881	14,597	14,854	15,770
Other taxes	675	811	852	829	1,110	885	946	1,060	1,131	1,205	1,283
Grants	3,985	2,131	4,798	3,461	6,409	6,409	4,308	2,330	4,061	4,061	3,711
Other revenue	7,002	6,383	12,227	11,664	15,337	15,344	11,913	11,529	12,302	13,105	13,958
Expenditure	58,898	62,676	74,388	65,532	85,001	83,764	82,524	81,681	87,589	92,164	97,316
Expense	54,544	58,141	66,055	61,098	74,231	73,882	71,074	74,295	78,679	83,768	86,063
Compensation of employees	22,144	21,984	24,581	22,358	27,099	26,999	28,943	30,893	32,965	35,118	37,404
Use of goods and services	9,982	10,420	14,727	11,971	16,850	16,600	14,141	14,694	15,707	16,758	17,775
Interest	4,256	5,376	5,878	5,867	6,217	6,218	5,955	6,340	5,070	5,218	4,820
Subsidies	816	1,964	2,364	2,576	1,885	1,885	1,865	1,845	1,825	1,806	1,787
Current transfers	5,536	5,646	6,674	5,840	7,400	7,400	5,704	5,938	6,336	6,750	7,189
Social benefits	9,267	9,010	9,167	9,664	10,740	10,740	10,780	11,055	12,195	13,226	14,087
Other expense (incl. capital transfer)	2,543	3,742	2,665	2,823	4,040	4,040	3,686	3,530	4,580	4,892	3,002
Net acquisition of nonfinancial assets	4,354	4,535	8,333	4,434	10,770	9,882	11,450	7,387	8,910	8,397	11,252
Primary balance	-10,112	-4,641	-2,948	5,159	-3,064	-1,819	45	3,288	3,258	3,670	3,954
Overall balance	-14,368	-10,016	-8,826	-708	-9,281	-8,036	-5,910	-3,052	-1,812	-1,548	-866
Net other liabilities	1,691	-173	-1,368	-167	-558	-558	-401	-376	0	0	0
Onlending to SOEs for investment purpose	-1,220	-1,075	-1,851	-465	-441	-441	-628	-590	0	0	0
Other onlending (net)	2,401	197	198	284	172	172	227	215	0	0	0
Capitalization	-838	-2,716	-2,200	-2,200	-2,600	-2,600	0	0	0	0	0
Other	1,348	3,059	2,485	2,215	2,312	2,312	0	0	0	0	0
Financing needs	12,677	10,189	10,194	875	9,839	8,594	6,312	3,428	1,812	1,548	866
Total financing	12,677	10,189	10,194	875	9,839	8,594	6,312	3,428	1,812	1,548	866
Net domestic financing	3,142	5,593	-214	472	-636	-378	21	2,904	1,339	-244	-1,915
Net external financing	9,536	4,596	10,408	403	10,475	8,972	6,291	524	472	1,793	2,781
Net errors and omissions (+ overfinancing)	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:											
Counter factual overall balance without RSF 2/					-9,669	-8,427	-6,483	-3,603	-2,342	-2,058	-1,355
Cumulative estimated RSF savings from substituting more expensive domestic financing 2/					388	390	963	1,514	2,045	2,555	3,044
Social Spending	18,300	15,800	17,304	17,304	18,490	18,478	19,735	21,065	22,478	23,945	25,504
Total Public Investment	6,257	6,970	10,931	5,038	11,916	11,028	12,549	8,448	8,910	8,397	11,252
of which: public investment done by SOEs	1,220	2,339	1,851	465	441	441	628	590	0	0	0

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/ Assuming a nominal interest rate differential of 4 percent and average term to maturity differential of 13 years between RSF and domestic financing

Table 3b. Cabo Verde: Statement of Operations of the Central Government, 2021–29¹
(Percent of GDP)

	2021	2022	2023		2024		2025	2026	2027	2028	2029
		Act.	SR 3rd review	Est.	SR 3rd review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	23.3	21.8	25.5	24.6	27.6	26.9	25.5	24.5	25.0	24.8	24.8
Taxes	17.5	18.3	18.9	18.8	19.6	19.2	20.1	20.2	20.3	20.1	20.3
Taxes on income and profit	4.8	4.2	4.8	4.8	4.6	4.7	4.8	4.9	5.0	5.0	5.1
Taxes on goods and services	8.3	9.6	9.4	9.9	10.1	10.0	10.5	10.6	10.6	10.7	10.8
Taxes on international trade	4.1	4.1	4.4	3.8	4.5	4.2	4.5	4.3	4.3	4.1	4.1
Other taxes	0.4	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Grants	2.1	0.9	1.9	1.3	2.3	2.3	1.4	0.7	1.2	1.1	1.0
Other revenue	3.7	2.6	4.8	4.4	5.6	5.4	4.0	3.6	3.6	3.6	3.6
Expenditure	30.8	25.9	28.9	24.8	30.9	29.7	27.4	25.4	25.6	25.2	25.0
Expense	28.5	24.1	25.7	23.2	27.0	26.2	23.6	23.1	23.0	22.9	22.1
Compensation of employees	11.6	9.1	9.6	8.5	9.9	9.6	9.6	9.6	9.6	9.6	9.6
Use of goods and services	5.2	4.3	5.7	4.5	6.1	5.9	4.7	4.6	4.6	4.6	4.6
Interest	2.2	2.2	2.3	2.2	2.3	2.2	2.0	2.0	1.5	1.4	1.2
Subsidies	0.4	0.8	0.9	1.0	0.7	0.7	0.6	0.6	0.5	0.5	0.5
Current transfers	2.9	2.3	2.6	2.2	2.7	2.6	1.9	1.8	1.8	1.8	1.8
Social benefits	4.8	3.7	3.6	3.7	3.9	3.8	3.6	3.4	3.6	3.6	3.6
Other expense (incl. capital transfer)	1.3	1.5	1.0	1.1	1.5	1.4	1.2	1.1	1.3	1.3	0.8
Net acquisition of nonfinancial assets	2.3	1.9	3.2	1.7	3.9	3.5	3.8	2.3	2.6	2.3	2.9
Primary balance	-5.3	-1.9	-1.1	2.0	-1.1	-0.6	0.0	1.0	1.0	1.0	1.0
Overall balance	-7.5	-4.1	-3.4	-0.3	-3.4	-2.9	-2.0	-1.0	-0.5	-0.4	-0.2
Net other liabilities	0.9	-0.1	-0.5	-0.1	-0.2	-0.2	-0.1	-0.1	0.0	0.0	0.0
Onlending to SOEs for investment purpose	-0.6	-0.4	-0.7	-0.2	-0.2	-0.2	-0.2	-0.2	0.0	0.0	0.0
Other onlending (net)	1.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Capitalization	-0.4	-1.1	-0.9	-0.8	-0.9	-0.9	0.0	0.0	0.0	0.0	0.0
Other	0.7	1.3	1.0	0.8	0.8	0.8	0.0	0.0	0.0	0.0	0.0
Financing Needs	6.6	4.2	4.0	0.3	3.6	3.1	2.1	1.1	0.5	0.4	0.2
Total financing	6.6	4.2	4.0	0.3	3.6	3.1	2.1	1.1	0.5	0.4	0.2
Net domestic financing	1.6	2.3	-0.1	0.2	-0.2	-0.1	0.0	0.9	0.4	-0.1	-0.5
Net external financing	5.0	1.9	4.0	0.2	3.8	3.2	2.1	0.2	0.1	0.5	0.7
Net errors and omissions (+ overfinancing)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Counterfactual overall balance without RSF 2/					-3.5	-3.0	-2.2	-1.1	-0.7	-0.6	-0.3
Cumulative estimated RSF savings from substituting more expensive domestic financing 2/					0	0.1	0.3	0.5	0.6	0.7	0.8
Debt-to-GDP (Fourth review)	148.0	123.7	119.9	113.8	116.2	110.0	105.6	100.0	94.0	88.4	83.0
Change in debt-to-GDP		-24.3	-7.3	-9.8	-3.6	-3.8	-4.4	-5.6	-6.0	-5.5	-5.4
of which: contribution from primary deficit		1.9	1.1	-2.0	1.1	0.6	0.0	-1.0	-1.0	-1.0	-1.0
of which: contribution from real GDP growth		-22.0	-5.5	-5.1	-5.4	-5.1	-4.7	-4.0	-3.8	-3.6	-3.3
of which: contribution from average real interest rate		-6.3	-3.2	-0.3	-0.8	-0.3	0.2	-0.2	-0.3	-0.2	-0.2
of which: contribution from other debt creation flows 3/		2.1	0.3	-2.5	1.5	0.9	0.1	-0.4	-1.0	-0.7	-0.9
Social Spending	9.6	6.5	6.7	6.6	6.7	6.6	6.6	6.6	6.6	6.6	6.6
Total Public Investment	3.3	2.9	4.3	1.9	4.3	3.9	4.2	2.6	2.6	2.3	2.9
Of which: public investment done by SOEs	0.6	1.0	0.7	0.2	0.2	0.2	0.2	0.2	0.0	0.0	0.0
GDP at current market prices (billions of CVEsc)	191.3	241.6	257.1	263.8	274.7	281.7	300.9	321.2	342.7	365.1	388.8

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/ Assuming a nominal interest rate differential of 4 percent and average term to maturity differential of 13 years between RSF and domestic financing

3/ Includes net other liabilities, fx depreciation, and other debt-creating flows

Table 4. Cabo Verde: Deposit Corporations Survey, 2021–29
(Millions of CVE, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Central Bank									
Net foreign assets	60,629	61,810	66,503	72,836	73,915	78,194	83,785	89,904	95,811
Of which: <i>Foreign assets</i>	65,636	69,036	75,592	81,924	83,003	87,283	92,874	98,993	104,900
<i>Foreign liabilities</i>	-5,007	-7,227	-9,089	-9,089	-9,089	-9,089	-9,089	-9,089	-9,089
Net domestic assets	6,268	11,111	11,909	10,974	14,074	14,926	15,151	14,363	13,690
Net domestic credit	-1,955	143	592	-343	2,758	3,609	3,834	3,047	2,373
Government (net)	-7,972	-9,140	-6,916	-6,916	-6,916	-6,916	-6,916	-6,916	-6,916
Other public non-financial corporations (net)	0	0	0	0	0	0	0	0	0
Other depository corporations (net)	4,498	7,635	5,730	4,786	7,877	8,720	8,935	8,139	7,457
Others	1,519	1,648	1,779	1,788	1,797	1,806	1,815	1,824	1,833
Other items (net)	8,223	10,968	11,317	11,317	11,317	11,317	11,317	11,317	11,317
Reserve money (RM, M0)	66,897	72,921	78,412	83,810	87,989	93,120	98,936	104,267	109,501
Currency in circulation	14,720	15,181	16,080	16,552	16,816	17,796	18,908	19,927	20,927
Bank reserves	52,177	57,739	62,333	67,257	71,173	75,323	80,028	84,341	88,574
Other depository corporations									
Net foreign assets	3,090	4,520	9,959	9,733	9,496	9,247	8,985	8,712	8,425
Reserves	52,467	56,033	61,517	67,257	71,173	75,323	80,028	84,341	88,574
Net domestic assets	195,079	205,271	213,491	233,500	246,438	261,610	278,789	294,571	310,081
Net domestic credit	221,735	239,624	251,126	274,730	291,607	311,094	333,000	353,961	375,144
Government (net)	43,888	51,413	49,003	48,977	49,162	50,799	51,665	51,746	66,896.1
Other public non-financial corporations (net)	5,783	6,857	7,512	8,015	8,802	9,522	10,340	11,121	20,444.4
Private sector (net)	127,717	134,831	141,852	151,334	166,208	179,791	195,250	209,989	386,040
Other items (net)	-26,656	-34,353	-37,635	-41,230	-45,169	-49,484	-54,211	-59,390	-65,063
Deposits	198,169	209,791	223,450	243,233	255,934	270,857	287,774	303,283	318,506
Deposit corporations survey									
Net foreign assets	63,718	66,329	76,462	82,569	83,410	87,440	92,770	98,615	104,236
Foreign assets	99,880	106,860	118,147	125,030	126,666	131,510	137,674	144,372	150,866
Of which: gross international reserves	65,636	69,036	75,592	81,924	83,003	87,283	92,874	98,993	104,900
Foreign liabilities	-36,162	-40,531	-41,684	-42,461	-43,256	-44,070	-44,904	-45,757	-46,630
Net domestic assets	149,183	158,957	162,913	173,284	185,201	196,834	209,259	219,690	230,047
Net domestic credit	170,936	185,609	193,230	203,600	215,518	227,150	239,575	250,007	260,363
Net claims on general government (net)	35,916	42,273	42,087	42,061	42,246	43,882	44,748	44,830	44,088
Credit to the economy	135,019	143,336	151,143	161,539	173,272	183,268	194,827	205,177	216,275
o/w Credit to Private Sector	129,224	136,470	143,623	153,518	164,462	173,739	184,479	194,049	204,304
o/w Credit to Public Non-financial Corporations	5,783	6,857	7,512	8,015	8,802	9,522	10,340	11,121	11,964
Other items (net)	-21,752	-26,652	-30,317	-30,317	-30,317	-30,317	-30,317	-30,317	-30,317
Broad money (M2)	212,902	225,286	239,376	255,853	268,612	284,274	302,029	318,306	334,283
Narrow money (M1)	108,405	120,585	131,565	140,621	147,634	156,242	166,000	174,946	183,728
Currency outside banks	11,416	12,236	12,373	12,620	12,678	13,417	14,255	15,023	15,777
Demand deposits	96,989	108,349	119,192	128,001	134,956	142,825	151,746	159,923	167,951
Quasi-money	99,663	98,824	100,938	107,885	113,266	119,870	127,357	134,220	140,957
Foreign currency deposits	4,833	5,877	6,873	7,346	7,712	8,162	8,672	9,139	9,598
Year on Year Growth				(Percent)					
Net foreign assets	4.8	4.1	15.3	8.0	1.0	4.8	6.1	6.3	5.7
Net domestic assets	2.3	6.6	2.5	6.4	6.9	6.3	6.3	5.0	4.7
Net domestic credit	8.4	8.6	4.1	5.4	5.9	5.4	5.5	4.4	4.1
Net claims on government	14.6	17.7	-0.4	-0.1	0.4	3.9	2.0	0.2	-1.7
Credit to the economy	6.8	6.2	5.4	6.9	7.3	5.8	6.3	5.3	5.4
o/w Credit to Private Sector	7.1	5.6	5.2	6.9	7.1	5.6	6.2	5.2	5.3
o/w Credit to Public Non-financial corporations	1.8	18.6	9.6	6.7	9.8	8.2	8.6	7.5	7.6
Broad money (M2)	3.0	5.8	6.3	6.9	5.0	5.8	6.2	5.4	5.0
Reserve money (RM, M0)	-5.1	9.0	7.5	6.9	5.0	5.8	6.2	5.4	5.0
Memorandum items:									
Emigrant deposits/total deposits (percent)	33.7	32.6	31.9	31.9	31.9	31.9	31.9	31.9	31.9
Excess reserves/total deposits (percent)	17.8	17.5	18.4	17.7	17.8	17.8	17.8	17.8	17.8
Money multiplier (M2/M0)	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Money velocity (Nominal GDP/M2)	0.9	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.2
Broad money (M2 in percent of GDP)	111.3	93.3	90.7	90.8	89.3	88.5	88.1	87.2	86.0

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

Table 5. Cabo Verde: Financial Soundness Indicators of the Banking Sector, 2019–23Q4
(End-year; percent unless otherwise indicated)

