June 2009
IMF Country Report No. 09/198

Cape Verde: Sixth Review Under the Policy Support Instrument and Request for a One-Year Extension of the Policy Support Instrument—Staff Report; Press Release

In the context of the sixth review under the Policy Support Instrument and request for a one-year extension of the Policy Support Instrument for Cape Verde, the following documents have been released and are included in this package:

- The staff report for the Sixth Review Under the Policy Support Instrument and Request for a One-Year Extension of the Policy Support Instrument, prepared by a staff team of the IMF, following discussions that ended on April 15, 2009, 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 June 2, 2009. 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 Press Release summarizing the views of the Executive Board.

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

Letter of Intent sent to the IMF 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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CAPE VERDE

Sixth Review Under the Policy Support Instrument and Request for a One-Year Extension of the Policy Support Instrument[1]

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

Approved by Sharmini Coorey and Aasim Husain

June 2, 2009

Executive Summary

Focus: The sixth PSI review discussions focused on the implications of the recession in the euro area on Cape Verde's economy and the policy responses to global shocks.

Assessment: Policy implementation under the PSI-supported program continues to be strong; all but one end-December 2008 PSI quantitative targets were met. In 2009, real GDP growth is expected to decelerate as external demand and private sector growth weakens, but this will partly be offset by the authorities' fiscal stimulus. Staff recommends completion of the sixth PSI review, granting of the waiver on the nonobservance of the assessment criterion on net domestic assets of the Bank of Cape Verde (BCV), and the one-year PSI extension the authorities have requested.

Policy Discussions: Staff and the authorities agreed that:

- Fiscal and reserve buffers be used to smooth global shocks in 2009, keeping in mind medium-term debt sustainability, especially given the exchange rate peg and the uncertainties about both the depth and duration of the ongoing global recession.
- Fiscal and monetary operations be better coordinated for systemic liquidity management.
- Recommendations of the Financial Sector Assessment Program (FSAP) be implemented to reinforce the soundness of onshore banks and prepare a clear strategy for offshore banks.

Exchange rate regime: Cape Verde's exchange rate arrangement is a conventional peg to the euro.

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[1] Discussions took place during April 3–15, 2009. The team comprised Lamin Leigh (head), Eduardo Castro, Nir Klein, and Jean Frederic Noah Ndela (all AFR) and Erik Oppers (MCM). The mission met with Cristina Duarte, Minister of Finance; Carlos Burgo, Governor of the Bank of Cape Verde; other government officials; and the Finance Committee of the National Assembly.

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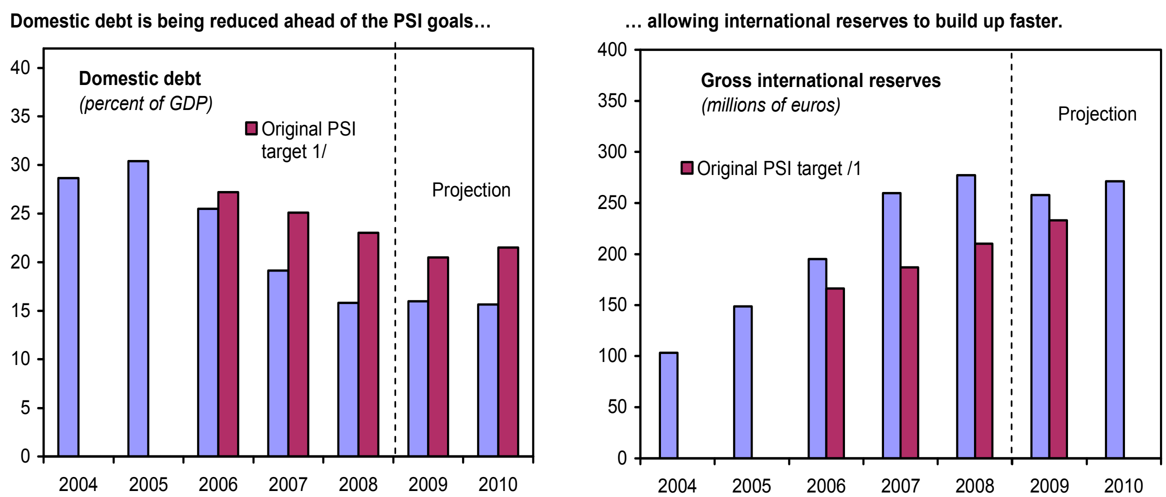
I. Coping with Global Economic Challenges from a Position of Strength

1. **Cape Verde has been weathering the global economic crisis relatively well because its fiscal and international reserve positions are sound.** The main program objectives were achieved ahead of schedule: domestic public debt was reduced sharply, foreign reserves accumulated substantially, and external debt was kept stable. In recent years, the economy has been boosted by external demand for tourism, foreign direct investment (FDI) in real-estate, and remittances. More recently, as global shocks weakened external inflows, the key challenge has been to cautiously use the fiscal space and international reserves to smooth the shocks. The authorities continue to demonstrate firm commitment to prudent policies; the ruling party's setback in the 2008 municipal elections is unlikely to slow the reform momentum. However, the government is likely to come under increased public pressure as global crisis affects growth and employment.

Cape Verde has built sizeable macroeconomic buffers:



Sources: Cape Verdean authorities, and IMF staff estimates.
1/ The PSI started in 2006.

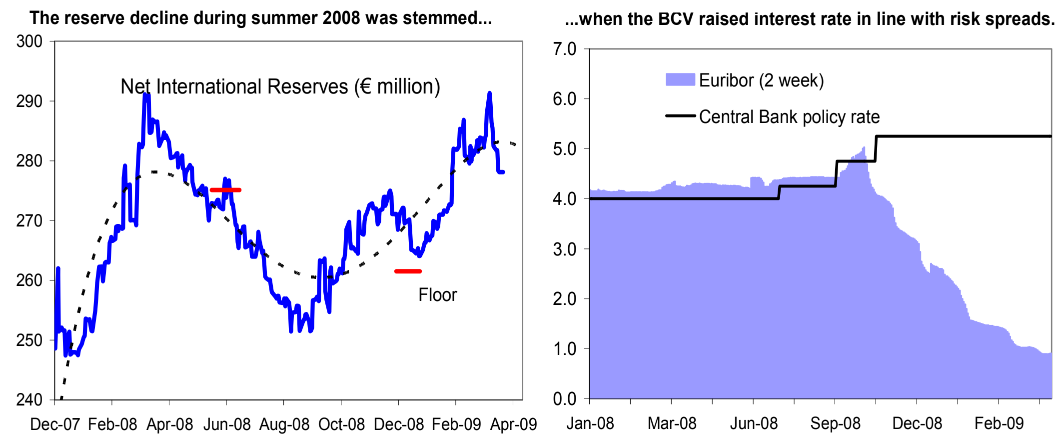
2. **As the current PSI arrangement will expire in July 2009, the authorities are seeking a one-year extension as a bridge for a new three-year PSI.** The authorities plan to use the extension period to conduct an internal ex-post assessment of the PSI as a basis for their new three-year PSI. While risks remain especially if the global recession turns out to be protracted, based on PSI performance to date and the strength of the authorities' future policies as outlined in the attached letter of intent (LOI), staff supports the request for an extension.

II. Performance Under the PSI, Recent Developments and Outlook

3. **All but one end-December 2008 quantitative assessment criteria were met**.

- **The fiscal and the international reserves targets were observed by wide margins.** Tax revenues performed well in the last quarter of 2008 and expenditures were restrained. Thus, despite the shortfall in land sales, in 2008 net domestic borrowing was far below the adjusted ceiling by 3 percent of GDP and domestic debt was reduced by one-fifth to 16 percent of GDP. After reserve losses in the summer of 2008, reserves recovered significantly in subsequent months. However, by May 2009 they had declined slightly as the recession in the euro area took its toll on tourism, FDI and remittance inflows into Cape Verde.

International Reserves and Monetary Management



Source: Bank of Cape Verde and Thompson Datastream.

- **The ceiling on net domestic assets (NDA) of the BCV was exceeded.** This was largely due to the prepayment of public debt in late December: the Treasury used its deposits at the BCV to exercise the call option to repurchase T-bonds maturing in 2010 in order to smooth the maturity profile and minimize rollover difficulties. As a result, NDA spiked temporarily, but are now in line with program goals. Given the corrective measures being taken to coordinate fiscal and monetary operations more effectively for better liquidity management (LOI ¶12), staff supports a waiver for nonobservance for NDA ceiling.

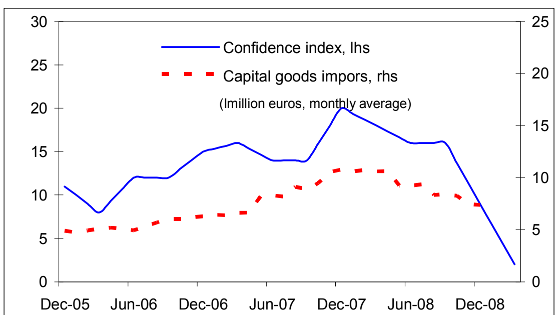
4. **Despite delays, progress on structural reforms has been steady.** The balance sheets of state owned enterprises (SOEs) are being monitored to limit fiscal risks and a report on contingent liabilities, which recommends risk-based actions to address these liabilities, will be submitted to the Council of Ministers in June 2009. The new income tax codes will be submitted to Parliament in June. Overall, the slight delays should not pose near-term risks to the macroeconomy or the key goals of the program's structural conditionality.

Cape Verde: Progress on Structural Benchmarks for 2009

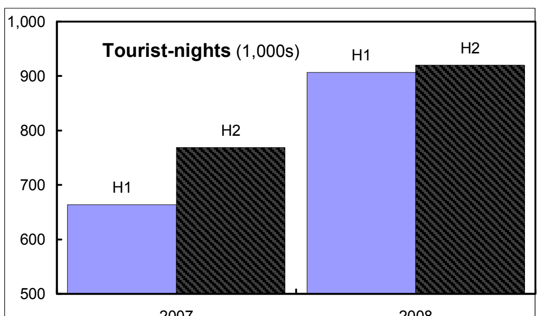
Objectives	Benchmarks	Timing	Status
Strengthen tax base	Submit the draft individual and corporate income tax bills to the National Assembly.	End-Oct. 2008	Not met. To be implemented in June
Promote financial stability	Prepare a quarterly report on developments on balance of payments flows, including an assessment of interest sensitivity of non-resident flows into the banking system.	End-Dec. 2008	Not met. To be implemented in June
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	Not met. To be implemented in June
Strengthen debt management	Compile the Other Economic Flows arising from the holding gains or losses for five state-owned enterprises (ASA, TACV, Enapor, Electra and IFH) and the Consolidated Balance-Sheet of these five corporations detailing their debt by maturity, currency, residency, and state guarantees.	End-Mar. 2009	Met
Strengthen debt management	Submit to the Council of Ministers a report on contingent liabilities of the state.	End-Mar. 2009	Not met. To be implemented in June

5. **Because leading indicators suggest that economic activity has weakened significantly in recent months, the macroeconomic framework has been revised.**

- **Growth:** After registering robust growth in both 2007 and 2008, GDP growth is expected to decelerate to 3½ percent in 2009 because recession in the euro area will weaken external inflows to Cape Verde. Tourist-nights grew only 1.5 percent in the second half of 2008 despite 20 percent growth in the number of hotel-beds during the year. FDI in real-estate is also being hit hard by the contraction in the economies that are its traditional sources, notably Spain, Ireland and the UK. In April, the confidence barometer, which is a good leading indicator of economic activity, reached its 5-year low: most sectors of the economy, including construction, showed signs of weakness. While they acknowledged the risks, the authorities were of the view that Cape Verde's economy will likely show some resilience to global shocks as it has in the past.

