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Cape Verde: Fifth Review Under the Policy Support Instrument—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Cape Verde

In the context of the fifth review under the Policy Support Instrument for Cape Verde, the following documents have been released and are included in this package:

- The staff report for the Fifth Review Under the Policy Support Instrument, prepared by a staff team of the IMF, following discussions that ended on October 3, 2008, with the officials of Cape Verde on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 1, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement on the joint IMF/World Bank debt sustainability analysis.

- A Press Release summarizing the views of the Executive Board as expressed during its December 22, 2008 discussion of the staff report that completed the review.

- A statement by the Executive Director for Cape Verde.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Cape Verde*
Memorandum of Economic and Financial Policies by the authorities of Cape Verde*
Technical Memorandum of Understanding*
*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

CAPE VERDE

Fifth Review Under the Policy Support Instrument

Prepared by the African Department
(In consultation with other departments)

Approved by David Nellor and Philip Gerson

December 1, 2008

- **Recommendation:** The report recommends completion of the review, modification of end-December 2008 assessment criteria, and summarizes the main macroeconomic and structural reform policies for 2009. All assessment criteria related to this review were met.
- **Main topics:** The impact of global economic challenges on Cape Verde; the 2009 budget and the medium-term fiscal framework; public financial and debt management; and monetary management.
- **Discussions:** Praia, September 22–October 3, 2008. The mission met Cristina Duarte, Minister of Finance; Carlos Burgo, Governor of the Bank of Cape Verde; other government officials; and business community members. The mission comprised Mr. Leigh (head), Mr. Castro, Mr. Imam, and Mr. Ronci (all AFR). Mr. Sembene of the Executive Director's Office accompanied the mission.
- **Fund relations:** The Executive Board concluded the fourth PSI review and the 2008 Article IV consultation on June 30, 2008.
- **Exchange rate regime:** Cape Verde's exchange rate arrangement is a conventional peg to the euro.

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EXECUTIVE SUMMARY

Cape Verde continues to make important economic strides, and the effects of the current global financial turmoil and slowdown have so far been relatively contained. All quantitative assessment criteria for end-June 2008 were met and staff recommends completion of the fifth PSI review.

- *GDP growth remains generally resilient and inflation pressures have been contained.* However, leading indicators point to a likely moderation in economic activity in 2008–09, with GDP projected to grow at 6 percent.
- *The fiscal space and international reserves built up in recent years have prepared Cape Verde to smooth the impact of external shocks.* Domestic debt is declining thanks to healthy revenues and continued expenditure restraint. International reserves were used to accommodate the shocks but continue to provide above 3 months of imports cover.
- *Progress on structural measures has been steady despite delays on many measures.* The legislation on anti-money-laundering and combating the financing of terrorism (AML/CFT) was submitted to Parliament in November, the new fuel pricing formula has been finalized, and the income tax codes are in the final stage of preparation.

Policy Discussions for 2008–09

- *The authorities have scope to manage the external shocks because over the last couple of years they have made faster than planned progress in increasing international reserves and reducing domestic debt*. Policy response should take into account potential transmission channels of the global financial turmoil and slowdown. In Cape Verde, these work mainly through remittances and tourism receipts.
- *The 2009 budget and medium-term fiscal framework are appropriate.* While the 2009 budget expands the public investment program to ease infrastructure bottlenecks, it is generally appropriate because it preserves spending restraint, tax measures are revenue-neutral, and the risk of debt distress remains low. The authorities are also moving to improve public debt and financial management.
- *The measures taken by the BCV to strengthen monetary management have helped to stem the decline in international reserves.* The BCV is committed to promptly adjusting policy rates if external developments warrant it.

Risks remain

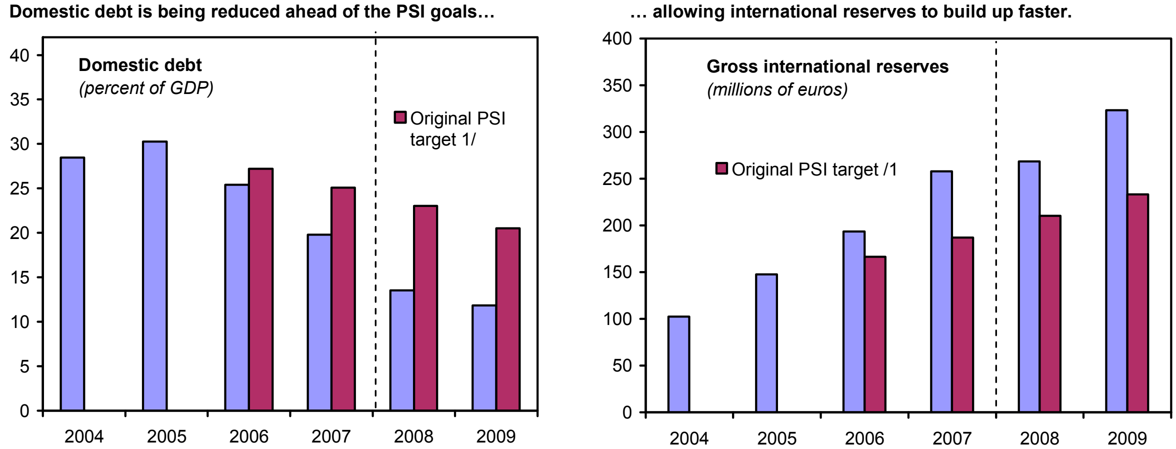
Despite its sound fiscal position and better preparedness, there is a risk that the impact of the global slowdown and protracted deleveraging in global financial markets on Cape Verde could be more severe than thus far.

I. Better Preparedness is Helping to Weather Global Economic Challenges

1. **While global economic challenges have created some difficulties, so far they have been manageable because the authorities are in a position of strength.** Strong economic performance in recent years provided buffers to weather the global financial crisis and slowdown. Growth continues to be solid and inflation remains in single digits despite high food and fuel prices during much of 2008. A faster than planned reduction of domestic debt and build-up of reserves provided the buffers to absorb shocks (text Figure). As a result, all end-June 2008 quantitative targets were met, although net international reserves were narrowly above the program floor.

Cape Verde has built sizeable macroeconomic buffers:

Domestic debt is being reduced ahead of the PSI goals… **… allowing international reserves to build up faster.**



Source: National authorities, and IMF staff estimates.
1/ The PSI started in 2006.

2. **Despite a better preparedness, risks remain and thus discussions during the fifth review of the PSI focused on preserving macroeconomic stability through:**

- **Judicious use of the buffers created under the PSI** to accommodate shocks, taking into account potential transmission channels;

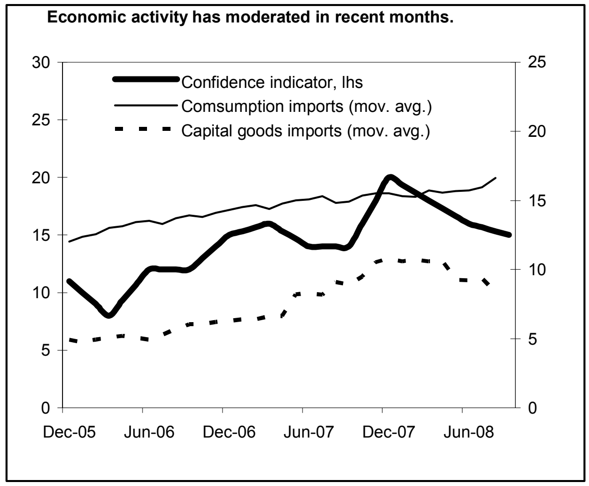
- **Prudent execution of the 2009 budget** to support a steady buildup of reserves and sound public debt and financial management; and

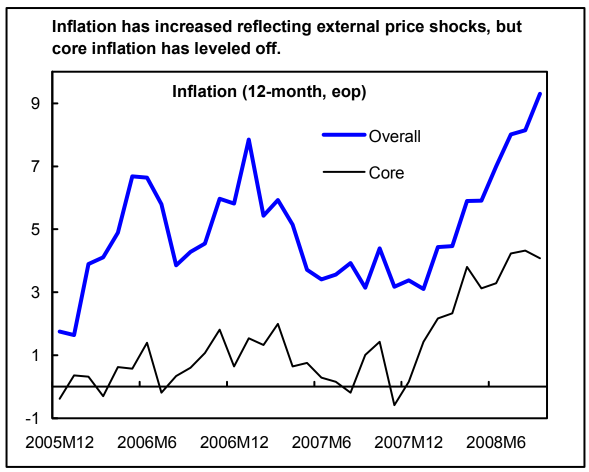
- **Stronger monetary management to smooth short-term capital flows** against the background of the global financial turmoil.

3. **As the PSI arrangement enters its final year, the government has signaled its desire to continue with the program.** The authorities believe the PSI has served the country well and intend to request an extension of the arrangement by a year (see Letter of Intent attached).

II. Current Economic Setting and Performance Under the PSI

4. **Growth continues to be generally resilient, albeit moderating, and inflation pressures remain contained**.





- *Leading indicators like the confidence barometer point to some moderation in economic activity.* Despite substantial growth in tourism and foreign direct investment (FDI) in the first half of 2008, the latest data on hotel bookings portend some softening in tourism flows in the second half. There is also evidence that construction of new real estate projects has decelerated because developers are having difficulty securing external financing as liquidity tightens globally.

- *Inflation seems to be receding.* While headline inflation rose to about 9 percent through September 2008, mainly because of food and fuel prices, core inflation has leveled off.[1] The general appreciation of the escudo against the U.S. dollar has also provided relief for imports priced in U.S. dollars.

5. **All the end-June 2008 assessment criteria were met, but net international reserves were barely above the program floor because of the external shocks**.

- *As noted in the authorities' mid-year budget review (a PSI assessment criterion), fiscal performance was strong in the first half of 2008*, thanks to tax revenue overperformance and continued spending restraint (Figure 1). Thus, the net domestic borrowing ceiling was observed by a wide margin, and domestic debt was further reduced by about 1 percent of annual GDP in the first half of 2008.

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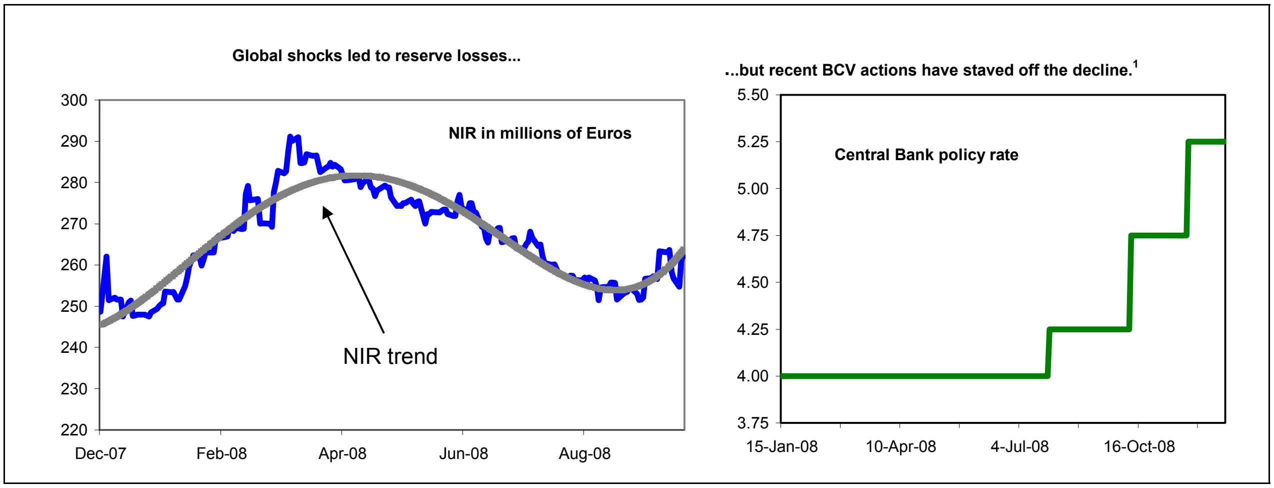
[1] The temporary rise in core inflation in the third quarter of 2008 was largely explained by a one-off increase in prices of clothing and shoes probably because of changes in the market structure.

- *The floor on net international reserves (NIR) was observed with a narrow margin.* During March–September 2008, NIR declined owing to lower remittances, difficulties in rolling over private external debt, and the belated decision of the Bank of Cape Verde (BCV) to align domestic interest rates with rates in the euro area and the country's risk premium (Text Figure and Figure 2). Corrective actions by the BCV have stemmed the loss in reserves since September.



6. **Progress on structural reforms is steady despite delays on many measures.** The AML/CFT legislation was submitted to the National Assembly in November. The Economic Regulatory Agency (ARE) finalized the new fuel pricing formula in November. The revised formula will be more transparent and easier to administer, and regular price adjustments will ensure that no further liabilities accrue, thus reducing fiscal risks. In early 2009, the new income tax codes and a new tax exemptions code will be submitted to the National Assembly.

III. Report on the Discussions—Adjusting to the External Shocks

7. **The main topic of discussion was how best to smooth the shocks and preserve macroeconomic stability.**

- The program's macroeconomic framework was revised in view of the changes in the external environment. The 2009 budget and recent measures to strengthen monetary management are mutually consistent to preserve domestic and external stability.[2]

- The authorities have built buffers in recent years in the form of faster-than-planned reduction in domestic debt and accumulation of reserves. Staff noted that the authorities could use these buffers judiciously to smooth global shocks.

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[2] In the attached Letter of Intent and Memorandum of Economic and Financial Programs, MEFP, the authorities reaffirm their commitment to the macroeconomic and structural reform objectives of the PSI.

Cape Verde: Structural Assessment Criterion and Benchmarks for 2008-09

Conditionality	Timing	Status
Structural Assessment Criterion		
Complete a formal mid-year review of revenue and expenditure developments that allows for taking corrective actions if necessary.	End-Aug. 2008	Met
Structural Benchmarks		
Tax reforms		
Submit the new General Tax Code to the National Assembly (MEFP ¶5).	End-Dec. 2007	Implemented in Aug. 2008
Submit the new Code on Judicial Process to the National Assembly (MEFP ¶5).	End-Dec. 2007	Implemented in Aug. 2008
Submit the draft individual and corporate income tax bills to the National Assembly (MEFP ¶5).	Oct. 2008	Postponed to early 2009
Energy sector		
Finalize and publish a revised mechanism for adjusting petroleum prices (MEFP ¶5).	End-Mar. 2008	To be implemented in Nov. 2008
Financial Sector		
Submit to the National Assembly legislation to criminalize financing of terrorism and facilitate the combating of financing of terrorism (MEFP ¶5).	End-Mar. 2008	Implemented in Nov. 2008
Submit to the National Assembly legislation to strengthen the framework for combating money laundering (MEFP ¶5).	End-Mar. 2008	Implemented in Nov. 2008
Public Financial Management		
Submit a simplified medium-term fiscal framework (MTFF) to the Council of Ministers in the 2009 budget preparation cycle and publish it on the Ministry of Finance website (MEFP ¶8).	Nov. 2008	Met

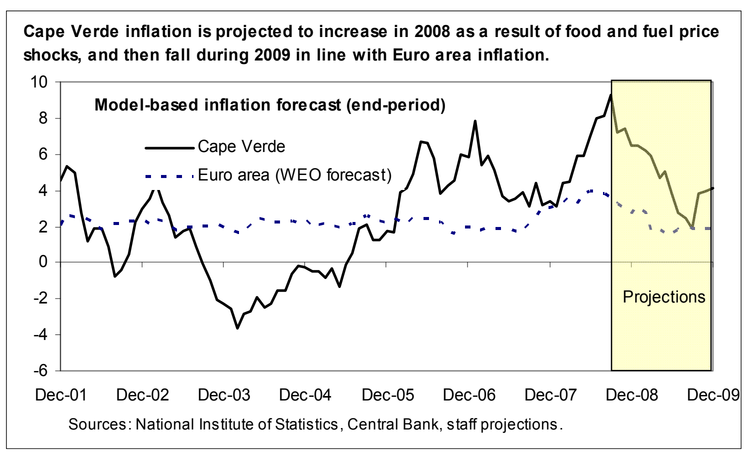
A. Adjusting PSI Targets to Ensure Cautious Use of Buffers

8. **Staff and authorities agreed that while Cape Verde's preparedness has served it well, the rapidly changing external environment has implications for the program.** There was general consensus that, while the medium-term effects of the global financial turmoil on Cape Verde are difficult to gauge, the near-term direct impact of the credit crisis

is likely to be limited (the main local banks have ample liquidity, little exposure to private foreign lending and hardly any direct exposure to subprime assets).[3] However, to the extent that protracted deleveraging in the financial sector in Europe translates to weaker FDI and tourism flows, this indirect impact of financial and trade linkages could significantly affect Cape Verde's growth and balance of payments. Already, the financial turmoil has affected the United Kingdom, Ireland, and Spain—all sources of FDI and tourism for Cape Verde. Nevertheless, the debt-generating inflows needed to finance the current account deficit will be largely unaffected should FDI drop given the self stabilizing dynamics of the current account relative to FDI (imports would decline in tandem with FDI thanks to its high import content). Thus:

- *With risks significantly tilted to the downside, real GDP growth is projected to moderate* from 7 percent in 2007 to 6 percent in 2008 and 2009, which is below trend. Staff's partial equilibrium analysis based on a long sample period shows that, if real GDP growth in the euro area is 1 percentage point lower than projected, growth in Cape Verde would be around ½ - ¾ percentage points lower reflecting weaker tourism demand and lower remittances. However, this elasticity range does not take into account the large shifts in the structure of Cape Verde's economy in recent years as well the offsetting policy measure that potentially could mitigate the effects of weaker demand. Specifically, the authorities noted that the recent opening of new hotels and flights and the increase in public investments in 2009 will support economic activity, notwithstanding the small fiscal multipliers in a highly open economy.

- *Inflation is projected to decline* to about 6.5 percent in December 2008 (end of period) and about 4.1 percent in 2009 (text figure), tracking the recent decline of food and fuel prices.[4] Staff and authorities agreed that moderating international commodity prices and the rainfall



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[3] Banks hold liquidity in the form of short term BCV bills, which can be quickly used to buy foreign currency from the BCV should that need ever arise. The outstanding stock of BCV bills held by banks totaled CVEsc 7.9 billion (6 percent of GDP) at end June 2008.

[4] Moreover, while fuel has been adjusted broadly in line with import prices, the government is also temporarily subsidizing electricity and water (about 0.2 percent of GDP in 2008) to cushion the most vulnerable people with a well-targeted electricity and water price structure.

that resulted in a bumper harvest of domestically produced food in 2008; below-trend real GDP growth; weak wage indexation, and continued fiscal restraint should firmly anchor inflation expectations in 2009 and limit second-round inflation effects.

- *Understandings have been reached to revise downwards the program's floor for net international reserves for year-end 2008 and projections for 2009 to partly accommodate the impact of shocks.* Staff supports the authorities' request for this modification and for the corresponding modification of the target for net domestic assets of the central bank for year end-2008. Despite the solid fiscal performance expected for 2008, the current account deficit in 2008–09 is projected to increase relative to the June staff report because current transfers and tourism flows have moderated, reducing private savings. Staff and the authorities agreed on the need for cautious use of the reserve buffers to absorb shocks. Thus, the original target for net international reserves of € 299 million for end-2008 is now expected to be reached by September 2009. Recent measures the BCV has taken to strengthen monetary management (Section C) will help rebuild reserves during 2009. This level of reserves which is above 3 months of import cover will also provide cushion in the event of large shocks such as the type described in the sensitivity analysis noted above (first bullet).[5]

Cape Verde: Revised Macroframework

	Original Program		Revised Program	
	2008	2009	2008	2009
	(Percent change)			
Real GDP	6.5	6.5	6.0	6.1
Inflation (end period)	2.6	2.3	6.5	4.1
	(Percent of GDP)			
External current account	-9.4	-9.9	-11.7	-11.2
Gross reserves [1]	3.8	3.9	3.4	3.8
Overall fiscal balance [2]	-4.2	-5.0	-1.2	-5.4
Public domestic debt	16.4	15.0	13.5	11.8

[1] Months of projected imports of goods and services.
[2] Including grants.

[5] The BCV noted that if need were to arise, it would prefer to access its credit line with Portugal (€49 million).

B. Implementing Fiscal Policy to Smooth Shocks

9. **The 2009 budget and the authorities' medium-term fiscal framework (MTFF) are generally appropriate**. The budget aims to reduce domestic debt to below 12 percent of GDP to support the reserves buildup. That would also reduce the burden on monetary management and provide insurance against shocks. The budget keeps total debt broadly unchanged (in NPV terms) and, adjusting for cyclical effects and other volatile components of the budget, the estimated implied fiscal impulse is relatively small. In addition, the composition of public debt will continue to shift from domestic to mostly concessional external debt, which will keep the risk of debt distress low (see Debt Sustainability Analysis Supplement). The authorities noted that the 2009 budget relies on both revenue-neutral tax measures and expenditure containment, especially wage restraint (MEFP ¶7). The budget maintains the planned expansion of direct cash transfers to the poorest to continue progress toward the MDGs. The MTFF, which underpins the DSA, will anchor fiscal policy for the medium term. Given the planned increase in growth-promoting infrastructure spending, it will also help improve the quality of public investment.