	2019	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4
Capital adequacy																	
Regulatory capital to risk-weighted assets	17.7	18.1	18.3	18.6	19.4	19.6	20.0	20.9	21.4	22.0	21.4	21.9	22.2	22.7	21.4	21.8	23.7
Regulatory Tier 1 capital to risk-weighted assets	18.2	18.6	18.8	19.0	19.8	20.1	20.5	20.9	21.1	21.6	21.1	21.5	22.6	23.2	22.1	22.5	24.2
Asset quality 1/																	
Nonperforming loans to total loans	10.4	10.1	11.0	10.5	9.5	9.5	9.1	9.0	8.1	8.2	8.8	8.9	7.8	9.1	8.7	9.2	7.3
Nonperforming loans net of provisions to capital	15.0	20.4	23.9	16.6	7.1	10.9	8.5	7.6	1.6	7.4	9.4	11.6	3.9	8.6	10.8
Provisions to nonperforming loans	77.0	70.1	66.5	73.3	86.4	80.0	83.0	84.1	95.5	81.3	77.9	73.2	88.4	77.1	73.5	75.3	93.5
Earnings and profitability																	
Return on assets	1.3	0.4	0.6	1.0	1.3	0.4	0.8	1.2	1.4	0.4	0.8	1.3	1.5	0.4	0.9	1.3	1.8
Return on equity	17.8	5.3	7.9	12.7	15.4	4.9	9.1	12.7	14.9	4.4	8.7	13.6	16.0	4.4	9.2	13.6	18.2
Interest margin to gross income	81.1	78.2	85.8	86.7	85.7	84.8	83.1	83.5	80.8	83.9	82.0	78.6	80.0	83.6	82.7	83.5	82.3
Noninterest expenses to gross income	49.4	46.4	49.3	48.9	48.9	45.5	45.3	45.4	46.0	46.5	45.6	44.2	46.2	45.7	45.4	46.2	44.8
Liquidity 2/																	
Liquid assets to total assets	24.3	23.8	25.4	25.9	25.1	23.0	21.7	22.6	24.3	24.1	22.8	23.2	24.6	24.8	25.2	25.7	25.1
Liquid assets to short-term liabilities	28.3	27.8	30.0	30.8	29.9	27.5	26.1	28.0	30.5	30.1	28.5	29.1	31.5	31.6	32.3	32.8	32.9
Additional indicators																	
Government deposits over total deposits	19.1	19.6	19.1	19.7	19.6	19.0	18.0	17.7	16.0	15.7	15.8	17.1	17.0	17.3	17.6	17.6	17.9
Demand deposits over total deposits	50.9	51.8	51.6	51.7	51.1	51.6	51.4	50.9	51.8	52.6	51.8	52.9	53.3	53.8	54.3	54.5	55.0
Total credit over total deposits	52.9	52.9	53.2	53.6	54.7	55.5	56.1	57.8	56.9	55.5	56.3	56.1	57.4	56.7	56.9	56.3	57.6
Personnel cost over cost of operations	56.6	59.2	57.8	57.7	58.0	60.4	59.7	58.4	58.0	58.0	57.4	56.5	55.6	58.1	57.5

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: Quantitative Performance Criteria and Indicative Targets Under the ECF, September 2023-March 2025¹
(Millions of CVE, unless otherwise indicated)

	2023			Cumulative from the beginning of the calendar year							2025	
	end-December			end-March	end-June		end-September			end-December		end-March
	Performance Criteria (PC)	Actual	Status	Indicative Targets (IT)	Performance Criteria (PC)	Proposed Revised Performance Criteria (PC)	Indicative Targets (IT)	Proposed Revised Indicative Target Criteria (PC)	Performance Criteria (PC)	Proposed Revised Performance Criteria (PC)	Proposed Indicative Targets (IT)	
Quantitative performance criteria												
Primary balance, floor ²	-6,298.0	5,159	met	-1849	-2417.4		-2740.6		-3063.9			7
Tax revenue, floor	45,849.0	49,699	met	8088	21029		37501.4		53973.7			14808
Net other liabilities, floor ³	-1,368.2	-167	met	-418	-446.3		-502.12		-557.9		-2870	-139
Net domestic financing, ceiling	4,179.0	472	met	3093	4021	-2296	2241.25		462			96
Nonaccumulation of domestic arrears ⁴	0.0	0	met	0	0		0		0			0
Non-accumulation of external payment arrears ⁴	0.0	0	met	0	0		0		0			0
PV of new external debt, ceiling (in millions of US Dollars)	108.8	29	met	24	37		95.4		125.5			19
Nominal level of new nonconcessional external debt of central government, ceiling ⁴	0.0	0.0	met	0	0		0		0			0
Gross international reserves (in millions of euros), floor ²	622	686	met	671	693		743.6	716	794		743	745
Indicative Targets												
Social spending, floor	17,304.0	15,837	not met	3690	7379		12934.5		18490.1			4941
Non-quantitative continuous PCs												
Non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions												
Non-introduction or modification of multiple currency practices												
Non-imposition or intensification of import restrictions for balance of payments reasons												
Non-conclusion of bilateral payments agreements that are inconsistent with Article VIII												
<i>Memorandum items:</i>												
Net onlending	1,653			116.6	136		165.209		194			82
Capitalization	2,200.4			1100	1600		2100.2		2600			0
Program assumptions												
Project and budget support grants	5,225.0	3,460.8		526	1121		3765.34		6409.3			1077
External debt service	12,921.0	10,792.4		2409	4818		8424.69		12031.9			0
Sales of assets	747.0	139.0		106	226		465.3		705.0			118
Project and budget support loans	16,663.0	2,847.1		1816	4238		11995.3		19752.2			3840

¹ Sources: Cabo Verdean authorities and IMF staff estimates and projections.

² Foreign currency amounts will be converted at current exchange rates.

³ The ceiling or floor will be adjusted as specified in the TMUJ.

⁴ Until december 2023, Net other liabilities includes net onlending, capitalization, use of deposits, privatization. From June 2024 onwards, the definition was narrowed down to SOEs support focusing on net onlending to SOEs and capitalization

⁵ Continuous.

Table 7. Cabo Verde: Structural Benchmarks Under the ECF for 2022-24

Actions	Target date	Objective	Status
Fiscal reforms			
1) Invoice electronically at least 50 percent of tax payers for VAT	End-December 2022	Improve revenue collection	Met
2) Submit to parliament the budget for 2023 that is in line with commitments under the program.	End December 2022	Support fiscal and debt sustainability	Met
3) Compile and publish historical series of government financial statistics for general government.	End-March 2023	Improve fiscal transparency	Met
4) Publish annual budget execution reports for the general government.	End-September 2023	Improve fiscal transparency	Met
5) Construct a Compliance Risk Management system to allow for the optimization of tax revenue collection by end-December 2023.	End-December 2023	Support fiscal and debt sustainability	Met
6) Submit to parliament the budget for 2024 that is in line with the primary balance commitment under the program.	End-December 2023	Support fiscal and debt sustainability	Met
7) Develop and publish an action plan to reduce tax expenditures by 1 percent of GDP and include published estimates of annual tax expenditures in the budget to improve transparency	End-September 2024	Support fiscal and debt sustainability	
8) Implement the action plan to reduce tax expenditures during in the 2025 budget	End-December 2024	Support fiscal and debt sustainability	
9) Broadening the coverage of fiscal risk analysis and reporting to include PPPs	End-September 2024	Support fiscal and debt sustainability	
10) Adopt a budget for fiscal year 2025 that is in line with the program parameters (Proposed new SB)	End-December 2024	Support fiscal and debt sustainability	
SOEs reforms			
11) Conduct quarterly analysis of fiscal risk assessment using the IMF SOEs health check tool.	End-September 2022	Improve fiscal reporting and reduce fiscal risks	Met
12) Introduce a quarterly monitoring report on SOEs budget execution.	End-September 2022	Improve fiscal reporting and reduce fiscal risks	Met
13) Improve the annual SOEs report to include comparison of execution to initial budget projection, evaluation of performance against medium term plan, data on government relations (transfers and liabilities).	End-July 2023	Improve fiscal reporting and reduce fiscal risks	Met
14) Based on the July 2023 structural benchmark, publish in the annual report on public companies the targets agreed between the Ministry of Finance and Business Development and the six largest public companies, on improving financial performance and reducing the need for central government support.	End-June 2024	Improve fiscal reporting and reduce fiscal risks	
Monetary policy reforms			
15) Preannounce a schedule for TIM and TRM auctions.	End-June 2022	Support the development of the money market	Met
16) Introduce composite indicators of economic activity.	End-June 2023	Support monetary policy analysis	Met
Financial sector reforms			
17) Submit draft amendments to the BCV Law, in line with IMF recommendations, to the Ministry of Finance with a view to (i) establishing an independent oversight process that is separate from executive management, (ii) strengthening the BCV's personal and financial autonomy, and (iii) enhancing transparency and accountability mechanisms	End-December 2022	Strengthen BCV institutional framework	Met
18) Carry out a comprehensive study of loan losses and provisions at the expiration of the credit moratorium.	End-December 2022	Strengthen financial stability	Met
19) Develop a common framework for the resolution of crisis related NPLs.	End-December 2022	Strengthen financial stability	Met
20) Increase the frequency of stress testing to twice per year (June 2023 and December 2023) to ensure the effectiveness of the supervisory process and revamp the stress testing methodology to include detailed banking data and cyber security risk assessment.	End-December 2023	Strengthen financial stability	Met
21) Submit the draft amendments to the BCV Law, in line with IMF recommendations, to parliament with a view to (i) establish an independent oversight process that is separate from executive management, (ii) strengthen the BCV's personal and financial autonomy, and (iii) enhance transparency and accountability mechanisms	End-July 2024	Strengthen BCV institutional framework	

Table 8. Cabo Verde: Indicators of Capacity to Repay the Fund, 2024-43

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043
Fund obligations based on existing credit (millions of SDRs)																				
Principal	0.0	2.4	4.7	5.9	8.6	10.6	8.7	6.3	5.2	2.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Total	1.3	3.7	6.0	7.2	9.9	11.9	10.0	7.6	6.5	3.8	1.7	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Fund obligations based on existing and prospective credit (millions of SDRs)																				
Principal	0.0	2.4	4.7	5.9	8.6	11.0	10.9	9.0	7.9	5.2	3.0	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
o/w PRGT	0.0	2.4	4.7	5.9	8.6	11.0	10.9	9.0	7.9	5.2	2.7	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w RST	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	2.0	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Charges and interest	1.4	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.7	1.7	1.6	1.6	1.5	1.4	1.4
o/w PRGT	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
o/w RST	0.1	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.3	0.3	0.2	0.1	0.1
Total	1.4	6.5	11.3	13.6	19.0	23.9	23.7	19.8	17.6	12.2	7.8	6.7	6.5	6.4	6.4	6.3	6.3	6.2	6.2	6.1
Total obligations based on existing and prospective credit																				
Millions of SDRs	1.4	4.1	6.6	7.7	10.4	12.9	12.8	10.8	9.7	7.0	4.8	4.2	4.1	4.1	4.0	4.0	3.9	3.9	3.8	3.8
o/w PRGT	1.3	3.7	6.0	7.2	9.9	12.3	12.2	10.3	9.2	6.5	4.0	1.7	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
o/w RST	0.1	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.8	2.5	2.8	2.8	2.7	2.7	2.6	2.6	2.5	2.5
Millions of U.S. dollars	1.8	5.5	8.8	10.4	14.0	17.4	17.2	14.6	13.1	9.5	6.5	5.7	5.6	5.5	5.4	5.4	5.3	5.2	5.1	5.1
o/w PRGT	1.7	4.9	8.1	9.6	13.3	16.7	16.5	13.9	12.4	8.7	5.4	2.4	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
o/w RST	0.1	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	1.1	3.4	3.8	3.8	3.7	3.6	3.5	3.5	3.4	3.3	3.3
Percent of exports of goods and services	0.2	0.5	0.7	0.8	0.9	1.1	1.0	0.8	0.7	0.4	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Percent of debt service	1.1	3.5	5.3	6.5	8.9	11.2	10.7	9.0	7.8	5.3	3.3	2.8	2.6	2.4	2.3	2.2	2.1	2.0	2.0	2.0
Percent of quota	5.7	17.4	27.7	32.5	43.9	54.3	53.8	45.7	41.0	29.6	20.2	17.9	17.4	17.2	17.0	16.8	16.5	16.3	16.1	15.9
Percent of gross international reserves	0.2	0.7	1.0	1.1	1.4	1.7	1.6	1.2	1.0	0.7	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Percent of GDP	0.1	0.2	0.3	0.3	0.4	0.5	0.4	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Outstanding Fund credit																				
Millions of SDRs	80.0	90.1	85.3	79.5	70.9	59.8	48.9	39.9	32.0	26.9	23.9	21.5	19.1	16.7	14.4	12.0	9.6	7.2	4.9	2.5
o/w PRGT	64.2	66.4	61.6	55.8	47.2	36.1	25.2	16.2	8.3	3.2	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w RST	15.8	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.4	21.5	19.1	16.7	14.4	12.0	9.6	7.2	4.9	2.5	2.5
Millions of U.S. dollars	107.0	120.8	114.7	107.0	95.7	80.8	66.0	53.9	43.2	36.2	32.2	29.0	25.8	22.6	19.4	16.2	13.0	9.8	6.6	3.4
o/w PRGT	85.9	89.0	82.9	75.1	63.7	48.8	34.0	21.9	11.2	4.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w RST	21.1	31.8	31.9	31.9	32.0	32.0	32.0	32.0	32.0	31.6	29.0	25.8	22.6	19.4	16.2	13.0	9.8	6.6	3.4	3.4
Percent of exports of goods and services	10.3	10.5	9.1	7.8	6.4	5.0	3.8	2.9	2.2	1.7	1.4	1.1	0.9	0.8	0.6	0.4	0.3	0.2	0.1	0.1
Percent of debt service	67.0	76.7	69.0	67.5	60.9	52.3	41.2	33.1	25.8	20.2	16.5	14.0	11.8	9.9	8.3	6.8	5.2	3.8	2.5	1.3
Percent of quota	337.6	380.0	360.0	335.2	299.1	252.5	206.4	168.4	135.2	113.3	100.8	90.6	80.6	70.6	60.6	50.6	40.6	30.6	20.6	10.6
Percent of gross international reserves	13.2	14.7	13.3	11.7	9.8	7.8	6.2	4.5	3.3	2.6	2.1	1.7	1.5	1.2	0.9	0.7	0.5	0.3	0.2	0.1
Percent of GDP	3.8	4.1	3.6	3.2	2.7	2.1	1.6	1.2	0.9	0.7	0.6	0.5	0.4	0.4	0.3	0.2	0.2	0.1	0.1	0.0
Net Use of Fund Credit (millions of SDRs)																				
Disbursements	24.8	10.0	-4.7	-4.7	-8.1	-10.6	-10.9	-9.0	-9.0	-5.6	-3.4	-2.4	-2.4	-2.4	-2.4	-2.4	-12.0	-2.4	-2.4	-2.4
Repayments	24.8	12.4	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	0.0	0.0	0.0
	0.0	2.4	4.7	4.7	8.1	10.6	10.9	9.0	9.0	5.6	3.4	2.4	2.4	2.4	2.4	2.4	12.0	2.4	2.4	2.4
Memorandum items:																				
Exports of goods and services (millions of U.S. dollars)	1039.1	1146.7	1259.0	1377.8	1501.0	1608.7	1744.4	1863.8	1992.1	2154.7	2339.2	2559.0	2729.0	2968.2	3262.3	3625.0	3980.3	4401.9	4816.5	5314.5
Debt service (millions of U.S. dollars)	159.6	157.7	166.3	158.5	157.2	154.5	160.2	162.9	167.5	179.4	195.2	206.4	217.9	227.5	234.7	238.8	249.5	260.6	261.1	253.3
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	23.7	23.7	23.7	23.7	23.7
Gross international reserves	810.8	821.3	861.8	915.5	974.4	1032.5	1067.6	1196.4	1294.7	1380.8	1518.6	1659.2	1760.6	1924.9	2114.6	2352.8	2623.3	2889.3	3155.4	3745.1
GDP (millions of U.S. dollars)	2788.1	2977.2	3170.9	3378.2	3593.3	3827.2	4078.9	4346.2	4632.5	4937.3	5261.2	5606.5	5974.7	6366.8	6784.6	7228.8	7704.3	8208.9	8752.3	9331.4

Sources: IMF staff estimates and projections.

Table 9. Cabo Verde: Schedule of Reviews Under the ECF, 2022-25

Date Available	Amount (SDR millions)	% of Quota	Conditions Necessary for Purchase
15-Jun-22	11.26	47.5	Executive Board approval of ECF
15-Oct-22	11.26	47.5	Observance of end-June 2022 performance criteria and completion of the first review under the arrangement
15-Mar-23	4.50	19.0	Observance of end-Dec 2022 performance criteria and completion of the second review under the arrangement
15-Oct-23	4.50	19.0	Observance of end-June 2023 performance criteria and completion of the third review under the arrangement
15-Mar-24	4.50	19.0	Observance of end-December 2023 performance criteria and completion of the fourth review under the arrangement
15-Oct-24	4.50	19.0	Observance of end-June 2024 performance criteria and completion of the fifth review under the arrangement
15-Mar-25	4.51	19.0	Observance of end-December 2024 performance criteria and completion of the sixth review under the arrangement
Total	45.03	190.0	

Source: IMF staff estimates.

Note: Quota is SDR 23.70 million.

