

**Cape Verde: Eight Review Under the Policy Support Instrument—Staff Report; Press Release.**

In the context of the eight review under the policy support instrument, the following documents have been released and are included in this package:

- The staff report for the Eight Review Under the Policy Support Instrument, prepared by a staff team of the IMF, following discussions that ended on May 25, 2010, 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 21, 2010. 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 document listed below has been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Cape Verde\*

\*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

**Eighth Review Under the Policy Support Instrument**

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

Approved by Sharmini Coorey and Aasim Husain

June 21, 2010

**Executive Summary**

**Focus:** The eighth and final policy support instrument (PSI) review focused on Cape Verde's policy response and recovery from the global economic crisis. The investment-driven rise in the fiscal deficit helped limit the impact of the slowdown and will likely support the country's growth potential, but will need to be carefully managed going forward so as to safeguard the low risk of debt distress.

**Assessment:** All PSI assessment criteria were met. One of the remaining three structural benchmarks has been met, and progress is being made on the other two. Growth is expected to pick up and inflation to remain low, although economic recovery in Cape Verde's major European trading partners remains fragile. Staff recommends completing the eighth review.

**Policy discussions:**

- Staff and the authorities agree that their public investment program will help relieve infrastructure bottlenecks, and that the fiscal deficit must be managed carefully to maintain debt sustainability.
- The central bank reduced its policy rate earlier this year, but remains cautious in light of downside risks to capital inflows from Europe. With reserves continuing to build, staff sees some scope for further easing.
- Banking indicators weakened in 2009 and vulnerabilities remain, but most banks announced a capital increase and banking supervision was strengthened.
- The team will return in September to negotiate a new one-year PSI, which will serve as a bridge to a three-year PSI following the elections in early 2011.

**Exchange rate regime:** Conventional peg to the euro.

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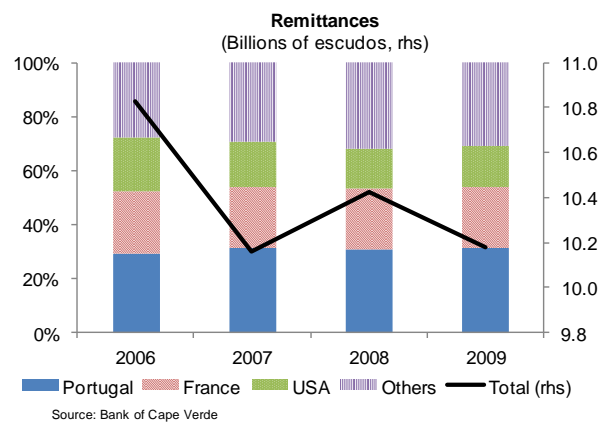
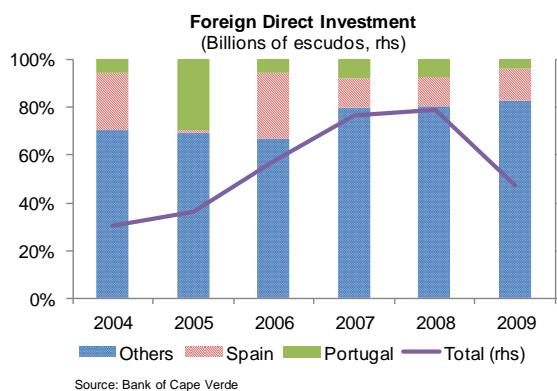
<sup>1</sup>Discussions took place during May 13–25, 2010. The team comprised Valerie Cerra (head), Abdullah Al-Hassan, Mame Astou Diouf, and Jean-Baptiste Le Hen. The mission met with Cristina Duarte, Minister of Finance; Carlos Burgo, Governor of the Bank of Cape Verde; other government officials; and representatives of the private sector. Daouda Sembene (OED) participated in the discussions.