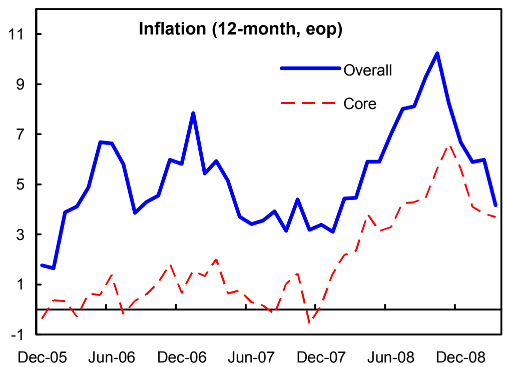


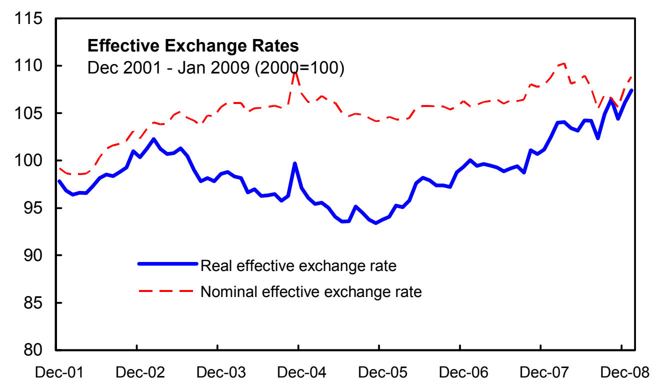
Source: BCV and INE, *Instituto Nacional de Estatística*



Source: INE, *Instituto Nacional de Estatística*

- **Inflation:** Since November 2008, Cape Verde has seen 4 months of negative inflation as import prices, notably of food and energy, fell. Thus, 12-month inflation that peaked at 10 percent (year on year) in October 2008, has fallen to low single digits; staff projects inflation to decline to about 3¼ percent by year-end. The real effective exchange rate (REER) continues to be broadly in line with fundamentals. Despite some appreciation in the past couple of years, the REER remains near its long-term historical average. In addition, competitiveness appears adequate based on export market share.[2] The projected widening of the current account over the medium term does not pose risk to overall external stability (see next bullet and ¶6 on reserves adequacy). Moreover, the exchange rate peg continues to be supported by domestic





Source: INE, *Instituto Nacional de Estatísticas* and IMF, *Information Notice System*.

policies. Short-run deviations of the REER from purchasing power parity tend to reflect asymmetric supply shocks and mean reversion to euro area inflation comes with some lags given the higher weight of food in Cape Verde's CPI basket relative to those of its main trading partners in the euro area.

- **External position:** Reflecting the planned fiscal expansion and moderation of workers' remittances, the overall current account deficit is projected to widen significantly in 2009, which would lead to some decline in reserves. However, this decline will be limited as the fiscal stimulus will be

Cape Verde: Revised Macroframework

		SR 5th PSI review			Current projections		
	2007	2008	2009	2010	2008	2009	2010
	(Percent change)						
Real GDP	7.8	6.0	6.1	7.0	5.9	3.5	4.0
Inflation (end period)	4.4	6.5	4.2	3.0	6.7	3.3	2.7
	(Percent of GDP)						
External current account	-8.8	-11.7	-11.2	-10.7	-12.1	-17.6	-14.2
Net reserves (€ million)	250	260	316	368	268	250	265
Fiscal balance[1]	-0.7	-1.2	-5.7	-4.7	-1.2	-9.0	-4.2
Public domestic debt	19.1	13.5	11.8	12.0	15.8	16.0	15.7

[1] The fiscal deficit is largely financed by foreign concessional funds.

[2] Cape Verde's share in global exports of goods and services rose from 0.0029 percent on average during 2003–06 to 0.0035 percent in 2007–08 and, based on trends in early 2009, is expected to remain broadly at that level in 2009.

financed by additional concessional loans already secured with development partners notably Portugal. Furthermore, the weakening of FDI, tourism and remittances will not cause an equivalent decline in reserves because the slowdown in these flows will also reduce imports given their high import content.

- **Financial sector**: The FSAP concluded that the onshore financial sector is broadly sound and so far the global financial crisis has had little direct impact on it. Banks have negligible exposure to sub prime loans, large liquidity buffers, low loan-to-value ratios, although there was some erosion of the capital-asset ratios of onshore banks. Nevertheless, withdrawal of liquidity support by parents of foreign banks is a possible risk, particularly given that a majority of banking system's assets are held by foreign banks (mainly Portuguese).

III. Policy Choices under the Global Recession

A. Using Fiscal and Reserves Space to Smooth Shocks with the Medium Term in mind

6. **The authorities noted that they will use the fiscal space they have as a counter-cyclical response to the global shocks.** Specifically, the government will implement a substantial fiscal expansion in 2009 compared with both the 2008 outturn and the original 2009 budget in order to minimize the downside risks to growth. The expansion will focus on the public investment program (PIP) mainly on infrastructure, but also protect social expenditures even with lower revenues, because the global crisis is likely to hit hardest the poor and vulnerable segments of the population. The authorities argued that the increase in the PIP will spur aggregate demand and mitigate the impact of global shocks on growth in the short run, remove bottlenecks, support competitiveness and thus long-run growth. In the revised 2009 fiscal program, deceleration of tax revenues from lower GDP growth and the PIP expansion are projected to increase the fiscal deficit by about 3½ percentage points of GDP compared to the 2009 budget. The authorities maintained that a large part of the fall in revenues would be compensated for by cuts in current spending through the elimination of inefficiencies, while the increase in the

Cape Verde: Fiscal Position, 2008–09

(Percent of GDP)

	2008	2009		
	Actual	Budget	Revised program	Adjust.
Total revenues	29.9	30.7	29.5	-1.2
Total expenditure	31.1	36.2	38.5	2.3
Of which: Capital exp.	12.4	14.8	17.4	2.7
Overall balance	-1.2	-5.5	-9.0	-3.5
Foreign financing, net	2.7	4.8	7.5	2.7
Domestic financing, net	-0.9	0.7	1.5	0.8
Implicit grant element	0.4	0.9	1.6	0.7
Adjusted balance	-0.8	-4.6	-7.4	-2.8

Sources: Ministry of Finance and IMF staff estimates.

Adequacy of Central Bank's Reserves (percent, average)

	1999-04	2005-07	2008-13	2014
Reserves/ Base money	44	98	109	116
Reserves/ Short term debt[1]	123	298	266	247
Reserves/ Prospective Imports	1.6	3.3	3.7	3.7
Reserves/ Prospective Permanent Imports[2]	1.9	4.3	4.8	4.9

Sources: Cape Verdean authorities and IMF staff estimates.

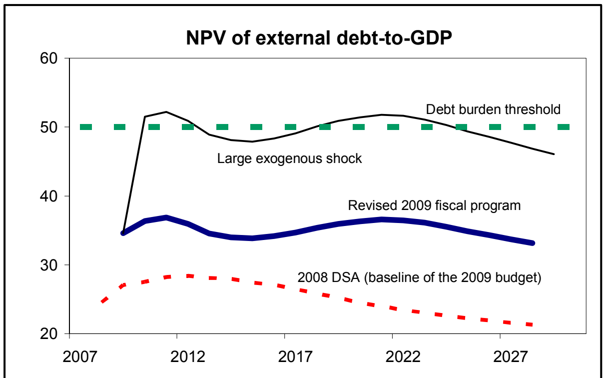
[1] Remaining maturity.

[2] Permanent imports equal imports minus one-half of FDI and tourism exports.

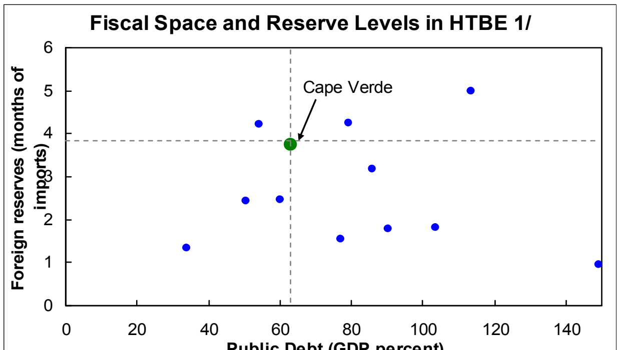
PIP will be financed by additional concessional loans (¶ 5).[3] Thus, net domestic borrowing which is the program's fiscal anchor, will increase only slightly relative to budget and the fiscal stimulus would lower reserves only marginally, without threatening the peg.[4]

7. **While Cape Verde is in good position to use its fiscal space, staff cautioned that the government's fiscal program for 2009 will raise the public external debt to the debt burden threshold if a large exogenous shock occurs.**

- Cape Verde has a lower debt level and higher reserves than many highly tourism based economies (HTBE). This said, the revised fiscal program will reduce significantly the fiscal space available, and any additional severe shock could bring the external debt close to debt-burden threshold.[5] The medium term external debt ratio rose compared to the 2008 DSA reflecting the authorities' expanded infrastructure program, the lower GDP growth, and appreciation of the dollar against the euro in late 2008 as most of the external debt is dollar denominated. Thus, staff advised that if the global recession turns out to be protracted and tax revenues decelerate further than projected, the authorities should identify items in recurrent spending that could be cut and, if needed, moderate the current high pace of domestically-financed capital spending. Moreover, concessional funds beyond what has already been secured may become hard to get and domestic financing is limited because banks' balance sheets are already stretched.



Source: IMF staff projections.



Source: IMF, *WEO*
1/ Ant. & Barb., Bahamas, Barb., Belize, C. Verde, Grenada, Jamaica, Mauritius, Seychelles, S Lucia, S Vinc & Gren, S Kitts & Nev.

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[3] They are also working on their plans to rationalize tax exemptions which were delayed because it took longer than expected to hire a legal expert to draft a new Tax Exemptions Code.

[4] In the event of a more protracted global recession and a larger balance of payments need, the authorities can tap the credit line with Portugal (500 percent of Cape Verde's quota). Cape Verde has drawn on the credit line only twice since 1999.

[5] Debt burden-threshold is defined as in the joint World Bank-Fund Debt Sustainability Framework.

- It would also not be prudent to expand domestic borrowing beyond the revised fiscal program. Foreign reserves must be preserved consistent with the peg in light of the intrinsic vulnerabilities of this small island economy, the rigidities in both goods and factor markets that hinder adjustment through prices, and the large stock of nonresident deposits in the banking system (about 50 percent of total deposits). Staff also noted that while the fiscal stimulus will to some extent mitigate the impact of recession in the euro area on Cape Verde's growth, like many highly open tourism based economies, the implied fiscal impulse will not be large.

8. **The authorities generally agreed with the staff's analysis and the need to keep in mind medium-term debt sustainability considerations**. They are committed to formulating fiscal policy based on a Debt Sustainability Analysis (DSA) and welcomed staff's assistance in building their technical ability to conduct a DSA.[6] They agreed to two new PSI structural benchmarks to further strengthen debt management capacity and ensure that the fiscal program is consistent with debt sustainability. Specifically:

- **A new mid-year fiscal review will be conducted.** The review will be enhanced by including the fiscal program for 2009 and examining whether that the implied debt trajectory is consistent with debt sustainability. This analysis will draw on the ongoing DSA that the authorities committed to conduct (MEFP 5th PSI review, ¶8).

- **A simplified medium term fiscal framework (MTFF) for 2010–12 will be prepared.** It will be submitted to the National Assembly and posted online along with the proposal for the 2010 budget. The MTFF will also be enhanced by showing the implied debt trajectory and ensuring that it is consistent with debt sustainability, drawing on the DSA underway.

In addition, the authorities noted that steps are being taken to improve their public debt and financial management and reduce fiscal risks by closely monitoring contingent liabilities. They are also implementing a new law of SOE and Public Managers to improve state control and regulation over SOEs (LOI ¶13). Under this framework, frail SOEs will be placed on a viable footing.

B. Strengthening Monetary and Fiscal Coordination

9. **Staff and the BCV agreed that domestic interest rates should continue to follow the euribor adjusted for country risk premium to smooth fluctuations in key financial flows.** The liquidity crunch in Europe and the increased risk premium for peripheral economies are forcing the BCV to hold its policy rate at 5¼ percent. Going forward, the BCV may have some scope to reduce its policy rate, especially if the European Central Bank

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[6] The mission provided hands-on training on the joint Bank-Fund Debt Sustainability Framework to the technical team of the BCV and the Ministry of Finance.

(ECB) continues to reduce it policy rate. The BCV indicated that the recent increase in banks' reserve requirements from 14 percent to 16 percent was temporary and intended to halt excessive credit growth especially given the small buffers on banks capital ratios, and minimize balance sheet pressures for the BCV. This said, there are other alternatives to better manage systemic liquidity (¶10) and ensure that banks meet their regulatory capital requirement. Staff recommended that the Treasury closely monitor the balance sheet of the BCV to provide the necessary support to the BCV to manage liquidity.