Table 10. Cabo Verde: Access and Phasing Under the RSF Arrangement, 2024-25

Available date	Proposed New Available date	SDR million	Percent of Quota	Total Disbursements	Conditions for disbursement
15-Mar-24	15-Mar-24	2.632	11.11	5.264	Reform measure 1 implementation review
15-Mar-24	15-Mar-24	2.632	11.11		Reform measure 3 implementation review
15-Oct-24	2-Dec-24	2.632	11.11	10.528	Reform measure 2 implementation review
15-Oct-24	2-Dec-24	2.632	11.11		Reform measure 7 implementation review
15-Oct-24	2-Dec-24	2.632	11.11		Reform measure 8 implementation review
15-Oct-24	2-Dec-24	2.632	11.11		Reform measure 9 implementation review
15-Mar-25	15-May-25	2.632	11.11	7.908	Reform measure 4 implementation review
15-Mar-25	15-May-25	2.632	11.11		Reform measure 5 implementation review
15-Mar-25	15-May-25	2.644	11.16		Reform measure 6 implementation review
Total access		23.7	100.0		

Source: IMF staff estimates.

Note: Quota is SDR 23.7 million.

Table 11. Cabo Verde: RSF Reform Measures Matrix

KEY CHALLENGE	REFORM MEASURE	DIAGNOSTIC REFERENCE	IMF CD INPUT	STATUS	DEVELOPMENT PARTNER ROLE	TIMING
National coordination and management of climate change is under the MAE that is not able to ensure cross sector coordination	RM1. Government will establish a council/body for coordinating climate change policy planning and strategy, and DRM under the Heads of Government, with a clear tasks, responsibilities and procedures, including mechanisms for (i) holding entities accountable for consistency across sectoral plans in line with the national development strategy (PEDS II) and international commitments (NDC), and (ii) providing strategic oversight of DRM defined in the TORs, with implementation reflected in the protocols of regular meetings. The MAE serves as secretariate.	Climate Policy Diagnostic (CPD)	None needed	The Cabinet approved on May 7 the Resolution n° 38/2024, which was published in the Official Gazette on May 10, 2024, I Série N° 42-11061 (https://kiosk.incv.cv/1.1.42.5747/)	LuxDev provided TA on the climate governance function and associated legal amendments	End-April 2024; 4 th ECF Review
Natural disaster and climate related risk not adequately featured in fiscal planning	RM2. To improve fiscal risk management, the Ministry of Finance will conduct and publish in the annual Fiscal Risk Statement quantitative analysis of the fiscal risks generated by climate change.	C-PIMA; CPD	FAD will provide CD support through AFW2 on fiscal risks	IMF TA from FAD is programmed for July 2024 to support changes to the Fiscal Risk Statement	World Bank has prior actions and triggers in the latest DPF supporting a stronger PIM framework and aligned with the C-PIMA recommendations	End-September 2024; 5 th ECF Review

KEY CHALLENGE	REFORM MEASURE	DIAGNOSTIC REFERENCE	IMF CD INPUT	STATUS	DEVELOPMENT PARTNER ROLE	TIMING
Investments don't reflect needed physical resilience to Climate Change	RM3. The Ministry of Finance will enact amendments to the PPP legal framework to ensure climate requirements are reflected in PPP agreements and the Ministry of Finance will publish a manual integrating these requirements throughout the PPP capital project lifecycle, from project identification to contract management stages.	C-PIMA	FAD HQ support with LEG participation	FAD provided TA in March to support the authorities on the amendments of the PPP legislation and the Manual. Changes were approved by Cabinet in April and published in the Official Gazette on May 8, 2024 (Decreto-lei 21/2024, I Série nº 40-1012 (https://kiosk.incv.cv/1.1.40.5737/)		End-April 2024; 4 th ECF Review
	RM4. To scale up and systematize climate finance the Ministry of Finance will (i) adopt a national climate finance mobilization strategy that comprehensively identifies the financing instruments to unlock climate finance sources; and (ii) develop and publish, a pipeline of appraised public capital projects, including climate-related projects, as part of the budget process.	C-PIMA	Luxembourg and follow up support from FADM2	The climate finance strategy is largely complete for presentation at COP 29. Work on the pipeline of projects is ongoing work and expected to be complete in Nov-2024.	LuxDev is providing TA to formulate a climate finance strategy	End-April 2025; 6 th ECF Review

Table 11. Cabo Verde: RSF Reform Measures Matrix (continued)

KEY CHALLENGE	REFORM MEASURE	DIAGNOSTIC REFERENCE	IMF CD INPUT	STATUS	DEVELOPMENT PARTNER ROLE	TIMING
<p>Mitigation, adaptation and resilience in the energy sector are held up by energy inefficiency and obstacles to transition</p>	<p>RM5. To support energy transition plans, which will require substantial infrastructure investment the government will, (i) determine the cost-recovery rate for the provision of electricity (fully reflecting operational and capital cost), (ii) identify any discrepancy between the existing tariff and so defined cost recovery, (iii) undertake a distributional impact assessment, and (iv) publish and adopt regulations establishing a methodology for adjusting electricity tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments. (Ministry of Industry, Trade and Energy and MoF)</p>	CPD	FADEP support on the analytical study and distributional impact	<p>Authorities are setting out the investment plans needed for the energy sector.</p> <p>Cooperation with international partners on tariffs is advanced (e.g., calculating cost recover rates).</p> <p>FAD plans 2 TA missions in 2024 to support work on the tariffs and the distributional impact assessment</p>	<p>WB energy projects are providing support on unbundling the energy SOE.</p> <p>LuxDev is supporting work on tariff reforms.</p>	End-April 2025; 6 th ECF Review

Table 11. Cabo Verde: RSF Reform Measures Matrix (continued)

KEY CHALLENGE	REFORM MEASURE	DIAGNOSTIC REFERENCE	IMF CD INPUT	STATUS	DEVELOPMENT PARTNER ROLE	TIMING
Access to water resources and fiscal sustainability are vulnerable to long-run climate impacts due to lack of investment and non-ecological use	RM6 To support reform initiatives, which will require substantial infrastructure investment the government will, (i) determine the cost-recovery rate for the provision of water (fully reflecting operational and capital cost), (ii) identify any discrepancy between the existing tariff and so defined cost recovery, (iii) undertake a distributional impact assessment, and (iv) publish and adopt regulations establishing a methodology for adjusting water tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments, and/or by financing infrastructure investment transparently from the budget, with a view to ensure sustainability of the water sector. (National Water and sanitation Agency (ANAS) and MoF)	CPD	FAD support for tariff review and the distributional impact	<p>Authorities are setting out the investment plans needed for the water sector.</p> <p>Cooperation with international partners on tariffs is advanced (e.g., calculating cost recover rates).</p> <p>FAD plans 2 TA missions in 2024 to support work on the tariffs and the distributional impact assessment.</p>	LuxDev is supporting work on tariff reforms.	End-April 2025; 6 th ECF Review
	RM7. The Unique Social Registry (USR) will be expanded to provide the basis for a social support system that can efficiently mitigate the implications of climate transition and climate hazard events. To this end, the Ministry of Family and Social Inclusion and the MoF will expand coverage of the USR to 100 percent of poor and vulnerable households (including from rural areas) as identified based on the latest household budget survey, and offer inclusion in the USR to 100 percent of the households in climate vulnerable areas.	CPD		<p>The USR has been expanded and covers 100 percent of poor and vulnerable households.</p> <p>Work on offering inclusion to households in climate vulnerable areas is dependent on RM8.</p>	WB	End-Nov. 2024; 5 th ECF Review

Table 11. Cabo Verde: RSF Reform Measures Matrix (concluded)

KEY CHALLENGE	REFORM MEASURE	DIAGNOSTIC REFERENCE	IMF CD INPUT	STATUS	DEVELOPMENT PARTNER ROLE	TIMING
	RM8 INGT or new unit/council for CC management and DRM will develop and disseminate natural disaster risk and vulnerability maps, including information on how and where climate hazards might affect the areas and regions, to assess risks and vulnerabilities of the population, infrastructure assets, sectors, and the economy/businesses. The land use planning regulation and construction code requirements will be amended to consider disaster risks and vulnerabilities for urban and rural development planning and for designing and constructing infrastructure and buildings.			The authorities started working on this RM and using own resources to finance the activities.		End-Nov. 2024; 5 th ECF Review
Green financing/Climate Finance	RM9. The BCV will develop a climate information architecture for banks, consisting of 1) the adoption of a climate change adaptation and mitigation taxonomy, and 2) the publication of climate risk and opportunities and disclosure guidelines, so that banks are expected to submit their internal roadmaps within six months from the effective date of application of the guideline, followed by progress reports every six months.		MCM CD TBC	Authorities will request CA and/or online training from MCM.	TBC	End-Nov. 2024; 5 th ECF Review

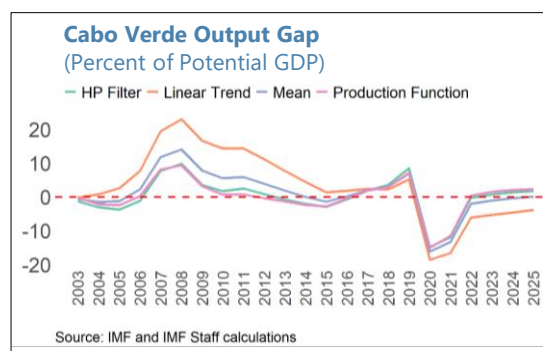
Annex I. Primary Balance (PB), Cyclically Adjusted PB and Structural PB Drivers

1. Tax policy and administration measures propelled revenues upwards. From 2021 to 2023, the tax revenue-to-GDP ratio has increased by 1.5 percentage points, mainly due the enhancement of the electronic invoice system (Table 1). From 2024 to 2025, tax collection as a share of GDP is estimated to grow by 1.3 percentage point mainly due to reductions in tax expenditures and the implementation of the ECOWAS tariffs. The changes in other revenues are mostly explained by the airport concession receipts of about 1.5 percent of GDP, of which 1 percent is one one-off revenue that will unwind over 2024/25. The changes in grants, in turn, are estimated to be close to zero from 2024 to 2025. The primary fiscal impact of changes in grants is broadly neutral as they are linked to an equivalent expansion/contraction in primary current and capital expenditures.

2. Primary expenditure as a percent of GDP has been contained during the post-COVID recovery. From 2021 to 2023, the primary expenditures-to-GDP ratio contracted by 5.9 percentage points, of which 5.3 is related to a drop in current expenditures and 0.6 to a contraction in public investment. The underperformance of public investments, which was only 1.7 percent of GDP in 2023, relative to the budget is compromising needed growth enhancing reforms in key sectors. From 2024 to 2025, primary expenditures are projected to increase by 2.9 percentage points of which 2.1 percentage points are derived from an expansion in public investment.

3. The 2023 PB (2 percent of GDP) was the largest ever, but it came at the cost of delays in important public investment. The PB improved from -5.4 percent of GDP in 2021 to 2 percent in 2023. The 2024 PB is estimated to move to -0.6 percent of GDP, driven by a resumption of capital expenditures of around 2 percent of GDP. A zero PB is projected in 2025 as current expenditure reverts to more historic levels as a share of GDP, due to the unwinding of grant funding and lower sub-national transfers.

4. A slightly negative output gap is pushing the unadjusted PB downwards. The mean of three methodologies was applied to estimate the potential output gap: the linear trend, Hodrick-Prescott (HP) filter, and the production function methodologies. The production function output gap estimate is close to the HP filter results pointing to a small positive output gap. However, the empirical findings detailed in Box 1 shows that Cabo Verde tends to bounce back to its historical growth trend after a recession and, thus, it is important to also consider the linear trend that indicated a sizeable negative output gap. Building on the work of Murre and others (2019),¹ the



¹ Gilles Mourre & Aurélien Poissonnier & Martin Lausegger, 2019. "The Semi-Elasticities Underlying the Cyclically-Adjusted Budget Balance: An Update and Further Analysis," European Economy - Discussion Papers 098, Directorate General Economic and Financial Affairs (DG ECFIN), European Commission.

following elasticities to output gap were calibrated to estimate the cyclically adjusted PB: CIT (2.27), PIT (1.67), VAT (1), and primary expenditures (-0.1). Given Cabo Verde's revenue composition, the implied estimated overall elasticity of revenues to output gap was close to 1. From 2022 to 2023, cyclical factors pushed the PB downwards by 0.7 percentage points. For 2024 and 2025, the impact of cyclical factors is close to zero due to the closing of the output gap.

5. Even after controlling for cyclical and one-off factors, the total fiscal impulse from 2022 to 2025 is estimated to be around -1.5 percent of GDP. The estimated steady state collection level of VAT, PIT, and CIT arrears is 0.23 percent of GDP per type of tax, implying that any collection of arrears above this threshold would translate into a one-off adjustment factor to the structural balance. Moreover, the -1.1 percent of GDP adjustment of one-off factors in 2023 is explained by the non-recurrent payment portion of the airport concession fee. From 2022 to 2023, one-off factors increased the PB by 1.2 percentage points. In 2024 and 2025, the influence of these factors is expected to be minimal. As a result, the estimated fiscal impulse from 2022 to 2025 is -1.5 percent of GDP considering an expansion in public investments in 2024.

Table 1 Cabo Verde: Contribution to Primary Balance, Cyclically Adjusted Primary Balance, and Structural Primary Balance (Percent of GDP)	t=2022	t=2023	t=2024	t=2025	Cumulative (2022-2025)
Primary balance in t_{-1}	-5.3	-1.9	2.0	-0.6	
Change in tax revenues	0.7	0.6	0.4	0.9	2.7
New tax policy identified measures	0.4	0.5	0.3	0.9	2.1
Reduction in tax expenditures and ECOWAS implementation	0.0	0.0	0.0	0.9	0.9
Electronic invoicing	0.1	0.5	0.1	0.0	0.7
Turnover tax	0.1	0.0	0.0	0.0	0.1
Implementation of 5 percent import duties on previously exempted	0.2	0.0	0.0	0.0	0.2
Increase in tobacco alcohol lump-sum tax	0.2	0.0	0.2	0.0	0.4
Reduction in VAT on electricity	-0.2	0.0	0.0	0.0	-0.2
Tax administration identified measures	0.3	0.1	0.1	0.0	0.5
VAT arrears collection	0.2	-0.1	0.2	0.0	0.3
Personal income tax arrears collection	0.1	0.0	0.1	0.0	0.2
Corporate income tax arrears collection	0.1	0.2	-0.2	0.0	0.1
Change in other revenues	-1.0	1.8	1.0	-1.5	0.3
Concession for airport management	-0.5	1.5	-0.3	-0.7	0.0
Change in grants	-1.2	0.4	1.0	-0.8	-0.7
Change in primary expenditures	4.8	1.1	-4.9	2.0	3.0
Expense	4.4	0.9	-3.1	2.3	4.5
Net acquisition of non-financial assets	0.4	0.2	-1.8	-0.3	-1.5
Primary balance in t	-1.9	2.0	-0.6	0.0	-0.6
Cyclical drivers	0.4	0.3	0.1	0.0	0.8
Cyclical revenues	0.5	0.3	0.1	0.0	0.9
Cyclical expenditures	0.0	0.0	0.0	0.0	-0.1
Cyclically Adjusted Primary Balance in t	-1.5	2.2	-0.5	-0.1	0.2
One-off factors	-0.1	-1.1	-0.1	0.0	-1.3
One-off arrears collection	-0.1	-0.1	-0.1	0.0	-0.3
One-off revenues related to the airport concession	0.0	-1.0	0.0	0.0	-1.0
Structural Primary Balance in t	-1.6	1.1	-0.6	-0.1	-1.1
Fiscal Stance in t	1.6	-1.1	0.6	0.1	1.1
Fiscal Impulse in t		-2.7	1.7	-0.5	-1.5

Sources: Cabo Verdean authorities and IMF staff estimates.

Annex II. Risk Assessment Matrix¹

(Scale—high, medium, or low)

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Conjunctural risks			
Intensification of regional conflicts	High Escalation or spread of the conflict in Gaza and Israel, Russia’s war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High The economy would be hit by disruptions in the supply chain, terms of trade and the tourism sector deteriorate resulting in the balance of payments problems and lower FDI, increase inflation leading to food insecurity and poverty.	<ul style="list-style-type: none"> • Slow down planned unwinding of policy support while ensuring that recovery is well entrenched. • Create fiscal space through spending review and tax mobilization for new policies to mitigate supply shocks in the economy.
Abrupt global slowdown	Medium Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops.	Medium Recession in key tourist markets would lower tourist arrivals and slow down economic recovery and revenues. Rising core yields and risk premia will increase the cost of new debt and add pressure to foreign reserves and financial account due to a “Fly-to-quality” effect. Rising yields could also reduce the flow of migrant deposits.	<ul style="list-style-type: none"> • Maintain adequate reserves and fiscal consolidation and reliance on concessional financing from bilateral and/or multilateral creditors. • Develop contingency plans to lower the impact of delayed recovery. • Stand ready to tighten monetary policy.