Cape Verde: Analysis of the Fiscal Position, 2008-9

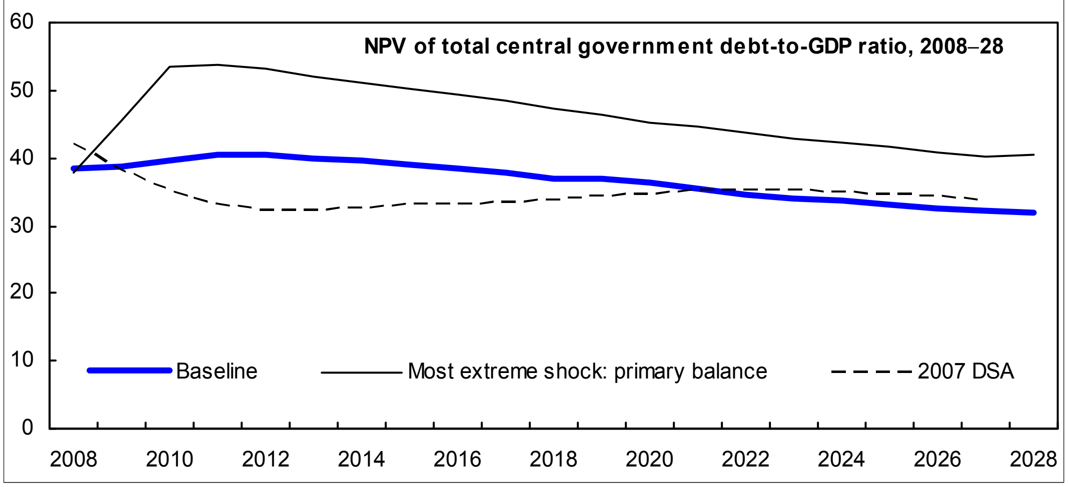
(Percent of GDP)

	2008 Proj.	2009 Budget
Overall balance	-1.2	-5.4
Foreign financing, net	2.1	4.6
Domestic financing, net	-1.4	0.8
Implicit grant element in foreign financing	0.4	0.9
Overall balance adjusted with implicit grant element	-0.8	-4.5
NPV of public debt	38.0	38.9
NPV of external debt	24.5	27.0
Net domestic debt	13.5	11.8

10. **However, the decline in public debt has paused because of an increase in public investment.** The authorities are concerned that infrastructure bottlenecks continue to constrain growth. Thus, the 2009 budget features expansion of the three largest ports, financed partly with grants and concessional funds and partly with nonconcessional funds. They argue that financing growth-promoting infrastructure projects warrants flexibility in the PSI program's debt ceiling. Thus, understandings have been reached to modify the PSI ceiling on nonconcessional borrowing to $90 million. This will allow for the 20-year nonconcessional loan by the European Investment Bank (EIB) to be onlent to the port operator, Enapor, to expand the port of Palmeira in Sal island, the tourism hub in Cape Verde. Staff supports the authorities' request for this modification. The EIB has done due diligence through extensive technical analyses to confirm the growth-promoting potential of this port (MEFP ¶10). In addition, the analysis concluded that Enapor will generate enough

revenues to ensure debt repayment capacity thereby limiting fiscal risk. The change in the ceiling by itself will only alter the composition of the debt towards nonconcessional loans and not the total debt stock. The DSA concludes that this level of nonconcessional external borrowing will not jeopardize sustainability even if the expected positive spillovers from the project to the broader macroeconomy do not materialize.

The risk of debt distress remains low, but there is a pause in the recent decline of public debt owing to the acceleration of public investments.



11. **Strengthening debt and public financial management are the key priorities for the authorities' structural reform agenda (MEFP).** Given plans to increase infrastructure spending, accelerating reforms in these areas will enhance implementation capacity and improve the quality of public investment.

- The authorities emphasized that a strategy for firming up debt management would underpin their borrowing program and the MTFF (Box 1). This is needed because the 2009 budget implies a pause in the decline in public debt. Consolidated statistics of state-owned enterprises will be compiled in 2009 and assessment of contingent liabilities (new PSI benchmarks) will help contain fiscal risks (MEFP ¶9). To support these reform efforts, the World Bank and the Fund are coordinating their technical assistance to improve public debt management.

- The PSI program continues to support improvements in public financial management. Thus, the authorities committed to a new PSI benchmark of placing financial controllers in line ministries to ensure proper budget execution (MEFP ¶7) by preventing double payments and the accumulation of arrears.

Box 1. Cape Verde—Strengthening Public Debt Management

The Cape Verdean authorities consider it a priority to strengthen debt management. Notable progress has already been made:

- **Debt sustainability analyses (DSAs) are now conducted annually.** The Ministry of Finance and the Bank of Cape Verde (BCV) recently conducted a joint DSA applying the Bank-Fund Debt Sustainability Framework. The exercise benefited from assistance from Debt Relief International (DRI) and UNDP. The next DSA will be conducted in early 2009 at the beginning of the preparation of the 2010 budget to help determine the borrowing envelope consistent with debt sustainability.
- **Internal controls have been substantially improved.** Software from the Commonwealth Secretariat was upgraded and now records state guarantees as well as debt. With the assistance of the Crown Agents, the system will be fully operational by year-end. The software will allow for currency decomposition of the debt stock, be linked to the Government's Financial Control Network (SIGOF), and allow for compilation of debt data in the new chart of public accounts (PNCP).

The authorities intend to further strengthen their debt management practices:

- **The institutional framework for debt management will be adapted.** The organic law of the Ministry of Finance will be amended to give the debt management office a clear mandate, and the budget execution law will be changed to allow the Treasury to manage debt efficiently.
- **A new debt management strategy will be embedded in the procedures manual of the debt management office.**
- **The domestic market for Treasury securities will be developed.** With MCC financing, Treasury securities will be easily available for purchase by nonbanks to make the market more efficient and liquid and reduce borrowing costs.
- **Capacity in the debt office will be reinforced.** A new financial analyst was hired in September, and another will be hired in 2009. Portugal trained four staff in debt management in September.

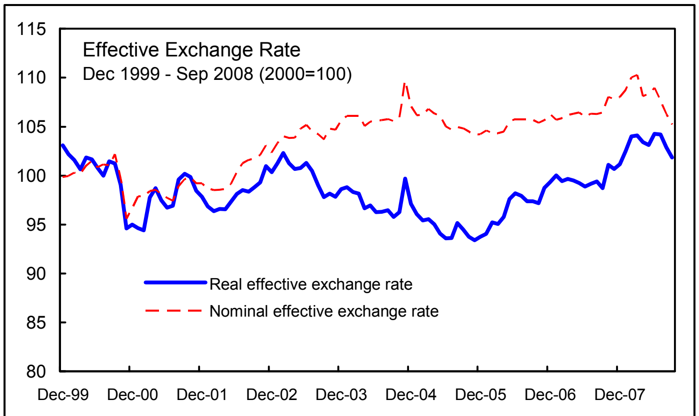
C. Strengthening Monetary Management to Safeguard Financial Stability

12. **Staff called for enhancing the implementation of monetary operations to minimize the risk of disruptive capital flows.** While international reserves served their purpose of absorbing the shocks, weaknesses in monetary management exacerbated their decline. The belated realignment of domestic interest rates with the euribor, the ceiling on the BCV bill rate, and the volume cap on weekly auctions distorted incentives in the auctions and made it hard to roll over BCV bills. These technical weaknesses in monetary management made it difficult to stem the decline in reserves, as became evident under the stress of large external shocks. In normal times the problems would not have been apparent because Cape Verde has a sound fiscal position and ample reserves.

13. **The BCV concurred and reiterated its commitment to promptly realign domestic rates if external market developments warrant it.** Nevertheless, the authorities argued that it may take time for banks to respond to the rate increase, and thus the reserves target should be conservative. The BCV raised its rate by 100 basis points during September and October, and so far it has since been successfully rolling over maturing securities, reversing the net redemptions of its securities in July and August. In addition, the Monetary Policy Committee is meeting monthly to closely monitor market developments and promptly adjust BCV rates as needed. [6]

14. **The BCV also noted that the ongoing FSAP mission is taking place at an opportune time, given the global financial turmoil.** Banks are making progress toward meeting the new prudential requirements, and work on the new insurance regulation is also proceeding (MEFP ¶ 15). [7] Besides examining ways to strengthen the BCV's system for auctioning securities, the FSAP exercise should help to strengthen the authorities' hand on macrofinancial linkages.

15. **The exchange rate peg has served Cape Verde well as an anchor for financial stability and is supported by domestic policies**. The real effective exchange rate (REER) is broadly in line with fundamentals (Country Report 08/248). It has fluctuated within a 5 percent band around a constant trend for the last several years; deviations from trend largely reflect supply-side-driven inflation differentials. The recent appreciation of the dollar has helped limit the appreciation of the REER in 2008.



Source: IMF, *Information Notice System*.

IV. Program Monitoring

16. **Assessment criteria, benchmarks, and indicative targets for the last review are in Tables 1 and 2 of the MEFP.** The floor on net international reserves (NIR) and the ceiling

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[6] Recent monetary easing by the ECB will to some extent reduce the need to increase policy rates in Cape Verde.

[7] In November, a Portuguese bank (which has common shareholders with an offshore bank in Cape Verde) was nationalized by the government of Portugal, including due to losses with the offshore bank. The operations of the offshore bank were initially reported by the BCV to its counterpart in Portugal. This incident had no direct relationship with the current credit crisis and the offshore bank has no domestic operations. The onshore and offshore systems are also sufficiently separated to mitigate the risks for contagion to the onshore banking sector.

on net domestic assets (NDA) for end-December 2008 have been revised, the ceiling on contracting nonconcessional external loans was raised, and three new structural benchmarks were proposed for the sixth review, which, based on end-2008 assessment criteria, is planned for March 2009 (Table 8).

V. Staff Appraisal

17. **Cape Verde continues to make important economic strides, and the effects of the recent global financial turmoil and slowdown have so far been relatively contained.** GDP growth continues to be resilient, inflation pressures are contained, and all assessment criteria for the fifth PSI review were met. While growth is expected to moderate in the near term, public investment could partly offset the expected decline in net external demand as both tourism and FDI slow. Inflation is expected to revert to low single digits in 2009.

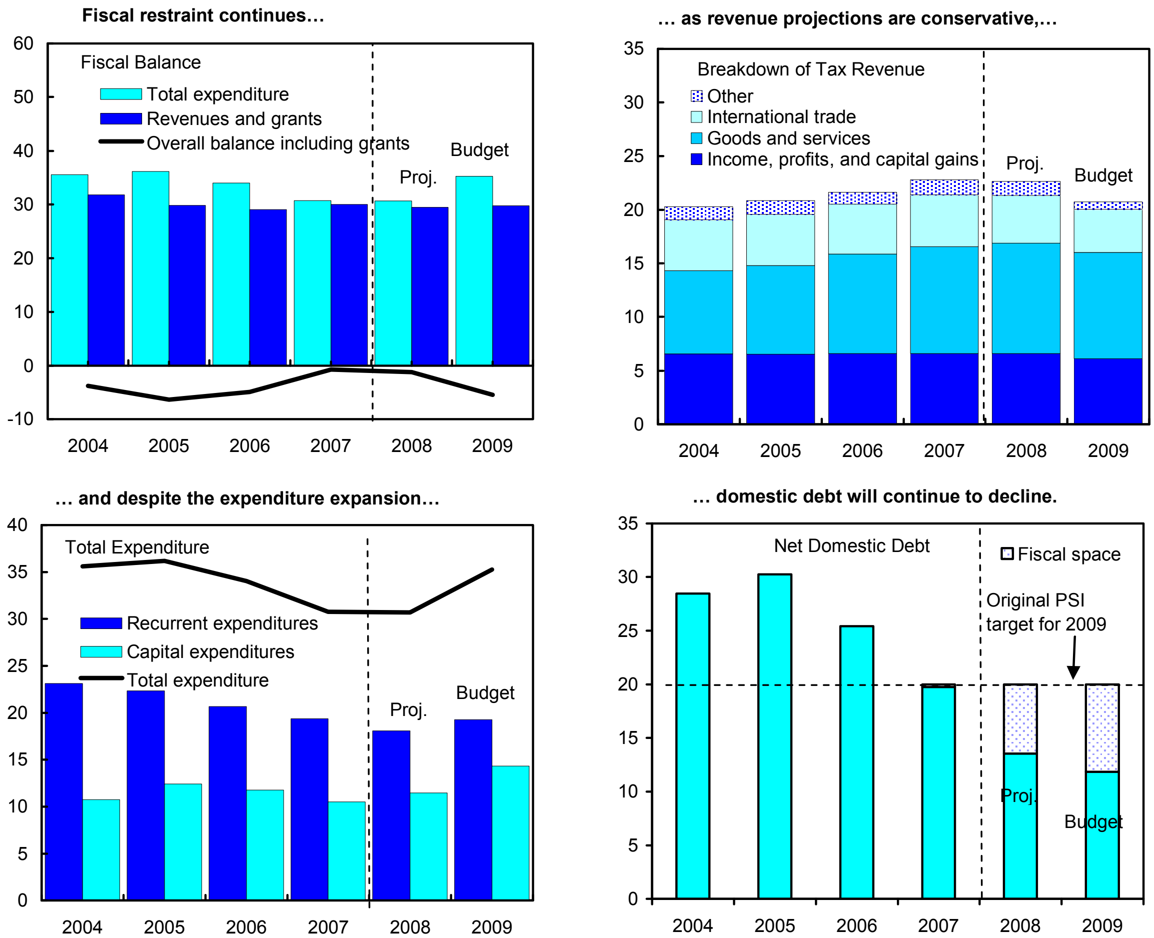
18. **The sound economic management in recent years that led to faster-than-planned reduction in domestic debt and accumulation of reserves is helping to weather external shocks.** The exchange rate peg also continues to serve Cape Verde well as an anchor for financial stability, and the REER is in line with fundamentals. Because of continuing risks, however, vigilance is required in the implementation of domestic policies, especially considering the slowdown of remittances and FDI flows. Continued fiscal restraint and alignment of domestic rates with the euribor and risk premium will be critical to safeguarding the exchange rate peg and reducing Cape Verde's vulnerability to shocks.

19. **Prudent execution of the 2009 budget is needed to rebuild international reserves and ensure gradual reduction of the domestic debt**. The 2009 budget expands spending on infrastructure, which will pause the decline in public debt. Nevertheless, the budget is appropriate: infrastructure bottlenecks have been an obvious constraint on growth, the tax measures in the budget tend to be revenue-neutral, and recurrent spending is again restrained. The budget would also reduce domestic debt and keep the risk of debt distress low. The authorities should press ahead with structural reforms; in particular, better public debt and financial management should improve the quality of public investment and limit fiscal risks.

20. **The recent measures taken by the BCV to strengthen monetary management, which have stemmed the decline in international reserves, are welcome.** Measures taken to correct the distorted incentives in the auction system will enhance the sale of BCV securities and help smooth short-term capital inflows. Given the rapidly changing external environment, to safeguard reserves the BCV needs to react more promptly to market developments.

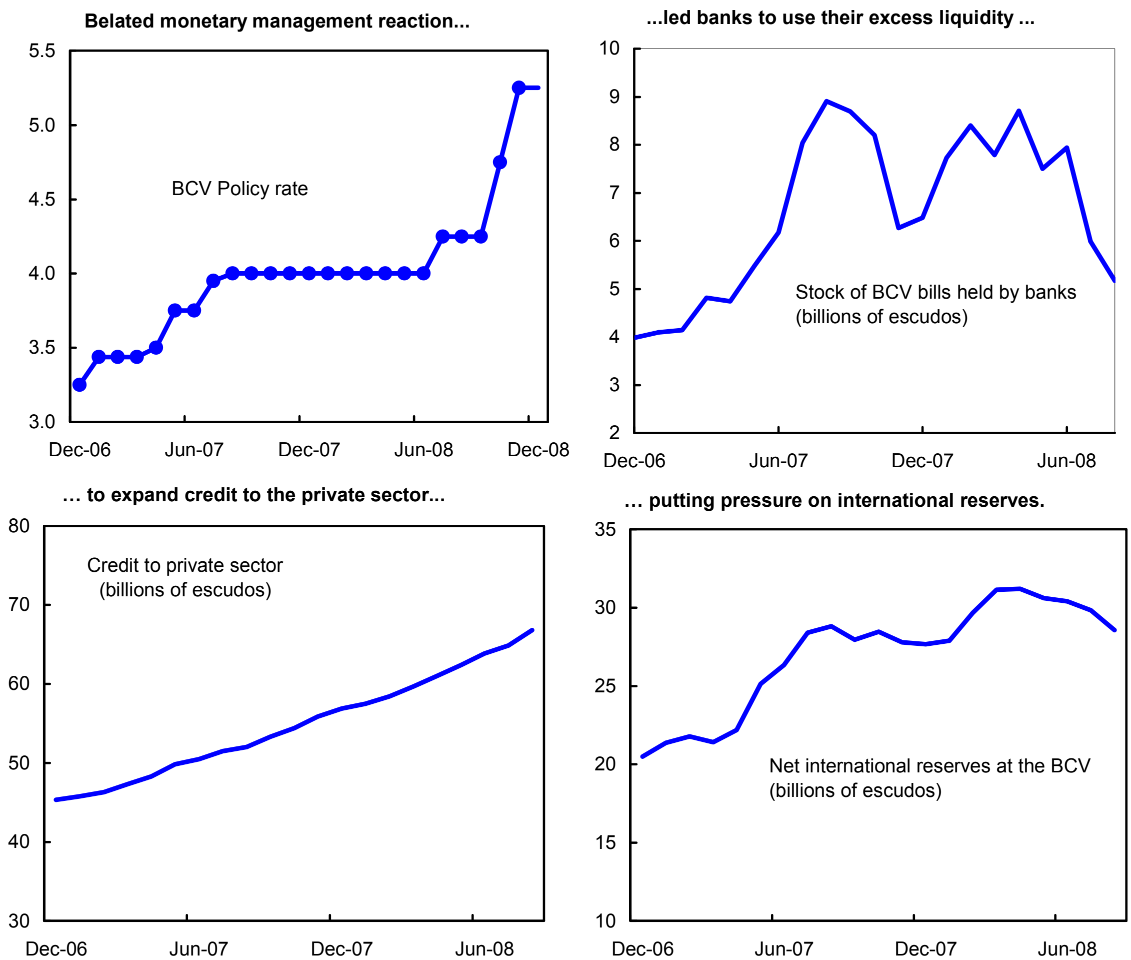
21. **Staff recommends completion of the fifth review of the PSI program.** Based on the strength of the authorities' policies, staff supports the modifications to the program's end-December 2008 assessment criteria.

Figure 1. Cape Verde: Fiscal Performance, 2004–09
(Percent of GDP)



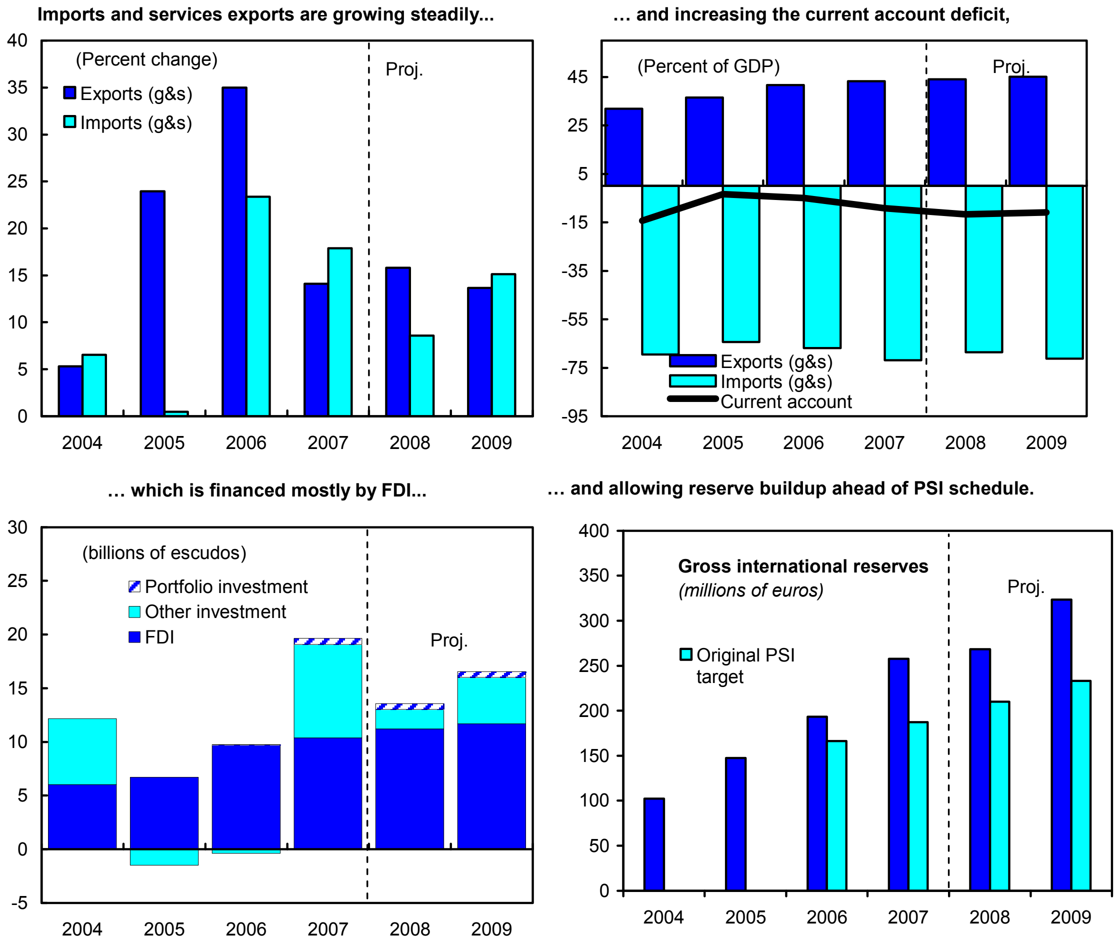
Source: Cape Verdean authorities and IMF staff estimates.

Figure 2. Cape Verde: Monetary Developments, 2007–08



Source: Cape Verdean authorities and IMF staff estimates.

Figure 3. Cape Verde: External Sector 2004–09



Source: Cape Verdean authorities and IMF staff estimates.