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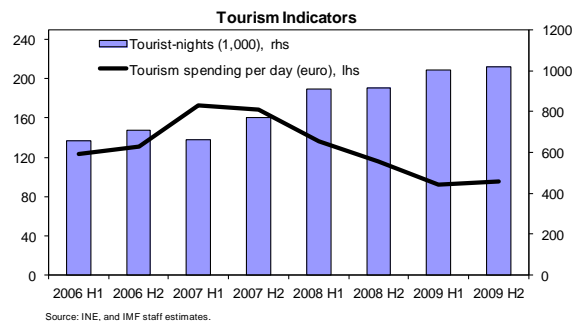
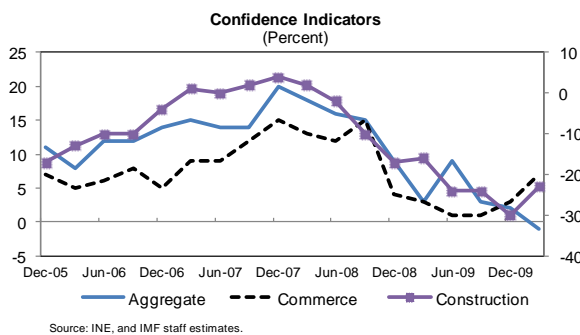
## I. BACKGROUND AND PSI PERFORMANCE

### A. Recent Developments and Outlook

1. **Economic growth moderated in 2009 from spillover effects of the global financial crisis.** Cape Verde's economy grew at an impressive pace in recent years, supported by prudent policies to reduce domestic public debt and build reserves. In 2009, growth slowed to about 3 percent, an enviable rate given global circumstances. The crisis took its toll on foreign direct investment (FDI), and remittances also slowed. The tourist industry maintained solid growth in the number of hotel nights by slashing prices and the small agricultural sector benefitted from strong rains, but the transportation and construction sectors (strongly tied to foreign activity) contracted.

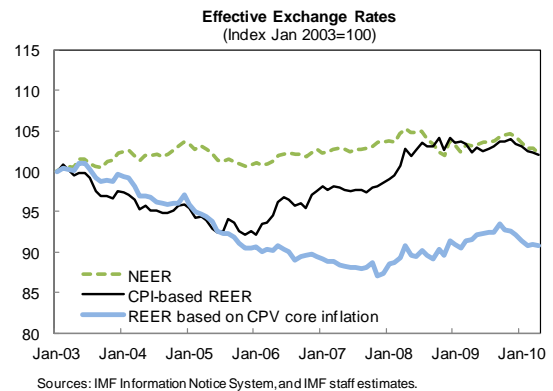
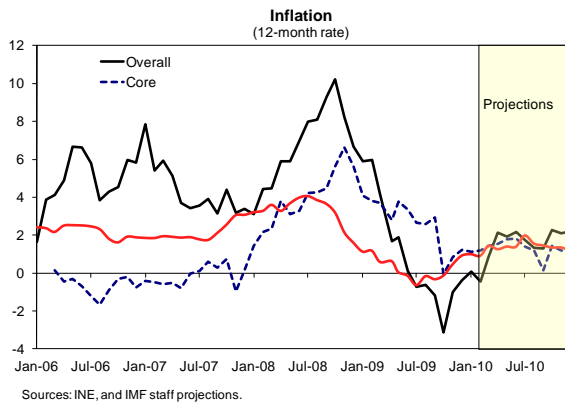


2. **Growth is expected to recover gradually in the next few years.** Some leading indicators of economic activities in commerce and construction point to a pickup in growth in 2010. In addition, lower prices in the tourism industry should ensure a higher hotel occupancy rate this year compared with 2009, and agricultural yields should be high owing to carryover effects from last year's good rainfall. Looking ahead, investment in infrastructure should support a rise in medium-term growth.

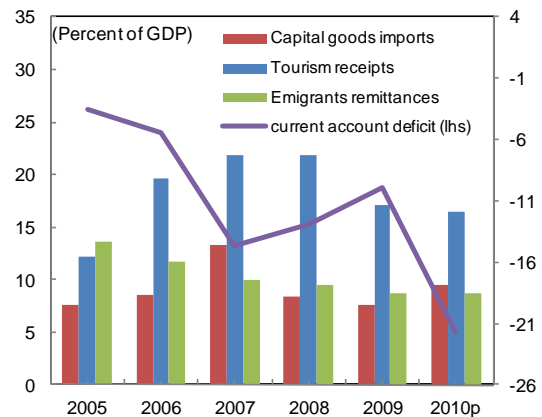


3. **Inflation remains low and the real value of the escudo is competitive.** Consumer prices increased by 2.1 percent in the 12 months to April 2010. Higher prices on food items and

transportation partly were offset by lower prices in hotels and restaurants. A recent assessment (7<sup>th</sup> review under the PSI) showed that the level of the REER was broadly in line with fundamentals. The implementation of the public investment program (PIP) should continue to have little effect on domestic inflation due to the high import content of investment in terms of inputs of goods, labor, and other services. By easing infrastructure bottlenecks, the ongoing PIP should reduce production costs and improve competitiveness in the near term and beyond.