10. **The authorities are taking measures to better manage systemic liquidity.** They recognize the need to coordinate fiscal and monetary operations to enable the BCV to conduct passive liquidity management consistent with the exchange rate peg and a largely open capital account. To meet a new PSI benchmark, the BCV will prepare a memorandum that will clearly delineate the key elements of this enhanced coordination which will be endorsed by both the Minister and the Governor (LOI ¶12). The possible pillars for enhanced coordination include:

- In line with the FSAP recommendation, treasury bills can be used more systematically for liquidity management. This has the added benefit of improving transparency because the interest costs of liquidity management will be recorded in the fiscal accounts.
- Given the likely decline in reserves in 2009, the memorandum will also call for a close joint monitoring of the balance-of-payments. This will ensure that the required policy responses are aligned with the source of disturbance either from financial flows or domestic-demand led pressures on the current account.
- The BCV and the Treasury will also take into account the impact of quasi-fiscal operations on systemic liquidity particularly those arising from the restructuring of large SOEs such Electra or TACV, the national airline.

C. Shielding the Financial Sector

11. **The authorities are committed to implementing the recommendations of the FSAP to safeguard financial sector stability**.[7] Thus, following recent approval of the new anti-money laundering law, they are taking the following steps:

- To end forbearance with regard to onshore banks, the BCV will strengthen its enforcement tools to induce banks to keep capital ratios continuously above the prudential requirement. The PSI-supported program now includes a continuous indicative floor on bank's capital asset ratios and the BCV will inform the Fund of the measures taken if a bank is below the regulatory minimum.

[7] See the accompanying report on Financial System and Stability Assessment (FSSA).

- The government will also reconsider its strategy for offshore banks following the FSAP's conclusion that the offshore sector is a source of reputational risk. Staff stressed that developing the offshore sector as a long-term growth strategy requires complying with strict pre-conditions and forceful supervision. Because the offshore sector does not seem to create value-added to the economy proportional to the risks it entails, the authorities noted that the government will take stock of the costs and benefits for keeping it in place and propose a strategy to the Council of Ministers (LOI ¶15). The authorities closed a noncompliant offshore institution and agreed to harmonize the regulatory framework for onshore and offshore banks to end forbearance and limit financial sector vulnerabilities.

IV. Program Monitoring

12. **Assessment criteria, benchmarks, and indicative targets for the next two reviews are in Tables 1 and 2 of the Letter of Intent.** The review schedule is in Table 8.

V. Staff Appraisal

13. **Cape Verde is weathering the global economic crisis well, and policy implementation under the PSI-supported program remains sound.** The commendable progress on macroeconomic management the authorities have made in recent years has put them in a position of strength as they face global economic difficulties. Domestic public debt was reduced sharply, foreign reserves accumulated substantially, while the external debt was kept stable.

14. **However, near-term growth prospects have moderated significantly given the recession in the euro area.** Thus, the authorities' decision to use fiscal and reserve buffers to smooth global shocks is appropriate, especially given their plans to protect social spending. The envisaged fiscal stimulus does not pose a threat to the exchange rate peg and the real effective exchange rate (REER) continues to be broadly in line with fundamentals.

15. **The revised fiscal program for 2009 will increase public debt, bringing projected public external debt close to the debt burden threshold should a further large shock occur.** Thus, staff encourages the authorities to adjust expenditures if the global recession should be more protracted than currently anticipated, further pushing down tax revenues. In these circumstances, additional borrowing would not be prudent given the need to preserve foreign reserves consistent with the peg.

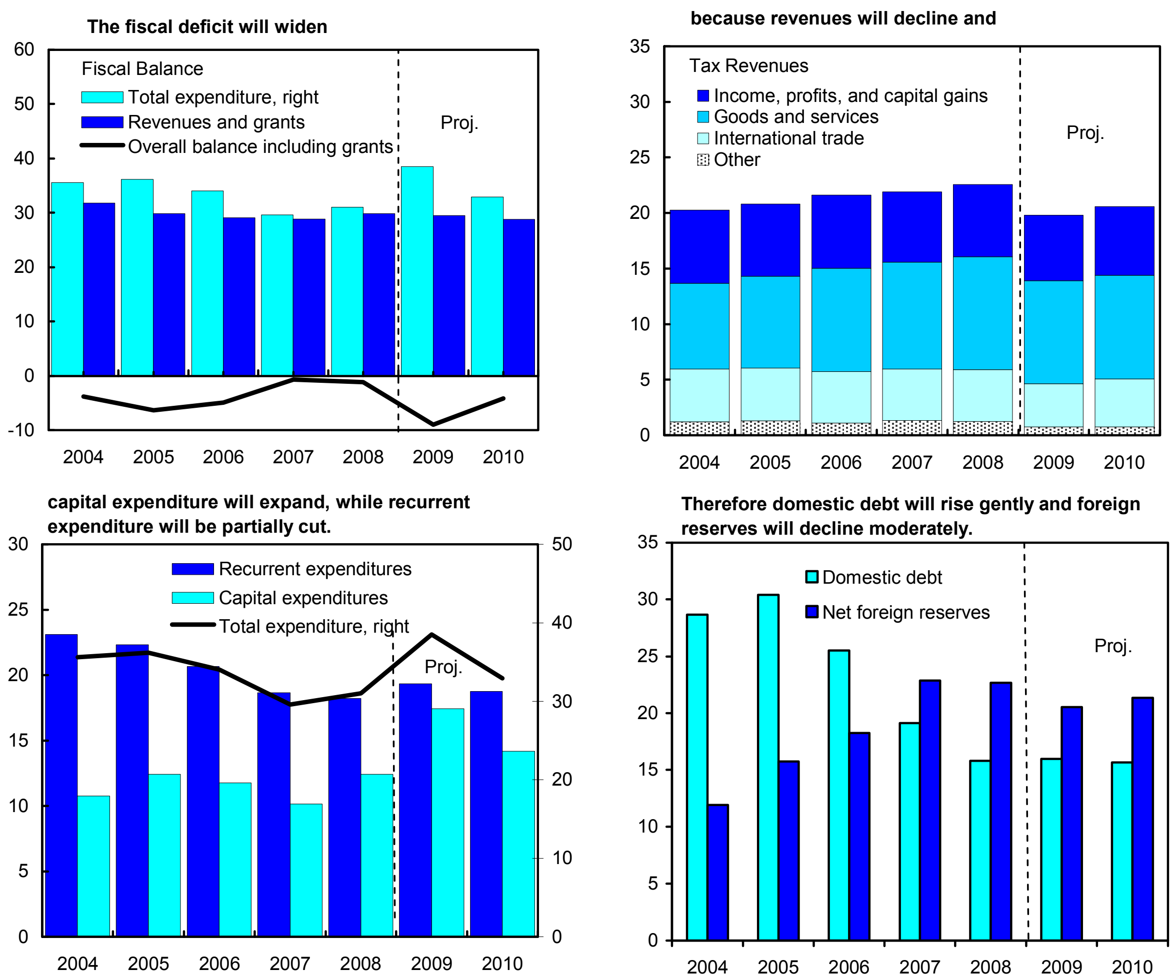
16. **Monetary management continues to be broadly appropriate.** The BCV sets domestic interest rates to follow the euribor adjusted for the country risk premium to smooth financial flows. However, coordination with fiscal policy needs to be strengthened to better address systemic liquidity needs. Thus, plans to use Treasury securities for monetary operations and further develop the money market, are welcome.

17. **The authorities need to implement the recommendations of the FSAP to strengthen the financial sector.** The commitment by the Bank of Cape Verde to end forbearance with regard to onshore banks and ensure that banks keep capital ratios above the prudential requirement is welcome. The government's prompt decision to close a noncompliant offshore bank and reassess its strategy for offshore banks, which need firmer regulation and supervision, is commendable.

18. **Staff recommends completion of the sixth review under the PSI and the extension of the PSI until July 30, 2010.** Based on the strength of the authorities' policies, and corrective actions taken to address the temporary non-observance of the end-December 2008 assessment criterion on net domestic assets of the Bank of Cape Verde, staff supports the granting of the corresponding waiver. Staff also supports the authorities' approach of conducting an internal ex-post assessment of the PSI prior to requesting a new PSI, consistent with their strong ownership of the program.

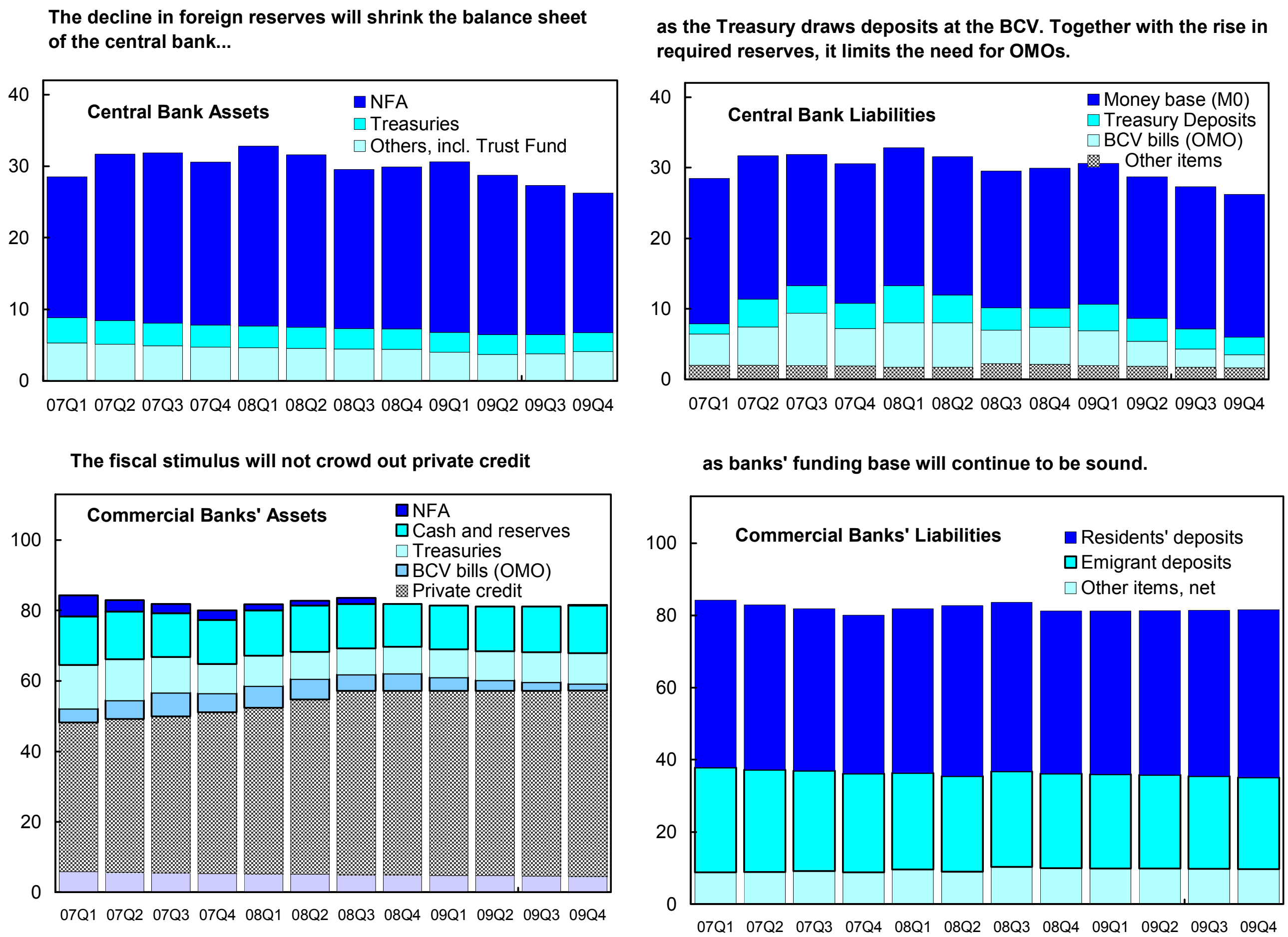
Figure 1. Cape Verde: Fiscal Performance, 2004–10

(Percent of GDP)