Table 1. Cape Verde: Selected Indicators, 2006-13

	2006	2007	2008	2009	2010	2011	2012	2013
	Actual	Est.	Proj.	Projections				
	(Annual percentage change)							
National accounts and prices								
Real GDP	10.8	6.9	6.0	6.1	7.0	7.1	6.8	6.7
Real GDP per capita	8.8	5.0	4.0	4.1	4.9	5.0	4.8	4.6
Consumer price index (annual average)	4.8	4.4	6.5	4.2	2.5	2.0	2.0	2.0
Consumer price index (end of period)	5.8	3.4	6.5	4.1	2.5	2.0	2.0	2.0
External sector								
Exports of goods and services	35.0	14.1	15.8	13.6	15.5	14.0	13.4	14.1
Of which: tourism	82.5	40.6	21.3	16.6	18.1	15.8	15.1	15.5
Imports of goods and services	23.4	17.9	8.6	15.5	9.0	12.5	12.5	12.2
Real effective exchange rate (annual average)	2.5	2.5	...	...	...	...	...	...
Terms of trade (minus = deterioration)	-4.4	-1.1	-6.0	1.9	1.2	1.1	1.1	1.1
Government finance								
Total revenue (excluding grants)	19.6	17.0	10.5	11.0	9.3	8.6	12.3	11.9
Total expenditure	11.8	-0.7	12.5	28.2	2.6	2.9	16.7	8.9
Noncapital expenditure	11.6	-0.4	6.9	20.8	0.9	0.8	20.2	14.1
Capital expenditure	12.1	-1.4	23.6	40.7	5.1	5.9 [5]	12.2	1.5
Money and credit								
Net foreign assets	15.1	22.9	1.9	19.4	14.9	15.0	14.6	13.5
Net domestic assets	19.3	5.7	7.2	7.3	11.3	10.7	11.6	11.9
Of which: net claims on the central government	1.2	-42.3	0.0	-37.2	-63.4	-27.9	-28.3	-14.8
credit to the economy[1]	30.0	25.5	9.7	14.5	17.4	11.9	12.4	12.2
Broad money (M2)	18.0	10.8	5.5	11.2	12.5	12.2	12.7	12.5
Domestic broad money (M2X)	22.9	13.3	10.3	16.1	17.3	16.8	15.6	12.5
Income velocity (GDP/M2)[2]	1.34	1.29	1.36	1.39	1.37	1.34	1.34	1.32
Reserve money (M0)	3.5	10.0	3.4	10.6	12.3	12.3	12.8	12.6
	(Percent of GDP)							
Saving-investment balance								
Gross capital formation	43.0	42.6	43.8	45.8	46.5	48.4	48.4	48.2
Government	6.1	5.1	6.0	8.0	7.6	8.4	8.4	7.9
Nongovernment	36.9	37.5	37.9	37.8	38.9	40.1	39.9	40.3
Gross national savings	38.0	33.4	32.2	34.6	35.8	37.8	37.9	37.9
Of which: government	9.3	9.9	10.7	10.4	7.8	9.0	7.9	7.5
External current account (including official current transfers)	-5.0	-9.2	-11.7	-11.2	-10.7	-10.7	-10.5	-10.3
Government finance								
Total domestic revenue	23.9	25.5	24.7	24.8	24.5	24.2	24.3	24.4
Total external grants	5.5	4.8	4.7	5.0	3.7	2.4	2.7	2.6
Total expenditure	34.3	31.0	30.7	35.5	33.0	30.8	32.2	31.4
Overall balance before grants	-10.4	-5.5	-5.9	-10.7	-8.4	-6.6	-7.9	-7.0
Overall balance (including grants)	-4.9	-0.7	-1.2	-5.4	-4.7	-4.2	-5.1	-4.4
External financing (net)	3.0	2.0	2.1	4.6	3.5	3.8	3.6	3.0
Domestic financing (net)	2.9	-0.8	-1.4	0.8	1.2	0.5	1.5	1.4
Financing gap/ statistical discrepancy	-0.9	-0.5	0.5	0.0	0.0	0.0	0.0	0.0
Total nominal government debt[3]	72.6	62.5	52.2	51.5	51.3	51.5	50.7	49.4
External government debt[4]	47.2	42.7	38.7	39.6	39.2	39.2	38.7	37.6
Domestic government debt, net of deposits	25.4	19.8	13.5	11.8	12.0	12.2	12.0	11.9
External current account (excluding official current transfers)	-9.1	-13.5	-16.1	-16.6	-13.8	-13.9	-13.7	-13.2
Overall balance of payments	4.7	6.1	0.7	4.1	3.4	3.6	3.6	3.4
External current account (€ millions, including official transfers)	-47.7	-96.4	-139.7	-148.0	-156.0	-172.1	-188.5	-206.4
Gross international reserves (€ millions, end of period)	194.9	259.5	268.3	323.2	373.2	430.8	495.5	564.6
Gross international reserves to reserve money	1.0	1.2	1.2	1.4	1.4	1.4	1.4	1.5
Gross international reserves (months of prospective imports of goods and services)	3.1	3.8	3.4	3.8	3.9	4.0	4.1	4.2
External debt service (percent of exports of goods and services)	5.7	4.7	4.5	4.3	3.9	3.7	4.0	4.3
Memorandum items:								
Nominal GDP (billions of Cape Verde escudos)	105.6	116.1	132.1	146.2	161.6	178.1	198.9	221.7
Exchange rate (Cape Verde escudos per US$)								
Period average	87.8	80.4	72.4	…	…	…	…	…
End period	83.5	75.6	73.6	…	…	…	…	…

Sources: Cape Verdean authorities, and IMF staff estimates and projections.

[1] Excluding a December 2006 purchase of a Portuguese credit to Electra and subsequent offloading on the domestic securities market.

[2] Velocity is nominal GDP devided by average end period broad money.

[3] Net of central government deposits; including verified stock of domestic and external arrears.

[4] Excluding claims on the offshore Trust Fund.

[5] Capital expenditures decelerate in 2011 as the execution of the MCC grant is completed.

Table 2. Cape Verde: Fiscal Operations of the Central Government, 2006-13

(Millions of Cape Verde escudos, unless otherwise indicated)

	2006	2007	2008			2009	2010	2011	2012	2013
	Actual	Prel.	Budget	Jan-Jun	Proj.[1]	Budget	Projections			
Revenue, grants, and net lending	31,044	35,131	38,551	17,854	38,918	43,639	45,602	47,280	53,781	59,897
Domestic revenue (incl. net lending)	25,255	29,559	31,286	15,897	32,670	36,267	39,645	43,049	48,351	54,121
Tax revenue	22,828	26,423	28,059	14,388	29,858	30,302	33,333	36,666	41,162	46,013
Income and profit taxes	6,952	7,656	8,462	4,368	8,677	8,900	9,368	10,585	11,865	13,273
Consumption taxes	9,821	11,565	13,177	6,462	13,581	14,508	16,238	17,702	19,885	22,292
International trade taxes	4,889	5,592	5,583	2,739	5,889	5,917	6,587	7,251	8,153	9,044
Other taxes	1,166	1,611	837	819	1,711	978	1,139	1,127	1,259	1,403
Nontax revenue	2,126	2,843	3,204	1,473	2,812	5,944	6,312	6,384	7,189	8,109
Net lending	301	293	23	36	0	21	0	0	0	0
External grants	5,789	5,572	7,265	1,957	6,248	7,372	5,957	4,230	5,431	5,775
Capital grants	4,035	4,009	5,597	696	4,814	5,478	5,957	4,230	4,931	5,275
Budget support	1,755	1,563	1,668	1,261	1,434	1,894	0	0	500	500
Total expenditure	36,252	35,986	44,032	16,288	40,497	51,600	53,271	54,833	64,017	69,689
Recurrent expenditure	18,887	22,308	24,950	9,437	23,869	28,184	30,940	31,224	37,403	41,821
Primary recurrent expenditure	16,967	20,428	22,896	8,509	21,815	25,892	28,423	28,646	34,375	38,326
Wages and salaries	11,547	12,491	14,245	5,839	13,471	15,950	16,897	17,506	20,873	23,274
Goods and services	1,197	1,853	2,335	500	2,140	2,964	2,603	2,623	3,192	3,559
Transfers and subsidies	3,464	5,219	4,453	1,730	4,318	4,914	5,283	4,848	6,211	6,924
Transfers	3,172	3,309	4,395	1,669	4,058	4,657	4,423	3,981	5,243	5,845
Subsidies	292	1,910	58	61	260	258	860	867	968	1,079
Of which: energy subsidies	208	1,802 [2]	0	0	199	0	0	0	0	0
Other expenditures	760	864	1,863	440	1,886	2,064	3,640	3,669	4,098	4,569
Domestic interest payments	1,398	1,361	1,487	643	1,487	1,570	1,350	1,132	1,262	1,404
External interest payments	522	519	566	285	566	722	1,167	1,446	1,766	2,091
Extraordinary expenditures	0	0	0	0	0	0	0	0	0	0
Capital expenditure	12,415	12,237	17,581	5,062	15,120	20,956 [3]	22,360	23,680	26,572	26,964
Foreign financed	11,173	9,599	12,470	3,066	10,724	13,939	13,490	12,733	14,804	15,197
Domestically financed	1,242	2,638	5,111	1,996	4,396	7,018	8,870	10,947	11,768	11,768
Other expenditures (incl. arrears clearance)	4,950	1,440	1,500	1,790	1,509	2,460	-28	-72	42	904
Of which: energy subsidies	204	0	0	0	0		0	0	0	0
Overall balance, including grants (budget basis)	-5,208	-855	-5,481	1,566	-1,579	-7,961	-7,669	-7,553	-10,235	-9,793
Financing	5,208	855	5,481	-1,566	1,579	7,961	7,669	7,553	10,235	9,793
Foreign, net	3,130	2,326	3,160	-219	2,754	6,756	5,720	6,734	7,226	6,671
Drawings	5,104	4,145	5,204	726	4,799	8,884	7,533	8,502	9,373	9,421
Amortization	-1,974	-1,819	-2,045	-945	-2,045	-2,127	-1,812	-1,769	-2,147	-2,750
Domestic, net	3,027	-889	2,321	-2,056	-1,884	1,205	1,949	819	3,009	3,121
Net domestic borrowing	1,638	-2,567	-172	-2,593	-3,568	1,925	2,100	2,370	2,142	2,384
Banking system	186	-6,506	248	-1,374	…	…	…	…	…	…
Nonbanks	1,452	3,938	-421	-1,219	…	…	…	…	…	…
Privatization and other sales of assets	456	3,598	2,493	537	1,684	-720	-151	-1,551	867	737
Accounts payable (*atrasados*), net	933	-1,919	…	0	0	…	0	0	0	0
Net errors and omissions	-949	-582	0	709	709	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Overall balance, including grants (excluding clearance of arrears and accounts payable)	-4,129	2,321	-3,980	2,289	-70	-5,501	-7,669	-7,553	-10,235	-9,793
Arrears clearance	2,012	1,257	1,500	724	1,509	2,460	0	0	0	0
Net domestic borrowing, excluding clearance of arrears and net accounts payable	559	-5,743	-1,673	-3,317	-5,077	-535	2,100	2,370	2,142	2,384
Primary balance (including grants)[4]	-3,288	1,025	-3,427	2,493	474	-5,669	-5,152	-4,975	-7,207	-6,298
Recurrent domestic balance[5]	6,368	7,250	6,335	6,460	8,801	8,083	8,705	11,825	10,948	12,300
Net external flows[6]	8,919	7,898	10,425	1,738	9,002	14,128	11,677	10,964	12,657	12,447
External debt service (percent of domestic revenue)	9.9	7.9	8.3	7.7	8.0	7.9	7.5	7.5	8.1	8.9
Domestic debt (including arrears and accounts payable, net of deposits)	26,851	22,929	21,256	...	17,851	17,316	19,416	21,787	23,929	26,313

Sources: Ministry of Finance and Public Administration, Bank of Cape Verde, and IMF staff estimates and prc

[1] Based on the authorities' mid-year review of fiscal performance.

[2] The energy subsidies recorded in 2007 were incurred in previous periods.

[3] The capital expenditure budget is typically underexecuted.

[4] Overall balance (including grants) – total expenditure + domestic and external interest payments.

[5] Domestic revenue – recurrent expenditure.

[6] External grants + net foreign financing.

Table 3. Cape Verde: Fiscal Operations of the Central Government, 2006-13
(Percent of GDP)

	2006	2007	2008			2009	2010	2011	2012	2013
	Actual	Prel.	Budget	Jan-Jun	Proj.[1]	Budget	Projections			
Revenue, grants, and net lending	29.4	30.3	29.2	13.5	29.5	29.9	28.2	26.5	27.0	27.0
Domestic revenue (incl. net lending)	23.9	25.5	23.7	12.0	24.7	24.8	24.5	24.2	24.3	24.4
Tax revenue	21.6	22.8	21.2	10.9	22.6	20.7	20.6	20.6	20.7	20.8
Income and profit taxes	6.6	6.6	6.4	3.3	6.6	6.1	5.8	5.9	6.0	6.0
Consumption taxes	9.3	10.0	10.0	4.9	10.3	9.9	10.0	9.9	10.0	10.1
International trade taxes	4.6	4.8	4.2	2.1	4.5	4.0	4.1	4.1	4.1	4.1
Other taxes	1.1	1.4	0.6	0.6	1.3	0.7	0.7	0.6	0.6	0.6
Nontax revenue	2.0	2.4	2.4	1.1	2.1	4.1	3.9	3.6	3.6	3.7
Net lending	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External grants	5.5	4.8	5.5	1.5	4.7	5.0	3.7	2.4	2.7	2.6
Capital grants	3.8	3.5	4.2	0.5	3.6	3.7	3.7	2.4	2.5	2.4
Budget support	1.7	1.3	1.3	1.0	1.1	1.3	0.0	0.0	0.3	0.2
Total expenditure	34.3	31.0	33.3	12.3	30.7	35.3	33.0	30.8	32.2	31.4
Recurrent expenditure	17.9	19.2	18.9	7.1	18.1	19.3	19.1	17.5	18.8	18.9
Primary recurrent expenditure	16.1	17.6	17.3	6.4	16.5	17.7	17.6	16.1	17.3	17.3
Wages and salaries	10.9	10.8	10.8	4.4	10.2	10.9	10.5	9.8	10.5	10.5
Goods and services	1.1	1.6	1.8	0.4	1.6	2.0	1.6	1.5	1.6	1.6
Transfers and subsidies	3.3	4.5	3.4	1.3	3.3	3.4	3.3	2.7	3.1	3.1
Transfers	3.0	2.9	3.3	1.3	3.1	3.2	2.7	2.2	2.6	2.6
Subsidies	0.3	1.6	0.0	0.0	0.2	0.2	0.5	0.5	0.5	0.5
Of which: energy subsidies	0.2	1.6 [2]	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Other expenditures	0.7	0.7	1.4	0.3	1.4	1.4	2.3	2.1	2.1	2.1
Domestic interest payments	1.3	1.2	1.1	0.5	1.1	1.1	0.8	0.6	0.6	0.6
External interest payments	0.5	0.4	0.4	0.2	0.4	0.5	0.7	0.8	0.9	0.9
Extraordinary expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	11.8	10.5	13.3	3.8	11.4	14.3 [3]	13.8	13.3	13.4	12.2
Foreign financed	10.6	8.3	9.4	2.3	8.1	9.5	8.3	7.2	7.4	6.9
Domestically financed	1.2	2.3	3.9	1.5	3.3	4.8	5.5	6.1	5.9	5.3
Other expenditures (incl. arrears clearance)	4.7	1.2	1.1	1.4	1.1	1.7	0.0	0.0	0.0	0.4
Of which: energy subsidies	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants (budget basis)	-4.9	-0.7	-4.1	1.2	-1.2	-5.4	-4.7	-4.2	-5.1	-4.4
Financing	4.9	0.7	4.1	-1.2	1.2	5.4	4.7	4.2	5.1	4.4
Foreign, net	3.0	2.0	2.4	-0.2	2.1	4.6	3.5	3.8	3.6	3.0
Drawings	4.8	3.6	3.9	0.5	3.6	6.1	4.7	4.8	4.7	4.2
Amortization	-1.9	-1.6	-1.5	-0.7	-1.5	-1.5	-1.1	-1.0	-1.1	-1.2
Domestic, net	2.9	-0.8	1.8	-1.6	-1.4	0.8	1.2	0.5	1.5	1.4
Net domestic borrowing	1.6	-2.2	-0.1	-2.0	-2.7	1.3	1.3	1.3	1.1	1.1
Privatization and other sales of assets	0.4	3.1	1.9	0.4	1.3	-0.5	-0.1	-0.9	0.4	0.3
Accounts payable (atrasados), net	…	-1.7	…	…	0.0	…	0.0	0.0	0.0	0.0
Net errors and omissions	-0.9	-0.5	0.0	0.5	0.5	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Overall balance, including grants (excluding clearance of arrears and accounts payable)	-3.9	2.0	-3.0	1.7	-0.1	-3.8	-4.7	-4.2	-5.1	-4.4
Arrears clearance	1.9	1.1	1.1	0.5	1.1	1.7	0.0	0.0	0.0	0.0
Net domestic borrowing, excluding clearance of arrears and net accounts payable	0.5	-4.9	-1.3	-2.5	-3.8	-0.4	1.3	1.3	1.1	1.1
Primary balance (including grants)[4]	-3.1	0.9	-2.6	1.9	0.4	-3.9	-3.2	-2.8	-3.6	-2.8
Recurrent domestic balance[5]	6.0	6.2	4.8	4.9	6.7	5.5	5.4	6.6	5.5	5.5
Net external flows[6]	8.4	6.8	7.9	1.3	6.8	9.7	7.2	6.2	6.4	5.6
Domestic debt (including arrears and accounts payable, net of deposits)	25.4	19.8	16.1	…	13.5	11.8	12.0	12.2	12.0	11.9
Nominal GDP (Millions of Escudos)	105,625	116,070	132,095	132,095	132,095	146,179	161,585	178,081	198,906	221,747

Sources: Ministry of Finance and Public Administration, Bank of Cape Verde, and IMF staff estimates and projections.

[1] Some items are not distributed uniformly during the year.

[2] The energy subsidies recorded in 2007 were incurred in previous periods.

[3] The capital expenditure budget is typically underexecuted.

[4] Overall balance (including grants) – total expenditure + domestic and external interest payments.

[5] Domestic revenue – recurrent expenditure.

[6] External grants + net foreign financing.

Table 4. Cape Verde: Balance of Payments, 2006–13

(Millions of euros, unless otherwise indicated)

	2006	2007		2008		2009	2010	2011	2012	2013
	Actual	Jan-Jun	Est.	Jan-Jun	Proj.	Projections				
Current account balance (including official transfers)	-48	-55	-96	-48	-140	-148	-156	-172	-189	-207
Trade balance	-369	-229	-485	-211	-519	-616	-671	-764	-868	-979
Exports, f.o.b.	76	26	56	42	67	69	73	77	80	86
Imports, f.o.b.	-445	-255	-541	-253	-586	-685	-743	-841	-948	-1,065
Services (net)	125	84	183	83	224	266	328	389	453	531
Credit	322	188	399	193	459	530	618	711	813	933
Of which: tourism	173	114	244	127	295	344	407	471	542	626
Debit	-197	-104	-216	-110	-236	-264	-291	-322	-361	-403
Income (net)	-36	-10	-19	-18	-20	-23	-27	-34	-40	-47
Credit	15	10	18	11	22	23	25	24	26	28
Debit	-51	-20	-37	-29	-43	-46	-52	-58	-66	-75
Government interest	-5	-2	-5	-2	-5	-7	-11	-13	-16	-19
Interest by other sectors	-22	-7	-15	-9	-18	-16	-15	-15	-16	-17
Income on direct investment and other income	-24	-10	-17	-18	-20	-23	-26	-30	-34	-39
Current transfers (net)	231	101	225	98	176	226	214	237	267	289
Government	39	13	46	37	53	72	46	52	59	59
Other	192	88	179	61	123	154	168	186	208	230
Capital and financial account (net)	99	106	198	91	167	203	206	230	253	276
Capital transfers	14	8	20	6	44	50	44	23	27	30
Government	14	8	20	6	44	50	44	23	27	30
Other	0	0	0	0	0	0	0	0	0	0
Direct investment (net)	88	41	94	73	102	106	117	137	161	183
Portfolio investment	0	2	5	0	5	5	5	5	5	5
Other investments, central government	21	9	18	-2	25	65	52	61	66	61
Trust Fund	0	0	0	0	0	0	0	0	0	0
Net official flows	21	9	18	-2	25	65	52	61	66	61
Disbursements	38	16	34	6	44	83	68	77	85	85
Amortization	-18	-8	-17	-8	-19	-19	-16	-16	-19	-25
Other	0	0	0	0	0	0	0	0	0	0
Other investments, non-central government	-24	49	61	13	-9	-22	-12	3	-5	-3
Commercial banks (net)	-23	-9	13	15	5	0	0	0	0	0
Commercial credit (net)	2	4	4	3	0	0	0	0	0	0
Other	-3	53	44	-5	-13	-23	-13	3	-5	-3
Net errors and omissions	-6	-2	-38	-18	-18	0	0	0	0	0
Overall balance	45	50	65	24	9	55	50	58	65	69
Financing	-45	-50	-65	-24	-9	-55	-50	-58	-65	-69
Gross international reserves (– accumulation)	-46	-53	-65	-24	-9	-55	-50	-58	-65	-69
Of which: IMF (net)	-1	. . .	-1	. . .	-1	-1	-2	-2	-2	-1
Exceptional financing	1	3	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Current account (including official transfers; percent of GDP)	-5.0	-5.2	-9.2	-4.0	-11.7	-11.2	-10.7	-10.7	-10.5	-10.3
Current account (excluding official transfers; percent of GDP)	-9.1	-6.4	-13.5	-7.1	-16.1	-16.6	-13.8	-13.9	-13.7	-13.2
Overall balance (percent of GDP)	4.7	4.8	6.1	2.0	0.7	4.1	3.4	3.6	3.6	3.4
Gross international reserves	194.9	248.2	259.6	285.4	268.4	323.3	373.3	430.9	495.6	564.7
Months of current year's import of goods and services	3.6	3.9	4.1	4.2	3.9	4.1	4.3	4.4	4.5	4.6
Months of next year's import of goods and services	3.1	3.6	3.8	3.6	3.4	3.8	3.9	4.0	4.1	4.2
External public debt	452.3	. . .	449.9	. . .	463.1	525.5	575.0	633.6	697.8	755.2
External aid (grants and loans; percent of GDP)	9.6	3.5	9.5	4.1	11.7	15.4	10.8	9.4	9.5	8.7