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff’s subjective assessment of the risks surrounding the 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. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Commodity price volatility	High A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability	High Worsening of the current account, generating balance of payments problems. Commodity prices increase, especially in oil and food, joint with supply disruptions, leads to a higher inflation, and impacts vulnerable consumers.	<ul style="list-style-type: none"> • Build external buffers and resilience to shocks. • Diversification of energy usage (renewable energies transition), to mitigate oil price shocks. • Improve effectiveness of government's targeted supports to vulnerable groups.
Structural Risks			
Deepening geoeconomic fragmentation	High Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	High Cabo Verde is an open economy, highly dependent on imports (food, intermediates, and fuel), remittances and tourism. Hence any disruption on each of these areas is bound to deeply affect economic activity.	<ul style="list-style-type: none"> • The limited fiscal resources should be prioritized and allocated to investments that increase diversification across tourism source markets. • Contingency planning should be undertaken in anticipation of operational or financial disruptions. • Accelerate the implementation of structural reforms to support international competitiveness and productivity.
Cyberthreats	Medium Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability.	Medium Cyber-attacks could generate weaker confidence, cause instability in the financial system and disrupt domestic activity.	<ul style="list-style-type: none"> • Strengthen information security particularly in the government sector. Improve financial regulation and supervision to enhance the resilience of the financial system.
Extreme climate events	Medium Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium/High Prolonged drought or other climate-related shocks would undermine agricultural production with negative impact on GDP growth and inflation.	<ul style="list-style-type: none"> • Build resilience to weather-related shocks and accelerate growth-enhancing reforms. • Prioritize public investments projects resilient to climate change, improve risk management and building codes.

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Domestic			
Faltering fiscal consolidation efforts	Medium/High Less ambitious and slower fiscal consolidation efforts and delayed SOEs reforms as the economy recovers.	High Delayed fiscal consolidation efforts and SOEs reforms would undermine macroeconomic stability and hinder the return to pre-COVID medium-term fiscal and debt sustainability trajectory.	Unwind temporary measures, 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.	Follow through with SOEs reform plans and accelerate other 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.

Annex III. External Sector Assessment

Overall Assessment: Cabo Verde's external position in 2023 is assessed to be substantially stronger than the level implied by medium term fundamentals and desirable policies. The external sustainability approach, the EBA-lite methodology based on the current account model and the REER model, indicate an undervaluation of the real effective exchange rate. 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 3.6 months of prospective imports of goods and services, while the actual level was 5.6 months, for 2023, and the projected level for the medium term is around 5.5 months.

The results on the undervaluation of the REER should be interpreted with caution as the country has large external liabilities that suggest the external position remains highly vulnerable to shocks. Sustained medium-term fiscal consolidation and structural reforms are needed to contain external vulnerabilities. Fiscal adjustment is expected to help lower external liabilities and 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. Maintaining strong external buffers is critical to support the peg and contain existing vulnerabilities.

Foreign Assets and Liabilities: Position and Trajectory

Background. Cabo Verde's net international investment position decreased in 2023 and stood at -130 percent of GDP. At end-2023, gross external assets and liabilities stood at 67 percent of GDP and 197 percent of GDP, respectively. This persistent and large negative position is a significant source of external vulnerability.

Assessment. Although the negative NIIP is significant, the favorable interest rate-growth differential has a positive impact on Cabo Verde's debt dynamics. Debt service cost is moderate with an average interest rate of about 0.93 percent and average maturity of about 17.2 years in 2022. The exchange rate risk is low due to the exchange rate peg. The composition of liabilities in Text Table 1 indicates that FDI comprises a larger share and portfolio investment, which is short-term and usually disruptive, is very small. Furthermore, the other investments category declined in 2023 as banks decreased their foreign liabilities.

Text Table 1. Cabo Verde External Liabilities

Percent of GDP	2022	2023
Liabilities	209.9	197.3
Direct investment	100.6	96.7
Portfolio investment	0.4	0.3
Other investment	108.9	100.3
<i>of which loans</i>	93.2	87.3

2023 (% of GDP)	NIIP: -130	Gross Assets: 67	Debt Assets: 10	Gross Liab.: 197	Debt Liab.: 5
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Current Account

Background. In 2023, the current account balance narrowed from an annual average deficit of 6.8 percent of GDP during the pre-Covid 10 years, to 3.0 percent of GDP, reflecting a strong performance in tourism receipts alongside a slowdown in imports growth. Financial inflows remained important during the period, covering the largest share of the current account deficits. The current account deficit is projected to widen to 5.2 percent of GDP in 2024 due to an increase in imports driven by higher capital expenditure, weaker external demand in tourism markets, and a slowdown in remittances. A gradual growth in the tourism sector and remittances are expected to lead to a CA deficit of 3.2 percent of GDP by 2029.

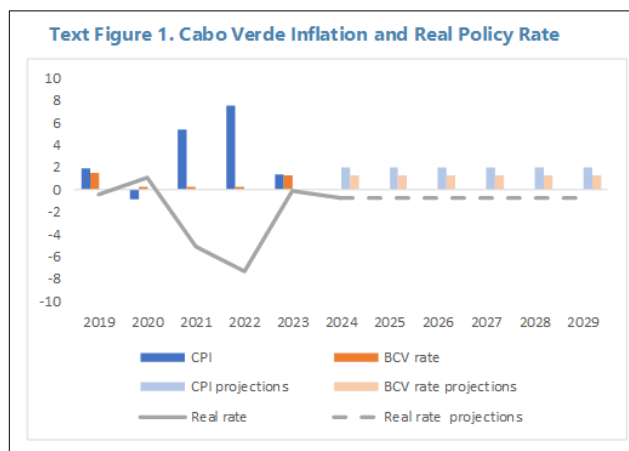
Text Table 2. Cabo Verde: EBA-lite Model Results, 2023		
	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	-3.0	
Cyclical contributions (from model) (-)	-0.2	
Additional temporary/statistical factors (-)		
Natural disasters and conflicts (-)	0.0	
Adjusted CA	-2.8	
CA Norm (from model) 2/	-10.1	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	-10.1	
CA Gap	7.3	3.8
o/w Relative policy gap	1.4	
Elasticity	-0.3	
REER Gap (in percent)	-24.3	-12.6
1/ Based on the EBA-lite 3.0 methodology		
2/ Cyclically adjusted, including multilateral consistency adjustments.		

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 -2.8 percent of GDP in 2023, while the multilaterally consistent cyclically adjusted current account norm is -10.1 percent of GDP (Text Table 2). This suggests a current account gap of 7.3 percent of GDP. Using the estimated current account elasticities, this implies an undervaluation of the real effective exchange rate (REER) of about 24.3 percent. The high CA norm for Cabo Verde’s current account deficit is due to large outward migration and the associated remittances inflows. The EBA-Lite puts the share of the population living abroad at 31 percent and this contributes 3.8 percent to the CA norm. 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.

Real Exchange Rate

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 2015–2022. In 2023, the REER remained broadly unchanged compared with 2022. This is explained by the exchange rate peg and low inflation relative to trading partners.

Assessment. The REER model suggests an undervaluation of the REER of about 12.6 percent (Text Table 1). The gap is mostly driven by the real interest rate due to the negative real interest rate that averaged -3 percent in 2023. Nonetheless, inflation has declined significantly during the first few months of 2024, recording deflation in February 2024. It is projected to average 2 percent in 2024 and the medium term. This implies that, if the BCV policy rate remains unchanged at 1.25 percent, the negative interest rates will continue in 2024 and the medium term, albeit at a lower level (Text Figure 1). Hence it is recommended that the BCV should adjust policy settings to be aligned with the medium-term inflation forecast.



Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account is dominated by foreign direct investments (FDI) and other investments. The FDI growth rate declined from 34.9 percent in 2022 to 5 percent in 2023. Public flows were dominated by amortization payments in 2023. On a net basis, banks' deposit outflow continued in 2023 amid the BCV policy rate differential with the ECB.

Assessment. The structure of Cabo Verde's external liabilities is largely composed of FDI and long-term maturity debt which supports external stability. Nonetheless, the recent increase in the banks' deposit outflows and its impact on reserves accumulation can be tamed by narrowing the interest rate differential. In addition, Cabo Verde attracting more FDI outside the tourism sector could assist with export diversification, investment growth and economic development.

FX Intervention and Reserves Level

Background. Gross international reserves increased by €59 million in 2023, bringing the stock to €686 million at end-December, equivalent to 5.6 months of prospective imports of goods and services, boosted among other by the ECF disbursement of SDR4.5 million (19 percent of quota, about US\$6 million). Over the medium term, reserves are projected to remain around 5.5 months of prospective imports of goods and services.

Assessment. Results from the Fund's LIC/MIC framework suggest that the optimal level of reserves for Cabo Verde is about 3.6 months of prospective imports of goods and services. However, fragilities arising from the economy's small size, lack of export diversification, vulnerability to exogenous shocks, and the need to protect the peg, call for a higher level of reserves. The staff's medium-term projections point to a level of reserves around 5.5 months of prospective imports of goods and services.

Annex IV. Capacity Development Strategy for 2024-2026

CD Strategy and Priorities

1. The IMF Technical Assistance (TA) covers a comprehensive package of policy reforms to support the ECF and the RSF’s objectives. Capacity Development (CD) priority areas are aligned with the authorities’ reform agenda under their medium-term development strategy (PEDS II). Consequently, the core of the Fund CD activities will focus on strengthening revenue mobilization, improving public investment management, reducing fiscal risks, strengthening monetary policy analytical and forecasting capabilities, liquidity forecasting framework, and monetary policy transmission mechanism, strengthening banks’ regulation and supervision frameworks (including banks and non-bank risk-based supervision, Basel capital framework and IFRS 9 provisioning), and improving collection and dissemination of macroeconomic and financial statistics. With respect with RSF program objectives, Fund TA will be provided to establish climate-related issues in fiscal planning and budgeting and on public investment, distributional impact assessments, and on climate finance. The main CD priorities and objectives are summarized in the table below.

Priorities	Objectives	Challenges
Revenue administration	<p>Traction: DNRE has really benefited from CD over time by, embracing a digital transformation focused on domestic revenue mobilization through better management arrangements. Key results supported by IMF CD include: (i) cleaning the taxpayer registry and linking it in real-time with civil and commercial databases; (ii) incrementing internal and third-party data gathering and crossing this information to stimulate tax compliance; (iii) deploying automated tools for auditing Value-Added Tax (VAT); (iv) creating electronic notifications, electronic mail boxes, and electronic signatures to interact electronically with taxpayers with legal effects; (v) deploying an electronic system to replace all paper-based work processes with electronic processes; (vi) implementing electronic Invoicing (in-house built, with more than 70 million documents electronically issued); (vii) adopting strategic and operational planning as a tool to enhance governance at DNRE, and (viii) implementing compliance and institutional risk approaches.</p> <p>Going forward: DNRE needs to increase administrative autonomy – specially in IT and HR – to ensure the institution will have resources to meet its revenue and modernization goals. Fully deploying compliance risk management and further modernizing core business processes – such as tax arrears enforcement and audit – should be part of the modernization agenda in the coming years.</p>	Staffing constraints

Priorities	Objectives	Challenges
Tax Policy	<p>Traction: Rationalization of tax incentives; identification of new potential sources of revenue; ensure the effectiveness, efficiency, and equity of the incentives in practice for the socio-economic development of the country.</p> <p>Going forward: Institutional reform supported by the creation of a Tax Policy Unit (TPU) within the Ministry of Finance, so that to separate TPU from operations (DNRE). The World Bank under its Public Finance Report is assessing how VAT tax expenditures could be reduced and the economic return of investment-related tax expenditures.</p>	Institutional and staffing constraints
Public Financial Management	<p>Traction: The Macro-fiscal framework has been improved by incorporating the NPV of debt into macro-fiscal projections. A new institutional framework for fiscal risks management has been put in place. Recent SOEs reforms include: quarterly publications of fiscal risk analysis (“health check”) and SOE budget execution, as well as the launch of the SOE Manager platform where financial data for the majority of SOEs is available in real time. On fiscal transparency, a new legal framework has been drafted and digitalization of the PFM system is progressing. Authorities are committed to implementing recommendations provided by the C-PIMA.</p> <p>Going forward: TA will focus on climate fiscal risks, climate-sensitive public investment management, fiscal transparency, cash management and transition to full accrual IPSAS.</p>	Staffing constraints
Expenditure Policy	<p>Traction: Efforts to enhance the financial viability of the water and electricity sector are being designed and implemented as part of the national development strategy (PEDS) and under the IMF supported RSF.</p> <p>Going forward: FADEP to provide support to authorities’ reform efforts by estimating sectoral subsidy and identifying tariff reform options to achieve cost recovery and mitigating measures to protect vulnerable households.</p>	
Strengthening macroeconomic, real Sector, financial and external sectors Statistics	<p>Traction: The authorities have made significant progress in improving their national accounts and price statistics with TA provided by AFW2. The authorities expressed interest in receiving TA on high-frequency indicators and a project is planned to start in FY25. Further TA would be required for the authorities to enhance the timelines and quality of external sector statistics.</p>	Staffing constraints

Priorities	Objectives	Challenges
	<p>Going forward: Continue to strengthen the compilation and dissemination of macroeconomic and financial statistics by further improving, rebasing, and extending the national accounts indicators, resuming compilation of institutional sector accounts, updating the CPI, developing the PPI, and increasing staff capacity to compensate relative slow progress in this area. Develop monthly High Frequency Indicators of economic activity. Authorities should continue to improve the quality of BOP statistics by reducing the size of errors and omissions arising mainly from travel data from airlines and misclassifications in the ITRS. Support financial sector statistics.</p>	
Debt Management	Enhance analysis and management of public debt, and domestic public debt.	Staffing constraints
Central Bank Operations	<p>Traction: BCV has demonstrated tangible ownership of the CD provided by IMF/AFW2 during FY24. The BCV team has demonstrated commendable skill and willingness to improve the forecasting process. During last mission (April 2024), in terms of the short-term liquidity, the focus has been on clarifications in the design and forecasting process offered by the tool, and exercises with the BCV own data, to ensure good command of the tool. Additionally, the various configurations of the tool were validated together with the team. This ensures that any forecasts generated by the tool are fit for purpose. It is noted that the BCV can be a case for IMF to better understand the factors that help in improving the liquidity forecasting process and innovate in terms of tools and know-how. Since March 2023, BCV has also made some progress towards normalization of its monetary policy with the monetary policy developments in the eurozone and has completed the oversight assessment of its Real Time Gross Settlement System. The BCV has setup of a composite indicators of economic activity. Recent missions also covered payments and financial market infrastructure. Draft amendments to the BCV Organic Law that were in line with the 2022 Safeguards Assessment recommendations were submitted to the Ministry of Finance (MoF). Ongoing discussions between the MoF and Fund staff aim to ensure the bill submitted to Parliament retain the legal provisions that strengthen BCV's governance structure and autonomy.</p>	Institutional and staffing constraints

Priorities	Objectives	Challenges
	<p>Going forward: CD strategy and priorities will focus: i) on developing monetary policy analytical and near-term forecasting capabilities (June 2024); ii) on developing a repo market (July 2024); iii) on a follow up mission on liquidity management (last quarter of FY25); iii) on improving reserves management; iv) on enhancing the effectiveness of monetary policy implementation, and v) on central bank's governance structures, and this context support the authorities in finalizing the draft amendments to the BCV Organic Law to be submitted to Parliament, in line with the Fund's recommendations.</p>	
Banking supervision and financial stability	<p>Traction: Progress has been observed with insurance regulation as interest grows and new supervisory templates are being self-designed based on TA recommendations. Interest from banking supervision has equally improved as the department continues to balance daily workloads and TA requests. Recent missions covered insurance supervision, credit loss provision, risk management framework, bank stress testing and resolution framework.</p> <p>Going forward: Capacity development will be provided to support competencies in risk-based supervision for banks and non-banks, ensure that the levels of banks' capital properly reflect their risk profiles, and improve accounting and prudential regulatory provisioning guidelines; ELA; follow up of the 2022 FSSR road map and recommendations, implementation of IFRS, and climate finance.</p>	Staffing constraints

Main Risks and Mitigation

2. The authorities' commitment to the implementation of CD recommendations is good, though hampered by limited administrative capacity and staffing. Cabo Verde is a high-intensity CD user and with relatively appropriate institutional capacity and good track record of implementing TA recommendations. The CD strategy aims to ensure adequate integration of CD recommendations with policy advice in the context of surveillance and program design and implementation. CD will also be used, where appropriate, to help support climate related reform measures. It also seeks to support effectiveness, understand the political economy of reforms and to avoid overlap of CD activities through enhanced coordination with IMF CD departments, AFRITAC West 2, and other CD providers. An intensification of hands-on training and peer learning could be ways to increase traction and advance with reforms.