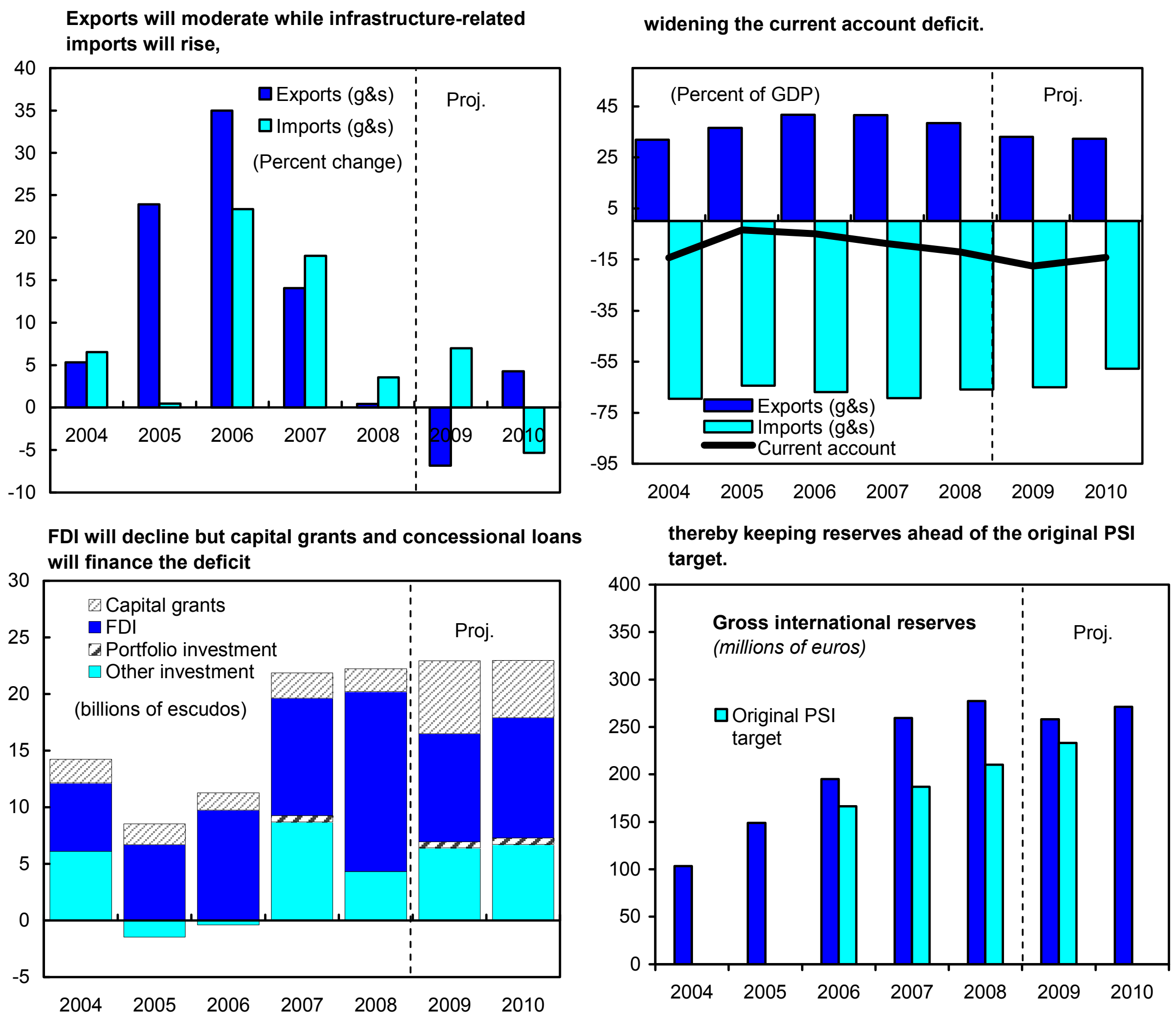
Source: Cape Verdean authorities and IMF staff estimates.

Figure 2. Cape Verde: Monetary Sector, 2007–09
(GDP percent)



Sources: BCV and IMF staff estimates and projections.

Figure 3. Cape Verde: External Sector 2004–10



Sources: Cape Verdean authorities and IMF staff estimates.

Table 1. Cape Verde: Selected Indicators, 2006–14

	2006	2007	2008	2009	2010	2011	2012	2013	2014
	Actual		Estimates	Projections					
	(Annual percentage change)								
National accounts and prices									
Real GDP	10.8	7.8	5.9	3.5	4.0	6.6	6.6	6.7	6.4
Real GDP per capita	8.8	6.4	3.4	1.5	2.0	4.6	4.6	4.7	4.4
Consumer price index (annual average)	4.8	4.4	6.8	3.4	2.7	2.0	2.0	2.0	2.0
Consumer price index (end of period)	5.8	3.4	6.7	3.3	2.7	2.0	2.0	2.0	2.0
External sector									
Exports of goods and services	35.0	14.1	0.4	-6.8	4.3	13.2	20.9	17.0	17.3
Of which: tourism	82.5	40.6	-5.6	-7.0	2.0	14.2	25.7	20.1	20.1
Imports of goods and services	23.4	17.9	3.5	7.0	-5.3	10.7	14.4	14.2	12.6
Real effective exchange rate (annual average)	2.6	2.6	4.1	...	...	...	...	...	...
Terms of trade (minus = deterioration)	-4.4	-1.1	-4.9	9.3	-2.1	-0.9	-0.9	-0.9	-0.9
Government finance									
Total revenue (excluding grants)	19.6	17.0	10.8	2.6	11.6	9.3	6.9	12.1	11.2
Total expenditure	11.8	-0.7	13.1	34.5	-8.8	2.9	13.9	8.9	9.2
Noncapital expenditure	11.6	-0.4	3.0	22.5	-5.1	1.4	15.9	11.6	9.9
Capital expenditure	12.1	-1.4	32.9	52.5	-13.2	5.0	11.3	5.4	8.2
Money and credit									
Net foreign assets	15.1	22.9	-6.8	-3.2	5.9	10.6	14.8	12.9	14.5
Net domestic assets	19.3	5.7	15.1	14.5	4.0	9.4	9.7	10.7	9.1
Of which: net claims on the central government	1.1	-37.8	0.9	24.8	-4.8	16.9	9.3	13.6	6.6
credit to the economy[1]	30.0	25.5	22.4	9.3	7.0	9.5	10.8	11.1	10.4
Broad money (M2)	18.0	10.8	7.9	9.5	4.5	9.7	11.0	11.3	10.5
Domestic broad money (M2X)	29.9	18.1	14.8	12.5	4.4	9.7	11.0	11.2	10.5
Income velocity (GDP/M2)[2]	1.33	1.35	1.33	1.33	1.33	1.36	1.36	1.36	1.36
Reserve money (M0)	3.5	10.0	8.0	10.8	-3.1	9.7	11.0	11.3	10.6
	(Percent of GDP)								
Saving-investment balance									
Gross capital formation	43.0	51.4	48.0	48.3	46.7	45.9	46.1	45.6	44.9
Government	6.1	4.9	7.3	11.3	8.9	8.8	8.9	8.4	8.2
Nongovernment	36.9	46.5	40.7	37.0	37.7	37.1	37.2	37.2	36.6
Gross national savings	38.3	42.2	36.0	30.7	32.5	32.0	32.5	31.8	31.7
Of which: government	9.4	9.5	12.8	9.6	8.0	9.6	7.9	7.7	7.6
External current account (including official current transfers)	-5.0	-8.7	-12.1	-17.6	-14.2	-13.9	-13.5	-13.8	-13.2
Government finance									
Total domestic revenue	24.1	24.3	25.0	23.6	24.7	24.7	23.8	24.0	24.2
Total external grants	5.5	4.6	4.9	5.9	4.1	2.5	2.8	2.6	2.5
Total expenditure	34.6	29.6	31.1	38.5	32.9	31.0	31.8	31.2	30.8
Overall balance before grants	-10.5	-5.3	-6.1	-14.9	-8.2	-6.3	-8.0	-7.2	-6.6
Overall balance (including grants)	-5.0	-0.7	-1.2	-9.0	-4.2	-3.8	-5.3	-4.5	-4.1
External financing (net)	3.0	1.9	2.7	7.5	3.6	3.6	3.4	2.9	3.2
Domestic financing (net)	2.9	-0.7	-0.9	1.5	0.6	0.2	1.8	1.6	0.9
Financing gap/ statistical discrepancy	-0.9	-0.5	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Total nominal government debt[3]	73.4	59.7	57.3	63.2	63.5	62.7	61.3	59.2	57.4
External government debt[4]	47.7	40.7	41.5	47.2	47.9	47.3	46.0	44.2	43.2
Domestic government debt, net of deposits	25.8	18.9	15.8	16.0	15.7	15.4	15.3	15.0	14.2
External current account (excluding official current transfers)	-9.1	-12.9	-18.1	-23.2	-17.5	-17.3	-17.0	-16.9	-15.9
Overall balance of payments	4.7	5.8	1.2	-1.5	1.0	1.8	2.5	2.3	2.7
External current account (€ millions, including official transfers)	-47.7	-96.4	-143.5	-227.5	-195.1	-209.6	-225.7	-255.5	-269.7
Gross international reserves (€ millions, end of period)	194.9	259.5	277.1	257.9	271.2	297.7	340.0	382.9	438.0
Gross international reserves to reserve money	1.0	1.2	1.2	1.1	1.1	1.1	1.2	1.2	1.2
Gross international reserves (months of prospective imports of goods and services)	3.1	4.0	4.0	3.9	3.7	3.6	3.6	3.6	3.7
External debt service (percent of exports of goods and services)	5.7	4.7	4.8	5.8	6.9	7.7	7.9	8.9	7.4
Memorandum items:									
Nominal GDP (billions of Cape Verde escudos)	104.6	121.8	131.0	142.2	151.7	166.0	184.1	204.7	226.2
Exchange rate (Cape Verde escudos per US$)									
Period average	87.8	80.4	74.9	…	…	…	…	…	…
End period	83.5	75.6	80.9	…	…	…	…	…	…

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.

Table 2. Cape Verde: Fiscal Operations of the Central Government, 2006–14

(Millions of Cape Verde escudos, unless otherwise indicated)