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

Table 5. Cape Verde: Monetary Survey, 2006–11

	2006	2007		2008		2009	2010	2011
	Dec.	Dec.		June	Dec.	Dec.		
		Program	Actual	Actual	Proj.	Projections		
	(Millions of Cape Verde escudos, unless otherwise specified)							
Net foreign assets	25,267	30,883	31,049	32,110	31,654	37,798	43,448	49,969
Foreign assets	31,423	37,958	38,762	40,229	39,802	45,974	51,600	58,071
Of which: foreign reserves	21,495	29,128	28,627	31,344	29,593	35,653	41,164	47,518
Foreign liabilities	-6,157	-7,074	-7,713	-8,119	-8,147	-8,176	-8,151	-8,101
Net domestic assets	60,174	66,134	63,579	68,219	68,149	73,145	81,406	90,128
Net domestic credit	71,318	76,266	76,426	82,912	81,909	87,640	96,557	105,966
Net claims on general government	25,993	20,465	19,530	19,066	19,514	16,196	12,648	12,062
Claims on the Trust Fund (TCMFs)	11,038	11,038	11,038	11,038	11,038	11,038	11,038	11,038
Net claims on the central government	15,393	10,226	8,887	8,068	8,884	5,578	2,044	1,473
Credit to central government	19,471	15,709	16,082	16,255	17,740	15,254	13,396	14,288
Deposits of central government	-4,078	-5,483	-7,195	-8,186	-8,856	-9,677	-11,352	-12,815
Of which: project deposits	-1,398	-277	. . .	. . .	-277	-277	-277	-277
Net claims on local government	-341	-311	-310	-40	-322	-335	-349	-363
Net claims on other government agencies (INPS)	-97	-488	-85	0	-85	-85	-86	-87
Credit to the economy	45,325	55,801	56,896	63,846	62,394	71,445	83,909	93,904
Of which: excluding purchase of a Portuguese credit to Electra and subsequent off-loading on the domestic securities market	40,461	…	…	…	…	…	…	…
Credit to public enterprises	1,498	678	1,337	1,169	1,390	1,460	1,533	1,610
Credit to private sector	43,811	55,108	55,553	62,675	60,998	69,979	82,370	92,289
Claims on nonbank financial institutions	16	16	6	1	6	6	6	6
Other items (net)	-11,144	-10,133	-12,847	-14,694	-13,760	-14,495	-15,151	-15,838
Broad money (M2)	85,441	97,017	94,628	100,328	99,803	110,943	124,855	140,098
Narrow money (M1)	38,810	40,673	43,021	45,356	42,553	47,302	53,234	59,733
Currency outside banks	7,731	8,769	8,399	7,611	8,728	9,608	10,739	11,992
Demand deposits	31,079	31,904	34,622	37,746	33,825	37,694	42,495	47,741
Quasimoney	41,776	51,613	45,640	48,224	50,953	56,641	63,743	71,525
Foreign currency deposits	4,856	4,731	5,967	6,748	6,297	7,000	7,878	8,840
	(Change in percent of broad money 12 months earlier)							
Net foreign assets	4.6	6.7	6.8	2.3	0.6	6.2	5.1	5.2
Net domestic assets	13.4	6.7	4.0	8.4	4.8	5.0	7.4	7.0
Net domestic credit	14.2	6.8	6.0	11.1	5.8	5.7	8.0	7.5
Net claims on the central government	0.3	-6.0	-7.6	-4.1	0.0	-3.3	-3.2	-0.5
Credit to the economy	14.5	12.8	13.5	14.8	5.8	9.1	11.2	8.0
Credit to public enterprises	0.7	0.1	-0.2	-0.3	0.1	0.1	0.1	0.1
Credit to private sector	13.8	12.7	13.7	15.1	5.8	9.0	11.2	7.9
Other items (net)	-0.8	-0.1	-2.0	-2.7	-1.0	-0.7	-0.6	-0.6
Broad money (M2)	18.0	13.4	10.8	10.6	5.5	11.2	12.5	12.2
Memorandum items:								
Income velocity of money [1]	1.34	1.26	1.29	1.30	1.36	1.39	1.37	1.34
Emigrant deposits	31,293	35,494	33,262	33,537	32,096	32,350	32,661	32,445
(as percent total deposits)	40.3	. . .	38.6	36.2	35.2	31.9	28.6	25.3
Excess reserves/total deposits (percent)	1.3	1.5	2.3	2.9	1.4	1.3	1.3	1.3
Money multiplier (M2/M0)	3.91	4.19	3.9	4.0	4.0	4.0	4.0	4.0
Credit to the economy (percentage change)	30.0	24.4	25.5	26.6	9.7	14.5	17.4	11.9

Sources: Bank of Cape Verde, and IMF staff estimates and projections.

[1] Velocity is nominal GDP devided by average end period broad money. Velocity declines gradually because of financial deepening.

Table 6. Cape Verde: Central Bank Survey, 2006–11

	2006	2007		2008		2009	2010	2011
	Dec.	Dec.		June	Dec.	Dec.		
		Program	Actual	Actual	Proj.	Projections		
		Country Report 08/37						
	(Millions of Cape Verde escudos, unless otherwise specified)							
						317.4		
Net foreign assets	20,489	28,287	27,688	30,413	28,824	34,999	40,681	47,235
Of which: net international reserves	20,357	28,113	27,572	30,357	28,669	34,844	40,526	47,079
Foreign assets	21,644	29,360	28,760	31,468	29,800	35,861	41,372	47,726
Foreign liabilities	-1,155	-1,073	-1,073	-1,055	-976	-861	-690	-491
Net domestic assets	1,372	-5,128	-3,647	-5,621	-3,965	-7,507	-9,796	-12,564
Net domestic credit	3,596	-3,023	-1,323	-3,420	-1,705	-5,202	-7,444	-10,165
Trust Fund claims	4,605	4,605	4,605	4,605	4,605	4,605	4,605	4,605
Net claims on central government	1,748	239	-607	-1,224	-2,268	-3,089	-4,764	-6,227
Credit to central government	3,739	3,739	3,739	3,738	3,739	3,739	3,739	3,739
Deposits of central government	-1,990	-3,500	-4,346	-4,963	-6,007	-6,827	-8,503	-9,966
Credit to the economy	1,225	1,271	1,162	1,142	1,168	1,174	1,180	1,186
Credit to public enterprises	0	47	0	0	0	0	0	0
Credit to private sector	1,216	1,215	1,159	1,142	1,165	1,170	1,176	1,182
Claims on nonbank financial institutions	9	9	3	0	3	3	3	3
Credit to commercial banks	-3,982	-9,137	-6,483	-7,942	-5,209	-7,892	-8,465	-9,729
Other items (net)	-2,224	-2,104	-2,325	-2,202	-2,260	-2,305	-2,351	-2,398
Reserve money (M0)	21,861	23,160	24,041	24,792	24,860	27,492	30,885	34,671
Currency issued	9,188	9,938	9,983	9,105	10,413	12,851	14,363	16,142
Deposits of commercial banks	12,673	13,219	14,058	15,687	14,446	16,008	18,034	20,307
Memorandum items:								
Gross international reserves (€ millions)	194.9	264.1	259.6	284.3	268.4	323.3	373.3	430.9
Net international reserves (€ millions)	184.6	254.9	250.1	275.3	260.0	316.0	367.5	427.0
(months of imports)	3.1		3.8		3.4	3.8	3.9	4.0
Reserve money (12-month change in percent)	3.5	6.0	10.0	7.7	3.4	10.6	12.3	12.3

Sources: Bank of Cape Verde, and IMF staff estimates and projections.

Table 7. Cape Verde: Deposit Money Bank Survey, 2006–11

	2006	2007		2008		2009	2010	2011
	Dec.	Dec.		June	Dec.	Dec.		
		Program	Actual	Actual	Proj.	Projections		
		Country Report 08/37						
	(Millions of Cape Verde escudos, unless otherwise specified)							
Net foreign assets	4,778	2,596	3,361	1,697	2,830	2,799	2,767	2,735
Of which: excluding the effect of a purchase of a Portuguese credit to Electra	8,346	…	…	…	…	…	…	…
Foreign assets	9,780	8,598	10,001	8,761	10,001	10,113	10,228	10,345
Foreign liabilities	-5,002	-6,002	-6,640	-7,064	-7,171	-7,315	-7,461	-7,610
Of which: nonresident deposits	-3,579	-5,057	-5,198	-5,532	-5,614	-5,727	-5,841	-5,958
Net domestic assets	72,929	85,652	82,859	91,014	88,245	98,536	111,348	125,371
Net domestic credit	81,903	93,678	93,628	102,314	99,745	110,726	124,148	138,810
Net claims on general government	19,571	15,622	15,984	15,686	17,178	14,680	12,807	13,684
Trust Fund claims	6,433	6,433	6,433	6,433	6,433	6,433	6,433	6,433
Other government deposits (INPS)	-97	-488	-85	. . .	-85	-85	-86	-87
Net claims on central government	13,644	9,987	9,494	9,293	11,152	8,667	6,808	7,700
Claims on central government	15,732	11,971	12,343	12,516	14,001	11,516	9,658	10,550
Deposits of central government	-2,088	-1,983	-2,849	-3,224	-2,849	-2,849	-2,849	-2,849
Net claims on local government	-341	-311	-310	-40	-322	-335	-349	-363
Claims on local government	241	277	295	603	307	320	332	346
Deposits of local government	-582	-588	-605	-643	-630	-655	-681	-708
Credit to the economy	44,099	54,531	55,733	62,704	61,226	70,271	82,729	92,719
Of which: excluding purchase of a Portuguese credit to Electra and subsequent off-loading on the domestic securities market	39,705	…	…	…	…	…	…	…
Credit to public enterprises	1,498	631	1,337	1,169	1,390	1,460	1,533	1,609
Credit to private sector	42,595	53,893	54,394	61,533	59,834	68,809	81,194	91,107
Claims on nonbank financial institutions	6	6	2	1	2	2	2	2
Net claims on the Bank of Cape Verde	18,233	23,525	21,911	23,924	21,341	25,776	28,611	32,407
Other items (net)	-9,043	-8,026	-10,317	-11,300	-11,500	-12,190	-12,800	-13,439
Deposit liabilities to nonbank residents	77,707	88,248	86,220	92,711	91,075	101,335	114,115	128,106
Local currency deposits	72,852	83,517	80,253	85,963	84,778	94,335	106,238	119,266
Demand deposits	31,076	31,904	34,613	37,739	33,825	37,694	42,495	47,741
Of which: emigrant deposits	4,043	4,586	4,838	4,821	4,668	4,705	4,750	4,719
Time deposits	41,776	49,151	45,640	48,224	50,953	56,641	63,743	71,525
Of which: emigrant deposits	26,148	29,658	27,187	27,577	26,234	26,441	26,695	26,519
Foreign currency deposits	4,856	4,731	5,967	6,748	6,297	7,000	7,878	8,840
Of which: emigrant deposits	965	1,250	1,081	1,041	1,194	1,203	1,215	1,207
Memorandum items:								
Emigrant deposits (ratio to total deposits)	0.40	0.40	0.39	0.36	0.35	0.32	0.26	0.23
Other deposits (ratio to broad money)	0.54	0.63	0.56	0.59	0.68	0.71	0.74	0.77
Composition of emigrant deposits	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Local currency	0.96	0.96	0.96	0.97	0.96	0.96	0.96	0.96
Demand	0.13	0.13	0.15	0.14	0.15	0.15	0.15	0.15
Time	0.84	0.84	0.82	0.82	0.82	0.82	0.82	0.82
Foreign currency	0.04	0.04	0.04	0.03	0.04	0.04	0.04	0.04

Sources: Bank of Cape Verde, and IMF staff estimates and projections.

Table 8. Cape Verde: Proposed 2009 Work Program

Mission Date	Purpose	Board Review
February 2009	Sixth (last) PSI review against December 2008 assessment criteria.	May 2009

APPENDIX I—LETTER OF INTENT

November 26, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington DC 20431 USA

Dear Mr. Strauss-Kahn:

Discussions for the fifth review of the Policy Support Instrument (PSI) were held in Praia during September 22–October 3, 2008. The attached Memorandum of Economic and Financial Policies (MEFP) reviews implementation to date of the Cape Verde government's macroeconomic and structural program under the country's three-year PSI, which was approved by the IMF Executive Board in July 2006. It describes economic and policy developments since the fourth review of the PSI and prospects for the remainder of 2008 and for 2009. The sixth (and final) review is scheduled for May 2009.

The government of Cape Verde reaffirms its commitment to the policy priorities of the PSI and firmly believes that it will provide solid support for macroeconomic stability and the exchange rate peg, and promote growth. It will support our efforts to create adequate fiscal space to finance the much needed upgrading of the country's infrastructure, provide buffers against external shocks, and reduce poverty. The government of Cape Verde considers that the PSI has served the country well and intends to request an extension of the PSI program for one year after the expiration in July 2009 as a bridge to request another 3-year PSI in 2010.

The government of Cape Verde requests the modification of the program's targets for end-December 2008 for net international reserves, net domestic assets of the central bank, and ceiling on the contracting of nonconcessional long-term external debt. The modifications of the monetary targets result mainly from the global slowdown and the high food and fuel prices during most of 2008 (Table 1). Three new fiscal structural benchmarks were included to improve public financial management and strengthen debt management (Table 2).

Under the PSI, the government will regularly update the IMF on economic and policy developments and will provide the data needed for adequate monitoring of the program. During the period of the PSI, Cape Verde will consult with the IMF on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director of the IMF requests such a consultation. We authorize the IMF to publish this letter of intent, the attached MEFP, and the related staff report.

Sincerely yours,

/s/
Cristina Duarte,
Minister of Finance

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

ATTACHMENT I—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Introduction

1. **Cape Verde's economic and policy performance remains strong.** Economic growth continues to be driven by the strength of tourism exports and related FDI flows, and average inflation remains in single digits. Public debt has declined as a share of GDP and international reserves remain adequate despite the high food and fuel prices. Important progress was made towards the structural objectives of the program namely improving public sector management, strengthening the financial sector and reforming energy pricing regulation. These prudent polices have catalyzed investment and export growth, particularly in tourism and other services.

2. **The government will continue to focus on enhancing macroeconomic stability and implementing structural reforms to unleash growth and reduce poverty**. Fiscal policy and monetary management are consistent with the program goals and supportive of the exchange peg. Domestic public debt will continue do decline as a share of GDP and international reserves are expected to increase further. This will create additional fiscal space to increase infrastructure spending and absorb external shocks. The 2009 program aims at promoting reforms especially in public financial management and strengthening the financial sector.

Recent developments and program performance

3. **Economic activity was solid in the first half of 2008 albeit with some moderation reflecting the global slowdown, and food and fuel prices pushed up inflation.** Although overall economic activity remains on the strong side, leading indicators like the confidence barometer and imports of capital goods suggest it is moderating. While food and fuel prices have pushed 12-month inflation to 8 percent in August, second round effects on prices have so far been limited. This reflects the credible peg and weak wage indexation which continue to anchor firmly inflation expectations, and moreover economic activity is moderating. Recent rainfall should have a favorable effect on supply of some domestic food items. After the recent increase, we also expect core inflation (which excludes food and energy) to come down gradually in 2009 in line with core inflation in the euro area.

4. **The June 2008 program quantitative targets were observed** (Table 1).

- **Domestic borrowing was significantly below its ceiling, and domestic debt was further reduced**. The mid-year review of the budget conducted in August (a PSI assessment criterion) identified that fiscal performance was broadly in line with budget projections, reflecting strong tax revenues, and strict control of recurrent spending.

- **International reserve target was met albeit with a narrow margin.** Notwithstanding the strong fiscal performance, reserves accumulation moderated owing to disappointing external current transfers as well as private debt repayments in the first half of the year. The deceleration of remittances reflects the U.S. dollar depreciation and the economic slowdown in Europe and the U.S. where most of our diaspora resides. The ongoing international credit crisis triggered by the subprime mortgage crisis is yet to have a direct impact on Cape Verde given banks limited exposure to subprime assets. However, some anecdotal evidence suggests we may be beginning to experience the indirect impact through the tightening of liquidity conditions in Europe, which has slowed down the execution of tourists related real-estate projects. Moreover, the financial turmoil appears to have had some impact in the United Kingdom, Ireland and Spain which are important sources of FDI, and tourism flows for Cape Verde.

5. **Progress on structural reforms has been steady.** The new tax codes were submitted to National Assembly in August. The Economic Regulatory Agency (ARE) will finalize the new fuel pricing formula in November and the AML/CFT laws have been submitted to National Assembly in November (Table 2). The simplified medium-term fiscal framework (PSI benchmark) has been submitted to National Assembly with the 2009 budget and posted in the Ministry of Finance's website in November. Following the approval of the new income tax bills by the Council of Ministers planned for 2009, we intend to submit them to the National Assembly together with the forthcoming legislation rationalizing tax exemptions.

Macroeconomic Objectives and Policies

Macroeconomic Objectives

6. **Growth is expected to average 6 to 7 percent in 2008 and 2009,** underpinned by further growth in tourism and by public infrastructure investments. Average inflation is expected to peak at about 6.5 percent in 2008 reflecting food and fuel price shocks before declining to 4 percent in 2009 consistent with the recent decline in international oil prices, the exchange peg and Euro area inflation. The program quantitative targets for end-December 2008 were modified downward in light of the global slowdown and high food and fuel prices. Gross reserves are targeted to increase by 0.4 months of imports in 2009 reestablishing the original program reserves level for end-2008 by September 2009. The specific program objectives for the remainder of 2008 and for the first half of 2009 are set out in Table 1.

Fiscal policy

7. **Continued fiscal consolidation remains key to our macroeconomic program and the 2009 budget aims at a further reduction of the domestic debt-to-GDP ratio to build up international reserves.** The fiscal space created in previous years will permit to address external shocks and ease infrastructure bottlenecks while further reducing the debt ratios. Fiscal consolidation in 2009 will rely on both revenue and expenditure measures. A tax exemptions code will be introduced to eliminate unjustified exemptions and broaden the revenue base, thereby offsetting the expansion of spending on infrastructure, direct transfers to the poor to help cushion the food and fuel price increases, and the reduction of corporate and personal income taxes. The government is committed to contain expenditures through continued wage restraint. While the wage bill is budgeted to increase slightly in 2009 this is not a result of nominal wage increases, rather it is due to new hiring of professionals in vital

sectors such as health and education sectors as well as hiring and placing financial controllers to improve public financial management in government departments (a new PSI benchmark). The budget also implements decentralization of payroll management. The government has taken the decision that it will adjust electricity and water tariffs only after a careful assessment of the impact of the current high energy prices on the poor and vulnerable.

8. **Strengthening our debt management is also a high priority.** A strengthened debt management strategy will underpin the government's borrowing program and the country's medium-term fiscal framework submitted to the National Assembly in October (a PSI benchmark for November). In this context, the government is reforming debt management and would welcome IMF technical assistance in the areas of asset liability management. We have already made notable progress in this area as we upgraded our debt software and we now conduct debt sustainability analyses (DSA) regularly. Our next DSA to be conducted in early 2009 will inform the preparation of the 2010 budget to ensure that the expansion of borrowing for infrastructure will not endanger debt sustainability.

9. **Reinforcing vigilance over state-owned enterprises will be an important aspect of our debt and asset management.**

- To this end, the government is making the commitment to a new PSI benchmark of compiling the official statistics of Other Economic Flows for the general public sector arising from the holding gains with our five largest state-owned enterprises to allow for prompt detection of balance-sheet vulnerabilities and adoption of corrective actions.

- Official statistics will also report the consolidated assets and liabilities of these five large state-owned corporations detailing their debt by maturity, currency, residency and state guarantees. This will allow monitoring of their debt in the context of a comprehensive debt management strategy for the public sector.

- The institutional framework for debt management and the debt management strategy will be strengthened to limit fiscal risks. The strategy will be consistent with the medium-term fiscal framework and debt sustainability, and will be embedded in the mandate of the debt management office.

- Capacity of the debt management office will be reinforced. New staff will be hired and will receive training in the context of the PicatFin cooperation agreement with Portugal.

- The coordination between the Ministry of Finance and the BCV will be enhanced, including for improving management of the securities market.

- Finally, to keep a close monitoring of contingent liabilities and fiscal risks, we have included a new PSI structural benchmark in the program (Table 1) on submitting a report to the Council of Ministers on an assessment of the contingent liabilities for the state budget by March 2009.

10. **The government's reform program has been successful in preparing the country for the decline in concessional financing following the graduation from Least Developed Country status in 2008.** While the government will continue to give priority to mobilizing concessional financing, raising the PSI ceiling for nonconcessional external financing is justified to allow for a nonconcessional loan approved by the European Investment Bank (EIB). This € 47 million loan is fully earmarked to expand the port of Palmeira, will be disbursed until 2011, and will be repaid in 20 years with a 4-year grace period. Extensive technical analyses by international consultants since 2005 concluded that the project has the potential to promote growth, which warrants the application of the principles of the 2008 Nouakchott Declaration of African Governors of making nonconcessional ceilings flexible in this case. Furthermore, the 2008 Joint Bank-Fund DSA concludes that this nonconcessional loan will not jeopardize debt sustainability even under the pessimistic scenario where the expected positive spillovers do not materialize.