Annex V. External Economic Stress Index for Cabo Verde

1. **Background.** The External Economic Stress Index (EESI) aims to capture the evolution of the external environment faced by a country. It is based on a selection of: (i) key external risks facing the country; (ii) proxy variables capturing these risks; and (iii) weights to apply to each of these variables.
2. **Risks.** Cabo Verde depends on fuel and food imports – as such it is highly exposed to commodity price shocks and their volatility. The country is also highly exposed to growth and labor market shocks in advanced economies, key tourism source countries, and changes in global financial conditions. Adverse shocks to these factors can significantly affect remittances, FDI inflows, and exports and tourism receipts.
3. **Proxy variables.** Trading partner impact on exports including tourism, FDI inflows and remittances is captured by the trading partner weighted average GDP growth of the Euro area, United Kingdom, and United States. International food and oil prices (WEO commodity food price index and crude oil price index) capture high imports of food and energy. Changes in monetary conditions are captured by the BCV-Euro area policy rate differential.
4. **Weights.** A data-based approach determines the weights and in Text Table 1 they are based on the size of the of related balance of payments items between 2013 and 2022.

Variable	Weights
Trading partner GDP growth	0.50
<i>Euro area</i>	<i>0.50</i>
<i>United Kingdom</i>	<i>0.35</i>
<i>United States</i>	<i>0.15</i>
Consumer goods and fuel imports	0.45
<i>Food imports</i>	<i>0.70</i>
<i>Fuel imports</i>	<i>0.30</i>
Financial variables	0.05
<i>Policy rate spread</i>	<i>0.05</i>

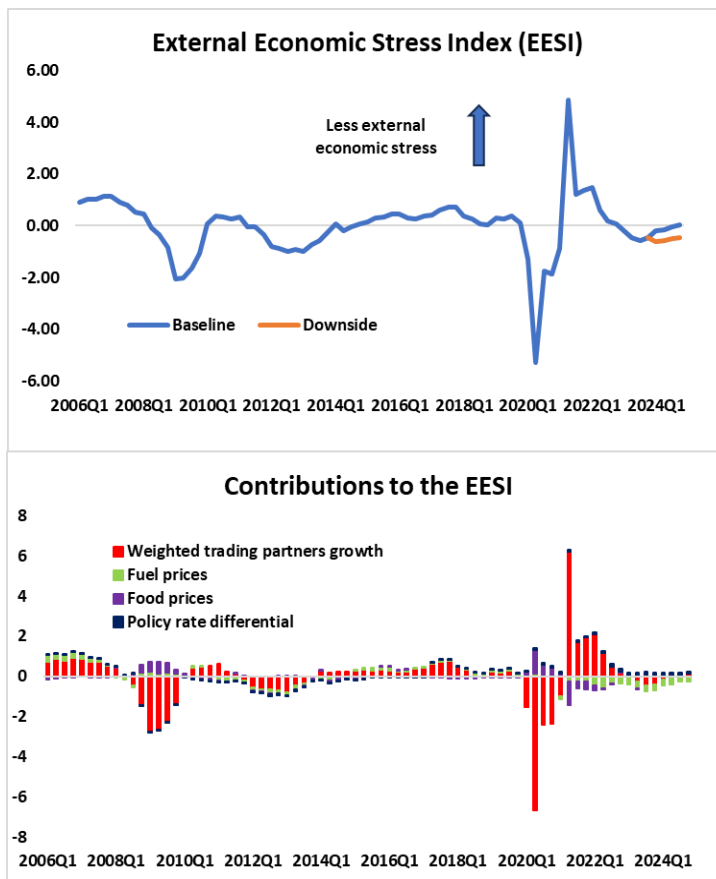
5. **Baseline scenario and contributions.** The baseline corresponds to the October 2023 WEO projections. The index shows that external economic stress is projected to ease somewhat in 2024 largely driven by the positive contributions of the policy rate differential, weighted trading partners growth and food prices. Fuel prices still pose risk to external economic stress, albeit at a lower rate compared to 2023.

6. GDP growth and EESI. Cabo Verde GDP growth and the EESI are plotted in Text Figure 2, the trends show that they move in the same direction with an estimated correlation coefficient of 0.73 for the sample period 2008Q1 – 2023Q3.

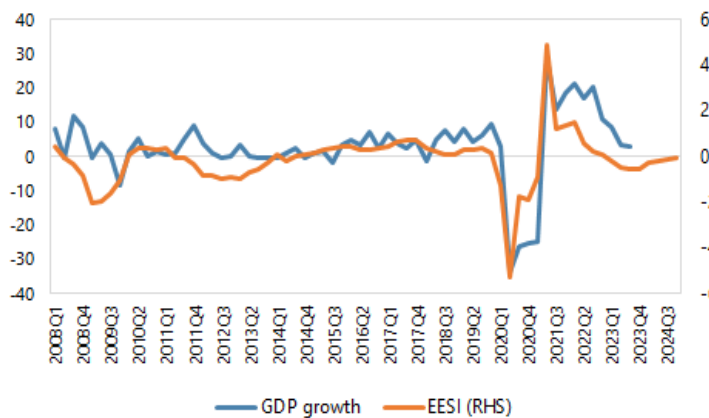
7. Downside scenario. The downside scenario is in line with the global downside but more balanced scenario of the October 2023 WEO. The impact of the war in Ukraine on fuel and food prices, financial tightening due to inflationary pressures, and lower global GDP growth in 2023, gradually begin to dissipate in 2024. Growth in advanced economies and trading partners which reflected a stronger deceleration in 2023, begins to dissipate in 2024.

8. Overall assessment. The external economic stress index indicates that external pressures under the adverse scenario remain above the baseline but are projected to soften in 2024 relative to 2023.

Text Figure 1. Cabo Verde: External Economic Stress Index



Text Figure 2. Cabo Verde: EESI and GDP Growth



Annex VI. Debt Decomposition and Capacity to Repay

Table 1. Cabo Verde: Decomposition of Public Debt and Debt Service by Creditor, 2023-25¹

	Debt Stock (end of period)			Debt Service					
	2023	2023	2023	2023	2024	2025	2023	2024	2025
	(In US\$)	(Percent total debt)	(Percent GDP)	(In US\$)	(In US\$)	(In US\$)	(Percent GDP)	(Percent GDP)	(Percent GDP)
Total	2969.7	100.0	115.2	284.1	266.2	267.9	11.0	10.3	10.4
External	2045.7	68.9	79.4	131.5	115.5	119.3	5.1	4.5	4.6
Multilateral creditors ²	1194.2	40.2	46.3	37.6	53.2	35.8	1.5	2.1	1.4
IMF	100.6	3.4	3.9	0.0	0.0	3.2	0.0	0.0	0.1
World Bank	599.9	20.2	23.3	14.7	15.4	15.8	0.6	0.6	0.6
African Development Bank Fund	266.8	9.0	10.4	7.2	22.0	2.0	0.3	0.9	0.1
European Investment Bank(incl.EEC)	46.8	1.6	1.8	3.9	3.8	3.8	0.2	0.1	0.1
Other Multilaterals	180.2	6.1	7.0	11.4	11.5	10.5	0.4	0.4	0.4
BADEA	37.7	1.3	1.5	0.6	0.6	0.0	0.0	0.0	0.0
CEDEAO	13.0	0.4	0.5	1.4	1.4	1.4	0.1	0.1	0.1
FAD	97.9	3.3	3.8	5.2	5.2	5.2	0.2	0.2	0.2
Bilateral Creditors	374.3	12.6	14.5	28.1	28.6	28.3	1.1	1.1	1.1
Paris Club	188.0	6.3	7.3	16.9	15.1	15.0	0.7	0.6	0.6
France	46.0	1.5	1.8	6.6	4.9	4.8	0.3	0.2	0.2
Japan	72.0	2.4	2.8	3.4	3.2	3.2	0.1	0.1	0.1
Other (Spa, Belg, Aus, Swed)	70.0	2.4	2.7	7.0	7.0	7.0	0.3	0.3	0.3
Non-Paris Club	186.2	6.3	7.2	11.2	13.4	13.3	0.4	0.5	0.5
Portugal	150.1	5.1	5.8	6.4	8.6	8.5	0.2	0.3	0.3
China	24.2	0.8	0.9	3.4	3.8	3.7	0.1	0.1	0.1
Kuwait	11.9	0.4	0.5	1.4	1.1	1.1	0.1	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	458.3	15.4	17.8	67.6	43.1	61.5	2.6	1.7	2.4
BPI	76.8	2.6	3.0	10.7	10.6	10.5	0.4	0.4	0.4
Caixa Geral Depósitos (CGD)	379.5	12.8	14.7	56.9	32.5	50.9	2.2	1.3	2.0
Other international creditors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	870.7	29.3	33.8	153.1	151.2	149.0	5.9	5.9	5.8
T-Bills	26.2	0.9	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	838.0	28.2	32.5	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo items:	202.0	7.1	7.8						
Collateralized debt ³	0.0	0.0	0.0						
Contingent liabilities ⁴	202.0	7.1	7.8						
<i>o/w: Public guarantees</i>	202.0	7.1	7.8						

1/ As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/Multilateral creditors² are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g., Lending into Arrears)

3/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan.

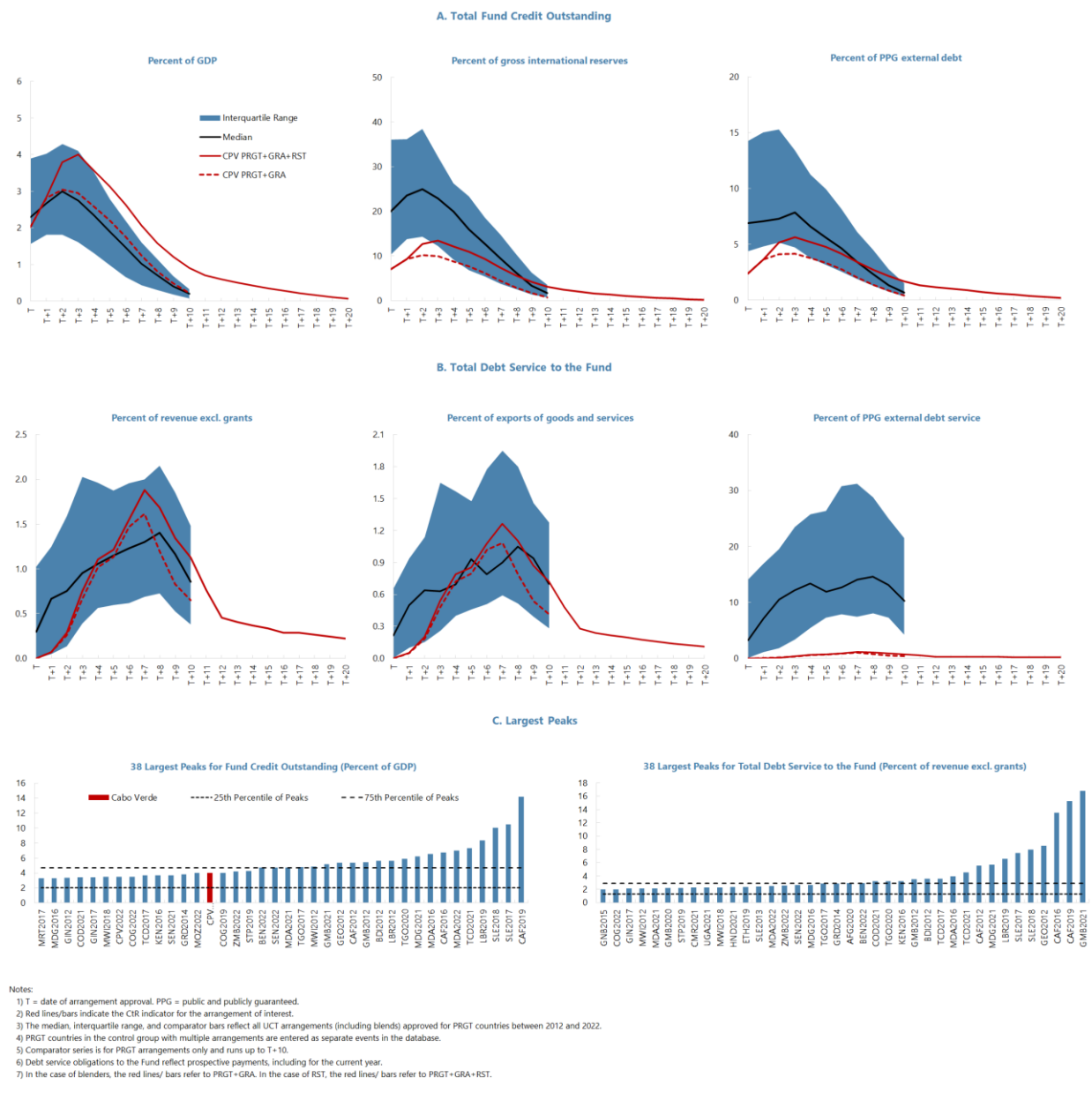
"unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts.

See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4/Includes other one-off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified

(e.g., potential legal claims, payments resulting from PPP arrangements).

Figure 1. Cabo Verde: Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries
(Percent of the indicated variable)



Appendix I. Letter of Intent

Praia

June 6, 2024

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

Madame Managing Director:

We would like to thank you and the IMF for the continuous support provided to the Republic of Cabo Verde under the current Extended Credit Facility (ECF) and the Resilience and Sustainability (RSF) arrangements. Our efforts to meet balance of payments needs, sustain foreign exchange reserves, and restore conditions for more resilient growth have played a vital role in the current strong recovery in the post-COVID era, despite the challenging global environment. The Government of Cabo Verde with the IMF's support under the three-year ECF and the 18-month RSF continues to implement its economic and financial program that is aligned to the new Sustainable Development Strategy 2022-2026 (PEDS II), sustaining the economic recovery, building buffers, and dealing with climate challenge.

Our program performance under the three-year ECF arrangement has been strong. All quantitative performance criteria (QPCs) for end-December 2023 were met, as well the non-quantitative continuous PCs. The indicative targets (ITs) for end-September 2023 were also met, while the indicative target on social spending for end-December 2023 was missed because of a weaker-than-expected growth rate of social protection programs and delays in external grants. The structural benchmarks (SBs) for end-December 2023 were met. The implementation of the reform measures (RMs) for the first review under the RSF arrangement were completed on time (RM1 and RM3). Bearing in mind the achievements to date, we are requesting a disbursement equivalent to SDR 4.5 million under the ECF (or 19 percent of our quota), and SDR 5.264 million under the RSF (or 22.22 percent of our quota). We request a modification of the end-September 2024 IT and end-December QPC on reserves, reflecting the impact of lower financing needs due to the stronger-than-expected 2023 fiscal outturn, lower remittances and bank outflows on end-2023 reserve levels. We also request a modification/clarification on the QPC on net other liabilities. All are reflected in the TMU.

Risks related to climate change pose an increasing threat to our country's favorable growth and development prospects. Our country is one of the world's most vulnerable to the effects of climate change, because of the preponderance of rainfed agriculture and the increased

frequency and severity of droughts and floods, resulting in marked volatility in economic activity. Efforts to combat climate change are therefore a top priority on the government's agenda, and national and sectoral strategies have been developed accordingly to address the country's vulnerabilities. However, given the challenges we face, we will need the support of external financial partners to implement the reforms and investments planned in the context of our climate change adaptation and risk mitigation policies, as delineated under the current RSF arrangement.

The government is committed to strengthen the resilience to climate change. To this end, we propose realistic timelines on the implementation of the remaining RMs. We request the availability dates under the RSF arrangement be slightly modified to allow the full assessment of the RMs in advance to the expected review schedule. The RSF resources will help support the government's ongoing efforts to respond to the pressing challenges of climate change and strengthen the resilience of the economy and populations. In particular, it will support the implementation of new reforms aimed at equipping the government with modern tools for coordination, monitoring, assessing, and managing climate risks.

The attached MEFP, which supplements the memorandum signed on November 22, 2023, describes the recent economic and financial developments, presents the economic and financial policies that the government intends to implement during 2024–25 and defines the quantitative criteria, indicative targets, and structural benchmarks through end-December 2024. Disbursements under the arrangement will be subject to observance of the performance criteria and structural benchmarks shown in Tables 1 and 2 of the attached MEFP. The economic and financial policies described in the MEFP continue to support a robust macroeconomic framework that promotes the mobilization of financing from development partners, strengthens public institutions and good governance, and increases the resources allocated to protection of the most vulnerable segments of the population, including to better tackle the food and energy crisis. Finally, we will provide Fund staff with all data and information necessary to assess the policies and measures presented in the Technical Memorandum of Understanding (TMU).

During the implementation of the ECF and RSF arrangements, we will maintain a close policy dialogue with the IMF and will consult it in advance of any revisions to the commitments contained in the MEFP, in accordance with the Fund's policies on such consultations. Moreover, we will provide the IMF with information in connection with our progress in implementing these commitments.