**4. The overall balance of payments position deteriorated slightly in 2009, but should strengthen over the medium term as confidence returns.** The current account balance improved slightly in 2009, as higher current transfers and lower imports more than offset the significant fall in tourism receipts. In the financial account, FDI fell drastically, but partly was compensated by increased external financing for the PIP. Remittances and reserves decreased slightly. As the government accelerates its investment program in 2010 and 2011, the current account deficit is expected to widen, but the impact on the overall balance of payments should be limited as the current account deficit will be financed by higher concessional external borrowing that improves the financial account. Preliminary data for the first quarter of 2010 show signs of recovery in tourism receipts and goods exports (7¾ percent growth and 63 percent growth, respectively, compared to Q1 2009). Private capital inflows should also rise as global confidence resumes. Reserves, which have been increasing in recent months, are expected to stabilize around four months of imports.



**5. The global economic slowdown has affected the performance of the onshore banking sector.** Credit to the private sector decelerated in 2009 as banks were cautious in lending to companies with increased vulnerabilities (especially in real estate) due to the crisis. Moreover, while the onshore banks are relatively liquid owing to the statutory reserve requirements of 16 percent, they rely heavily on emigrant deposits—which constitute about 37 percent of the total banking sector deposits and originate predominately from Portugal, France, and the United States

The latest indicators (from November 2009) point to some banking sector vulnerabilities: (i) capital adequacy ratios were close to the prudentially required minimum 10 percent compared to 12 percent in July 2009, leaving banks with little resilience to absorb shocks; (ii) profitability indicators fell sharply in 2009 due to high provisioning; and (iii) nonperforming loans increased to 14.8 percent.<sup>2</sup> The majority of onshore commercial banks announced a capital increase to expand their banking operations.

6. **Risks to the outlook are broadly balanced.** The country has close links to Europe through trade and financial flows. Worsening economic conditions in Europe could spill over through a decline in tourism, second home purchases of foreigners, FDI, remittances and official bilateral support. Continued flight disruptions from the ash cloud of the Icelandic volcano could also negatively impact tourism. On the upside, the acceleration of the government investment program is likely to crowd in private investment even more than in the baseline by removing bottlenecks that increase costs and hinder tourism development.

## B. Policy Response

7. **The government responded to the global crisis with fiscal stimulus and monetary restraint.** In 2009, they cut personal and corporate income taxes and increased priority spending, including through hiring teachers, police, and health workers. They also accelerated public investment plans in 2009 compared to the original budget and the medium-term fiscal framework. Although the outturn of capital spending for the year was lower than planned due to an unexpected dip in the execution rate, it is budgeted to rise sharply in 2010. The BCV raised its policy rate in the second half of 2008 to stabilize capital inflows. The higher interest rates and the SDR allocation of €9.3 million in 2009 helped to protect reserves.

## C. Program Performance

8. **All end-December 2009 PSI assessment criteria were met. The three remaining structural benchmarks have not yet been met, but progress is being made.**

- Net domestic borrowing was in line with the adjusted ceiling, and net international reserves were above the floor by €9.7 million.
- The BCV has prepared a memorandum outlining a strategy for strengthening monetary and fiscal policy coordination. The PSI monitoring committee has discussed the strategy and is now revising it to include new agreements and feedback from IMF staff.
- The draft individual and corporate income tax bill has been finalized. Given the summer recess and the few legislation sessions during fall 2010, the bill will be submitted to the National Assembly after the elections in early 2011.

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<sup>2</sup> NPLs should be interpreted with caution since a loan is considered nonperforming if it is only one day overdue. For instance, NPLs of one of the commercial banks would decline from 7.6 percent to 4 percent if restated according to the common practice of 90 days overdue.

- The government has revisited its strategy for offshore banks to wind down the sector and bring all banks under a single banking law; a policy strategy memorandum has been approved by the council of ministers.