Monetary Management

11. **Monetary management should continue to smooth short-term capital flows to stabilize flows and to support the exchange rate peg to the Euro.** In the short-run, the BCV will continue to monitor the domestic liquidity situation and external flows closely and assess its implications for domestic interest rates, credit growth, and external flows, and timely adjust domestic rates in line with the Euribor and market risk premium. Thus, the BCV raised its 14-day bill rate by 50 basis points in September and by another 50 basis points in October to 5¼ percent to synchronize its policy rate with rates in the euro area. To this end, the BCV will prepare quarterly reports on developments on balance of payments flows, including an assessment of interest sensitivity of non-resident flows into the banking system (a PSI benchmark).

12. **Liquidity management in the short run will continue to be implemented through the issuance of central bank bills and the interest rate offered on the 14-day bill constitutes the BCV's official policy rate.** Over the medium-term, fiscal policy will support monetary management by accumulating government deposits at the central bank to contain domestic demand thereby allowing a build up of foreign exchange reserves in line with the program goal to support the exchange rate peg. The BCV will lift the rate ceiling on the central bank bills, and raise the official policy rate. The BCV will continue to stand ready to timely adjust rates further as needed in line with developments in international markets and risk premia. To this end, the Monetary Policy Committee will meet monthly to closely monitor and promptly react to new market developments.

Structural Reforms

Public sector financial management

13. **The government remains fully committed to its program of strengthening public financial management.** Our efforts evolve around expanding SIGOF, our home-made budget management technology platform, which is internationally recognized as a model for public financial management. In particular, the Ministry of Finance is:

- Preparing a simplified medium-term fiscal framework for the 2009 budget (a PSI benchmark) within SIGOF. This tool will allow us to anchor fiscal policy in a medium term perspective.

- Decentralizing payroll management. In 2009, personnel management will be done by each line unit. This will allow better budget discipline and efficient labor allocation.

- Introducing a new chart of public accounts (PNCP) that will align our fiscal statistics with international best practice.

14. **The government will continue to update and strengthen the tax framework.** Drafts of the revised General Tax Code, Code on Judicial Processes, and Forced Tax Collection code were submitted to the National Assembly in August 2008. In addition, to further reduce and streamline the tax incentives and exemptions, the government will prepare a new tax exemption code with technical assistance from both the IMF and other external consultants. The government intends to submit this legislation to the National Assembly in early 2009. Pending the passage of this legislation, a moratorium has been put in place on the granting of new tax exemptions.

Financial Sector Issues

15. **Following the introduction of new banking regulation in 2007 and AML/CFT in November 2008, the BCV is now focusing on strengthening supervision of the financial sector.** In particular:

- The BCV will continue to enforce the new banking regulations through onsite and offsite inspections. For an adequate management of credit risk, it is crucial that banks follow the new risk classification of their assets and make adequate provisions.

- Given the recent experience with international sub-prime mortgage crisis, the BCV will also continue to closely monitor bank credit in various sectors and alert banks when excessive exposure in a particular sector may not be prudent which could lead to boom-burst cycles in the economy.

- The BCV will also begin to extend its supervision coverage to other non-bank financial intermediaries, particularly those exposed to the real estate sector.

- The government will promote the development of the insurance and capital markets to support economic development in Cape Verde. A new insurance sector regulation is being modernized to cover both life and non-life aspects of the insurance industry. Although the basic infrastructure on capital markets is in place, the operational and legal aspects are not yet fully developed and modernized including the Securities Code and the Company's Act.

16. **The above measures to strengthen the financial sector will support the BCV's strategy of further gradual opening of the capital account.** Gradual liberalization will support the ongoing economic and financial development of Cape Verde, including access to

international financial markets. The government is working to take further measures to minimize risks to the financial system before moving further with liberalization of other financial flows.

Energy Sector Reform

17. **The government is carrying out a comprehensive strategy to ensure that the energy sector is able to support the growth and development of Cape Verde.** Working within the framework of public and private partnerships in the sector, the government's strategy emphasizes:

- Investment to increase capacity and efficiency, including improvements in electricity generation and transmission, higher water production capacities, and development of alternative energy sources;

- Increased private sector participation in the sector's management and investment activities; and

- Formation of a joint logistics company to handle importation, storage and inter-island distribution of oil products.

18. **The government's efforts to reform the energy sector are being supported by external donors.** We have negotiated with the World Bank a US$ 44 million IBRD loan specifically directed to the energy sector. This should accelerate progress in the implementation of the government's energy sector reform agenda.

Table 1. Cape Verde: Quantitative Assessment Criteria and Indicative Targets for 2008-09 Under the PSI [1, 2]

	Stock 2007	Cumulative Flows from End-December, 2007 2008							Cumulative Flows from End-June, 2008 2009	
	Dec.	March	June			June	Sep.	Dec.	March	June
	Actual	Indicative Target	Assessment Criteria	Assessment Criteria with adjusters	Actual	Stock Actual	Indicative Targets	Assessment Criteria	Indicative Targets	Indicative Targets
Quantitative targets	(Billions of Cape Verde escudos)									
Ceiling on net domestic borrowing of the central government [3]	...	-0.4	-0.8	-0.3	-3.3	...	-1.3	-1.7	-2.1	-2.2
Ceiling on net domestic assets of the central bank [4]	-3.6	-0.1	-0.2	-0.3	-2.0	-5.6	-0.4	-0.4	0.7	-0.1
Ceiling on the accumulation of new domestic payment arrears by the central government	...	0.0	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0
	(Millions of U.S. dollars)									
Ceiling on the accumulation of new external payment arrears by the central government [5]	…	0.0	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0
Ceiling on the contracting or guaranteeing of non-concessional external debt with original maturity of more than one year by the central government [6]	...	5.0	21.0	21.0	13.1	...	28.0	90.0	8.8	17.5
Ceiling on the outstanding stock of nonconcessional external debt with a maturity of less than one one year by the central government [5,7]	…	0.0	0.0	0.0	0.0	...	0.0	0.0	0.0	0.0
	(Millions of euros)									
Floor on net international reserves of the Bank of Cape Verde (BCV) [8]	250.0	2.9	25.3	26.5	26.7	275.3	7.3	10.0	-2.2	10.8
Memorandum item:	(Billions of Cape Verde escudos)									
Program assumptions										
Nonproject external financial assistance, including credit line (program assumption)	...	0.6	1.2	...	1.3	...	1.8	2.4	2.1	2.9
External debt service	...	0.7	1.3	...	1.2	...	2.0	2.6	1.6	2.2
Land sales	...	0.7	1.4	...	0.7	...	2.1	2.8	2.6	3.0
Clearance of end-2006 stock of domestic arrears	...	0.4	0.8	...	0.7	...	1.1	1.5	1.4	2.0

[1] Quantitative assessment criteria and benchmarks are described in the technical memorandum of understanding.

[2] For purposes of calculating program adjusters, foreign currency amounts will be converted at current exchange rates.

[3] Excluding borrowing for clearance of arrears and net late payments. The ceiling will be adjusted downward (upward) by the cumulative downward (upward) deviations in external debt service, and upward (downward) by the cumulative downward (upward) deviation in nonproject external financial assistance and land sales relative to program assumptions.

[4] The ceiling will be adjusted downward (upward) by the cumulative downward (upward) deviations in external debt service and upward (downward) by the cumulative downward (upward) deviation in nonproject external financial assistance relative to program assumptions.

[5] This assessment criterion is on a continuous basis.

[6] This assessment criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), August 24, 2000), but also commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements, the Portuguese credit line, and borrowings from the Fund.

[7] The term “debt” has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt. Excluded from this performance criterion are rescheduling arrangements, the Portuguese credit line, borrowings from the Fund, and normal import-related credits.

[8] The floor on net international reserves of the Bank of Cape Verde will be adjusted upward (downward) by the cumulative downward (upward) deviations in external debt service, and downward (upward) by the cumulative downward (upward) deviations in nonproject external financial assistance relative to program assumptions.

Table 2. Cape Verde: Structural Assessment Criteria and Benchmarks for 2008–09 [1]

Objectives	Conditionality	Timing	Status
	Structural Assessment Criterion		
Improve fiscal policy execution	Complete a formal mid-year review of revenue and expenditure developments that allows for taking corrective actions if necessary.	End-Aug. 2008	Met
	Structural Benchmarks		
Strengthen tax base	Submit the new General Tax Code to the National Assembly (MEFP ¶14).	End-Dec. 2007	Implemented in Aug. 2008
Strengthen tax base	Submit the new Code on Judicial Process to the National Assembly (MEFP ¶14).	End-Dec. 2007	Implemented in Aug. 2008
Reduce fiscal risks	Finalize and publish a revised mechanism for adjusting petroleum prices (MEFP ¶5).	End-Mar. 2008	To be implemented in Nov. 2008
Strengthen financial regulation	Submit to the National Assembly legislation to criminalize financing of terrorism and facilitate the combating of financing of terrorism (MEFP ¶5).	End-Mar. 2008	Implemented in Nov. 2008
Strengthen financial regulation	Submit to the National Assembly legislation to strengthen the framework for combating money laundering (MEFP ¶5).	End-Mar. 2008	Implemented in Nov. 2008
Strengthen tax base	Submit the draft individual and corporate income tax bills to the National Assembly (MEFP ¶5).	Oct. 2008	Postponed for 2009
Promote domestic and external stability	Submit a simplified medium-term fiscal framework (MTFF)[2] to the Council of Ministers in the 2009 budget preparation cycle and publish it on the Ministry of Finance website (MEFP ¶8).	Nov. 2008	Met
Promote financial stability	Prepare a quarterly report on developments on balance of payments flows, including an assessment of interest sensitivity of non-resident flows into the banking system.	Dec. 2008	
	New structural benchmarks		
Strengthen public financial management	Place financial controllers in each line ministry to monitor the budget execution as specified in Regulatory Decree 2/2007 of 15 January.	End-Mar. 2009	
Strengthen debt management	Compile: • Other Economic Flows arising from the holding gains or losses for five state-owned enterprises (ASA, TACV, Enapor, Electra and IFH) relative to their 2007 results (holding gains and losses are defined in the IMF's Government Finance Statistics Manual 2001) (MEFP ¶9). • Consolidated balance-sheet of five state owned enterprises (ASA, TACV, Enapor, Electra and IFH) and detail their debt by maturity, currency, residency, and state guarantees (MEFP ¶9).	End-Mar. 2009	

Objectives	Conditionality	Timing	Status
Strengthen debt management	Submit to the Council of Ministers a report on contingent liabilities of the state assessing potential risks based on the 2007 or more recent data, including those risks arising from state-owned enterprises. (MEFP ¶9).	End-Mar. 2009	

[1] Measures outstanding at the time of the 5th PSI review. Letter of Intent (LOI) available in Country Report 08/248.

[2] The simplified MTFF specifies annual revenues, expenditures, domestic financing, and external financing for the next three years.

ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING[1]

1. This memorandum sets out the understandings between the Cape Verdean authorities and the IMF staff regarding the definition of assessment criteria and indicative targets and reporting requirements for the fifth and sixth reviews under the Policy Support Instrument.

I. QUANTITATIVE ASSESSMENT CRITERIA AND INDICATIVE TARGETS

A. Net Domestic Borrowing Excluding for Clearance of Arrears and Net Late Payments

2. **Net domestic borrowing excluding for clearance of arrears and net late payments** is defined as the cumulative change since the start of the calendar year of the net credit to the central government from the banking and nonbanking sectors less (1) the cumulative clearance during the calendar year of the stock of arrears as of the end of the previous year and (2) the cumulative payments during the first three months of the calendar year of expenses authorized by the previous year's budget, plus the expenses accrued during the current year that will be paid during the first three months of the next calendar year as provisioned for in the budget law (late payments or *atrasados*). The ceiling will be adjusted downward (upward) by the cumulative downward (upward) deviations in external debt service and upward (downward) by the cumulative downward (upward) deviations in nonproject external financial assistance and land sales relative to program assumptions.

3. **Net credit to the central government from the banking and nonbanking system** is defined as the overall position of the main central government institutions vis-à-vis the banking and nonbanking system—that is, the stock of all outstanding claims on the central government (loans, advances), and all other government debt instruments, such as long-term government securities, held by the central bank, commercial banks, and nonbank institutions, less all deposits held by the central government with the central bank and with commercial banks. The INPS is not included in central government accounts. Net credit to the central government excludes claims on the Trust Fund (TCMFs).

4. **Reporting requirements.** Data on the implementation of the budget compiled by the Ministry of Finance and Public Administration will be provided on a quarterly basis, to be submitted no later than five weeks after the end of each quarter, including (i) government domestic revenue by category; (ii) external budget support grants; (iii) government expenditure, including primary current expenditure, domestic and external interest payments, and capital expenditure, including domestically and budget support financed capital expenditure and estimates of externally project financed capital expenditure; (iv) the gross payment and gross accumulation of domestic accounts payable (*atrasados*); (v) the gross payment and gross accumulation of domestic payments arrears; (vi) external loan receipts and principal payments; (vii) external arrears payments and accumulation; (viii) bank and

[1] Updated from the Country Report No. 08/248. Section II was deleted. Section III was renumbered as section II. Paragraphs 18 and 19 were added.

nonbank financing; (ix) privatization and land sale receipts; and (x) any other revenue, expenditure, or financing not included above.

5. For the purposes of this memorandum, privatization and land proceeds will be understood to mean all monies received by the government from the sale or concessioning of a public company, organization, or facility to a private company or companies, organization(s), or individual(s), as well as any proceeds generated from the sale of government land and the liquidation of a public company, less restructuring costs.

B. Net Domestic Assets of the Central Bank

6. The ceiling on the cumulative change, from the beginning of calendar-year 2006, in net domestic assets of the BCV constitutes an assessment criterion. Net domestic assets (NDA) of the BCV are defined as reserve money minus net foreign assets of the BCV, evaluated at the current end-of-period exchange rates. The program ceilings for NDA will be adjusted downward (upward) by the cumulative downward (upward) deviations in external debt service and upward (downward) by the cumulative downward (upward) deviations in nonproject external financial assistance relative to program assumptions. For purposes of calculating the adjusters, these flows will be valued at current exchange rates. Reserve money comprises bank reserves and deposits of the monetary institutions and private sector with the central bank, as well as cash in circulation.

7. **Reporting requirements.** The preliminary monthly balance sheets of the BCV and the consolidated commercial banks will be transmitted on a monthly basis, with a maximum delay of five weeks. The definitive version of the monthly balance sheet of the BCV will be provided as soon as available.

C. Ceiling on Nonconcessional External Debt Contracted or Guaranteed by the Central Government

8. Under the program, ceilings on medium- and long-term, as well as on short-term, nonconcessional external debt constitute assessment criteria. The ceiling on medium- and long-term nonconcessional external debt is on a quarterly basis while the one on short-term nonconcessional external debt is on a continuous basis. Nonconcessional external debt is defined as debt contracted or guaranteed by the central government with a grant element of less than 35 percent, calculated using currency-specific commercial interest reference rates (CIRRs) published by the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). Debt rescheduling and debt reorganization are excluded from the limits on nonconcessional external debt. The limits on new nonconcessional external debt contracted or guaranteed by the central government (excluding borrowing from the Fund) are specified in Table 1 of the Letter of Intent. The definition of short-term nonconcessional external debt excludes normal short-term (less than one year) import-related financing. The Portuguese government's precautionary credit line in support of the exchange rate peg is also excluded from the definition of nonconcessional external debt. The assessment criterion on medium- and long-term nonconcessional external indebtedness applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), 8/24/00) but also to commitments contracted or guaranteed for which value has not been received.

With respect to the assessment criterion on short-term nonconcessional external indebtedness, the term “debt” has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), 8/24/00).

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

D. Net International Reserves of the Central Bank

10. The floor on the cumulative change, from the beginning of calendar-year 2006, in net international reserves (NIR) of the BCV constitutes an assessment criterion under the program. The NIR of the BCV are defined as gross international reserves of the BCV net of its external reserve liabilities, calculated at the current exchange rates. Gross reserves of the BCV are those that are readily available (i.e., liquid and marketable and free of any pledges or encumbrances), controlled by the BCV and held for the purposes of meeting balance of payments needs and intervening in foreign exchange markets. They include gold, holdings of SDRs, the reserve position at the IMF, holdings of foreign exchange and traveler’s checks, demand and short-term deposits at foreign banks abroad, fixed-term deposits abroad that can be liquidated without penalty, and any holdings of investment-grade securities. External liabilities of the BCV comprise liabilities to nonresidents contracted by the BCV with an original maturity of less than a year, any net off-balance-sheet position of the BCV (futures, forwards, swaps, or options) with either resident and nonresidents, any arrears on principal and interest to external creditors and suppliers, and purchases from the IMF. The program floors for the NIR will be adjusted upward (downward) by the cumulative downward (upward) deviations in external debt service and downward (upward) by the cumulative downward (upward) deviations in nonproject external financial assistance relative to program assumptions. For purposes of calculating the adjusters, these flows will be valued at current exchange rates.

11. **Reporting requirements.** A table on the NIR prepared by the BCV will be transmitted on weekly basis, with a maximum delay of two weeks.

E. Nonaccumulation of New Domestic Payments Arrears

12. 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.

13. **Reporting requirements.** The Ministry of Finance and Public Administration, through the D.G.T., 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 four weeks after the end of the quarter.

F. Nonaccumulation of External Payments Arrears

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

15. External arrears are defined as total external debt-service obligations of the government that have not been paid by the time they are due, except where agreements between the government and creditors explicitly provide for a grace period after such obligations falling due. External arrears exclude arrears on external debt, pending the conclusion of debt-rescheduling agreements.

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

II. Other Data Requirements

17. 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 five weeks after the end of each quarter.

18. The Statement of Other Economic Flows as defined in the IMF Manual GFSM2001 relative to holding gains/losses of the previous year with Enapor, Electra, ASA, TACV, 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).

19. The consolidated balance sheet of Electra, Enapor, ASA, TACV 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).

INTERNATIONAL MONETARY FUND

CAPE VERDE

Fifth Review Under the Policy Support Instrument—Informational Annex

Prepared by the African Department
(In consultation with other departments)

Approved by David Nellor and Philip Gerson

December 1, 2008

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange rate system. At end-September 2008, outstanding PRGF loans amounted to SDR 8.3 million.

- **Joint IMF-World Bank Management Action Plan.** Presents the Implementation Matrix.

- **Statistics Issues.** Describes the availability and quality of macroeconomic statistics; and its usefulness for surveillance purpose.

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Annexes

Cape Verde—Fund Relations

(As of September 30, 2008)

I. Membership Status: Joined: November 20, 1978; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	9.60	100.00
Fund holdings of currency	9.59	99.93
Reserve position	0.02	0.17
Holdings exchange rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	0.62	100.00
Holdings	0.02	3.92

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
PRGF arrangements	8.27	86.16

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Apr 10, 2002	Jul 31, 2005	8.64	8.64
Stand-By	Feb 20, 1998	Mar 15, 2000	2.50	0.00

VI. Projected Payments to Fund [1]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2008	2009	2010	2011	2012
Principal	0.25	0.98	1.48	1.73	1.61
Charges/interest	0.03	0.06	0.05	0.04	0.03
Total	0.28	1.04	1.53	1.77	1.64

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of arrears will be shown in this section.

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. Safeguards Assessments

In response to a request from the Bank of Cape Verde's (BCV), a voluntary safeguards assessment with respect to the Policy Support Instrument (PSI) approved on July 31, 2006 is underway and nearing completion. The previous safeguards assessment of the BCV, which was completed in December 2002, concluded that substantial risks may have existed at the time in the bank's financial reporting framework, its internal audit mechanism, and system of internal controls. While all recommendations but one from that assessment have been confirmed as implemented by the BCV authorities, further steps may need to be taken following completion of the voluntary assessment.

X. Exchange Arrangements

The de facto and de jure exchange rate arrangement of Cape Verde is a conventional fixed peg. The escudo has been pegged to the euro at a rate of CVE 110.3 per €1 since January 4, 1999. Cape Verde accepted the obligations of Article VIII of the Articles of Agreement effective July 1, 2004. It maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

XI. Previous Article IV Consultation and PSI Reviews

Discussions for the 2006 Article IV consultation and on a medium-term economic program that could be supported by a three-year PSI were held in Praia April 28–May 16, 2006. The Executive Board concluded the Article IV consultation and approved the request for a PSI on July 31, 2006 (Country Report No. 06/334); the first PSI review on January 19, 2007 (Country Report No. 07/44); the second PSI review on May 7, 2007 (Country Report No. 07/223); the third PSI review on December 21, 2007 (Country Report 08/37). The Executive Board concluded the 2008 Article IV consultation and the fourth PSI review on June 30, 2008 (Country Report 08/248).

XII. Technical Assistance

Since 1985 the Fund has provided technical assistance to the BCV, the Ministry of Finance, and more recently the National Institute of Statistics in several areas: (i) MCM provided technical assistance to the BCV on organization and methods, management of external debt, monetary and banking statistics, accounting, credit, foreign exchange operations, management of public debt, and the separation of the functions of the Bank, as well as on the choice of exchange rate regime. BCV has also received technical assistance from STA on monetary and balance of payments statistics. (ii) The Ministry of Finance has received technical assistance from FAD on organization and budgetary procedures, budgeting, tax policy, and tax administration; from STA on fiscal accounting; and from LEG on tax legislation. (iii) The National Institute of Statistics has received technical assistance in national accounts and price statistics. Cape Verde is a participant in STA's GDDS Regional Project for Lusophone Africa, and its metadata were posted on the DSBB in February 2004. It is now receiving technical assistance to implement the GDDS plan for improvement.

Most recently, technical assistance has been provided in the following areas:

FAD

- June 2004, visit to help the authorities move to a VAT, rationalize the import tariff, and overhaul the domestic indirect tax system. Many visits and a two-year resident advisor have gone into this effort.
- October 2004, mission to review tax administration, including VAT implementation, and a mission to help assess tax exemptions and incentives.
- September 2005, mission to assess tax exemptions and incentives.
- June–July 2008, mission to review and rationalize tax exemptions.