	2006	2007	2008		2009		2010	2011	2012	2013	2014
	Actual		Budget	Prel.	Budget	Proj.	Projections				
Revenue, grants, and net lending	31,044	35,131	38,551	39,187	43,639	41,964	43,668	45,181	48,897	54,526	60,311
Domestic revenue (incl. net lending)	25,255	29,559	31,286	32,757	36,267	33,603	37,514	40,998	43,833	49,156	54,656
Tax revenue	22,828	26,423	28,059	29,585	30,302	28,164	31,202	34,614	36,701	41,133	45,692
Income and profit taxes	6,952	7,656	8,462	8,525	8,900	8,379	9,368	10,585	11,775	13,139	14,565
Consumption taxes	9,821	11,565	13,177	13,300	14,508	13,176	14,107	15,651	17,461	19,543	21,705
International trade taxes	4,889	5,592	5,583	6,110	5,917	5,538	6,587	7,251	6,216	7,061	7,887
Other taxes	1,166	1,611	837	1,650	978	1,071	1,139	1,127	1,250	1,390	1,535
Nontax revenue	2,126	2,843	3,204	3,102	5,944	5,439	6,312	6,384	7,132	8,023	8,964
Net lending	301	293	23	70	21	0	0	0	0	0	0
External grants	5,789	5,572	7,265	6,430	7,372	8,361	6,154	4,183	5,063	5,370	5,655
Capital grants	4,035	4,009	5,597	4,790	5,478	6,468	6,154	4,183	4,563	4,870	5,155
Budget support	1,755	1,563	1,668	1,640	1,894	1,894	0	0	500	500	500
Total expenditure	36,252	35,986	44,032	40,715	51,435	54,758	49,965	51,438	58,582	63,807	69,685
Recurrent expenditure	18,887	22,308	24,950	23,264	27,984	27,503	29,096	28,868	33,439	37,281	40,980
Primary recurrent expenditure	16,967	20,428	22,896	21,367	25,692	25,157	26,466	25,964	29,943	33,357	36,788
Wages and salaries	11,547	12,491	14,245	13,518	15,950	15,392	16,397	16,506	18,398	20,518	22,602
Goods and services	1,197	1,853	2,335	2,048	2,964	2,739	2,603	2,623	3,171	3,526	3,896
Transfers and subsidies	3,464	5,219	4,453	4,781	4,924	5,512	5,283	4,848	6,171	6,863	7,583
Transfers	3,172	3,309	4,395	3,910	4,667	4,667	4,423	3,981	5,210	5,794	6,402
Subsidies	292	1,910	58	871	258	845	860	867	961	1,069	1,181
Of which: energy subsidies	208	1,802 [1]	0	525	0	0	0	0	0	0	0
Other expenditures	760	864	1,863	1,020	1,854	1,514	2,183	1,987	2,203	2,450	2,707
Domestic interest payments	1,398	1,361	1,487	1,348	1,570	1,624	1,350	1,132	1,240	1,369	1,486
External interest payments	522	519	566	548	722	722	1,280	1,772	2,256	2,556	2,706
Extraordinary expenditures	0	0	0	0	0	0	0	0	0	0	0
Capital expenditure	12,415	12,237	17,581	16,264	20,990	24,795	21,526	22,593	25,152	26,504	28,683
Foreign financed	11,173	9,599	12,470	11,701	13,939	16,937	13,655	12,645	14,384	15,736	17,108
Domestically financed	1,242	2,638	5,111	4,562	7,052	7,858	7,870	9,947	10,768	10,768	11,576
Other expenditures (incl. arrears clearance)	4,950	1,440	1,500	1,188	2,460	2,460	-656	-23	-9	23	22
Of which: energy subsidies	204	0	0	0	…	0	0	0	0	0	0
Overall balance, including grants (budget basis)	-5,208	-855	-5,481	-1,529	-7,796	-12,794	-6,298	-6,257	-9,685	-9,281	-9,374
Financing	5,208	855	5,481	1,529	7,796	12,794	6,298	6,257	9,685	9,281	9,374
Foreign, net	3,130	2,326	3,160	3,495	6,756	10,625	5,418	5,952	6,294	5,965	7,331
Drawings	5,104	4,145	5,204	5,381	8,884	12,752	7,502	8,462	9,320	10,365	11,453
Amortization	-1,974	-1,819	-2,045	-1,886	-2,127	-2,127	-2,083	-2,511	-3,027	-4,401	-4,122
Domestic, net	3,027	-889	2,321	-1,138	1,039	2,169	879	305	3,391	3,316	2,043
Net domestic borrowing	1,638	-2,567	-172	-1,972	1,759	4,451	1,030	1,856	2,524	2,580	1,417
Banking system	164	-5,946	248	-2,008	…	2,866	-559	2,024	1,324	2,099	1,187
Nonbanks	1,474	3,379	-421	36	…	1,585	1,589	-168	1,200	480	229
Privatization and other sales of assets	456	3,598	2,493	834	-720	-2,282 [5]	-151	-1,551	867	737	626
Accounts payable (*atrasados*), net	933	-1,919	…	0	…	0	0	0	0	0	0
Net errors and omissions	-949	-582	0	-828	0	0	0	0	0	0	0
Financing gap	0	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	-955	-5,336	-10,334	-6,298	-6,257	-9,685	-9,281	-9,374
Arrears clearance	2,012	1,257	1,500	574	2,460	2,460	0	0	0	0	0
Net domestic borrowing, excluding clearance of arrears and net accounts payable	559	-5,743	-1,673	-2,546	-701	1,991	1,030	1,856	2,524	2,580	1,417
Primary balance (including grants)[2]	-3,288	1,025	-3,427	368	-5,503	-10,448	-3,667	-3,353	-6,189	-5,357	-5,182
Recurrent domestic balance[3]	6,368	7,250	6,335	9,493	8,283	6,100	8,418	12,130	10,394	11,875	13,676
Net external flows[4]	8,919	7,898	10,425	9,925	14,128	18,986	11,572	10,134	11,357	11,335	12,986
External debt service (percent of domestic revenue)	9.9	7.9	8.3	7.4	7.9	8.5	9.0	10.4	12.1	14.2	12.5
Domestic debt (including arrears and accounts payable, net of deposits)	26,953	23,057	21,385	20,723	20,022	22,714	23,744	25,601	28,125	30,704	32,121

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

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

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

[3] Domestic revenue – recurrent expenditure.

[4] External grants + net foreign financing.

[5] Negative values reflect onlending operations.

Table 3. Cape Verde: Fiscal Operations of the Central Government, 2006–14

(Percent of GDP)

	2006	2007	2008		2009		2010	2011	2012	2013	2014
	Actual		Budget	Prel.	Budget	Proj.	Projections				
Revenue, grants, and net lending	29.7	28.9	29.4	29.9	30.7	29.5	28.8	27.2	26.6	26.6	26.7
Domestic revenue (incl. net lending)	24.1	24.3	23.9	25.0	25.5	23.6	24.7	24.7	23.8	24.0	24.2
Tax revenue	21.8	21.7	21.4	22.6	21.3	19.8	20.6	20.8	19.9	20.1	20.2
Income and profit taxes	6.6	6.3	6.5	6.5	6.3	5.9	6.2	6.4	6.4	6.4	6.4
Consumption taxes	9.4	9.5	10.1	10.2	10.2	9.3	9.3	9.4	9.5	9.5	9.6
International trade taxes	4.7	4.6	4.3	4.7	4.2	3.9	4.3	4.4	3.4	3.4	3.5
Other taxes	1.1	1.3	0.6	1.3	0.7	0.8	0.8	0.7	0.7	0.7	0.7
Nontax revenue	2.0	2.3	2.4	2.4	4.2	3.8	4.2	3.8	3.9	3.9	4.0
Net lending	0.3	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External grants	5.5	4.6	5.5	4.9	5.2	5.9	4.1	2.5	2.8	2.6	2.5
Capital grants	3.9	3.3	4.3	3.7	3.9	4.5	4.1	2.5	2.5	2.4	2.3
Budget support	1.7	1.3	1.3	1.3	1.3	1.3	0.0	0.0	0.3	0.2	0.2
Total expenditure	34.6	29.6	33.6	31.1	36.2	38.5	32.9	31.0	31.8	31.2	30.8
Recurrent expenditure	18.0	18.3	19.0	17.8	19.7	19.3	19.2	17.4	18.2	18.2	18.1
Primary recurrent expenditure	16.2	16.8	17.5	16.3	18.1	17.7	17.5	15.6	16.3	16.3	16.3
Wages and salaries	11.0	10.3	10.9	10.3	11.2	10.8	10.8	9.9	10.0	10.0	10.0
Goods and services	1.1	1.5	1.8	1.6	2.1	1.9	1.7	1.6	1.7	1.7	1.7
Transfers and subsidies	3.3	4.3	3.4	3.6	3.5	3.9	3.5	2.9	3.4	3.4	3.4
Transfers	3.0	2.7	3.4	3.0	3.3	3.3	2.9	2.4	2.8	2.8	2.8
Subsidies	0.3	1.6	0.0	0.7	0.2	0.6	0.6	0.5	0.5	0.5	0.5
Of which: energy subsidies	0.2	1.5 [1]	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expenditures	0.7	0.7	1.4	0.8	1.3	1.1	1.4	1.2	1.2	1.2	1.2
Domestic interest payments	1.3	1.1	1.1	1.0	1.1	1.1	0.9	0.7	0.7	0.7	0.7
External interest payments	0.5	0.4	0.4	0.4	0.5	0.5	0.8	1.1	1.2	1.2	1.2
Extraordinary expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	11.9	10.1	13.4	12.4	14.8	17.4	14.2	13.6	13.7	12.9	12.7
Foreign financed	10.7	7.9	9.5	8.9	9.8	11.9	9.0	7.6	7.8	7.7	7.6
Domestically financed	1.2	2.2	3.9	3.5	5.0	5.5	5.2	6.0	5.8	5.3	5.1
Other expenditures (incl. arrears clearance)	4.7	1.2	1.1	0.9	1.7	1.7	-0.4	0.0	0.0	0.0	0.0
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)	-5.0	-0.7	-4.2	-1.2	-5.5	-9.0	-4.2	-3.8	-5.3	-4.5	-4.1
Financing	5.0	0.7	4.2	1.2	5.5	9.0	4.2	3.8	5.3	4.5	4.1
Foreign, net	3.0	1.9	2.4	2.7	4.8	7.5	3.6	3.6	3.4	2.9	3.2
Drawings	4.9	3.4	4.0	4.1	6.2	9.0	4.9	5.1	5.1	5.1	5.1
Amortization	-1.9	-1.5	-1.6	-1.4	-1.5	-1.5	-1.4	-1.5	-1.6	-2.1	-1.8
Domestic, net	2.9	-0.7	1.8	-0.9	0.7	1.5	0.6	0.2	1.8	1.6	0.9
Net domestic borrowing	1.6	-2.1	-0.1	-1.5	1.2	3.1	0.7	1.1	1.4	1.3	0.6
Privatization and other sales of assets	0.4	3.0	1.9	0.6	-0.5	-1.6 [5]	-0.1	-0.9	0.5	0.4	0.3
Accounts payable (atrasados), net	…	-1.6	…	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-0.9	-0.5	0.0	-0.6	0.0	0.0	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	0.0
Memorandum items:											
Overall balance, including grants (excluding clearance of arrears and accounts payable)	-3.9	1.9	-3.0	-0.7	-3.8	-7.3	-4.2	-3.8	-5.3	-4.5	-4.1
Arrears clearance	1.9	1.0	1.1	0.4	1.7	1.7	0.0	0.0	0.0	0.0	0.0
Net domestic borrowing, excluding clearance of arrears and net accounts payable	0.5	-4.7	-1.3	-1.9	-0.5	1.4	0.7	1.1	1.4	1.3	0.6
Primary balance (including grants)[2]	-3.1	0.8	-2.6	0.3	-3.9	-7.3	-2.4	-2.0	-3.4	-2.6	-2.3
Recurrent domestic balance[3]	6.1	6.0	4.8	7.2	5.8	4.3	5.6	7.3	5.6	5.8	6.0
Net external flows[4]	8.5	6.5	8.0	7.6	9.9	13.3	7.6	6.1	6.2	5.5	5.7
Domestic debt (including arrears and accounts payable, net of deposits)	25.8	18.9	16.3	15.8	14.1	16.0	15.7	15.4	15.3	15.0	14.2
Nominal GDP (millions of CVEsc)	104,638	121,753	131,020	131,020	142,217	142,217	151,660	166,029	184,077	204,715	226,190

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

[1] The energy subsidies recorded in 2007 were incurred in previous periods.
[2] Overall balance (including grants) – total expenditure + domestic and external interest payments.
[3] Domestic revenue – recurrent expenditure.
[4] External grants + net foreign financing.
[5] Negative values reflect onlending operations.

Table 4. Cape Verde: Balance of Payments, 2006–14
(Millions of euros, unless otherwise indicated)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
			Est	Projections					
Current account balance (including official transfers)	-48	-96	-144	-228	-195	-210	-226	-256	-270
Trade balance	-369	-485	-478	-558	-523	-542	-630	-731	-832
Exports, f.o.b.	76	56	78	65	75	84	92	100	109
Imports, f.o.b.	-445	-541	-557	-624	-598	-626	-723	-832	-941
Services (net)	125	183	151	146	173	166	232	294	373
Credit	322	399	378	360	369	418	514	610	724
Of which: tourism	173	244	230	214	218	249	313	376	451
Debit	-197	-216	-227	-215	-196	-252	-282	-316	-351
Income (net)	-36	-19	-33	-40	-50	-62	-71	-79	-86
Credit	15	18	18	10	11	9	9	10	11
Debit	-51	-37	-51	-50	-61	-71	-80	-89	-97
Government interest	-5	-5	-5	-4	-12	-16	-20	-23	-25
Interest by other sectors	-22	-15	-18	-21	-22	-24	-25	-26	-27
Income on direct investment and other income	-24	-17	-28	-25	-28	-31	-35	-40	-45
Current transfers (net)	231	225	216	225	205	228	243	261	275
Government	39	46	71	72	46	51	58	58	57
Others, incl. emigrant remittances[1]	192	179	145	153	159	178	186	203	218
Capital and financial account (net)	99	198	202	208	209	236	268	298	325
Capital transfers	14	20	18	59	46	24	25	27	30
Government	14	20	18	59	46	24	25	27	30
Other	0	0	0	0	0	0	0	0	0
Direct investment (net)	88	94	144	87	96	128	149	169	183
Portfolio investment	0	5	0	5	5	5	5	5	5
Other investments, central government	21	18	29	95	49	54	57	54	66
Trust Fund	0	0	0	0	0	0	0	0	0
Net official flows	21	18	29	95	49	54	57	54	66
Disbursements	38	34	46	116	68	77	85	94	104
Amortization	-18	-17	-17	-21	-19	-23	-27	-40	-37
Other	0	0	0	0	0	0	0	0	0
Other investments, non-central government	-24	61	10	-37	12	26	33	43	41
Commercial banks (net)	-23	13	28	0	0	0	0	0	0
Commercial credit (net)	2	4	7	0	0	0	0	0	0
Other	-3	44	-25	-37	12	26	33	43	41
Net errors and omissions	-6	-38	-44	0	0	0	0	0	0
Overall balance	45	65	14	-19	13	27	42	43	55
Financing	-45	-65	-14	19	-13	-27	-42	-43	-55
Gross international reserves (– accumulation)	-46	-65	-14	19	-13	-27	-42	-43	-55
Exceptional financing	1	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:									
Current account (including official transfers; percent of GDP)	-5.0	-8.7	-12.1	-17.6	-14.2	-13.9	-13.5	-13.8	-13.2
Current account (excluding official transfers; percent of GDP)	-9.1	-12.9	-18.1	-23.2	-17.5	-17.3	-17.0	-16.9	-15.9
Overall balance (percent of GDP)	4.7	5.8	1.2	-1.5	1.0	1.8	2.5	2.3	2.7
Gross international reserves	194.9	259.6	277.2	257.9	271.3	297.8	340.2	383.0	438.1
Months of current year's import of goods and services	3.6	4.1	4.2	3.7	4.1	4.1	4.1	4.0	4.1
Months of next year's import of goods and services	3.1	4.0	4.0	3.9	3.7	3.6	3.6	3.6	3.7
External public debt	452.3	449.9	493.2	608.6	658.7	711.5	767.6	819.9	886.4
External aid (grants and loans; percent of GDP)	9.6	9.1	11.4	19.1	11.6	10.0	10.0	9.6	9.3

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

[1] While emigrant remittances are projected to decline in 2009, the authorities project some increase in tranfers to NGOs.