The government commits to providing the IMF with information on implementation of the agreed measures and execution of the program, as provided in the attached Technical Memorandum of Understanding (TMU). In addition, the government authorizes the IMF to publish this letter and its attachments, as well as the staff report, once the review has been

approved by the IMF Executive Board. We will also post these documents, including their Portuguese versions, on the Government's official webpage.

Sincerely,

_____/s/_____
Olavo Correia
Vice-Prime-Minister and Minister of Finance
and Business Development

_____/s/_____
Óscar Santos
Governor of the Banco de Cabo Verde

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies for 2024–25

This memorandum describes recent economic developments, the outlook for the medium term, and the program objectives, policies and measures to achieve them. The main objectives of the program include: (i) strengthening public finances to increase fiscal space for investment in catalytic sectors, reducing the debt-to-GDP ratio, as well as promoting social inclusion; (ii) reducing fiscal risks from public enterprises; (iii) modernization of the monetary policy framework and strengthening the financial system; and (iv) raising growth potential and building resilience to shocks from climate related change.

BACKGROUND, RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

1. The Cabo Verdean economy continues to recover well from recent shocks.

Cabo Verde's economy grew 5.1 percent in 2023 and the near-term outlook is favorable despite some downside risks. The tourism sector performed well in 2023, and the service sector was the highest contributor to growth. However, investment remains below pre-pandemic levels. Real growth is expected to be 4.7 percent in 2024. Inflation moderated in 2023, and the current account deficit narrowed. Reserves were also helped by the disbursements from the ECF, the World Bank and the African Development Bank. As a result, gross international reserves remained stable at around €686 million through end-December 2023, representing 5.6 months of prospective imports. Reserves expected to continue at 5.6 months of prospective imports in 2024 and to remain stable thereafter. Inflation is projected at 2 percent at end-December 2024 and to continue at this level in the medium-term. The current account deficit is expected to widen to about 5.2 percent of GDP in 2024 as exports of goods and services, tourism, remittances and FDI stabilize from levels recorded in 2022-2023.

2. The fiscal position improved significantly in 2023 driven by under execution of investment and higher revenues. Economic activity and policy measures supported an increase in tax revenues of 12.6 percent. Overall revenues expanded by 23 percent, due to collection of the one-off airport concession fee of CVE 3,859 million (1.5 percent of GDP). Primary expenditure grew by 4 percent. The underperformance of capital spending by 1.5 percent of GDP relative to the program's projection, and slower growth in the wage bill and acquisition of goods and services, helped contain the overall primary expenditure growth rate. As a result, the primary balance registered a 20-year high surplus of 2 percent of GDP in 2023 with a minor impact from cyclical factors due to a small negative output gap.

3. The public debt-to-GDP ratio continues on a downward path. It decreased from 123.7 percent in 2022 to 113.8 percent at the end of 2023, mainly reflecting the stronger growth

and the record 2023 primary surplus. Even with higher public investment in 2024 the public debt-to-GDP ratio is projected to improve to 110.0 percent, around its pre-pandemic level. Public debt is sustainable due to manageable debt service from the favorable debt structure based largely on fixed interest rates, which provides protection from the ongoing global financial tightening cycle.

4. Monetary policy remains focused on safeguarding the peg. The Monetary Policy Committee (MPC) raised the policy rate twice in 2023, and one more up end-April 2024 to 1.5 percent, to narrow the differential with the ECB and protect reserves. While an interest rate differential remains, we are moving cautiously in the tightening cycle as we close the interest differential and carefully monitor any signs of softening by the ECB. Although the reserve cover of 5.6 months of imports is adequate to protect the peg, reserves were lower than expected due to the bank deposit outflows, reduced external financing due to the stronger-than-expected 2023 fiscal outturn and a slowdown in remittances. The real rate has turned positive during the early months of 2023 as inflation decelerated faster than anticipated. At end-2023, M2 grew at 6.3 percent (y/y), total deposits by 6.5 percent, and credit to the economy by 5.4 percent.

5. Our Sustainable Development Strategy 2022-2026 (PEDS II) provides the foundation for growth under the sound macro-economic management supported by the ECF program. PEDS II will support growth by providing a framework for structural reforms. These include developing inclusive tourism, benefitting all the islands; transforming Cabo Verde into an air transportation hub and international business center; building a modern public administration; creating an international finance platform; developing a digital platform for technological innovation; establishing a special economic zone for the maritime economy (blue economy); supporting the development of wave energy and desalination technologies and facilitating investment opportunities developed locally or by the diaspora. PEDS II is supported by the policy measures agreed to under the ECF and RSF, which includes sustaining ongoing tax administration reforms, improved compliance, and measures to reduce tax expenditures, which will be included in the 2025 budget proposal.

6. The outlook is subject to downside risks as Cabo Verde is susceptible to external shocks (geopolitical and climate). An abrupt global slowdown and recession would have a negative impact on tourism due to weakened demand in major tourism markets. Fiscal risks could also stem from the failure to advance State-Owned Enterprise (SOE) reforms. The country's high risk of overall debt distress is a source of vulnerability and thus concessional financing to limit debt servicing cost is important. Financial stability risks may arise from large sovereign exposures, high NPLs for some banks, and high credit and deposits concentration for most banks. The effects of climate change—droughts, sea level rise, and natural disasters—will affect the country's long-term outlook via damage to coastal infrastructure and tourism. However, if the macroeconomic outlook deteriorates, we commit to take additional measures in consultation with the IMF staff.

REFORMS UNDER THE ECF-SUPPORTED PROGRAM AND THE RSF

A. Strengthening Public Finances to Preserve Public Debt Sustainability

7. Our fiscal program focuses on a sustained consolidation effort over the medium term. This will be instrumental to place public debt on a sustained downward path, preserve debt sustainability and reduce the risk of debt distress. Other components of the strategy include strengthening the fiscal framework, and accelerating reforms in the SOE sector. Overall, these policies would result in an improvement in the primary fiscal balance from a deficit of 5.3 percent of GDP in 2021 to a close to zero balance by the end of the program and a surplus of close to 1 percent of GDP from 2026; the overall fiscal deficit would decline from 7.5 percent of GDP in 2021 to a deficit of around 2 percent of GDP by the end of the program and a small deficit of 0.4 in 2028. Medium-term revenue is supported by the implementation of the tobacco and alcohol tax, increasing the rate of the tourism tax, and charging import duty on previously exempt goods. This ambitious fiscal consolidation plan will lead to a reduction in public debt levels, with the debt-to-GDP ratio declining from 148 percent in 2021 to 88.4 percent in 2028.

8. The 2024 fiscal outcome is likely to overperform the budget and the program targets under the ECF. Data up end-March of 2024 suggests a strong improvement in revenue performance as total tax receipts increased by 11 percent year-over-year and are projected above the indicative target set under the program. We expect revenue growth to remain buoyant for the remainder of the year driven by continued improvements in the tourism sector and supported by the revenue measures implemented under the program. Expenditures remained contained in line with our program objectives. As a result, we expect a primary deficit of 0.6 percent of GDP.

9. As a consequence, financing needs in 2024 are now projected to be lower than at the time of the third review. Financing needs are projected at 3.1 percent of GDP compared to 3.6 percent at the third review. Domestic financing (-0.6 percent of GDP) is also lower than projected at the third review and is expected to remain below the legal rule of 3 percent of GDP. External financing will be filled mostly with concessional and partially concessional loans, mainly from multilateral institutions, including the World Bank (2.3 percent of GDP), African Development Bank (0.6 percent of GDP), the resources provided under the ECF program, and official creditors.

10. The draft 2025 budget to be submitted to the parliament will be in line with the ECF-supported program (new SB for end-December 2024). The draft for the 2025 budget, scheduled for submission to parliament in October, is being prepared in harmony with parameters of the program, implying a zero primary balance for 2025.

11. We are taking practical and institutional measures to boost domestic revenue mobilization. With support from IMF TA we plan to develop and publish an action plan to reduce

tax expenditures, including published estimates of annual tax expenditures in the budget, and undertake phased implementation of the ECOWAS tariff, to increase revenue by 1 percent of GDP (**SB end-September and end-December 2024**). Furthermore, revenue administration improvements are expected to yield additional revenues, mainly through collection of tax arrears and heightened supervision. We will focus our efforts on the collection of VAT, as well as personal and corporate income tax arrears. These efforts will be based on the complete digitalization of all the revenue administration and collection processes and could potentially result in very significant gains in efficiency.

12. Over the medium-term, we will rationalize current expenditure and improve the delivery of investment spending with clear priorities. Well-targeted cash transfers to poor households have substantially increase aiming to end extreme poverty by 2026. Over the medium-term, we will continue to seek efficiency gains while reducing spending on wages and interest payments, resulting in a gradual decline in current expenditures as a share of GDP. To support the recovery and the development needs of Cabo Verde, the public investment program is projected to increase as a share of GDP. Capital expenditure will be strictly prioritized. We will also review social welfare programs to ensure adequate coverage particularly in the context of rising prices and climate risks which disproportionately affect the most vulnerable. We recognize that to achieve our medium-term fiscal objectives additional policy measures will be required. Therefore, the Government will continue to implement measures to improve revenue mobilization and public expenditure management, as well as continued SOE reforms to maintain medium-term debt sustainability.

13. The Government is committed to improving the efficiency of the public investment framework. Public investment is a key component of our development plan and will play a critical role in supporting the recovery. In line with recent IMF technical assistance (TA) recommendations (C-PIMA), we will improve projects in the near- to medium-term. This would involve the following four steps: (i) redefining the existing thresholds to reduce the number of projects qualifying for more detailed appraisal in line with available capacity; (ii) developing and implementing an enhanced pre-screening system (pre-screening+), a single-entry point for all project ideas regardless of size or source of financing; (iii) developing and implementing multi-criteria analysis (MCA) techniques and matrices for prioritization and selection; and (iv) developing and implementing a pre-implementation checklist.

14. We will build on the recent improvements in cash flow management that helped the Ministry of Finance to manage the challenges posed by COVID-19. In recent years, we have developed a Treasury Single Account (TSA) in line with sound international practices, which benefited from our early and successful adoption of a modern financial management information system (SIGOF). Despite the gains that have been achieved, other steps will be taken to enhance cash flow management, including continuing the process of bringing in all central government

accounts into the TSA; and institute a cash coordination committee to systematically review forecasts.

15. Broader fiscal coverage will allow for the preparation of accounts at the level of the general government, as well as its transparency. This includes the publication of annual budget execution reports for the general government. In addition, we plan to broaden the coverage of the fiscal risk analysis and reporting to include PPPs (**SB end-September 2024**).

16. We will continue other efforts to ease Cabo Verde's public debt burden. We have already reached a memorandum of understanding with Portugal in principle to explore debt for climate swap initiatives. The debt legislation was updated in line with the 2018 review. It is intended to implement the debt management strategy for carrying out internal debt sustainability analysis (DSA). For this purpose, FAD training to Ministry of Finance officials, during the first half of 2024, will be important as a basis for preparing the 2025 budget guidelines. Furthermore, the Government undertook a review of the laws regulating guarantees. The guarantees law provides for the establishment of a fund to be financed by the beneficiaries of guarantees, which would provide a cushion in the event of noncompliance with the terms of the guarantee.

B. Reduce Fiscal Risks from SOEs and Improve Their Financial Management

17. Reforms to reduce SOE related fiscal risks will continue. In this regard, the framework for monitoring the financial performance of SOEs to reduce fiscal risks and thus support medium-term debt sustainability was improved. Quarterly analysis of fiscal risk assessments using the IMF SOE's health check tools and quarterly monitoring report of SOEs' budget execution are being prepared since 2022. In October 2023 we launched the SOE Manager platform where the financial data of the majority of SOEs are available in real time. Ongoing reforms will include publication of quarterly consolidated transaction and financial flows between the government and SOEs on an individual and aggregate basis to help identify indirect support from the government to SOEs. Furthermore, the annual SOEs' report has been improved to include comparison of execution relative to the initial budget projection, evaluation of performance against medium-term plans, and data on government relations. Going forward, we will publish in the annual report on public companies the forward-looking targets agreed between the Ministry of Finance and Business Development and the six largest SOEs, on improving financial performance and reducing the need for central government support (**SB end-June 2024**).

18. The inter-island connectivity is a key priority, and the Government intends to complete the reorganization of the domestic airline market. The exit of BestFly, the inter-island airlight concessionaire, on late April is an opportunity to enhance the interconnectivity between islands. The latest data from the SOE manager indicates that the domestic airline market is

potentially profitable, but further enhancements are welcome to improve the reliability and coverage of the services.

C. Modernize the Monetary Policy Framework and Improve Resilience of the Financial System

19. The conventional fixed peg exchange regime continues to provide a stable anchor for monetary policy. Monetary policy continues to focus on safeguarding the peg and strengthening the monetary policy transmission mechanism. Despite the uncertain external environment, international reserves increased by 60 million euros in 2023 reaching a level equivalent to 5.6 months of imports of goods and services. Key drivers include the growth in tourism and the services sector, and ECF and other development partners disbursements. We continued the process of tightening the rates to narrow the differential with the ECB and we will closely monitor economic developments in the euro area and stand ready to take further action if pressures on reserves become apparent. The geopolitical shocks and concerns about financial stability justify a cautious approach to monetary policy. Over the medium-term, to support the peg, we will continue to target international reserves in the range of 5½–6 months of prospective imports.

20. Strengthening the monetary policy transmission mechanism and our analytical capacity to monitor economic developments continues to be a priority. In a context of excess liquidity in the banking system, we continue to analyze the impact of the cost of monetary policy on liquidity management. Policy analysis was reinforced through the introduction of composite indicators of economic activity and the reinforcement of short-term forecasts. In June 2023, BCV received Technical Assistance (TA) from the IMF on Emergency Liquidity Assistance (ELA) and the guarantee's framework for the instrument, and a draft regulation for the ELA was prepared. BCV expects to finalize and publish the regulation and develop the remaining legal framework of the instrument (operational procedures and framework contract) by July 2024. BCV and the Ministry of Finance approached the World Bank TA to carry out an assessment of the digital economy and formulate a national fintech strategy, which would establish the necessary pillars for the use of financial technologies that embrace innovation and competition and reduce transaction costs.

21. The BCV will closely monitor developments in the banking sector. In 2023, the study of losses and the constitution of impairments and provisions was extended to two more banks. This study, aimed at operations that were subject to moratorium, allowed us to verify that commercial banks have comfortable levels of Capital, largely resulting from the restrictive dividend distribution policy imposed by the central bank since 2013, and that these levels allow absorbing losses due to defaults resulting, in part, from the Covid-19 crisis. A set of recommendations are being implemented to reinforce the monitoring of risks to the financial system, resulting from the FSAP and FSSR exercises, carried out by the World Bank and the IMF.

22. As part of the Financial Sector Development Plan, our efforts will be focused on the ongoing modernization of the financial system. Continuous improvement of regulatory and supervisory frameworks will be pursued with the aim of promoting financial sector development and support inclusive and sustainable growth, while preserving financial stability. After 10 years, the two structuring Laws of the financial system, namely the Basic Law of the Financial System and the Law of Financial Activities and Institutions, they will be subject to review and possible changes in order to accommodate new developments in the context and of financial services. Conditions will be created to monitor the innovations introduced by new technologies and their implications for the provision of financial services, and the increasing digitalization associated with the opportunities and challenges of cyber risks. Technical assistance was provided for the training of BCV technicians and for the implementation of the International Financial Accounting and Reporting Standard, IFRS17, for the insurance sector. To support the definition and implementation of BCV's macroprudential policy, we prepared and published the strategy document, identifying relevant objectives, indicators and instruments. With regard to risk assessment of the banking sector as a whole, we have increased the frequency of stress tests to twice a year, carrying out two exercises in 2023. The first in July, with audited data until December 2022, and the second in November, with data until September. We are planning to improve the tool for carrying out stress tests, counting on technical assistance from the IMF, in the solvency (carried out in February 2024) and liquidity (scheduled for October) components, with the incorporation of macroeconomic scenarios in the exercises. The inclusion of data on climate risks in the stress tests is scheduled for 2025. We will improve the bank resolution regime in line with international best practices, implementing the recommendations of the IMF technical assistance carried out in April 2024. We will submit to Parliament the legislation amending the BCV Organic Law to, inter alia, strengthen the BCV's decision-making structure, autonomy, accountability, and transparency of the central bank in line with the IMF safeguards assessment, and supported by technical assistance from the IMF (**SB end-July 2024**).