STA

- National accounts (November 2003 and January–February 2006), balance of payments statistics (February 2004), government finance statistics (March 2004, April 2006, February–March 2007), price statistics (June 2004, May–June 2006, October 2007), and monetary statistics and reporting (March 2007), government finance statistics (August 2008).

MCM

- Accounting, financial sector regulation, monetary operations and liquidity management (April and May 2004); banking supervision, liquidity management, exchange regime and reserves management (November 2005, March–April 2006, June 2006, November 2006, July 2007).
- Macro-prudential indicators (March 2008).
- Financial Sector Assessment Program (FSAP) (November 2008)

LEG

- Tax legislation (several missions October 2006–March 2008).
- AML/CFT initial assessment (March 2007), and legal drafting (March 2008).

XIII. Resident Representative: None.

Cape Verde—Joint IMF-World Bank Management Action Plan

Implementation Matrix

Title	Products	Provisional Timing of Missions	Expected Delivery Date
A. Mutual information on relevant work programs			
Bank work program in the next 12 months	**Lending**:		
	- Poverty Reduction Support Credit, PRSC-4 (IDA)	April 2008	Board meeting July 2008
	- PRSC-5 (IDA)		
		December 2008	Q1 FY10 (tentatively)
	- Roads Project-2 (IDA)		
		November 2008	Q1 FY10 (tentatively)
	- SME Development (IDA)		
		November 2008	June 2009
	- Energy Operation (IBRD)		
	- Energy Guarantee (IBRD) for windmill farm	December 2008	FY10
	Analytical and advisory activities:	December 2008	February 2009
	- Poverty assessment (will include analysis of unemployment and labor market issues)	February 2009	June 2009
	- Public-Private Infrastructure Advisory Facility (PPIAF)/TA on road sector	December 2008	Q1 FY10
	- PPIAF/TA on the energy sector (assessment of new fuel pricing and utilities tariff structure; Electra management model)	July 2008	FY09
	- Labor market study		
	- General economic monitoring	November 2009	June 2009
		April and August 2008	Throughout the year

Cape Verde: Joint Management Action Plan–Implementation Matrix (concluded)

Title	Products	Provisional Timing of Missions	Expected Delivery Date
A. Mutual information on relevant work programs			
IMF work program in next 12 months	PSI program, 5th review PSI program, 6th review	Mission in Sep. 22-Oct. 3 2008 Mission in February 2009	Board meeting December 15, 2008 Board meeting end-April 2009
B. Requests for work program inputs			
Fund request to Bank (with summary justification)	Public Expenditure Review (PER) update to provide quantitative inputs for budget framework		June 2008
Bank request to Fund (with summary justification)	TA on PFM and tax exemptions	June/July 2008	September 2008
C. Agreement on joint products and missions			
Joint products in next 12 months	DSA update Financial Sector Assessment Program (FSAP)	IMF PSI 5th review 2008 November 3-14, 2008	December 2008 April 2009

Cape Verde—Statistics Issues

1. **Data provision has some shortcomings, but is broadly adequate for surveillance.** There is a need for substantial improvements in the areas of government finances, national accounts, and balance of payments. The country has participated in the GDDS since February 2004. Cape Verde's plans for improvements of its statistical system are posted on the Fund's DSBB; the metadata of the monetary and financial sector were updated in August 2007. The country has benefited from STA technical assistance under the GDDS project for Lusophone Africa.

2. **The authorities are taking steps to strengthen statistics, but the statistical system still suffers from a shortage of financial and human resources.** A comprehensive master plan has been developed under the direction of the National Statistical Institute (INE), which assesses the need for upgrading the agencies that constitute the statistical system and outlines steps to broaden and improve all areas of statistics. The country's development partners have already committed a substantial part of the estimated US$15 million required to implement the plan through 2010.

Real sector statistics

3. **Although some improvements have been made to the national accounts, significant weaknesses remain**, including a lack of reliable demand-side GDP. The timeliness of the data has improved, with the INE releasing production and expenditure-based GDP data for 2002–03 in 2005 and providing production-based GDP estimates for 2004–06 to the AFR mission in October 2007. However, the lag is still lengthy by international standards. In addition, the base year for the constant price estimates is outdated.

4. **INE is currently working on a complete overhaul of the national accounts.** It is updating the national accounts benchmark and base years from 1980 to 2002 and adopting the *1993 SNA*. The objective is timely compilation of GDP by industry and expenditure categories at current and constant prices as well as institutional sector accounts.

5. **INE will also introduce Tourism Satellite Accounts**. These accounts will measure upstream linkages between the tourism sector and the rest of the economy and the import content of tourism exports.

6. **Full implementation of the *1993 SNA* would require a substantial improvement in source data collection, for which capacity is currently lacking.** The 2006 STA mission found a critical need to improve the timeliness and accuracy of national accounts source data, in particular the business survey. The capacity of INE staff working on national accounts was found to be overstretched; they assess in detail and correct individual source data entries—something not undertaken in most countries by national accounts compilers. The statistical master plan will address many of these challenges.

7. **A revamped CPI featuring was released in February 2008.** The previous official CPI was based on weights dating back to 1989, four years before imports were liberalized. Import liberalization considerably changed consumption patterns. INE has had assistance

from the National Statistics Institute of Portugal and benefited from STA CPI missions in May–June, 2006, October 2006, and October 2007, to support the introduction and dissemination of the revised CPI. The new index has new weights and an updated commodity basket.

8. **Labor market statistics are weak.** Data on unemployment are compiled with long delays and there are no wage data.

Government finance statistics

9. **Fiscal data have been improved.** Benefiting from TA under the GDDS project for Lusophone Africa, the Government Finance Statistics (GFS) compilation system is being upgraded. Most deposits previously held with commercial banks have been consolidated at the central bank. SIGOF, the Integrated Online Budget Management System, has been expanded to cover all semi-autonomous institutes and most municipalities by the end of 2007. In addition, a new chart of government accounts (PNCP) will be implemented in 2009 that adopts accrual accounting and double-entry principles. The authorities have started reporting GFS for publication in the *GFS Yearbook*.

10. **However quality is a serious concern.** The fiscal accounts are subject to large statistical discrepancies, flows and stocks are not consistent, and recording of arrears accumulation and clearance operations is not in line with best practices. Significant delay in donor reporting of project financing also affects the accuracy of fiscal data. Despite the recent revision of external debt data, significant weaknesses affect preparation of debt sustainability analyses. Multilateral debt statistics regularly differ from data received by creditors, and debt service projections cannot be reconciled with the debt stock.

Monetary and Financial Statistics

11. **The quality of monetary and financial statistics is adequate,** in terms of both accuracy and timeliness. An STA mission undertaken in March 2007 helped Banco de Cabo Verde (BCV) to finalize the standardized report forms (SRFs) for reporting monetary statistics to STA. SRF-based monetary data have been published in the *IFS Supplement* since June 2007. These data are fully aligned with the recommendations of the *Monetary and Financial Statistics Manual*. The integrated monetary database that meets STA, AFR, and BCV statistical needs is now in place. Currently, there are gaps in tracking the source and direction of changes in emigrant deposits, which cause difficulties in assessing their interest sensitivity and gauging the appropriateness of the monetary policy stance.

External Sector Statistics

12. **With technical assistance from STA, the accuracy, periodicity, and timeliness of balance of payments statistics compiled by BCV have continued to improve.** A greater use of surveys, combined with the International Transactions Reporting System implemented by the BCV, has permitted a significant expansion of data sources and statistical coverage, which to a large extent, follow the recommendations of the 5th edition of the *Balance of Payments Manual*. However, gaps in the tracking of large external flows—notably FDI, emigrant deposits, and remittances remains. Dissemination of quarterly BOP data on the

BCV website has been regular and in 2007 the BCV resumed regular and timely transmission of these data to STA for publication in *International Financial Statistics* and in the Balance of Payments Statistics Yearbook. However, the BCV does not compile an International Investment Position statement.

Cape Verde: Common Indicators Required for Surveillance

(As of November 6, 2008)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	11/6/08	11/06/08	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	10/30/08	10/30/08	D	W	M
Reserve/Base Money	10/15/08	10/17/08	D	W	M
Broad Money	Sep-08	Nov-08	M	M	M
Central Bank Balance Sheet	10/15/08	10/17/08	D	W	M
Consolidated Balance Sheet of the Banking System	Sep-08	Nov-08	M	M	M
Interest Rates[2]	Sep-08	Nov-08	M	M	M
Consumer Price Index	Sep-08	Oct-08	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	N/A	N/A	N/A	N/A	N/A
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	June-08	Aug-08	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec-07	Feb-08	A	A	A
External Current Account Balance	June-08	July-08	Q	Q	Q
Exports and Imports of Goods and Services	June-08	July-08	Q	Q	Q
GDP/GNP	2006	Oct-07	A	A	A
Gross External Debt	Dec-07	Feb-08	A	A	A
International Investment Position[6]	2007	Aug-08	A	A	A

[1]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).

INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

CAPE VERDE

Joint World Bank–Fund Debt Sustainability Analysis

Prepared by the staffs of the International Development Association and the International Monetary Fund

Approved by Sudhir Shetty and Carlos Braga (World Bank) and David Nellor and Philip Gerson (IMF)

December 1, 2008

The risk of debt distress in Cape Verde remains low. *Nevertheless, medium-term fiscal policy will reverse the public debt decline of recent years. The total public debt-to-GDP ratio is projected to rise until 2012 and then decline thereafter—a path opposite that projected in the 2007 DSA. The temporary rise in external debt will be only partially offset by continued decline in domestic debt. Despite the rise, debt ratios remain manageable in all scenarios. Foreign direct investment (FDI) will finance most of the external current account deficit, which will narrow as Cape Verde transforms itself into a services exporter. The main risks to the debt outlook are currency exposure and contingent liabilities. The risk of debt distress remains low under the baseline as well as alternative scenarios that take those risks into consideration.*

I. BACKGROUND[1]

1. **This DSA reviews the evolution of Cape Verde's public debt since the 2007 DSA[2] and analyzes the projected debt path for the period 2008–28.** Using the Fund-World Bank debt sustainability framework (DSF), it projects the baseline economic scenario and performs stress tests to assess whether the risk of debt distress will stay low. The thresholds for public external debt distress are those for countries like Cape Verde that have sound policies and

[1] This analysis includes only central government debt and guarantees; it excludes municipalities and state-owned enterprises.

[2] IMF Country Report 08/37 and World Bank Report 44350-CV.

institutions (Table 1).[3] The baseline scenario was updated based on discussions with the authorities during the fifth review of the Policy Support Instrument (PSI) (September–October 2008). The discussions centered on the 2009 budget and the medium-term fiscal framework the authorities submitted to Parliament in October 2008 along with the 2009 budget.

2. **Since the last DSA Cape Verde has continued to reduce public debt as a percentage of GDP and to change its composition** (Table 2). Total public debt (domestic plus external) was reduced by 10 percentage points of GDP in 2007. Net domestic debt was pushed down to the original PSI benchmark of 20 percent of GDP two years ahead of schedule; it is likely to reach 14 percent of GDP by year-end, thanks to expenditure restraint as well as buoyant revenues. The proportion of domestic debt in total debt was also reduced, reflecting efforts to reach out to development partners for concessional financing, making it possible to replace domestic with mostly concessional external borrowing. All external funds borrowed in 2007 were concessional. Cape Verde's main external creditors are IDA and the African Development Fund (Table 2). While the credit crunch in Europe is making it hard to roll over the nonbank private external debt, this totaled only 8 percent of GDP as of the end of 2007 and is mainly long-term.

Table 1. Cape Verde: Central Government External Debt Ratios

		Baseline Scenario		
	Thresholds [1]	2008	2018	2028
NPV of debt as a percentage of:				
GDP	50	25	26	21
Exports	200	56	42	30
Revenues [2]	300	99	104	83
Debt service as percentage of:				
Exports	25	5	5	4
Revenues [2]	35	8	11	11

Source: Ministry of Finance; and staff estimates.

[1] Based on Cape Verde's 2005-07 classification as a strong performer.

[2] Excluding grants.

3. **The depreciation of the dollar in 2007 and 2008 was favorable to Cape Verde, but it revealed open currency positions (Tables 2 and 5).** The nominal external debt-to-GDP ratio declined by 5 percentage points despite the fact that the dollar value of the country's nominal external debt grew by US$ 58 million in 2007 (4 percent of GDP). This is because the nominal GDP measured in dollars grew by 20 percent boosted by the

[3] Cape Verde's score on the World Bank's Country Policy and Institutional Assessment (CPIA) was upgraded in 2007 from 4.1 to 4.2. Its average score for 2005–07 was 4.13, above the 3.75 floor for strong performers.

appreciation of the escudo relative to the dollar. The open currency exposure to the dollar results from the fact that the external liabilities of the Treasury are denominated mainly in US$ and SDR (which contains dollars), and the net foreign assets of the central bank are mostly in euros. This raises questions about whether the authorities should swap part of their foreign reserves in euros for dollars to cover the outstanding open positions or should prefer that future loans be denominated in euros. The authorities have made commitments in the PSI and PRSC series to improve debt management, and the Fund and the Bank together will provide technical assistance (TA) on debt management in addition to the TA Cape Verde receives from Portugal.

Table 2. Cape Verde: Central Government Debt, 2004–08

	2004	2005	2006	2007	2008
	Actual				Proj.
	(Percent of nominal debt)				
Total	100	100	100	100	100
Nominal external debt	66	64	65	68	74
Multilaterals	51	50	51	57	64
Official bilaterals	13	12	12	10	8
Commercial	2	2	1	1	1
Domestic debt[1]	34	36	35	32	26
	(Units indicated)				
Total					
US$ million	842	802	919	959	936
Percent of GDP	89	81	75	65	52
Nominal external debt					
US$ million	553	513	598	656	694
Percent of GDP	60	51	50	45	38
Domestic debt[1]					
US$ million	288	289	322	303	243
Percent of GDP	29	30	25	20	14
Memorandum item:					
GDP (US$ million)	918	1,006	1,203	1,443	1,826

Source: Cape Verdean authorities, staff estimates and projections.
[1] Net of deposits and obligations with the Trust Fund.

II. Medium-Term Baseline Scenario

4. **The long-term macroeconomic scenario is projected to revolve over the next 20 years around two axes:** economic transformation toward a service-based economy, and accumulation of international reserves and government deposits at the BCV.

5. **The growth forecast is designed to test the robustness of the conclusions of this DSA**. Because of the financial and commodity price shocks in 2008, short-term growth was

revised downward and inflation upward compared to the previous DSA (Table 3). For the outer years, the previous assumptions are maintained: real GDP is expected to grow by 5 percent in the long term (5 to 20 years), which is a prudent 2 percentage points below the historical average (1 standard deviation). Growth will be driven by the transformation into a service-exporting economy, financed mostly by FDI. Moreover, the projections do not consider the growth-promoting effect of public investment in infrastructure.

Table 3. Cape Verde: Macroeconomic Baseline Assumptions, 2008–28

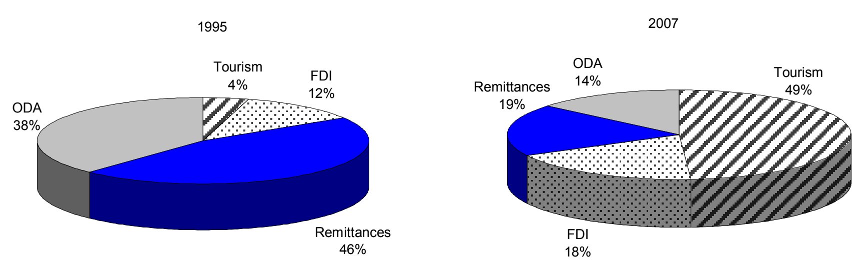
	Average	5 Years Ahead		6-20 Years Ahead	
	(1998-2007)	2007 DSA	Current DSA	2007 DSA	Current DSA
Real GDP growth rate (percent)	7.2	7.3	6.6	5.2	5.1
Inflation rate (percent)	3.1	2.3	3.4	2.0	2.0
Exports of goods and services (percent of GDP)	32	47	48	58	65
Imports of goods and services (percent of GDP)	65	78	71	82	78
Financing needs (percent of GDP)[1]	…	-1.0	-2.5	-2.7	-0.4
Grant element of new external borrowing	…	28	16	10	9
Public revenue and grants (percent of GDP)	30	29	28	28	27
Primary public deficit (percent of GDP)	4.9	1.6	2.7	1.3	0.8

Source: National authorities, staff estimates and projections.

[1] Current account plus foreign direct investment.

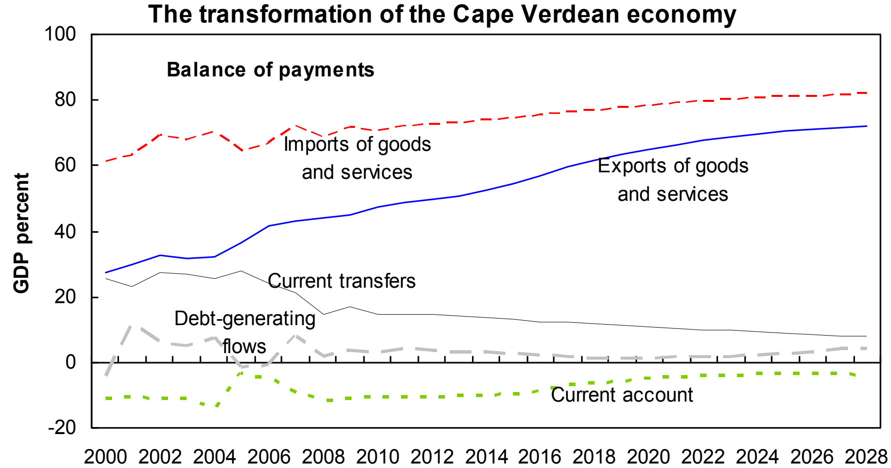
6. **The economic transformation is marked by an increase in imports and service exports and by a decrease in reliance on remittances and other current transfers.** Cape Verde is expected to break its past dependence on aid and remittances as it continues to transform itself into a self-propelled economy. While the fuel and food shock increased the import bill in 2008, the restraint in recurrent expenditures created fiscal space that has enabled the government to expand social transfers to protect the vulnerable without putting pressure on the balance of payments. As a result, foreign reserves will stay above 3 months of imports and continue to grow through the forecast horizon. FDI will drive and finance the current account deficit and keep debt-generating flows close to balance. The debt-

Balance of Payments Source of Financing, 1995-2007



Source: National authorities

The transformation of the Cape Verdean economy



generating inflows needed to finance the current account deficit are likely to be largely unaffected if FDI is below baseline projections owing to the self stabilizing dynamics of the current account relative to FDI (imports would decline in tandem with FDI thanks to its high import content). Despite a possible deceleration caused by global financial turmoil, the prospects for FDI inflows in the medium term continue to be bright. New commitments approved by the Investment Promoting Agency support the expectation that the private investments will materialize.

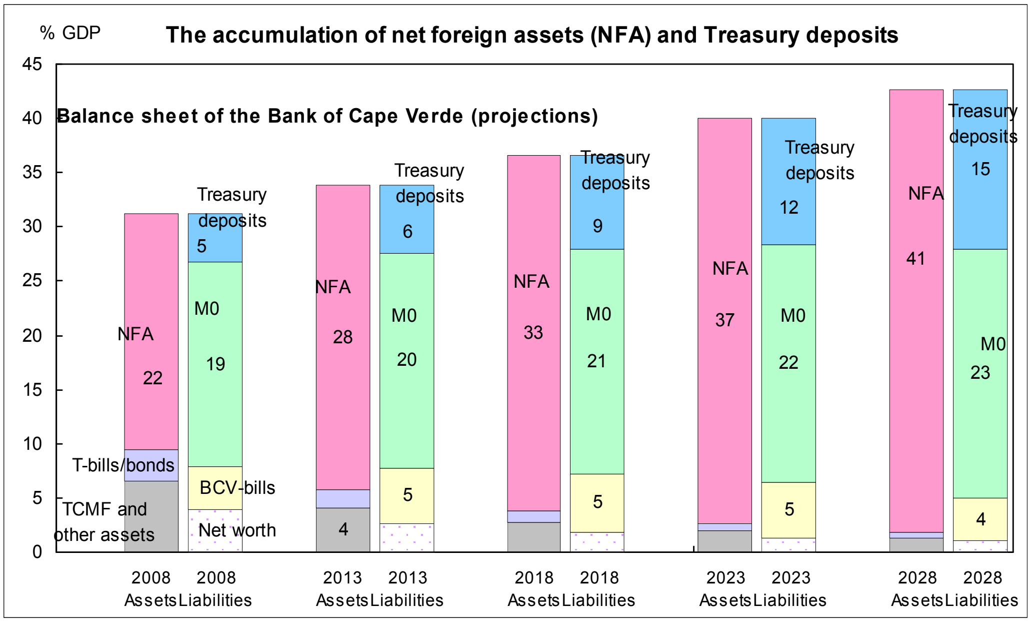
7. **The baseline scenario projects that international reserves will continue to accumulate, as will government deposits at the BCV.** The prudent fiscal policy implemented in the PSI is assumed to continue through the forecast horizon, with foreign reserves building up. This assumption is based on two facts:

a. In October 2008 the authorities submitted to Parliament a medium-term fiscal framework for 2009–2011 that indicates a prudent fiscal policy. Although the policy reverses the recent decline in public debt, it preserves a stable debt path that allows for public investments in infrastructure and social transfers.

b. The authorities announced in the Letter of Intent for the 5th PSI review that they intend to continue with a PSI for at least four more years, until 2013 (a 1-year extension of the current PSI followed by a request for a new 3-year PSI).