Table 5. Cape Verde: Monetary Survey, 2006–14

	2006	2007	2008	2009	2010	2011	2012	2013	2014
	Dec.		Dec.	December					
	Actual		Est.	Projections					
	(Millions of Cape Verde escudos, unless otherwise specified)								
Net foreign assets	25,267	31,049	28,925	28,009	29,662	32,807	37,671	42,547	48,714
Foreign assets	31,423	38,762	37,872	34,730	36,312	39,360	44,147	48,992	55,193
Of which: foreign reserves	0	0	30,569	28,442	29,910	32,840	37,507	42,230	48,306
Foreign liabilities	-6,157	-7,713	-7,858	-6,720	-6,650	-6,553	-6,476	-6,445	-6,478
Net domestic assets	60,174	63,579	73,164	83,805	87,135	95,348	104,575	115,736	126,223
Net domestic credit	71,248	76,878	90,987	99,954	104,711	114,489	125,434	138,481	151,036
Net claims on general government	25,923	19,982	21,340	23,819	23,260	25,284	26,608	28,707	29,894
Claims on the Trust Fund (TCMFs)	11,038	11,038	11,094	11,094	11,094	11,094	11,094	11,094	11,094
Net claims on the central government	15,714	9,767	9,860	12,306	11,719	13,700	14,972	17,010	18,134
Credit to central government	19,681	16,834	16,194	18,589	18,586	21,364	23,656	26,949	29,541
Deposits of central government	-3,967	-7,066	-6,335	-6,283	-6,867	-7,664	-8,685	-9,939	-11,407
Of which: project deposits	-1,398	. . .	0	-277	-277	-277	-277	-277	-277
Net claims on local government	-341	-310	386	419	447	489	542	603	666
Net claims on other government agencies (INPS)	-488	-514	0	0	0	0	0	0	0
Credit to the economy	45,325	56,896	69,648	76,135	81,451	89,206	98,826	109,773	121,142
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	6	3	1	1	1	1	1	1	1
Credit to private sector	2,714	2,496	69,011	75,498	80,814	88,569	98,189	109,136	120,505
Claims on nonbank financial institutions	42,604	54,397	636	636	636	636	636	636	636
Other items (net)	-11,074	-13,299	-17,823	-16,149	-17,576	-19,141	-20,859	-22,744	-24,814
Broad money (M2)	85,441	94,628	102,089	111,814	116,797	128,155	142,246	158,283	174,937
Narrow money (M1)	38,810	43,021	43,527	47,674	49,798	54,641	60,649	67,487	74,587
Currency outside banks	7,731	8,399	8,928	9,684	10,046	10,970	12,135	13,471	14,856
Demand deposits	31,079	34,622	34,600	37,990	39,752	43,671	48,514	54,016	59,731
Quasimoney	41,776	45,640	52,120	57,085	59,629	65,428	72,622	80,809	89,312
Foreign currency deposits	4,856	5,967	6,441	7,055	7,369	8,086	8,975	9,987	11,038
	(Change in percent of broad money 12 months earlier)								
Net foreign assets	4.6	6.8	-2.2	-0.9	1.5	2.7	3.8	3.4	3.9
Net domestic assets	13.4	4.0	10.1	10.4	3.0	7.0	7.2	7.8	6.6
Net domestic credit	14.3	6.6	14.9	8.8	4.3	8.4	8.5	9.2	7.9
Net claims on the central government	0.2	-7.0	0.1	2.4	-0.5	1.7	1.0	1.4	0.7
Credit to the economy	14.5	13.5	13.5	6.4	4.8	6.6	7.5	7.7	7.2
Credit to public enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	0.6	-0.3	14.2	6.4	4.8	6.6	7.5	7.7	7.2
Other items (net)	-0.9	-2.6	-4.8	1.6	-1.3	-1.3	-1.3	-1.3	-1.3
Broad money (M2)	18.0	10.8	7.9	9.5	4.5	9.7	11.0	11.3	10.5
Memorandum items:									
Income velocity of money [1]	1.33	1.35	1.33	1.33	1.33	1.36	1.36	1.36	1.36
Emigrant deposits	27,250	28,424	29,494	30,728	32,098	35,219	39,091	43,499	48,075
(as percent total deposits)	35.1	33.0	31.7	30.1	30.1	30.1	30.0	30.0	30.0
Excess reserves/total deposits (percent)	1.3	2.3	1.4	1.3	1.3	1.3	1.3	1.3	1.3
Money multiplier (M2/M0)	3.9	3.9	3.9	3.9	4.2	4.2	4.2	4.2	4.2
Credit to the economy (percentage change)	30.0	25.5	22.4	9.3	7.0	9.5	10.8	11.1	10.4

Sources: Bank of Cape Verde, and IMF staff estimates and projections.
[1] Velocity is nominal GDP devided by average end period broad money.

Table 6. Cape Verde: Central Bank Survey, 2006–14

	2006	2007	2008	2009	2010	2011	2012	2013	2014
	Dec.		Dec.	December					
	Actual		Est.	Projections					
	(Millions of Cape Verde escudos, unless otherwise specified)								
Net foreign assets	20,489	27,688	29,673	27,722	29,376	32,521	37,386	42,262	48,431
Of which: net international reserves	19,269	27,572	29,721	27,566	29,220	32,365	37,231	42,107	48,275
Foreign assets	21,644	28,760	30,777	28,650	30,117	33,048	37,715	42,438	48,514
Foreign liabilities	-1,155	-1,073	-1,044	-928	-742	-527	-329	-176	-83
Net domestic assets	1,372	-3,647	-3,720	1,042	-1,492	-1,931	-3,425	-4,455	-6,631
Net domestic credit	3,596	-1,323	-944	3,347	860	467	-978	-1,959	-4,086
Trust Fund claims	4,605	4,605	4,661	4,661	4,661	4,661	4,661	4,661	4,661
Net claims on central government	1,748	-607	178	229	-355	-1,152	-2,172	-3,426	-4,894
Credit to central government	3,739	3,739	3,739	3,739	3,739	3,739	3,739	3,739	3,739
Deposits of central government	-1,991	-4,346	-3,561	-3,509	-4,093	-4,890	-5,911	-7,165	-8,633
Credit to the economy	1,225	1,162	1,114	1,119	1,125	1,131	1,136	1,142	1,148
Credit to public enterprises	0	0	0	0	0	0	0	0	0
Credit to private sector	1,216	1,159	1,114	1,119	1,125	1,131	1,136	1,142	1,148
Claims on nonbank financial institutions	9	3	0	0	0	0	0	0	0
Credit to commercial banks	-3,982	-6,483	-6,897	-2,662	-4,572	-4,173	-4,603	-4,336	-5,000
Other items (net)	-2,223	-2,325	-2,776	-2,305	-2,351	-2,398	-2,446	-2,495	-2,545
Reserve money (M0)	21,861	24,041	25,953	28,764	27,884	30,589	33,962	37,808	41,800
Currency issued	9,188	9,983	9,859	12,022	13,139	14,543	16,151	17,819	19,471
Deposits of commercial banks	12,673	14,058	16,094	17,190	15,862	17,451	19,419	21,657	23,981
Memorandum items:									
Gross international reserves (€ millions)	194.9	259.6	277.2	257.9	271.3	297.8	340.2	383.0	438.1
Net international reserves (€ millions)	174.8	250.1	269.5	250.0	265.0	293.5	337.6	381.9	437.8
(months of imports)	3.1	4.0	4.0	3.9	3.7	3.6	3.6	3.6	3.7
Reserve money (12-month change in percent)	3.5	10.0	8.0	10.8	-3.1	9.7	11.0	11.3	10.6

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

Table 7. Cape Verde: Deposit Money Bank Survey, 2006–14

	2006	2007	2008	2009	2010	2011	2012	2013	2014
	Dec.		Dec.	December					
	Actual		Est.	Projections					
	(Millions of Cape Verde escudos, unless otherwise specified)								
Net foreign assets	4,778	3,361	-827	287	287	286	285	284	283
Of which: excluding the effect of a purchase of a Portuguese credit to Electra	8,346	…	…	…	…	…	…	…	…
Foreign assets	9,780	10,001	7,095	6,080	6,195	6,312	6,432	6,554	6,679
Foreign liabilities	-5,002	-6,640	-6,815	-5,792	-5,908	-6,026	-6,147	-6,270	-6,395
Of which: nonresident deposits	-3,579	-5,198	-6,768	-5,753	-5,868	-5,985	-6,105	-6,227	-6,352
Net domestic assets	72,929	82,859	94,202	101,843	106,465	116,899	129,826	144,528	159,797
Net domestic credit	81,903	93,628	107,262	115,687	121,689	133,642	148,239	164,777	182,066
Net claims on general government	0	15,984	16,501	18,929	18,954	21,774	24,119	27,473	30,128
Trust Fund claims	6,433	6,433	6,433	6,433	6,433	6,433	6,433	6,433	6,433
Other government deposits (INPS)	-488	-514	0	0	0	0	0	0	0
Net claims on central government	13,966	10,375	9,682	12,077	12,074	14,852	17,144	20,436	23,028
Claims on central government	15,943	13,095	12,456	14,851	14,847	17,626	19,918	23,210	25,802
Deposits of central government	-1,977	-2,721	-2,774	-2,774	-2,774	-2,774	-2,774	-2,774	-2,774
Net claims on local government	-341	-310	386	419	447	489	542	603	666
Claims on local government	241	295	755	820	874	957	1,061	1,180	1,303
Deposits of local government	-582	-605	-369	-401	-427	-468	-518	-577	-637
Credit to the economy	44,099	55,733	68,534	75,015	80,326	88,075	97,689	108,631	119,994
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	6	2	1	1	1	1	1	1	1
Credit to private sector	43,114	54,394	67,897	74,379	79,689	87,438	97,053	107,994	119,357
Claims on nonbank financial institutions	6	1,337	636	636	636	636	636	636	636
Net claims on the Bank of Cape Verde	18,233	21,911	22,227	21,742	22,410	23,792	26,430	28,673	31,944
Other items (net)	-8,973	-10,770	-13,060	-13,844	-15,225	-16,743	-18,413	-20,249	-22,268
Deposit liabilities to nonbank residents	77,707	86,220	93,375	102,130	106,751	117,185	130,111	144,812	160,081
Local currency deposits	72,852	80,253	87,023	95,075	99,382	109,099	121,136	134,825	149,043
Demand deposits	31,076	34,613	34,957	37,990	39,752	43,671	48,514	54,016	59,731
Of which: emigrant deposits	4,043	4,838	4,972	5,459	5,712	6,275	6,971	7,762	8,583
Time deposits	41,776	45,640	52,066	57,085	59,629	65,428	72,622	80,809	89,312
Of which: emigrant deposits	26,148	27,187	28,159	29,266	30,570	33,543	37,231	41,429	45,788
Foreign currency deposits	4,856	5,967	6,352	7,055	7,369	8,086	8,975	9,987	11,038
Of which: emigrant deposits	965	1,081	1,225	1,361	1,422	1,560	1,731	1,927	2,129
Memorandum items:									
Emigrant deposits (ratio to total deposits)	0.35	0.33	0.32	0.30	0.30	0.30	0.30	0.30	0.30
Other deposits (ratio to broad money)	0.54	0.56	0.65	0.65	0.65	0.65	0.65	0.65	0.65
Composition of emigrant deposits	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Local currency	0.96	0.96	0.96	0.96	0.96	0.96	0.96	0.96	0.96
Demand	0.13	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Time	0.84	0.82	0.82	0.82	0.82	0.82	0.82	0.82	0.82
Foreign currency	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04

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

Table 8. Cape Verde: Proposed Work Program 2009−10

Mission Date	Purpose	Board Review
September 2009	Seventh PSI review against June 2009 assessment criteria.	November 2009
March 2010	Eighth (last) PSI review against December 2009 assessment criteria.	May 2010

APPENDIX I

LETTER OF INTENT

May 29, 2009

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

Dear Mr. Strauss-Kahn:

1. **The government of Cape Verde reaffirms its commitment to the policy priorities of the Policy Support Instrument (PSI) and formally requests a one-year extension of the PSI**. The current three-year PSI was approved by the IMF Executive Board in July 2006 and is due to expire in July 2009. Discussions for the 6th review of the PSI and for this request for the one-year extension were held in Praia during April 3−15, 2009. This Letter of Intent reviews implementation to date of the Cape Verde government's macroeconomic and structural program as set out in the December 2008 LOI and MEFP and presents the government's objectives and policy actions for the PSI extension period.