**Cape Verde: Structural Benchmarks for 2008–09 <sup>1</sup>**

<b>Objective</b>	<b>Structural Benchmark</b>	<b>Timing</b>	<b>Status</b>
Strengthen tax base	Submit the draft individual and corporate income tax bills to the National Assembly.	End-Oct. 2008. Reset to be implemented in June 2009.	Not met.
Promote financial stability	Prepare a quarterly report on developments on balance of payments flows, including an assessment of interest sensitivity of non-resident flows into the banking system.	End-Dec. 2008 Reset to be implemented in June 2009.	Met with delay.
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 Reset to be implemented in June 2009.	Met with delay.
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.	End-Mar. 2009 Reset to be implemented in June 2009.	Met with delay.
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.	End-August 2009	Met.
Strengthen debt management	Include a medium-term fiscal framework (MTFF) for 2010–12 in the 2010 budget's write up ("Enquadramento") describing the implied debt trajectory and justifying that the envisaged borrowing is consistent with debt sustainability.	End-October 2009	Met.
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.	End-August 2009	Partially met.
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.	Continuous effective June 2009	Met.
Strengthen the financial sector	Present a Policy Strategy Memorandum to the Council of Ministers on the offshore sector.	End-September 2009	Met with delay.

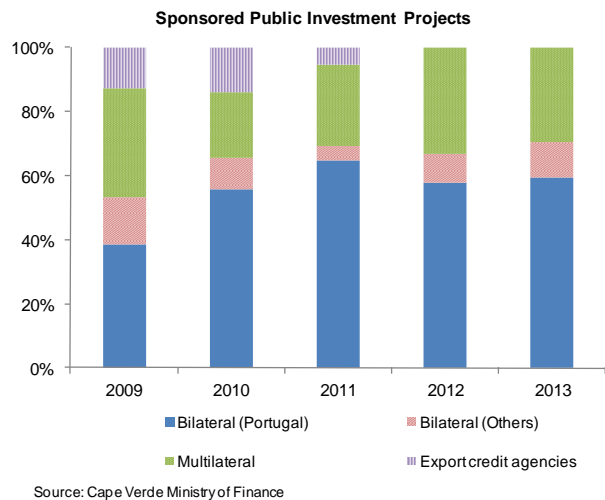
<sup>1</sup> Measures outstanding at the time of the one-year extension of the Policy Support Instrument, June 2009.

## II. POLICY DISCUSSIONS

### A. Fiscal policy: Balancing Investment-Led Growth with Debt Sustainability

9. **The medium-term public investment program, which accelerated in 2009, intends to strengthen growth and reduce poverty.** This program and its financing are the result of years of efforts to build organizational capacity, assess projects, and mobilize concessional external resources. All projects have undergone feasibility and market studies and are now underway.<sup>3</sup> The investment rate should peak in 2010 and 2011, contributing to fiscal deficits of 14¾ percent and 11 percent, respectively.<sup>4</sup> The 2010 deficit is also affected by lower-than-expected revenue and is much larger than projected by staff at the time of the last review. Staff argued that the government should show restraint in executing fiscal policy from 2011 onwards to safely retain its low risk of debt distress. In any case, capital expenditure should subsequently scale back to previous levels as concessional financing tapers off in the medium term. Most of the projects are pro-poor (social housing, power and fresh water generation) and aim at addressing island-specific bottlenecks to growth and development (for example, sea and air transportation).

10. **The authorities are committed to keeping the risk of debt distress low.** The present value (PV) of external debt to GDP peaks in 2012, just below the 50 percent threshold between classifications of low and moderate risk of debt distress.<sup>5</sup> The nominal level of debt has been reduced relative to the last review, although a downward revision of historical GDP deflators and a less favorable exchange rate have maintained the projected ratios broadly the same as before.<sup>6</sup> The current high level of investment should boost medium-term growth, exports and fiscal revenue, thus improving debt ratios relative to these bases. In the high growth scenario, the impact of investment is stronger than assumed in the baseline. The low growth scenario would be most likely to occur if downside risks to



<sup>3</sup> Major projects have been assessed by independent external consultants, including international institutions.

<sup>4</sup> Foreign-financed capital expenditure is projected to be 2¼ percentage points of GDP above the budget for 2010 due to the implementation of some projects that were planned but not executed in 2009 and some projects for which financing has been received earlier than previously expected.

<sup>5</sup> Cape Verde is classified as a high capacity-low vulnerability country under the new debt limits guidelines.

<sup>6</sup> A downward revision of historical GDP data by more than 10 percentage points drives up debt and fiscal deficit numbers in percent of GDP relative to those presented in the previous PSI review.