23. We plan to further improve AML/CFT effectiveness and technical compliance, in line with the recommendations found in the 2019 GIABA mutual evaluation report. Since the mutual evaluation that took place in 2019, the country has been implementing a set of AML/CFT measures. With the approval, in April 2023, of the National Strategy for preventing and combating money laundering, terrorist financing and the proliferation of weapons of mass destruction (ENCAVE), the Government will continue the process of mobilizing resources and seeking of international partnerships to implement the objectives and actions contained in the document. Of note, among the priority measures contained in ENCAVE, is the process of changing the legal and regulatory framework, institutional strengthening, especially of investigation and law enforcement entities, regulatory and supervisory entities, and the Financial Information Unit. Continuous investment in specialized staff and their continuous training will be necessary for the sustainability of the national AML/CFT system. Taking into account the nature and diversity of activities and the degree of evolution in this matter, compared to the financial sector, special attention will be given

to Designated Non-Financial Business and Professions (DNFBPs). A technical assistance mission on Cybercrime is planned for 2025 to reinforce national capabilities on the subject.

24. We will accelerate work towards the adoption of Basel II Pillar 1. A technical assistance action is planned for the second quarter of 2024, the main objective of which will be to evaluate the banks' Capital framework and verify the stage of implementation of the Basel principles.

25. We continue to improve the accuracy of our monetary and financial sector statistics. Over the last year, we have worked towards eliminating discrepancies between the monetary and financial sector survey disseminated by the BCV in its publications and data sent to the IMF, by adopting the methodology of the central bank survey compiled for the IMF, which is based on international statistical standards (IMF's 2016 Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)). This new compilation system allows for correcting discrepancies between the other deposit corporations (ODC) survey disseminated by the BCV in its publications and the data sent to the IMF. Further improvements will continue with the enhancement of data on credit by economic activity using INE's economic activity classification.

D. Broad Structural Reforms: Supporting Private Sector-Led Growth and Resilience to Shocks

26. Structural reforms and policies should help build resilience to different protracted shocks, including climate change. Key priority areas in the new five-year development strategy include: (i) completing SOE reforms; (ii) facilitating access to finance; and (iii) improving the business environment. We are advancing a set of reforms to improve the business environment, mainly directed to the SMEs. Reforms are focused on plans to promote private sector-led economic diversification with the aim of supporting quality investments, employment and enhanced productivity. Efforts to reduce the high costs of finance, electricity, water and transport which are major impediments to private sector growth, will continue.

27. Diversification of activity continues to be critical for our economy. Diversification efforts are being pursued through two channels. Firstly, within the main tourism sector we are actively moving towards more integrated resort projects heralded by the presence and emergence of top hotel brands. Secondly, we are actively promoting alternative sectors, such as the blue economy, digital economy, industry integrated into the regional and global value chains, and modernization of the agriculture sector using desalinated water as part of PEDS II.

28. Legal procedures for businesses will be made easier, through a reduction in waiting time by improving the link between businesses and judicial processes. One area of focus will be on land titling, where issues often arise because of unclear ownership due to incomplete information that can cause delays in investment decisions. In this regard, we will digitalize the

relevant information to facilitate ease of access to all parties, which will contribute to more timely settlement of disputes.

29. Providing financial support to vulnerable households remains a key priority. Social spending is aided by funding from the social protection fund financed by the tourism tax and customs revenue for small parcels. Although Cabo Verde performs very well on social indicators, poverty and unemployment remain a challenge particularly in the rural areas. Social safety nets will be strengthened through improved targeting of social spending. In partnership with our external development partners, we will continue to work towards better targeting of social programs and signed a pact for poverty reduction, with the goal of eliminating extreme poverty by 2026. We aim to reform the national social security system to ensure that it evolves in alignment with best practices and the changing needs of the country.

30. In that regard, policies under the program will help safeguard spending on social safety nets and help increase our capacity to expand on these interventions. Through a program of productive inclusion, the government guarantees empowerment for the most vulnerable families, as well as the transfer of money to some of the most vulnerable families in Cabo Verde. Our method of supporting the most vulnerable through cash transfers is an important and efficient way of investing in the people; contribute towards strengthening their resilience and enhances their human capital in several ways, including through ensuring food security and enabling expenses related to education and health for children in these households, as well as training for inclusion in the job market.

E. Policies and Measures to Address Climate Change Challenges

31. Sustainable socioeconomic development will depend on our ability to address the implications from climate change, which are amplifying our development challenges. Scarcity of natural resources, namely water and arable land make our country susceptible to climate change implications. A heavy reliance on imported carbon-based energy is holding back economic development and poses an impediment to our plans for reducing GHG emissions and for addressing water scarcity through desalination. The interlinkages between climate change, energy, and water provide the context for our reform. In cooperation with our development partners, we are working towards energy transition, while improving service quality and access, as well as achieving the sustainability for the energy and water sectors. While our contributions to global emissions are minimal in absolute terms, under our NDC we commit to reduce GHG emissions by 2030 by 18 percent (24 percent conditional) compared to BAU and we aim to achieve net zero by 2050. At the same time, we work to enable the efficient and climate aware management of our public resources while supporting climate resilient private sector led development, including through climate aware investment in key sectors like tourism and renewable energies.

32. The RSF supports our effort to implement macro-critical climate reforms and catalyze private finance for climate adaptation, and transition with a view to achieve the objectives we laid out in the PEDS II and NDC.

Recognizing the magnitude of the development challenge and its exacerbation coming from climate change, we will use the RSF to support us in accelerating the climate transition, by focusing on: (i) strengthening climate change policy governance; (ii) improving physical and fiscal resilience; (iii) strengthening mitigation and resilience through energy efficiency and transition; (iv) promoting adaptation by ensuring ecological and economic sustainability of water resources and planning for long-run climate impacts; and (v) financial sector resilience to climate change (Table 3).

33. We have implemented the two RMs due under the 1st Review of the RSF. Namely:

- We strengthened climate governance (RM1) by establishing an Interministerial Council for the Environment and Climate Action (Conselho Interministerial para o Ambiente e Ação Climática), led by the Prime-Minister for coordinating climate change policy planning and strategy at a high level, with clear tasks, responsibilities and procedures, including mechanisms for holding entities accountable for consistency across sectoral plans in line with the national development strategy (PEDS II) and international commitments (NDC), and providing strategic oversight of DRM defined in the TORs, with implementation reflected in the protocols of regular meetings. The MAE serves as secretariate.
- To improve the fiscal and physical resilience to climate change (RM3), we enacted amendments to the PPP legal framework to ensure climate requirements are reflected in PPP agreements and we published a manual integrating these requirements throughout the PPP capital project lifecycle, from project identification to contract management stages.

34. Work on the remaining RSF measures is ongoing:

- To improve fiscal risk management (**RM2, Sep-2024**), the Ministry of Finance will conduct and publish in the annual Fiscal Risk Statement quantitative analysis of the fiscal risks generated by climate change.
- We agreed to expand of the Unique Social Registry (USR) to provide the basis for a social support system that can efficiently mitigate the implications of climate transition and climate hazard events (**RM7, Nov-2024**). To this end, the Ministry of Family and Social Inclusion have already expanded coverage of the USR to 100 percent of poor and vulnerable households (including from rural areas) as identified based on the latest household budget survey and will offer inclusion in the USR to 100 percent of the households in climate vulnerable areas as these are identified under RM8.
- Develop and disseminate natural disaster risk and vulnerability maps, including information on how and where climate hazards might affect the areas and regions, to assess risks and

vulnerabilities of the population, infrastructure assets, sectors, and the economy/businesses. The land use planning regulation and construction code requirements will be amended to consider disaster risks and vulnerabilities for urban and rural development planning and for designing and constructing infrastructure and buildings (**RM8, Nov-2024**).

- We will develop a climate information architecture for banks, consisting of 1) the adoption of a climate change adaptation and mitigation taxonomy, and 2) the publication of climate risk and opportunities and disclosure guidelines, so that banks are expected to submit their internal roadmaps within six months from the effective date of application of the guideline, followed by progress reports every six months (**RM9, Nov-2024**). We are currently reviewing guidance provided by the IMF's MCM department, and giving the challenges of this reform and taking into account our human, technical and institutional capacities and the availability of TA, this reform can take more time than envisaged initially.
- The Ministry of Finance with support from LuxDev has developed a Strategic Plan for Climate Finance mobilization that comprehensively identifies the financing instruments to unlock climate finance sources; and which we will present at COP 29 at end-2024. Work to develop and publish, a pipeline of appraised public capital projects, including climate-related projects, as part of the budget process is ongoing (**RM4, April-2025**).
- As part of the energy transition plans, which will require substantial infrastructure investment and we are working with the World Bank on the unbundling of the energy SOE with key milestones expected in the second half of 2024. In addition, through collaboration with LuxDev we have advanced reforms to (i) determine the cost-recovery rate for the provision of electricity (fully reflecting operational and capital cost), and (ii) identify any discrepancy between the existing tariff and so defined cost recovery. Further work is needed to undertake a distributional impact assessment, which will do with CD from the IMF. We will then publish and adopt regulations establishing a methodology for adjusting electricity tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments (**RM5, April-2025**).
- In the water sector, we have similarly collaborated with LuxDev to (i) determine the cost-recovery rate for the provision of water (fully reflecting operational and capital cost), and (ii) identify any discrepancy between the existing tariff and so defined cost recovery. As with energy, we will undertake a distributional impact assessment with IMF support and then publish and adopt regulations establishing a methodology for adjusting water tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments, and/or by financing infrastructure investment transparently from the budget, with a view to ensure sustainability of the water sector (**RM 6, April-2025**).

F. Financing and Program Monitoring

35. The program will be closely monitored through the proposed quantitative performance criteria, indicative targets, and structural benchmarks (Table 1 and 2). The Technical Memorandum of Understanding describes the definitions as well as data provision requirements. The fifth and sixth program reviews are scheduled to be completed as of October 2024, and March 2025 (based on end June 2024, and end-December 2024 test dates, respectively). We requested a clarification/modification of the definition of deposits under *other net liabilities* in the TMU to better capture SOE's support, and a modification of the IT for September 2024 and the PC for December 2024 on reserves reflecting the impact of lower financing needs due to the stronger-than-expected 2023 fiscal outturn, lower remittances, and bank outflows due to the negative interest rate differential, on end-2023 reserve levels. Additionally, it is requested to modify the QPC on net other liabilities for June and December 2024, and the IT for September 2024 to better target SOE support. The program will continue with monitoring on a semi-annual basis by the IMF Executive Board. Under the RSF, monitoring will be done by means of the reform measures. These are detailed in Table 3 of the MEFP.

Table 1. Cabo Verde: Quantitative Performance Criteria Under the ECF, September 2023-March 2025¹
(Millions of Escudos, unless otherwise indicated)

	2023			Cumulative from the beginning of the calendar year						2025	
	end-December			end-March	end-June		end-September		end-December		end-March
	Performance Criteria (PC)	Actual	Status	Indicative Targets (IT)	Performance Criteria (PC)	Proposed Revised Performance Criteria (PC)	Indicative Targets (IT)	Proposed Revised Indicative Target Criteria (PC)	Performance Criteria (PC)	Proposed Revised Performance Criteria (PC)	Proposed Indicative Targets (IT)
Quantitative performance criteria											
Primary balance, floor ²	-6,298.0	5,159	met	-1849	-2417.4		-2740.6		-3063.9		7
Tax revenue, floor	45,849.0	49,699	met	8088	21029		37501.4		53973.7		14808
Net other liabilities, floor ³	-1,368.2	-167	met	-418	-446.3		-502.12		-557.9		-139
Net domestic financing ceiling	4,179.0	472	met	3093	4021	-2296	2241.25	-2583	462	-2870	96
Nonaccumulation of domestic arrears ⁴	0.0	0	met	0	0	0	0	0	0	0	0
Non-accumulation of external payment arrears ⁴	0.0	0	met	0	0	0	0	0	0	0	0
PV of new external debt, ceiling (in millions of US Dollars)	108.8	29	met	24	37		95.4		125.5		19
Nominal level of new nonconcessional external debt of central government, ceiling ⁴	0.0	0.0	met	0	0		0		0		0
Gross international reserves (in millions of euros), floor ²	622	686	met	671	693		743.6	716	794	743	745
Indicative Targets											
Social spending, floor	17,304.0	15,837	not met	3690	7379		12934.5		18490.1		4941
Non-quantitative continuous PCs											
Non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions											
Non-introduction or modification of multiple currency practices											
Non-imposition or intensification of import restrictions for balance of payments reasons											
Non-conclusion of bilateral payments agreements that are inconsistent with Article VIII											
<i>Memorandum items:</i>											
Net lending	1,653			116.6	136		165.209		194		82
Capitalization	2,200.4			1100	1600		2100.2		2600		0
Program assumptions											
Project and budget support grants	5,225.0	3,460.8		526	1121		3765.34		6409.3		1077
External debt service	12,921.0	10,792.4		2409	4818		8424.69		12031.9		0
Sales of assets	747.0	139.0		106	226		465.3		705.0		118
Project and budget support loans	16,663.0	2,847.1		1816	4238		11995.3		19752.2		3840

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 Until December 2023, Net other liabilities includes net lending, capitalization, use of deposits, privatization. From June 2024 onwards, the definition was narrowed down to SOEs support focusing on net lending to SOEs and capitalization

⁴ Continuous.

Table 2. Cabo Verde: Structural Benchmarks for 2022-24 Under the EC

Actions	Target date	Objective	Status
Fiscal reforms			
1) Invoice electronically at least 50 percent of tax payers for VAT	End-December 2022	Improve revenue collection	Met
2) Submit to parliament the budget for 2023 that is in line with commitments under the program.	End-December 2022	Support fiscal and debt sustainability	Met
3) Compile and publish historical series of government financial statistics for general government.	End-March 2023	Improve fiscal transparency	Met
4) Publish annual budget execution reports for the general government.	End-September 2023	Improve fiscal transparency	Met
5) Construct a Compliance Risk Management system to allow for the optimization of tax revenue collection by end-December 2023.	End-December 2023	Support fiscal and debt sustainability	Met
6) Submit to parliament the budget for 2024 that is in line with the primary balance commitment under the program.	End-December 2023	Support fiscal and debt sustainability	Met
7) Develop and publish an action plan to reduce tax expenditures by 1 percent of GDP and include published estimates of annual tax expenditures in the budget to improve transparency	End-September 2024	Support fiscal and debt sustainability	
8) Implement the action plan to reduce tax expenditures during in the 2025 budget	End-December 2024	Support fiscal and debt sustainability	
9) Broadening the coverage of fiscal risk analysis and reporting to include PPPs	End-September 2024	Support fiscal and debt sustainability	
10) Adopt a budget for fiscal year 2025 that is in line with the program parameters (Proposed new SB)	End-December 2024	Support fiscal and debt sustainability	
SOEs reforms			
11) Conduct quarterly analysis of fiscal risk assessment using the IMF SOEs health check tool.	End-September 2022	Improve fiscal reporting and reduce fiscal risks	Met
12) Introduce a quarterly monitoring report on SOEs budget execution.	End-September 2022	Improve fiscal reporting and reduce fiscal risks	Met
13) Improve the annual SOEs report to include comparison of execution to initial budget projection, evaluation of performance against medium term plan, data on government relations (transfers and liabilities).	End-July 2023	Improve fiscal reporting and reduce fiscal risks	Met
14) Based on the July 2023 structural benchmark, publish in the annual report on public companies the targets agreed between the Ministry of Finance and Business Development and the six largest public companies, on improving financial performance and reducing the need for central government support.	End-June 2024	Improve fiscal reporting and reduce fiscal risks	
Monetary policy reforms			
15) Preannounce a schedule for TIM and TRM auctions.	End-June 2022	Support the development of the money market	Met
16) Introduce composite indicators of economic activity.	End-June 2023	Support monetary policy analysis	Met
Financial sector reforms			
17) Submit draft amendments to the BCV Law, in line with IMF recommendations, to the Ministry of Finance with a view to (i) establishing an independent oversight process that is separate from executive management, (ii) strengthening the BCV's personal and financial autonomy, and (iii) enhancing transparency and accountability mechanisms	End-December 2022	Strengthen BCV institutional framework	Met
18) Carry out a comprehensive study of loan losses and provisions at the expiration of the credit moratorium.	End-December 2022	Strengthen financial stability	Met
19) Develop a common framework for the resolution of crisis related NPLs.	End-December 2022	Strengthen financial stability	Met
20) Increase the frequency of stress testing to twice per year (June 2023 and December 2023) to ensure the effectiveness of the supervisory process and revamp the stress testing methodology to include detailed banking data and cyber security risk assessment.	End-December 2023	Strengthen financial stability	Met
21) Submit the draft amendments to the BCV Law, in line with IMF recommendations, to parliament with a view to (i) establish an independent oversight process that is separate from executive management, (ii) strengthen the BCV's personal and financial autonomy, and (iii) enhance transparency and accountability mechanisms	End-July 2024	Strengthen BCV institutional framework	