Based on these facts, net domestic borrowing is projected to be contained in the next 20 years, allowing net domestic debt[4] to land softly at about 11 percent of GDP. This fiscal restraint is needed to accomplish the authorities' goal of increasing reserve coverage by 0.1 month of prospective imports each year, reaching 5.7 months by 2028 (equivalent to 41 percent of GDP). Financing the reserve accumulation requires that the Treasury make annual deposits of about 1.2 percent of GDP at the BCV. Using the balance sheet approach, this result assumes that the authorities' efforts to develop the domestic securities market will allow the domestic private sector to absorb about 19 percent of GDP in Treasury securities by 2028 (Table 4).

[4] Net of government deposits.



8. **The baseline scenario assumes a faster rise than the previous DSA in the share of nonconcessional external borrowing.** While Cape Verde will continue to have access to concessional loans from IDA and others,[5] this DSA assumes that Cape Verde will increasingly take out nonconcessional loans to finance growth-enhancing public investments. It is assumed that the average grant element of all external borrowing will decline to less than 10 percent by 2028. This assumption is justified by the recent graduation of Cape Verde from the U.N.'s least-developed country category and nonconcessional loans envisaged with the European Investment Bank (EIB), the IBRD, and the OPEC Fund. This assumption is useful for probing the resilience of the debt path to less favorable borrowing terms.[6] To further test resilience in stress scenarios, the grant element of marginal debt[7] is negative because it is assumed that under stress conditions the country would be charged a risk premium of 100 basis points above the market rate.[8]

[5] Cape Verde is a "blend country" as it is eligible to IBRD and IDA funds (under the "small island exception").

[6] The Fund and the Bank will provide TA to Cape Verde on debt management to enable the authorities to ensure that future nonconcessional borrowing is consistent with debt sustainability, especially because the nonconcessional borrowing will double the external interest bill through 2028.

[7] "Marginal debt" is debt taken to cover the gap created by the shock simulated in the stress scenarios.

[8] CIRR (Commercial Interest Reference Rate).

Table 4. Balance Sheet Approach: Intersectoral Positions with the Treasury, Selected Items
(in percentage of GDP)

Treasury	2008	2028	Bank of Cape Verde	2008	2028
Assets	7	15	Assets	31	43
Deposits at the BCV	5	15	Net Foreign Assets	22	41
Deposits in banks	2	0	Claims on the Treasury	3	0
			Other items (net) and TCMF	7	1
Liabilities[1/]	-20	-26	Liabilities	-31	-43
With the BCV	-3	0	Money base	-19	-23
With banks	-11	-6	BCV bills (sterilization)	-4	-4
With non-banks	-7	-19	Deposits of the Treasury	-5	-15
			Equity capital	-4	-1
Net domestic debt	-14	-11			

Domestic Banking Sector	2008	2028	Domestic non-banking sector	2008	2028
Assets	71	85	Assets	…	…
Net Foreign Assets	2	0	Treasury	7	19
Reserve money and cash	12	15	Bank deposits	69	84
Treasury securities	11	6	Cash	7	8
BCV bills (sterilization)	4	4			
Private credit	46	60			
Other items (net) and TCMF	-4	-1			
Liabilities	-71	-85	Liabilities	…	…
Deposits	-69	-84	Bank loans	-46	-60
Deposits of the Treasury	-2	0			

Source: IMF and IDA staffs' projections.

1/ Excludes TCMF.

III. External Debt Sustainability

A. Baseline Scenario

9. **Although the recent decline in external debt will be temporarily reversed because borrowing to finance public investments will accelerate, it will remain below the threshold.** In the previous DSA, external debt was expected to decline continuously. The reason for the difference is the new funds Cape Verde recently secured for public investments, especially from the EIB and the IBRD. The finding that this temporary rise in external borrowing will not jeopardize debt sustainability repeats the finding of the 2007 DSA that a 5-year scaling-up of nonconcessional borrowing is consistent with debt sustainability. The average grant element of the new borrowing will be especially low during 2009–2011 when the EIB loan will be disbursed. The debt service ratios will rise gently but stay below the stress thresholds. This rise in debt service indicators results from the decline in concessional financing and the assumed shortening of amortization periods. Because in this DSA the grant element of new borrowing is projected to decline faster than in the previous one, the rise in debt service ratios will be frontloaded rather than backloaded, as it was in the previous DSA.

B. Alternative and Stress Scenarios

10. **The risk of external debt distress is low even with depreciation and an abrupt worsening of borrowing terms.** The debt ratios remain far below their thresholds in all alternative and stress scenarios, including the scenario where all new borrowing is 200 basis points above the baseline rates (Figure 1 and Table 6 alternative scenario A2). This finding reinforces the conclusion that nonconcessional borrowing is unlikely to jeopardize debt sustainability. The extreme scenario is a currency depreciation, which highlights the need to hedge open currency positions to support the peg. This result is a corollary to the cautionary note about the country's currency exposure (¶ 3).[9] In the historical scenario, the external debt ratio rises for a longer period of time because FDI is less than in the baseline, but it also declines faster in the outer years because the historical scenario implies faster growth and a smaller external deficit. The historical scenario should be interpreted with caution because it does not take into account that in a highly open economy like Cape Verde the current account self-stabilizes to some extent to fluctuations of FDI and growth.

IV. Total Debt Sustainability

A. Baseline Scenario

11. **The trajectory of total public debt contrasts with the previous DSA because it reverses the decline observed in recent years**. In the baseline scenario, the NPV of total public debt as a percentage of GDP is expected to rise until 2013 and decline thereafter. In the previous DSA it was expected to decline in the short term and stabilize in the outer years. The rising trajectory is expected in spite of the faster decline in domestic debt because external borrowing is expected to be larger than in the previous DSA in order to finance public investment in infrastructure. Yet, public debt is sustainable because the baseline scenario maintains the assumption of the previous DSA that the fiscal policy pursued in the PSI and PRSC series to preserve sustainability will continue through 2028. In particular, the government is expected to hold domestic debt at about 11 percent of GDP, which will require it to decelerate public investment over time to make space to pay the interest on current nonconcessional borrowing. The expectation is supported by the medium-term fiscal framework the authorities submitted to Parliament in October 2008 and by the depth of their commitment to sound policies. Sales of coastal land to tourism developers will also enhance fiscal performance. Therefore, we find that debt is sustainable in the baseline scenario.

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[9] The hump-shaped path for the historical scenario (Figure 1, red dotted line) was preserved for completeness of this DSA. However, it is not informative because the baseline assumptions on the current account and GDP growth are more pessimistic than the historical scenario.

B. Alternative Scenarios and Stress Tests

12. **Although the macroframework is robust to alternative assumptions and shocks, the DSA highlights the importance of fiscal discipline.** The alternative scenarios tested are[10] (i) real GDP and primary balance at historical averages; (ii) primary balance unchanged from 2008; and (iii) permanently lower GDP growth.[11] All debt ratios remain within sustainable levels under all the alternative scenarios. In the extreme stress test for the debt-to-GDP ratio, the annual fiscal deficit is 10 percent of GDP for 2009–10, which is 7 percent of GDP larger than the baseline primary balance. This simulates a situation where, for example, hypothetical contingent liabilities equivalent to 7 percent of GDP materialize in two consecutive years. For the debt service ratio, the extreme stress is a 30 percent depreciation of the escudo. All debt ratios remain manageable during the forecast horizon under all stress tests.

13. **While conclusive information is not yet available, contingent liabilities arising from state-owned enterprises may be a risk for the debt outlook.** This risk was taken in consideration in the risk assessment of this DSA under the extreme stress test for the debt-to-GDP ratio. This test shows that all debt ratios remain manageable even if contingent liabilities amounting to 7 percent of GDP materialize in two consecutive years. There are explicit and implicit risks: the explicit guarantees[12] provided to state-owned enterprises represent a fiscal risk of 4.5 percent of GDP at the end of 2008. The implicit fiscal risks are currently being assessed by the government, especially the amounts needed to recapitalize some state-owned enterprises. For example, the electricity and water supplier, Electra, had losses equivalent to 1.3 percent of GDP in 2007, which erased about half of its net worth, and it may suffer further losses in 2008 and the following years until the more efficient generators now under construction start operating. The government is taking action supported by the PSI to assess these fiscal risks by compiling an aggregate balance sheet and the net gains or losses of the largest state-owned corporations; it will report the fiscal risks to the Council of Ministers early in 2009. This should encourage prompt action to address the risks, such as allowing the private sector to participate in infusing capital into state-controlled enterprises.

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[10] Table 8, alternative scenarios A1–3.

[11] Assumes that real GDP growth is at the baseline minus one standard deviation divided by the length of the projection period.

[12] Domestic debt issued by state-owned enterprises.

V. Conclusions

14. **The DSA concludes that the risk of debt distress is low and highlights Cape Verde's strengths as well as vulnerabilities.** Even with extreme shocks, public debt is on a sustainable path, given continued fiscal discipline and the economic transformation caused by expansion of service exports and FDI. While the decline in public debt observed in recent years is being reversed, the DSA shows that using nonconcessional funds to expand public investment will not jeopardize debt sustainability as long as the expansion is temporary and recurrent expenditures remain controlled. This conclusion holds even if the expansion of public investments in infrastructure does not generate the expected growth returns, because no growth-enhancing effect of infrastructure is assumed. It is, however, critical that Cape Verde strengthen its debt management. In particular, it needs to conduct DSAs regularly to set a borrowing envelope for the next year's budget and an MTFF consistent with debt sustainability. Two important vulnerabilities identified in the DSA also need to be addressed: the public sector's unhedged currency exposures and the contingent liabilities for state-owned enterprises. The authorities are preparing to address these vulnerabilities as they firm up their debt management.

Table 5. Cape Verde: External Debt Sustainability Framework, Baseline Scenario, 2005-2028 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 0	0 Standard Deviation	Projections									
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-2013 Average	2018	2028	2014-2028 Average
External debt (nominal) 1/	**68.9**	**60.8**	**60.5**			**49.7**	**48.9**	**46.9**	**46.6**	**44.8**	**42.7**	**46.6**	**35.2**	**33.7**	**33.7**
o/w public and publicly guaranteed (PPG)	51.0	49.7	45.5			38.0	39.7	39.3	39.3	38.4	37.0		30.7	22.5	
Change in external debt	-10.7	-8.1	-0.3			-10.8	-0.8	-2.0	-0.3	-1.8	-2.1		-1.9	1.4	
Identified net debt-creating flows	-11.1	-15.5	-9.9			-9.5	-1.0	-2.2	-2.4	-3.5	-3.6		-3.9	0.0	
Non-interest current account deficit	**-0.6**	**2.2**	**7.3**	**7.3**	**4.1**	**9.7**	**9.4**	**8.9**	**8.9**	**8.7**	**8.5**	**9.0**	**4.6**	**2.3**	**3.9**
Deficit in balance of goods and services	27.8	25.4	28.7			24.7	26.4	23.4	23.2	23.0	22.3		15.4	9.9	
Exports	36.5	41.6	43.2	31.9		44.0	45.2	47.2	48.8	49.5	50.7	47.5	61.5	71.8	64.6
Imports	64.3	67.0	71.9	65.3		68.6	71.6	70.6	72.0	72.5	73.0	71.4	76.9	81.8	78.4
Net current transfers (negative = inflow)	-27.8	-24.2	-21.4	-25.4	2.0	-14.7	-17.0	-14.6	-14.7	-14.8	-14.3	-15.0	-11.6	-7.8	-10.5
o/w official	-4.6	-4.1	-4.4			-4.4	-5.4	-3.1	-3.2	-3.3	-2.9		-1.7	-0.5	
Other current account flows (negative = net inflow)	-0.7	1.0	-0.1			-0.3	0.0	0.1	0.4	0.4	0.5		0.8	0.2	
Net FDI (negative = inflow)	**-7.5**	**-9.2**	**-8.9**	**-6.6**	**2.9**	**-8.5**	**-8.0**	**-8.0**	**-8.5**	**-8.9**	**-9.1**	**-8.5**	**-6.8**	**-1.2**	**-5.1**
Endogenous debt dynamics 2/	**-3.0**	**-8.5**	**-8.2**			**-10.7**	**-2.4**	**-3.1**	**-2.8**	**-3.3**	**-3.0** #		**-1.7**	**-1.0**	
Contribution from nominal interest rate	4.0	2.8	1.9			2.0	1.7	1.8	1.8	1.8	1.8 #		1.6	1.4	
Contribution from real GDP growth	-4.7	-6.2	-3.5			-2.8	-2.8	-3.1	-3.0	-2.8	-2.7 #		-1.7	-1.5	
Contribution from price and exchange rate changes	-2.3	-5.0	-6.6			-9.8	-1.3	-1.8	-1.5	-2.2	-2.1 #		-1.7	-0.9	
Residual (3-4) 3/	**0.4**	**7.4**	**9.6**			**-1.3**	**0.2**	**0.3**	**2.0**	**1.7**	**1.5** #		**1.6**	**2.0**	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0 #		0.0	0.0	
PV of external debt 4/	...	...	42.9			36.2	36.2	35.1	35.5	34.8	33.9		30.3	32.4	
In percent of exports	...	...	99.4			82.3	80.3	74.5	72.9	70.3	66.8		49.3	45.2	
PV of PPG external debt	**...**	**...**	**27.9**			**24.5**	**27.0**	**27.5**	**28.2**	**28.4**	**28.1**		**25.8**	**21.3**	
In percent of exports	**...**	**...**	**65**			**56**	**60**	**58**	**58**	**57**	**55**		**42**	**30**	
In percent of government revenues	**...**	**...**	**110**			**99**	**109**	**112**	**117**	**117**	**115**		**104**	**83**	
Debt service-to-exports ratio (in percent)	**17.9**	**11.2**	**8.0**			**8.1**	**7.0**	**6.1**	**5.7**	**5.8**	**6.0**		**5.8**	**4.7**	
PPG debt service-to-exports ratio (in percent)	**8.5**	**5.6**	**4.7**			**4.7**	**4.3**	**3.9**	**3.7**	**4.0**	**4.3**		**4.7**	**4.0**	
PPG debt service-to-revenue ratio (in percent)	**13.2**	**9.8**	**7.9**			**8.3**	**7.9**	**7.5**	**7.5**	**8.1**	**8.9**		**11.5**	**11.3**	
Total gross financing need (billions of U.S. dollars)	0.0	0.0	0.0			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.5	
Non-interest current account deficit that stabilizes debt ratio	10.1	10.3	7.6			20.5	10.2	10.8	9.2	10.4	10.6		6.4	0.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.5	10.8	6.9	7.2	2.5	6.0	6.1	7.0	7.1	6.8	6.7	6.6	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	2.9	7.9	12.2	4.4	10.6	19.4	2.8	3.8	3.4	5.0	5.0	6.6	3.5	2.7	3.4
Effective interest rate (percent) 5/	5.5	4.8	3.8	17.4	26.9	4.2	3.8	4.0	4.2	4.3	4.5	4.2	4.8	4.5	4.9
Growth of exports of G&S (US dollar terms, in percent)	24.1	36.3	24.5	17.3	13.2	28.8	12.1	16.0	14.4	13.9	14.6	16.6	12.2	8.5	11.2
Growth of imports of G&S (US dollar terms, in percent)	0.6	24.6	28.7	14.3	12.3	20.8	13.8	9.4	12.9	13.0	12.7	13.8	9.8	8.3	9.4
Grant element of new public sector borrowing (in percent)	**...**	**...**	**...**	**...**	**...**	**10.2**	**14.4**	**19.0**	**17.7**	**16.4**	**14.4**	**15.4**	**9.2**	**5.7**	**8.2**
Government revenues (excluding grants, in percent of GDP)	23.7	23.9	25.5			24.7	24.8	24.5	24.2	24.3	24.4		24.9	25.6	25.1
Aid flows (in billions of US dollars) 7/	0.1	0.1	0.1			0.1	0.2	0.2	0.2	0.3	0.4		0.6	1.0	
o/w Grants	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.1	0.1	0.2	0.3	0.3		0.5	0.9	
Grant-equivalent financing (in percent of GDP) 8/9/	...	...	...			5.1	5.9	4.6	3.2	3.5	3.2		2.3	1.1	2.0
Grant-equivalent financing (in percent of external financing) 8/9/	...	...	...			61.0	52.5	54.8	45.1	47.1	46.9		42.9	26.3	37.9
Memorandum items:															
Nominal GDP (billions of US dollars)	1.01	1.20	1.44			1.83	1.99	2.21	2.45	2.74	3.07		4.76	10.59	
(PVt-PVt-1)/GDPt-1 (in percent)						3.1	5.0	3.5	3.7	3.6	3.1	3.7	1.6	1.4	1.6

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).
9/ Numbers not comparable with the 2007 DSA, which mistakenly excluded grants.

Table 6. Cape Verde: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028
(In percent)

	Projections							
	2008	2009	2010	2011	2012	2013	**2018**	2028
PV of debt-to GDP ratio								
Baseline	25	27	28	28	28	28	**26**	21
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	25	26	26	28	29	30	**32**	23
A2. New public sector loans on less favorable terms in 2008-2028 2	25	29	31	32	33	33	**34**	34
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	25	27	28	29	29	29	**27**	22
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	25	30	38	38	36	34	**27**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	25	30	33	34	34	34	**31**	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	25	25	21	23	24	24	**25**	21
B5. Combination of B1-B4 using one-half standard deviation shocks	25	25	26	27	28	28	**28**	23
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	25	38	39	40	40	40	**36**	30
PV of debt-to-exports ratio								
Baseline	56	60	58	58	57	55	**42**	30
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	56	58	56	57	59	60	**53**	32
A2. New public sector loans on less favorable terms in 2008-2028 2	56	65	65	66	67	66	**55**	47
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	56	60	58	58	57	55	**42**	30
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	56	72	98	92	87	81	**53**	36
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	56	60	58	58	57	55	**42**	30
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	56	55	45	47	48	48	**41**	30
B5. Combination of B1-B4 using one-half standard deviation shocks	56	54	52	54	54	54	**44**	31
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	56	60	58	58	57	55	**42**	30
PV of debt-to-revenue ratio (excluding grants)								
Baseline	99	109	112	117	117	115	**104**	83
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	99	105	108	114	120	124	**130**	89
A2. New public sector loans on less favorable terms in 2008-2028 2	99	118	126	133	136	137	**136**	132
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	99	111	116	121	121	119	**107**	86
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	99	122	157	155	149	141	**109**	83
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	99	119	136	142	142	140	**126**	101
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	99	100	86	94	98	100	**100**	83
B5. Combination of B1-B4 using one-half standard deviation shocks	99	101	104	112	115	116	**112**	91
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	99	154	158	165	165	162	**146**	117

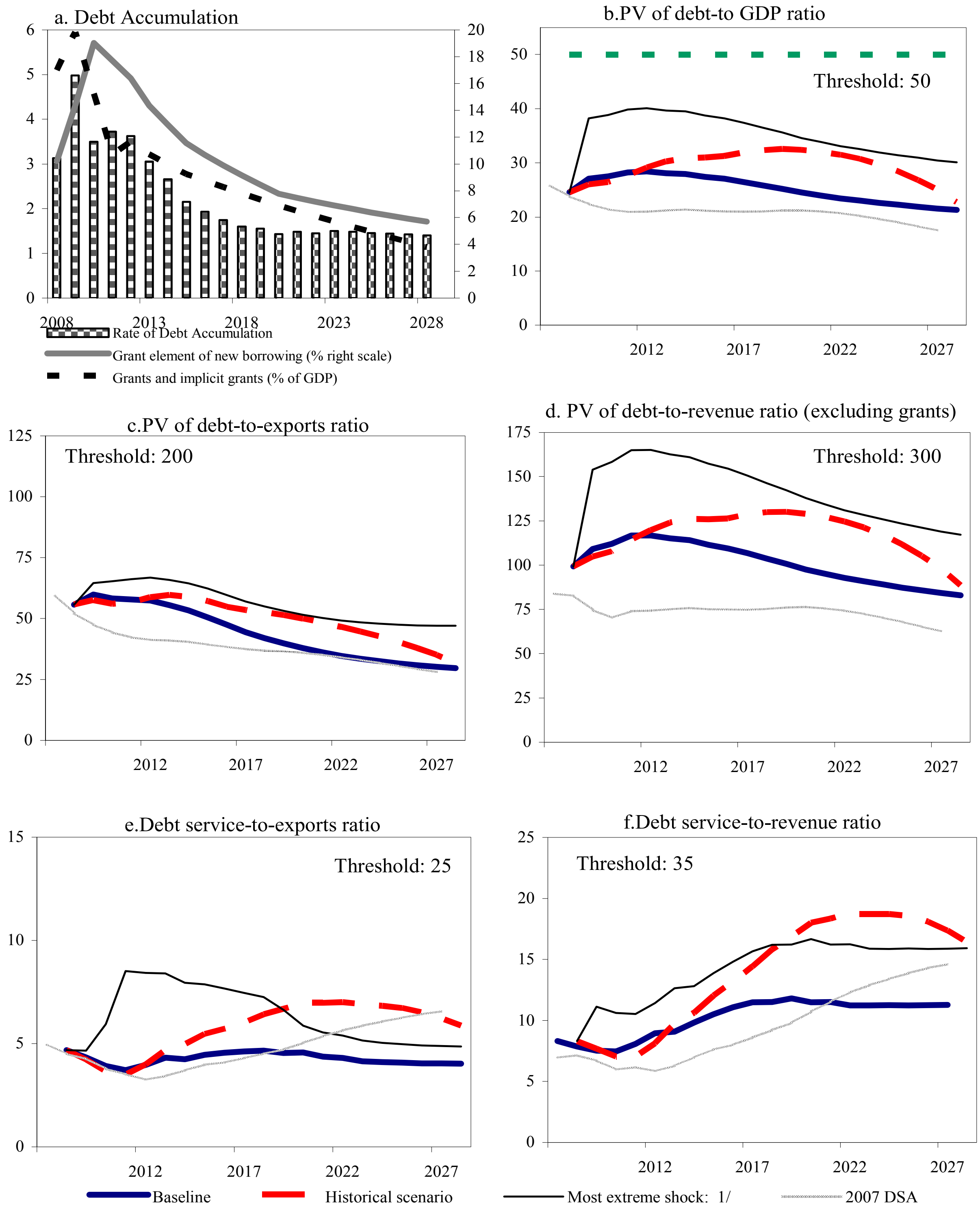
Table 6. Cape Verde: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-2028 (continued)
(In percent)

	Projections							
	2008	2009	2010	2011	2012	2013	2018	2028
Debt service-to-exports ratio								
Baseline	5	4	4	4	4	4	**5**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	5	4	4	3	4	5	**6**	6
A2. New public sector loans on less favorable terms in 2008-2028 2	5	4	4	4	4	4	**3**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	5	4	4	4	4	4	**5**	4
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	5	5	6	9	8	8	**7**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	5	4	4	4	4	4	**5**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	5	4	3	2	2	3	**4**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	5	4	3	2	3	3	**4**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	5	4	4	4	4	4	**5**	4
Debt service-to-revenue ratio								
Baseline	8	8	8	7	8	9	**11**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008-2028 1/	8	8	7	7	8	10	**16**	16
A2. New public sector loans on less favorable terms in 2008-2028 2	8	8	8	8	8	8	**7**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	8	8	8	8	8	9	**12**	12
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	8	8	10	14	14	15	**15**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	8	9	9	9	10	11	**14**	14
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	8	8	6	3	4	6	**9**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	8	8	6	5	6	7	**11**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	8	11	11	11	11	13	**16**	16
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	-4	-4	-4	-4	-4	-4	**-4**	-4

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels.)
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Negative numbers indicate interest rates higher the market rates. Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 1. Cape Verde: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2007-2028 1/



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2018. In figure b. it corresponds to a depreciation shock; in c. to a borrowing cost shock; in d. to a depreciation shock; in e. to a export shock; and in picture f. to a depreciation shock.