2. **The one year extension period will serve as a bridge for a new three-year PSI to start in 2010**. The government will use the extension period to take stock of the lessons learnt and conduct its own ex-post assessment of progress under the PSI. A continued commitment on the PSI objectives during the extension period will maintain a disciplined macroframework to anchor expectations of private sector and international donor partners. The ex-post assessment will form the basis to design the new three-year PSI drawing lessons from the first PSI and pave the way for enhanced ownership by the government of Cape Verde of the PSI under a new paradigm.

3. **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.** The seventh and eighth reviews under the PSI are scheduled to be completed by end-November 2009 and end-May 2010, respectively. 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 and the staff report.

Recent developments and program performance

4. **Growth in 2008 is likely to meet the government's projections and inflation receded as a result of the exchange peg with the euro.** While the effects of the global crisis

started to be felt in late 2008, growth during last year is estimated to be in line with trend growth of 6–7 percent supported by tourism, remittances, FDI and public works. Inflation declined to low single digit as a result of the decline in energy and food prices.

5. **The PSI targets and benchmarks set in the 5th review for end-December 2008 were broadly met.** All but one quantitative target were observed and the government has taken corrective actions for the nonobservance of the assessment criterion on net domestic assets of the Bank of Cape Verde (BCV).

- The targets for net foreign reserves of the central bank (BCV) and net domestic borrowing of the central government were met. On foreign reserves, the BCV successfully stemmed the reserve losses last summer and brought the reserve level above the program floor observed at end-December 2008. The net domestic borrowing ceiling of the government was also observed although the margin was not as wide as expected owing to shortfall in land sales.

- The ceiling on net domestic assets (NDA) of the BCV was exceeded because of unusual market condition during December 2008 which made the coordination between fiscal and monetary policy less effective, and pre-payment of domestic bonds maturing in 2010 by Treasury. Thus, we are requesting a waiver for the nonobservance of the assessment criterion. This temporary deviation from the program resulted from the benign early debt repayment, which is part of our debt management strategy of smoothing the maturity profile to minimize rollover difficulties. The Treasury has already replenished its deposits at the BCV, thereby bringing the NDA level in line with the program. Further corrective measures to avoid a repeat are described below (¶12 and 14).

6. **The implementation of structural measures continues steadily**. The statistics of state owned enterprises were compiled and a report on contingent liabilities will be submitted to the Council of Ministers by end-June; financial controllers will also be placed in line Ministries by end-June. The new Income Tax Codes will be submitted to Parliament in June. Difficulties in obtaining data from banks led to the delay in the preparation of the quarterly reports on interest-sensitivity of balance-of-payments flows. We expect to start preparing these reports quarterly by end-June 2009.

Macroeconomic objectives and policies

Macroeconomic objectives

7. **During the extension of the program, the PSI will continue to aim at maintaining appropriate level of foreign reserves and public debt stock to support the exchange rate peg.** Although imports are projected to increase, reserve levels will remain between 3½–

4 months of imports and the domestic debt will remain below 20 percent of GDP. The PSI's measures and quantitative targets are set out in Tables 1 and 2.

8. **The government recognizes that Cape Verde's highly open economy will not be immune to the impact of a protracted global recession**.

- In particular, **real GDP growth** is expected to slow down in 2009–10 compared to 2009 budget forecast. While the moderation in growth is likely to stem from the projected global slowdown in tourism and FDI flows, offsetting fiscal policies will continue to sustain growth. The outlook is subject to large margins of error given the uncertainty about both the depth and duration of the global recession and the likely resilience of Cape Verde's economy to the global economic cycles which has shown to be the case in previous economic downturns.

- **Inflation** will continue to decline to low single digits consistent with the peg to the euro and the high pass-through of international prices in our open economy. We forecast CPI inflation to average about 3–4 percent in 2009-10.

Fiscal policy

9. **The government will adopt a countercyclical fiscal policy to offset the decline in private external flows while preserving debt sustainability and contributing for the stability of the macroeconomic environment.** First, the budget deficit is now projected to increase relative to the 2009 budget due to the deceleration of tax revenues resulting from the impact of lower growth. Beyond this we are also expanding the public investment program above what was envisaged in original 2009 budget as a discretionary measure and such spending will focus on those projects that partly uses domestic goods and services which will likely to be more effective in supporting domestic activity. We will also protect social spending in the budget as the global crisis is likely to hit hardest the poor and vulnerable segments of the population. The higher fiscal deficit from lower revenues and higher capital spending will be financed by additional concessional loans already secured with development partners. These external concessional funds will allow supporting economic activity while preserving foreign reserves and debt sustainability. As contingency measures, we stand ready to take offsetting adjustment in case of a more protracted global recession has even a larger impact on total revenues that we expect. We will explore efficiency gains from the current spending and second we would moderate that part of capital spending that have a high import content. In addition, we will also press ahead to enact the Tax Exemptions Code and the new Income Tax Code thereby repealing tax exemptions and expanding the tax base.

10. **On the structural front, we will continue to improve public financial management and debt management capacity to ensure continued low risk of debt distress.** We will do two exercises to ensure that our fiscal countercyclical program is

consistent with debt sustainability. Both exercises are new structural PSI benchmarks under the PSI:

- We will conduct a new **mid-year fiscal review** that will include projections for end 2009, and justify that the external borrowing in the current year is consistent with debt sustainability. This exercise will draw on the DSA that we will conduct in early 2009 ahead of the preparation of the 2010 budget.

- We will present a new **Medium-Term Fiscal Framework (MTFF)**[1] for the period 2010–12 MTFF in the budget write-up ("Enquadramento"). This new MTFF will show the implied debt trajectory and demonstrate that the trajectory is consistent with debt sustainability. This exercise will also draw in our 2009 DSA.

11. **We will develop and implement a medium-term debt strategy (MTDS).** As we increasingly borrow in nonconcessional terms, and prepare to take risks in public-private partnerships in particular for the energy sector, our MTDS will help us to pursue the ideal composition of our debt portfolio, which makes the appropriate risk-cost trade-off. The MTDS will be developed with technical assistance from the Fund and the World Bank. To this end, we recently reinforced the staff of our Debt Management Unit as pointed out in our previous Letter of Intent. We will also continue to strengthen our debt statistics and the institutional framework for debt management, namely by implementing procedure manuals, strengthening the coordination between monetary and fiscal policies, etc, in line with the recent technical assistance received from the World Bank and the IMF. These actions will strengthen capacity for fiscal policy formulation and improve the internal procedures for debt management.

12. **The government is committed to strengthen the coordination of fiscal policy and monetary management to support the exchange rate peg.** The MTDS will take into account recommendations from the FSAP of using Treasury securities for monetary policy operations. Using Treasury securities currently not held by the BCV for monetary management will reduce the net credit to the central government at the BCV. Under the extended PSI, the Ministry of Finance will have monthly meetings with the BCV Board to monitor macroeconomic developments and if needed the Treasury will take policy actions to limit the burden of monetary management on the BCV. To lay the foundation for a strengthened coordination between the Treasury and the BCV, the BCV will prepare a short memorandum that will describe the key elements of this enhanced coordination of managing liquidity and articulation of the appropriate policy responses. This memorandum, which will

[1] As done in 2008, our 2009 MTFF will present the revenues, expenditure, domestic financing and external financing for 2010–12. In addition, the 2009 MTFF it will show the implied trajectory for the domestic debt and external debt.

be a new structural benchmark under the extended PSI program, will be discussed by the PSI monitoring committee by end-July 2009 and sent to the Minister of Finance and Governor of BCV for approval by end-August 2009. These actions will enhance coordination between the Treasury and the BCV in controlling systemic liquidity and avoid the nonobservance of the NDA ceiling.

13. **The government is taking action to address contingent liabilities arising from state-owned enterprises (SOEs).** The statistics of state-owned enterprises compiled recently (a PSI benchmark) confirmed that immediate action is needed to limit fiscal risks from SOEs. These conclusions were presented to the Council of Ministers in a report on contingent liabilities (a PSI benchmark). The Council of Ministers decided to take a bold action to put both the electricity company Electra and the airline TACV on a viable restructuring plan. The government will continue to monitor state-owned enterprises, widen the coverage of SOEs statistics and its timeliness, and update the risk assessment continuously. To avoid the emergence of fiscal risks, the government will enact Law of State Enterprises and Public Managers. These measures aim to improve the control and monitor of the sector, by establishing a set of rules and procedures which will serve as a framework for the regulation of sector, permitting a re-structuring of the public enterprises in order to become an instrument for economic policies. Moreover, they will allow a change of paradigm in the management of the parastatals, to become result/objective oriented.

Monetary management and financial sector policies

14. **The BCV will continue to conduct monetary management passively consistent with the exchange rate peg and a largely open capital account.** Domestic interest rates will continue to be set in a timely manner to follow the euribor adjusted for country risk premium to smooth short term capital flows. This policy has served the economy well given the strong correlation of Cape Verde growth cycles and that of the Euro area, particularly Portugal. Looking ahead, given the expectations that the global recession will most likely be protracted and recovery is only expected by mid-2010, the ECB policy rate could decline further. As such there may be some scope for reducing our BCV policy rate marginally. The Treasury will actively assist the BCV to control systemic liquidity (¶12), and over time the BCV will focus on the short end of the yield curve and the Treasury will focus on the long-end of the yield curve. The legislation will be amended to address the tax wedge between the returns on Treasury and BCV securities. To facilitate secondary trading, each vintage of securities will have a uniform interest rate so that securities are fungible. Overall, as passive monetary management takes hold supported by fiscal policy, the BCV will increasingly focus on financial stability issues and ensure a enabling environment for the efficient functioning of money markets.

15. **The BCV will vigorously address the weaknesses identified in the FSAP report to strengthen the financial system.** Onshore banks' small capital buffers drove capital ratios

temporarily below the 10 percent minimum during the fall 2008. The offshore banks are a source of reputational risk resulting from their size and the lighter regulation and supervision. To address these weaknesses we will implement two new PSI benchmarks:

- To end forbearance with the onshore sector, the BCV will promptly inform the Fund of the measures taken in the event that the capital ratio of any bank falls below the regulatory minimum. To this end, the BCV will strengthen its enforcement tools to keep banks capital ratios above the minimum ratio. This minimum level is now a new continuous quantitative indicative target in the PSI.

- The government will revisit its strategy regarding the offshore sector and present a Policy Strategy Memorandum to the Council of Ministers making a clear choice between strengthening the offshore sector substantially or winding it down. The Proposal will reassess whether the risks of the offshore sector are tolerable in light of the small benefits brought by the sector. The risks arise from the size of the offshore sector (a deposit base more than twice the country's GDP), the risk of contagion to the onshore sector, and of damage to Cape Verde's good reputation. The benefits of the offshore sector do not seem to be that substantial because the offshore sector creates little fiscal revenues and just a handful of jobs. The government recognizes that developing the sector as a long-term growth strategy requires complying with strong pre-conditions in terms of regulation and supervision especially in light of recent emphasis put by the international community on strengthening financial sector regulation in offshore financial centers. If the Council of Ministers decide to retain the offshore sector as a long-term development strategy, the government will in that case allow only offshore banks with clear ownership links with well-supervised banks in mature markets while enhancing BCV's supervision unit to strengthen capacity to monitor offshore banks.