Table 3. Cabo Verde: RSF Reform Measures Matrix

KEY CHALLENGE	REFORM MEASURE	DIAGNOSTIC REFERENCE	IMF CD INPUT	RM EXPECTED OUTCOME	DEVELOPMENT PARTNER ROLE	TIMING
National coordination and management of climate change is under the MAE that is not able to ensure cross sector coordination	RM1. Government will establish a council/body for coordinating climate change policy planning and strategy, and DRM under the Heads of Government, with a clear tasks, responsibilities and procedures, including mechanisms for (i) holding entities accountable for consistency across sectoral plans in line with the national development strategy (PEDS II) and international commitments (NDC), and (ii) providing strategic oversight of DRM defined in the TORs, with implementation reflected in the protocols of regular meetings. The MAE serves as secretariate.	Climate Policy Diagnostic (CPD)		The Cabinet approved on May 7 the Resolution n° 38/2024, which was published in the Official Gazette on May 10, 2024, I Série N° 42-1106I (https://kiosk.incv.cv/1.142.5747/)	LuxDev provided TA on the climate governance function and associated legal amendments	End-April 2024; 4 th ECF Review
Natural disaster and climate related risk not adequately featured in fiscal planning	RM2. To improve fiscal risk management, the Ministry of Finance will conduct and publish in the annual Fiscal Risk Statement quantitative analysis of the fiscal risks generated by climate change.	C-PIMA; CPD	FAD will provide CD support through AFW2 on fiscal risks	IMF TA from FAD is programmed for July 2024 to support changes to the Fiscal Risk Statement	World Bank has prior actions and triggers in the latest DPF supporting a stronger PIM framework and aligned with the C-PIMA recommendations	End-September 2024; 5 th ECF Review

Table 3. Cabo Verde: RSF Reform Measures Matrix (continued)

KEY CHALLENGE	REFORM MEASURE	DIAGNOSTIC REFERENCE	IMF CD INPUT	RM EXPECTED OUTCOME	DEVELOPMENT PARTNER ROLE	TIMING
Investments do not reflect needed physical resilience to Climate Change	RM3. The Ministry of Finance will enact amendments to the PPP legal framework to ensure climate requirements are reflected in PPP agreements and the Ministry of Finance will publish a manual integrating these requirements throughout the PPP capital project lifecycle, from project identification to contract management stages.	C-PIMA	FAD HQ support with LEG participation	FAD provided TA in March to support the authorities on the amendments of the PPP legislation and the Manual. Changes were approved by Cabinet in April and published in the Official Gazette on May 8, 2024 (Decreto-lei 21/2024, I Série n° 40-1012 (https://kiosk.incv.cv/1.140.5737/)		End-April 2024; 4 th ECF Review
	RM4. To scale up and systematize climate finance the Ministry of Finance will (i) adopt a national climate finance mobilization strategy that comprehensively identifies the financing instruments to unlock climate finance sources; and (ii) develop and publish, a pipeline of appraised public capital projects, including climate-related projects, as part of the budget process.	C-PIMA	Luxembourg and follow up support from FADM2	The climate finance strategy is largely complete for presentation at COP 29. Work on the pipeline of projects is ongoing work and expected to be complete in Nov-2024.	LuxDev is providing TA to formulate a climate finance strategy	End-April 2025; 6 th ECF Review

Table 3. Cabo Verde: RSF Reform Measures Matrix (continued)

KEY CHALLENGE	REFORM MEASURE	DIAGNOSTIC REFERENCE	IMF CD INPUT	RM EXPECTED OUTCOME	DEVELOPMENT PARTNER ROLE	TENTATIVE DATE
Mitigation, adaptation and resilience in the energy sector are held up by energy inefficiency and obstacles to transition	RM5. To support energy transition plans, which will require substantial infrastructure investment the government will, (i) determine the cost-recovery rate for the provision of electricity (fully reflecting operational and capital cost), (ii) identify any discrepancy between the existing tariff and so defined cost recovery, (iii) undertake a distributional impact assessment, and (iv) publish and adopt regulations establishing a methodology for adjusting electricity tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments. (Ministry of Industry, Trade and Energy and MoF)	CPD	FADEP support on the analytical study and distributional impact – TBC	<p>Authorities are setting out the investment plans needed for the energy sector.</p> <p>Cooperation with international partners on tariffs is advanced (e.g., calculating cost recover rates).</p> <p>FAD plans 2 TA missions in 2024 to support work on the tariffs and the distributional impact assessment</p>	<p>WB energy projects are providing support on unbundling the energy SOE.</p> <p>LuxDev is supporting work on tariff reforms.</p>	End-April 2025; 6 th ECF Review

Table 3. Cabo Verde: RSF Reform Measures Matrix (continued)

KEY CHALLENGE	REFORM MEASURE	DIAGNOSTIC REFERENCE	IMF CD INPUT	RM EXPECTED OUTCOME	DEVELOPMENT PARTNER ROLE	TENTATIVE DATE
Access to water resources and fiscal sustainability are vulnerable to long-run climate impacts due to lack of investment and non-ecological use	RM6 To support reform initiatives, which will require substantial infrastructure investment the government will, (i) determine the cost-recovery rate for the provision of water (fully reflecting operational and capital cost), (ii) identify any discrepancy between the existing tariff and so defined cost recovery, (iii) undertake a distributional impact assessment, and (iv) publish and adopt regulations establishing a methodology for adjusting water tariffs to the identified cost-recovery rate, to be applied by the regulator (thereby achieving full cost recovery) by the test date, with transparent periodic adjustments, and/or by financing infrastructure investment transparently from the budget, with a view to ensure sustainability of the water sector. (National Water and sanitation Agency (ANAS) and MoF	CPD	FAD support for tariff review and the distributional impact	<p>Authorities are setting out the investment plans needed for the water sector.</p> <p>Cooperation with international partners on tariffs is advanced (e.g., calculating cost recover rates).</p> <p>FAD plans 2 TA missions in 2024 to support work on the tariffs and the distributional impact assessment.</p>	LuxDev is providing support in the water sector. TBC.	End-April 2025; 6 th ECF Review
	RM7. The Unique Social Registry (USR) will be expanded to provide the basis for a social support system that can efficiently mitigate the implications of climate transition and climate hazard events. To this end, the Ministry of Family and Social Inclusion and the MoF will expand coverage of the USR to 100 percent of poor and vulnerable households (including from rural areas) as identified based on the latest household budget survey, and offer inclusion in the USR to 100 percent of the households in climate vulnerable areas.	CPD		<p>The USR has been expanded and covers 100 percent of poor and vulnerable households.</p> <p>Work on offering inclusion to households in climate vulnerable areas is dependent on RM8.</p>	WB	End-Nov. 2024; 5 ^h ECF Review

Table 3. Cabo Verde: RSF Reform Measures Matrix (concluded)

KEY CHALLENGE	REFORM MEASURE	DIAGNOSTIC REFERENCE	IMF CD INPUT	RM EXPECTED OUTCOME	DEVELOPMENT PARTNER ROLE	TENTATIVE DATE
	RM8 INGT or new unit/council for CC management and DRM will develop and disseminate natural disaster risk and vulnerability maps, including information on how and where climate hazards might affect the areas and regions, to assess risks and vulnerabilities of the population, infrastructure assets, sectors, and the economy/businesses. The land use planning regulation and construction code requirements will be amended to consider disaster risks and vulnerabilities for urban and rural development planning and for designing and constructing infrastructure and buildings.			The authorities started working on this RM and using own resources to finance the activities.		End-Nov. 2024; 5 th ECF Review
Green financing/Climate Finance	RM9. The BCV will develop a climate information architecture for banks, consisting of 1) the adoption of a climate change adaptation and mitigation taxonomy, and 2) the publication of climate risk and opportunities and disclosure guidelines, so that banks are expected to submit their internal roadmaps within six months from the effective date of application of the guideline, followed by progress reports every six months.		MCM CD TBC	Authorities will request CA and/or online training from MCM.	TBC	End-Nov. 2024; 5 th ECF Review

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 Memorandum of Economic and Financial Policies (MEFP), the key assumptions, and the reporting requirement of the Government and the Central Bank of Cabo Verde for the three-year Extended Credit Facility (ECF).

PROGRAM EXCHANGE RATES

1. Program exchange rates are used for formulating and monitoring quantitative performance criteria. All assets and liabilities denominated in U.S. dollars (USD) will be converted into escudos at a program exchange rate of CVE 98.8 per one USD. Assets and liabilities denominated in SDRs and in foreign currencies not in USD will be converted into USD at the exchange rates reported in the Table 1:

Currency	Program Exchange Rates
Escudos/US Dollars	98.8
Escudos/Euros	110.3
US Dollar / U.K. pound	1.34
US Dollar/Euro	1.11
US Dollar/ Japanese yen	0.01
SDR/US Dollar	0.72

Source: WEO April period average exchange rates

QUANTITATIVE AND CONTINUOUS TARGETS

A. Floor on the Primary Balance of the Central Government

2. The central government includes all units of budgetary central government and extrabudgetary entities. It does not include local government (municipalities), social security funds and public corporations.

3. 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 and covers recurrent expenditures and capital expenditure.

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

Date	Grants projected under the program, cumulative from the beginning of the year (in million CV Escudos)
31-Dec-23	5,225
30-Jun-24	1,121
31-Dec-24	6,409
30-Jun-25	2,154

Source: Cabo Verdean Authorities: IMF Staff estimates

5. **For program monitoring, data will be provided to the Fund by the Directorate National of Planning (DNP) of the 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

6. **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.

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

C. Floor on Net Other Liabilities

8. **Net Other Liabilities is defined as the sum of loans to state-owned enterprises (SOEs) and municipalities (onlending) and capitalization.** The floor of central government net other liabilities will be measured as cumulative over the calendar year. 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 reflected with an inverted sign in total Net Other

Liabilities and defined as disbursement of these loans minus repayment of previous loans by SOEs to the central government. Capitalization is reflected with an inverted sign in total Net Other Liabilities and 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.

D. Ceiling on Net Domestic Financing of the Central Government

9. Net domestic financing (NDF) of the central government is defined as the sum of (i) the net position (difference between the government's claims and debt) vis-à-vis the central bank and commercial banks and (ii) financing of the government through the issuance (net of redemptions) of securities to individuals or legal entities outside the banking system. NDF at end-December 2023, end-June 2024, and end-December 2024 (PCs) must be equal to or less than the amounts indicated in Table 1 (of QPCs) attached to the MEFP.

10. External budgetary assistance is defined as budget loans, grants and non-earmarked debt relief operations (excluding project-related loans and debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) Initiatives). It would include budget support loans from the IMF, World Bank, AfDB, European Union and others.

11. The NDF ceiling of the government will be adjusted downward (upward) if net external budgetary assistance exceeds (or falls short) of the program projections in Table 3 of external budget assistance:

Date	Budget support loans and Grants (in million CV Escudos)
31-Dec-23	12,351
30-Jun-24	3,613
31-Dec-24	11,468
30-Jun-25	6,012

Source: Cabo Verdean Authorities; IMF Staff estimates

- If, at the end of a quarter, external budgetary assistance exceeds the program projections (cumulative since January 1 of the same year), the ceiling of NDF will be adjusted downward.
- If at the end of a quarter, external budgetary assistance falls short of the projected amounts (cumulative since January 1 of the same year), the NDF ceiling will be upward while respecting the limits established by the Budget law (including any waivers).

12. The NDF ceiling of the government will be adjusted upward (downward) by the shortfall (surplus) in privatization proceeds relative to program projections.

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

Table 4. Cabo Verde: Privatization Income Projected Under the Program

Date	Privatization income projected under the program, cumulative from the beginning of the year (in million CV Escudos)
31-Dec-23	0
30-Jun-24	1,156
31-Dec-24	2,312
30-Jun-25	0

Source: Cabo Verdean Authorities; IMF Staff estimates

14. Reporting requirements. For program monitoring, data will be provided to the Fund by the DNP of the Ministry of Finance and BCV (for the net position of the government to the banking system) monthly with a lag of no more than six weeks from the end of-period.

E. Non-accumulation of Domestic Payments Arrears

15. 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.

16. Reporting requirements. The DNP of the 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.

F. Ceiling on the PV of New External Concessional Debt of the Central Government

17. Under the program a ceiling applies to the PV of new external debt, contracted or

guaranteed by the public sector with original maturities of one year or more. The ceiling applies to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. An adjustor of up to 5 percent of the external debt ceiling set in PV terms applies to this ceiling, in case deviations from the performance criterion on the PV of new external debt are prompted by a change in the financing terms (interest, maturity, grace period, payment schedule, upfront commissions, management fees) of a debt or debts. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed.

18. 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.

19. 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. 16919-(20/103), adopted October 28, 2020.

(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:

- (i) 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);
- (ii) 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
- (iii) 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.

20. 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.

21. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 2.699 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -168 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -80 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is 100 basis points. Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added. Given the anticipated global transition away from LIBOR, this TMU can be updated to reflect the relevant benchmark replacements (U.S. Secured Overnight Financing Rate (SOFR); U.K. Sterling Overnight Index Average (SONIA); EURIBOR; and Tokyo Overnight Average Rate (TONAR)) prior to the complete phase out, once operationally feasible.

22. 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.

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

23. 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.

24. 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.

H. Gross International Reserves of the Central Bank

25. The floor on the stock of gross international reserves (GIR) of the BCV constitutes a quantitative target under the program. The GIR of the BCV are defined as gross international reserves of the BCV which include assets 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. The program floors for the GIR 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.

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

Table 5. Cabo Verde: External Debt Service Projected Under the Program (GIR)

Date	External debt service projected under the program, cumulative from the beginning of the year (in million CV Escudos)
31-Dec-23	12,921
30-Jun-24	4,818
31-Dec-24	11,195
30-Jun-25	5,856

Source: Cabo Verdean Authorities: IMF Staff estimates

Table 6. Cabo Verde: External Financial Assistance and Project and Budget Loans Projected Under the Program

Date	External financial assistance and project and budget loans projected under the program, cumulative from the beginning of the year (in million CV Escudos)
31-Dec-23	21,888
30-Jun-24	5,360
31-Dec-24	26,162
30-Jun-25	19,667

Source: Cabo Verdean Authorities: IMF Staff estimates

I. Non-accumulation of External Payments Arrears

27. 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.

28. 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.

29. 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 the 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.

J. Memorandum Item: Floor on Central Government Social Spending

30. 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.

31. 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.

K. RSF Reform Measures

32. Cost recovery tariff under RM 5 and 6 should reflect the capital cost of infrastructure and the operational cost. Infrastructure cost will cover the investment as needed during the transition, as well as the maintenance and replacement based on the useful life of such infrastructure. The operational cost will reflect the current and target energy mix.

33. Climate vulnerability information under RM8 will cover: (i) maps on vulnerability to sea-level rise projection based on identified climate scenarios with full coverage of territory; (ii) climate vulnerability maps for the seven (seven out of 22) most populated and/or most climate vulnerable municipalities; and (iii) maps including information on the occurrence of past climate hazards with additional information on the expected implications of climate change as implied by the identified climate scenarios. These maps will be made available online. The requirements for using information from vulnerability maps in land use and construction planning should be reflected in the National Regulations for Territory Management and Urban Planning (Decree-Law 61/2018) or the related regulations, and the Technical Building Code (Order 4/2012).

OTHER DATA REQUIREMENTS AND THE ASSESSMENT OF THE ACHIEVEMENT OF REFORM TARGETS

- 34. 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.
- 35. 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).
- 36. 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).
- 37. Pre-announce a schedule for TIM and TRM auctions reform target.** This reform target will be assessed as achieved when the pre-announcements are posted on the central bank website.
- 38. Introduce a composite indicator of economic activity reform target.** This reform target will be assessed as achieved when the central bank has released the composite indicator.
- 39. Carry out a comprehensive study of loan losses and provisions at the expiration of the credit moratorium.** This reform target will be assessed as achieved when the study is completed and released.
- 40. Develop a common framework for the resolution of the crisis related NPLs.** This reform target will be assessed as achieved when the common framework is complete and released. The common framework is being developed jointly by the BCV and the World Bank.
- 41. Construct a Compliance Risk Management (CRM) system to allow for the optimization of tax revenue collection.** This reform target will be assessed as achieved when the MOF provides staff with a copy of methodology.
- 42. Increase the frequency of stress testing to twice per year:** This reform target will be assessed as achieved when the central bank provides the findings of the second annual stress test.
- 43. Develop and publish an action plan to reduce tax expenditures.** This reform target will be assessed as achieved when the MOF provides staff a copy of the approved action plan.

44. Implement the action plan on tax expenditures in the 2025 budget. This reform target will be assessed as achieved when the MOF provides staff a copy of the approved 2025 budget with the specification of the actions and impacts.

45. Publish in the SOE report measurable metrics between the MOF and the 6 largest SOEs on financial performance. This reform target will be assessed as achieved when the report is published in the MOF webpage.