Table 7. Cape Verde: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-2028
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard deviation	Estimate	Projections								
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2028	2014-28 Average
Public sector debt 1/	84.0	65.4	62.5 6/			52.2	51.5	51.3	51.4	50.4	48.8	**50.9**	41.9	33.1	**39.0**
o/w foreign-currency denominated	53.7	47.2	42.7 6/			38.7	39.6	39.2	39.2	38.4	37.0		30.7	22.5	
Change in public sector debt	**0.4**	**-18.6**	**-2.9**			**-10.3**	**-0.7**	**-0.2**	**0.2**	**-1.0**	**-1.6**		**-1.5**	**0.0**	
Identified debt-creating flows	**6.6**	**-13.4**	**-10.8**			**-8.9**	**-0.6**	**-1.0**	**-0.6**	**-0.8**	**-1.3**		**-1.2**	**0.2**	
Primary deficit	**4.2**	**3.1**	**-0.9**	**4.9**	**5.6**	**-0.4**	**4.1**	**3.2**	**2.8**	**3.6**	**2.8**	**2.7**	**0.8**	**0.9**	**0.8**
Revenue and grants	30.0	29.4	30.3	29.7	2.2	29.5	29.9	28.2	26.5	27.0	27.0	28.0	26.9	26.6	26.8
of which: grants	6.3	5.5	4.8			4.7	5.0	3.7	2.4	2.7	2.6		2.0	0.9	
Primary (noninterest) expenditure	34.2	32.5	29.4			29.0	33.9	31.4	29.3	30.7	29.9		27.7	27.5	
Automatic debt dynamics	**2.7**	**-16.1**	**-8.7**			**-7.0**	**-3.6**	**-3.5**	**-3.4**	**-3.9**	**-3.8**		**-1.9**	**-0.7**	
Contribution from interest rate/growth differential	-5.4	-9.6	-4.6			-3.9	-2.6	-2.9	-3.0	-3.0	-2.8		-1.4	-0.6	
of which: contribution from average real interest rate	-0.2	-1.4	-0.3			-0.4	0.4	0.4	0.3	0.3	0.4		0.6	1.0	
of which: contribution from real GDP growth	-5.1	-8.2	-4.2			-3.5	-3.0	-3.4	-3.4	-3.3	-3.1		-2.0	-1.6	
Contribution from real exchange rate depreciation	8.1	-6.5	-4.1			-3.0	-1.0	-0.6	-0.4	-0.9	-1.0		...	...	
Other identified debt-creating flows	**-0.3**	**-0.4**	**-1.3**			**-1.5**	**-1.1**	**-0.6**	**0.1**	**-0.4**	**-0.3**		**-0.1**	**0.0**	
Privatization and land sales (negative)	-0.3	-0.4	-1.3			-1.5	-1.1	-0.6	0.1	-0.4	-0.3		-0.1	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	**-6.2**	**-5.2**	**7.9**			**-1.4**	**-0.1**	**0.7**	**0.7**	**-0.3**	**-0.3**		**-0.3**	**-0.2**	
Other Sustainability Indicators															
PV of public sector debt	**30.3**	**45.4**	**46.0**			**38.5**	**38.8**	**39.5**	**40.4**	**40.4**	**40.0**	**39.6**	**37.0**	**31.9**	**35.1**
o/w foreign-currency denominated	0.0	27.2	26.2			25.0	27.0	27.5	28.2	28.4	28.1		25.8	21.3	
o/w external	...	27.2	26.2			25.0	27.0	27.5	28.2	28.4	28.1		25.8	21.3	
PV of contingent liabilities (not included in public sector debt)	1.6	5.6	5.1			4.5	4.1	3.7	3.3	3.0	2.7		1.7	0.8	
Gross financing need 2/	9.7	10.5	9.4			4.5	4.2	8.3	7.0	6.4	7.4		5.6	5.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	101	155	152			131	130	140	152	150	148		137	120	
PV of public sector debt-to-revenue ratio (in percent)	128	190	181			156	157	161	167	166	164		148	124	
o/w external 3/	…	114	103			101	109	112	117	117	115		104	83	
Debt service-to-revenue and grants ratio (in percent) 4/	7.3	6.2	5.4			5.6	5.5	5.6	5.5	5.7	5.9		6.0	6.3	
Debt service-to-revenue ratio (in percent) 4/	9.2	7.6	6.5			6.7	6.6	6.4	6.1	6.3	6.5		6.5	6.6	
Primary deficit that stabilizes the debt-to-GDP ratio	3.8	21.7	2.0			9.9	4.7	3.4	2.6	4.7	4.4		2.3	0.9	
Key macroeconomic and fiscal assumptions															
Nominal GDP (local currency)	89.2	105.6	116.1			132.1	146.2	161.6	178.1	198.9	221.7		343.6	764.2	
Real GDP growth (in percent)	6.5	10.8	6.9	7.2	2.5	6.0	6.1	7.0	7.1	6.8	6.7	6.6	5.0	5.0	5.0
Average nominal interest rate on forex debt (in percent)	1.1	1.1	1.1	1.3	0.3	1.4	1.5	2.0	2.3	2.5	2.8	2.1	3.2	4.0	3.4
Average real interest rate on forex debt (in percent)	2.9	-2.5	-6.3	3.1	10.5	-10.8	5.8	3.8	2.4	0.7	0.8	0.5	2.6	5.9	3.7
Real exchange rate depreciation (in percent, + indicates depreciation)	0.2	-5.2	-16.1	-3.4	21.2	-23.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.9	7.9	12.2	4.4	10.6	19.4	2.8	3.8	3.4	5.0	5.0	6.6	3.5	2.7	3.4
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.1	0.0	0.0	0.2	0.0	0.2	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	10.2	14.4	19.0	17.7	16.4	14.4	15.4	9.2	5.7	...

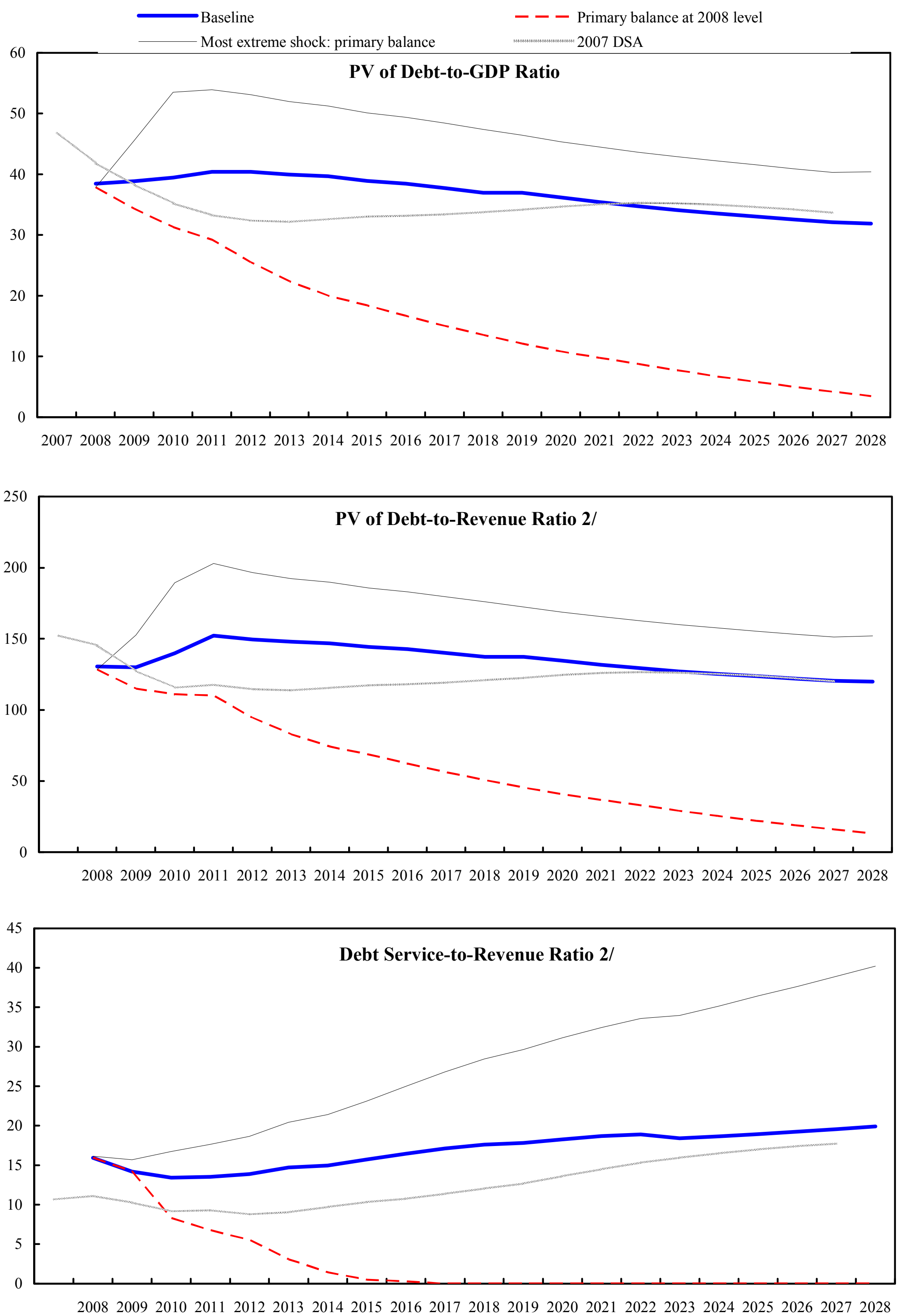
Sources: Country authorities; and staff estimates and projections.
1/ Central government. Debt figures are net of deposits at central bank.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
6/ The difference with Tables 2 and 5 is caused by different exchange rates (average or end-of-period).

Table 8. Cape Verde: Sensitivity Analysis for Key Indicators of Public Debt 2008-2028

	Projections							
	2008	2009	2010	2011	2012	2013	2018	2028
PV of Debt-to-GDP Ratio								
Baseline	38	39	39	40	40	40	37	32
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	38	39	42	45	46	47	57	77
A2. Primary balance is unchanged from 2008	38	34	31	29	26	22	14	4
A3. Permanently lower GDP growth 1/	38	39	40	42	43	43	46	63
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	38	40	42	44	45	45	46	48
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	38	46	53	54	53	52	47	40
B3. Combination of B1-B2 using one half standard deviation shocks	38	43	48	49	49	49	47	45
B4. One-time 30 percent real depreciation in 2009	38	49	49	49	49	48	46	45
B5. 10 percent of GDP increase in other debt-creating flows in 2009	38	39	50	50	49	47	42	34
PV of Debt-to-Revenue Ratio 2/								
Baseline	131	130	140	152	150	148	137	120
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	128	132	148	168	169	173	212	293
A2. Primary balance is unchanged from 2008	128	115	111	110	95	83	51	13
A3. Permanently lower GDP growth 1/	128	132	143	158	157	159	170	236
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	128	133	149	165	165	166	170	179
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	128	153	190	203	196	192	176	152
B3. Combination of B1-B2 using one half standard deviation shocks	128	143	171	186	182	180	175	173
B4. One-time 30 percent real depreciation in 2009	129	164	173	185	180	177	170	169
B5. 10 percent of GDP increase in other debt-creating flows in 2009	128	130	176	187	180	175	155	128
Debt Service-to-Revenue Ratio 2/								
Baseline	16	14	13	14	14	15	18	20
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	16	14	14	16	18	19	32	59
A2. Primary balance is unchanged from 2008	16	14	8	7	6	3	0	0
A3. Permanently lower GDP growth 1/	16	14	14	14	15	16	23	44
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	16	14	14	15	16	17	24	33
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	16	14	21	26	21	23	28	28
B3. Combination of B1-B2 using one half standard deviation shocks	16	14	18	21	19	21	26	32
B4. One-time 30 percent real depreciation in 2009	16	16	17	18	19	20	28	40
B5. 10 percent of GDP increase in other debt-creating flows in 2009	16	14	13	14	14	15	18	20

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the length of the projection period.
2/ Revenues are defined inclusive of grants.

Figure 2. Cape Verde: Indicators of Public Debt Under Alternative Scenarios, 2007-2028 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2018.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review Under the Policy Support Instrument for Cape Verde

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review under a three-year Policy Support Instrument (PSI) for Cape Verde. The PSI was approved on July 31, 2006 (see Press Release No. 06/172).

Cape Verde's PSI is designed to enhance the sustainability of growth and development by maintaining a stable macroeconomic environment and moving forward with structural reforms. It is also expected to help the country reduce macroeconomic risks, provide a margin for safety against shocks, and prepare for a possible longer-term decline in access to concessional external financing. Key measures are directed to reducing public debt, building up international reserves, improving public financial management, and strengthening financial sector and energy sector regulation.

Following the Executive Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"Cape Verde's prudent economic management in recent years is now paying dividends, putting the country in a position of strength to face the current global economic challenges. Faster-than-planned reduction of domestic debt and buildup of official reserves provide buffers to absorb shocks. The effects of the global financial turmoil and slowdown on Cape Verde have been relatively contained: growth continues to be solid, inflation is expected to remain in single digits, and the banking system remains stable. But it will be important to monitor the situation closely for possible indirect adverse effects on growth and the balance of payments in the medium term stemming from reductions in remittances, tourism receipts, and foreign direct investment.

"The authorities' revised macroeconomic framework is appropriate, providing for the judicious use of buffers to absorb external shocks. The authorities recognize that continued fiscal restraint and strengthened monetary management will be critical to safeguard the exchange rate peg and increase resilience to shocks.

"The 2009 budget is appropriate. The greatly reduced level of debt achieved in recent years allows fiscal policy to support economic activity, while preserving debt sustainability. The planned acceleration of public investments in infrastructure will help to remove bottlenecks to growth. The authorities' plans to continue strengthening public debt and financial management will help keep the risk of debt distress low.

"The recent measures taken by the Bank of Cape Verde to strengthen monetary management have stemmed the decline in official reserves. The Bank of Cape Verde is committed to realigning interest rates promptly in response to market developments, as needed to smooth short-term capital flows, consistent with the exchange rate peg. The upcoming Financial Sector Assessment Program analysis and recommendations should help the authorities to continue to strengthen financial system regulation and supervision, thereby preserving financial stability," Mr. Portugal said.

Statement by Laurean Rutayisire, Executive Director for Cape Verde
December 22, 2008

1. I thank Management and staff for the constructive advice given to Cape Verde's authorities under the PSI which has enabled the authorities to continue making important strides in the implementation of their policy and reform agenda. As noted in their Letter of Intent (LOI), the authorities intend to request a one-year extension of the PSI arrangement when it expires in July 2009.

Recent Economic and Policy Developments and Program Performance

2. Cape Verde's macroeconomic performance under the current PSI has continued to be robust. While moderating, GDP growth remains strong, driven by the tourism sector and FDI flows. The inflation rate remains contained to single digit in spite of the recent tensions in food and oil markets which fueled inflationary pressures. The prudent fiscal and monetary policies which were implemented by the authorities over recent years have helped Cape Verde cope relatively well with the global oil and food price shocks. In the face of rising prices, the authorities' policy response to these shocks has appropriately sought to align as much as possible domestic prices with international prices and providing well-targeted assistance to vulnerable households. Furthermore, Cape Verde has been relatively spared by the global slowdown and financial crisis thus far, given domestic banks' limited access to global financial markets. However, the authorities share with staff the concerns that an indirect impact of the crisis channeling through tourism, remittances, and FDI cannot be precluded.

3. Program performance was strong on the quantitative front, as all assessment criteria set for end-June 2008 were observed. Public debt reduction has continued to proceed in line with the authorities' policy intentions and the program targets although it is now expected to pause to make room to much-needed infrastructure investments. The authorities were able to contain domestic borrowing largely under its program ceiling. Reserve accumulation proceeded at a rapid pace until the country's economy was hit by global shocks. Although net international reserves declined in the first half of 2008, largely as a result of external developments and private sector debt repayments, the related program floor was met at end June 2008 and the remedial policy actions taken by the monetary authorities contributed to reversing this decline since September. Notwithstanding the external shocks which hit Cape Verde, the authorities were also able to maintain a comfortable level of reserves at all times.

4. Important achievements were also made in the implementation of the authorities' structural reform agenda. In particular, they submitted last August the new General Tax Code and the new Code on Judicial Process to the National Assembly, thus moving closer to reaching their objective of broadening the tax base. Similarly, the medium-term fiscal framework was submitted to the National Assembly and put in the public domain. The authorities performed a mid-year review of the budget in August which confirmed that

prudent fiscal policies were being implemented, thereby reflecting the authorities' attachment to fiscal discipline. Furthermore, a new fuel pricing formula was finalized in November, which should help further reduce fiscal risks.

Policy and reform Agenda Going Forward

5. The authorities remain committed to the objectives of the PSI-supported program, including ensuring fiscal consolidation, improving public sector financial and debt management, supporting the peg and strengthening the financial system.

6. Consistent with the consolidation of macroeconomic stability, the 2009 budget builds on a further reduction in domestic debt as a fraction of GDP and an increase in international reserves. The authorities plan to submit to the National Assembly early next year the new income tax codes and tax exemptions code. Successful implementation of these codes will help boost revenue mobilization through the expansion of the tax base. On the expenditure side, the authorities will continue to adhere to strict fiscal discipline, notably by exerting tight control over the wage bill.

7. As part of the authorities' efforts to strengthen public financial management, financial controllers will be hired and posted in each line ministry to monitor budget execution.
In addition, the authorities are working to better monitor fiscal risks and liabilities arising from public enterprises. The work underway includes the assessment of contingent liabilities and the extension of the coverage of official statistics to flows related to the holding gains or losses as well as the consolidated balance-sheet of five state-owned enterprises.

8. The authorities' prudent fiscal policies has helped create fiscal space which serves well their ambition to find appropriate financing for their efforts to ease infrastructure bottlenecks and reduce the country's vulnerability to external shocks. As the authorities work toward this goal, they understand that taking steps to strengthen public debt management will be also useful. For this reason, a number of achievements have already been made on this front, including upgrading of the debt management software and regular conduct of DSAs. In spite of these achievements, they acknowledge that additional efforts to further strengthen their debt management capacities will be needed. Going forward, they plan to improve the existing institutional framework for debt management, develop a new debt management strategy, and build capacities in the debt management unit. Since Fund's contribution to the success of these efforts is critical, we call on Management to consider favorably the authorities' request for Fund technical assistance in the area of asset liability management.

9. The authorities attach high priority to addressing infrastructure bottlenecks. In their efforts to mobilize necessary financing for their infrastructure projects, they continue to show a strong preference for concessional resources. In the face of limited availability of such resources, they have decided however to contract a € 47 million nonconcessional loan from

the European Investment Bank (EIB) to finance a port extension project. Technical and debt sustainability analyses performed in relation to this project show that the project has a positive impact on growth and it does not undermine debt sustainability. The authorities appreciate staff's support for raising the ceiling for nonconcessional external financing to accommodate the EIB loan. They echo African Governors' call for more flexibility in Fund policies on nonconcessional borrowing. In particular, the authorities believe that there is scope for improving the current ad hoc mechanism by which the ceiling on nonconcessional external borrowing is set under Fund arrangements. Thus, they invite the institution to put in place a more adequate mechanism for determining the appropriate ceiling on nonconcessional borrowing each program country can contract, which would be based in particular on its specific circumstances and debt situation as well as the return to the investment projects to be financed. We call on staff to take into account in the forthcoming paper on the Review of the Fund's Financing Role in Member Countries our authorities' call on the needed flexibility.

10. The authorities have reaffirmed their intention to continue the use of monetary policy to support the peg and to prevent destabilizing capital flows. The central bank (BCV) will continue to closely monitor the scope and impact of external flows. Recent adjustments in the central bank's policy rate are consistent with the authorities' determination to promptly take action whenever made necessary by market developments. Going forward, BCV is committed to preparing regular reports on BOP developments and to pursuing its management of the domestic liquidity situation through the issuance of central bank bills while maintaining the two-week bill as its official policy rate. With regard to the financial sector, the BCV is determined to ensure strict enforcement of the new banking regulations. The authorities welcome the recent FSAP mission which was useful in assisting them notably in their efforts to build capacities and improve liquidity management.

11. In light of the above, I call on Directors to support the completion of the fifth review of Cape Verde's PSI.