16. **Finally, given the uncertain times in the global financial environment and the likelihood of a more protracted global recession, the government of Cape Verde is developing and putting in place a crisis response framework.** The government's efforts in this area will cover the needed legislative changes that would be required to execute such a crisis response system as promptly as possible when the need arises.

Sincerely yours,

/s/

Cristina Duarte
Minister of Finance

Table 1. Cape Verde: Quantitative Assessment Criteria and Indicative Targets for 2009 Under the PSI [1, 2]

	Stock 2007	Cumulative Flows from End-Dec, 2007 2008				Cumulative Flows from End-Dec, 2008 2009			
	Dec.	Dec.				March	June	Sep.	Dec.
	Actual	Assessment Criteria	Assessment Criteria with adjusters	Flow Est.	Stock Est.	Indicative Targets	Assessment Criteria	Indicative Targets	Assessment Criteria
Quantitative targets					(Billions of Cape Verde escudos)				
Ceiling on net domestic borrowing of the central government [3]	...	-1.7	0.0	-3.2	...	-0.1	1.4	1.7	2.0
Ceiling on net domestic assets of the central bank [4]	-3.6	-0.4	-0.6	-0.1	-3.7	-0.9	4.9	4.9	4.9
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
					(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
Ceiling on the contracting or guaranteeing of non-concessional external debt with original maturity of more than one year by the central government [6]	...	90.0	90.0	78.4	...	8.8	22.5	28.8	35.0
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
					(Millions of euros)				
Floor on net international reserves of the Bank of Cape Verde (BCV) [8]	250.0	10.0	11.5	19.5	269.5	13.1	-19.5	-19.5	-19.5
					(Percentage)				
Floor on the regulatory capital ratio of individual banks [9]		…	…	…	…	…	10.0 [9]	10.0 [9]	10.0 [9]
Memorandum item: **Program assumptions**					(Billions of Cape Verde escudos)				
Nonproject external financial assistance, including credit line (program assumption)	...	2.4	...	2.4	...	0.8	1.5	2.3	3.1
External debt service	...	2.6	...	2.4	...	0.5	1.4	2.1	2.8
Land sales	...	2.8	...	1.0	...	0.4	1.0	1.3	1.6
Clearance of end-2006 stock of domestic arrears	...	1.5	...	1.3	...	0.6	0.8	1.6	2.5

[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 upward by the cumulative upward deviation in external debt service, and by the cumulative downward deviation in nonproject external financial assistance and land sales relative to program assumptions. The ceiling will be adjusted downward by the cumulative downward deviation in external debt service and by the cumulative upward deviation in land sales relative to program assumptions. The ceiling will be adjusted upward by the costs of restructuring state-owned enterprises up to a limit of CVE 1.5 billion.

[4] The ceiling will be adjusted upward by the cumulative upward deviation in external debt service and by the cumulative downward deviation in nonproject external financial assistance relative to program assumptions. The ceiling will be adjusted downward by the cumulative downward deviation in external debt service relative to program assumptions. The ceiling will be adjusted upward by the costs of restructuring state-owned enterprises up to a limit of CVE 1.5 billion.

[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 downward by the cumulative upward deviation in external debt service, by the cumulative downward deviation in nonproject external financial assistance relative to program assumptions, and by the costs of restructuring state-owned enterprises up to a limit of 13.6 million euros. The floor will be adjusted upward by the cumulative downward deviation in external debt service relative to program assumptions. Additionally, in the case Cape Verde participates in any SDR allocation(s) between June 30, 2009 and the test date, this floor will be adjusted upwards by the equivalent of the amount of the cumulative additional SDR allocation(s) up to the test date measured at program exchange rates.

[9] The floor on banks' regulatory capital ratios is an indicative floor for all test dates. This indicative target is continuous.

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

Objectives	Structural Benchmark	Timing	Status
Strengthen tax base	Submit the draft individual and corporate income tax bills to the National Assembly.	End-Oct. 2008	Not Met. To be implemented in June
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.	End-Dec. 2008	Not Met. To be implemented in June
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	Not Met. To be implemented in June
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	Met
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	Not Met. To be implemented in June
	New structural benchmarks		
Strengthen debt management	Conduct a mid-year review of fiscal performance, including projections for end 2009, justifying that the envisaged borrowing is consistent with debt sustainability. (LOI ¶10)	End-August 2009	
Strengthen debt management	Include a medium-term fiscal framework (MTFF) for 2010-2012 in the 2010 budget's write up ("Enquadramento") describing the implied debt trajectory and justifying that the envisaged borrowing is consistent with debt sustainability. (LOI ¶10)	End-October 2009	
Strengthen fiscal-monetary policy coordination	BCV to prepare a short memorandum on strengthening monetary-fiscal policy coordination in managing liquidity to be discussed by PSI Monitoring Committee and endorsed by Ministry of Finance and BCV. (LOI ¶12)	End-August 2009	
Strengthen the financial sector	Inform the Fund of measures taken in the event that the capital ratio of one (or more) banks falls below 10 percent. (LOI ¶15)	Continuous effective June 2009	
Strengthen the financial sector	Present a Policy Strategy Memorandum to the Council of Ministers on the offshore sector. (LOI ¶15)	End-September 2009	

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

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

ATTACHMENT I

TECHNICAL MEMORANDUM OF UNDERSTANDING

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 seventh and eighth 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 upward by
  - the cumulative upward deviations in external debt service, by
  - the cumulative downward deviations in nonproject external financial assistance and land sales relative to program assumptions, and by the costs of restructuring state-owned enterprises up to a limit of CVE 1.5 billion.
- The ceiling will be adjusted downward by
  - the cumulative downward deviation in external debt service and by
  - the cumulative upward deviation in 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 BCV, commercial banks, and nonbank institutions, less all deposits held by the central government with the BCV 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 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 2009, 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 upward by
  - the cumulative upward deviations in external debt service, by
  - the cumulative downward deviations in nonproject external financial assistance relative to program assumptions, and by the costs of restructuring state-owned enterprises up to a limit of CVE 1.5 billion.
- The ceiling will be adjusted downward by the cumulative downward deviation in external debt service 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 2009, 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 downward by
    - the cumulative upward deviations in external debt service, by
    - the cumulative downward deviations in nonproject external financial assistance relative to program assumptions, and by the costs of restructuring state owned enterprises up to a limit of € 13.6 million. For purposes of calculating the adjusters, these flows will be valued at current exchange rates.
- The floor will be adjusted upward by the cumulative downward deviation in external debt service relative to program assumptions. Additionally, in the case Cape Verde participates in any SDR allocation(s) between June 30, 2009 and the test date, this floor will be adjusted upwards by the equivalent of the amount of the cumulative additional SDR allocation(s) up to the test date measured at program 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).

20. The table of Financial Soundness Indicators and the regulatory capital ratios of individual banks will be transmitted to the IMF on a monthly basis within six weeks after the end of each month. The nomination of individual banks is optional.

INTERNATIONAL MONETARY FUND

CAPE VERDE

Sixth Review Under the Policy Support Instrument and Request for a One-Year Extension of the Policy Support Instrument—Informational Annex

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

Approved by Sharmini Coorey and Aasim Husain

June 2, 2009

- **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-April 2009, outstanding PRGF loans amounted to SDR 7.78 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.

Contents Page

CAPE VERDE—FUND RELATIONS

(as of April 30, 2009)

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	0.05	7.47

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
PRGF Arrangements	7.78	81.03

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				
	2009	2010	2011	2012	2013
Principal	0.74	1.48	1.73	1.61	1.24
Charges/Interest	0.04	0.03	0.03	0.02	0.01
Total	0.78	1.51	1.75	1.62	1.25

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such 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 was completed in 2008. 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. The 2008 assessment concluded that, while the BCV has taken some measures recommended in the 2002 assessment, there is a need to strengthen the oversight mechanism of internal and external audit and to complete the implementation of International Financial Reporting Standards (IFRS).

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 110.265 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 2008 Article IV consultation and the fourth PSI review on June 30, 2008 (Country Report 08/248); the fifth PSI review on December 22, 2008 (Country Report 09/14).

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) a various follow up missions on banking supervision (January, March and April 2009).

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**:		
	- PRSC-5 (IDA)	April 2009	Q1 FY10
	- Roads Project-2 (IDA)	April/May 2009	Q3 FY10
	- SME Technical Assistance and Capacity Building Operation (IDA)	April/May 2009	Q2 FY 10
	- Energy Operation (IBRD)	May/June 2009	Q2 FY10
	- Energy Guarantee (IBRD) for windmill farm	May/June 2009	Q2 FY10
	- Regional Fisheries Operation	May 2009	Q3 FY10
	Analytical and advisory activities:		
	- Poverty assessment	December 2008	Q4 FY09
	- Public-Private Infrastructure Advisory Facility (PPIAF)/TA on road sector	April 2009	Q2 FY10
	- PPIAF/TA on the energy sector (assessment of new fuel pricing and utilities tariff structure; Electra management model)	May/June April 2009	Q2 FY10
	- Skills Development/Labor market study (Minimum wage impact analysis may be included)	April 2009	Q2 FY10
	- General economic monitoring	May 2009	Throughout the year
	- PEFA follow-up (may be in the form of a PEMFAR)	May 2009	FY10
	- FSAP update (to be done from the Bank's side as part of the SME Technical Assistance Capacity building operation)	- To be defined.	

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, 7th review	September 2009	Board meeting Dec-2009
	PSI program, 8th review, and 2010 Article IV consultation	March 2010	Board meeting June-2010
B. Agreement on joint products and missions			
Joint products in next 12 months	DSA update	IMF 7^{th} PSI review 2009	December 2009
	Technical assistance on debt management	May–June 2009	May–June 2009

CAPE VERDE—STATISTICS ISSUES

21. **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.

22. **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

23. **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.

24. **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.

25. **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.

26. **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.

27. **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.

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

Government finance statistics

29. **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*.

30. **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

31. **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

32. **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 April 30, 2009)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	4/29/09	4/30/09	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	04/28/09	04/29/09	D	W	M
Reserve/Base Money	04/28/09	04/29/09	D	W	M
Broad Money	Nov-08	Dec-08	M	M	M
Central Bank Balance Sheet	04/28/09	04/29/09	D	W	M
Consolidated Balance Sheet of the Banking System	Nov-08	Dec-08	M	M	M
Interest Rates[2]	Mar-09	Apr-09	M	M	M
Consumer Price Index	Mar-09	Apr-09	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	Dec-08	Feb-09	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec-08	Feb-09	A	A	A
External Current Account Balance	Dec-08	Feb-08	Q	Q	Q
Exports and Imports of Goods and Services	Dec-08	Feb-08	Q	Q	Q
GDP/GNP	2007	Apr-09	A	A	A
Gross External Debt	Dec-08	Feb-09	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).

Press Release No. 09/222
FOR IMMEDIATE RELEASE
June 19, 2009

International Monetary Fund
Washington, D.C. 20431 USA

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

The Executive Board of the International Monetary Fund (IMF) has completed the sixth review under a three-year Policy Support Instrument (PSI) for Cape Verde following a mission by Fund staff to Praia in April 2009. The Executive Board has also approved, at the authorities' request, to extend the current arrangement by one year as a bridge to a new three-year PSI. The Executive Board's decision was taken on a lapse of time basis. [9]

Cape Verde is coping with the global economic crisis from a position of strength. The main program objectives were achieved ahead of schedule: domestic public debt was reduced sharply, foreign reserves accumulated substantially, and external debt was kept stable. In recent years, the economy has been boosted by buoyant tourism, foreign direct investment in real estate, and remittances. However, near-term growth prospects have moderated significantly because of the recession in the euro area. In this context, the authorities' decision to use fiscal policy to buffer the impact of the global shocks is appropriate, especially to protect social spending.

Cape Verde's PSI was approved on July 31, 2006 (see Press Release No. 06/172). The program is designed to enhance the sustainability of growth and development by maintaining a stable macroeconomic environment and moving forward with structural reforms. Specific attention is given to reducing fiscal risks and giving Cape Verde a margin of safety to protect the economy against exogenous shocks.

The IMF's framework for PSIs is designed for low-income countries (and small island states) that may not need IMF financial assistance, but still seek close cooperation with the IMF in preparation and endorsement of their policy frameworks. PSI-supported programs are based

[9] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners. This is intended to ensure that PSI-supported programs are consistent with a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty. Members' performance under a PSI is reviewed semi-annually, irrespective of the status of the program (see Public Information Notice No. 05/145).