European trading partners were to materialize. However, such a pessimistic scenario could also imply a decline in bilateral support, particularly from Portugal, which is a major source of investment finance. Even absent a growth shock, the debt ratio profile could be lower than the baseline if the execution rate on projects falls below the assumption of 100 percent. Moreover, all other debt criteria are far below their thresholds for moderate risk (Figure 3 in Appendix II), including the debt service ratios, which the authorities consider key to debt sustainability. Although the updated DSA (Appendix II) is broadly similar to the previous DSA, which deemed the risk of debt distress to be low, the risk rating will be reassessed during the next joint IMF-World Bank DSA in the context of a new PSI request.

**11. The authorities and staff also agreed that domestic debt should be kept low.**

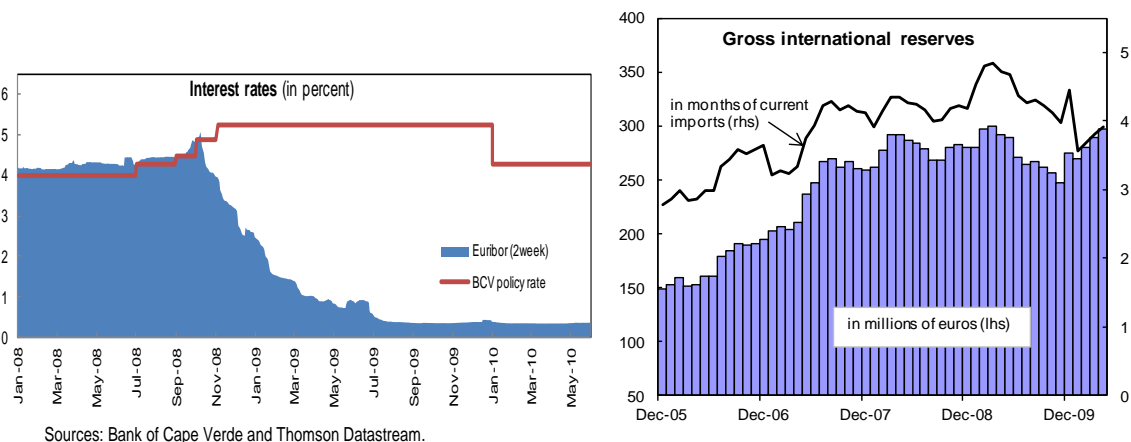
Domestic public debt was reduced sharply since 2005, and the corresponding decline in net domestic borrowing has facilitated a buildup of reserves to help protect the peg. Domestic revenue for 2010 is projected to be lower-than-budgeted by about 2 percentage points of GDP based on a weak revenue outturn for the first quarter and staff's downward revision to the growth forecast. Consequently, net domestic borrowing is projected at 3¼ percent of GDP, above the year-end indicative target. The authorities have indicated that they have the flexibility to rein in recurrent expenditure and domestically-financed capital spending to adjust to weaker-than-expected revenue, which would keep domestic borrowing under control while still maintaining the countercyclical stimulus. Indeed, wages and salaries and domestically-financed investment were held below budget in 2009, by about 1 percent of GDP and 1¼ percent of GDP, respectively. Over the medium term, they also plan to broaden the tax base by rationalizing tax exemptions (a range of tax legislation prepared with the IMF assistance should be submitted to the National Assembly after the elections) and improving tax administration. They expressed interest in making debt management a key element of a possible successor PSI.

**12. The government will continue to take action to address contingent liabilities and fiscal risk arising from state-owned enterprises (SOEs).** The electricity company Electra and the national airline company TACV have been put on a restructuring plan, in order to end their structural losses and implicit subsidies. The strategy for Electra is to substitute wind power generation for some fuel-based generation, in order to reduce reliance on oil imports and to reduce and stabilize costs. TACV already downsized staff, improved the quality of its services and renewed its IATA certification. Looking ahead, the authorities plan to privatize TACV once they identify a viable strategic partner.

### **B. Monetary Policy: Cautiously Lowering Policy Rates**

**13. The BCV started easing its monetary policy stance earlier this year.** Monetary management is geared towards stabilizing capital flows under the peg to the euro. The BCV policy rate thus follows the euribor adjusted for country risk premium, as guided by movements in reserves and emigrant deposits. Owing to the improvement in global economic conditions and the buildup in foreign reserves, the BCV lowered its policy rate by one percentage point to 4.25 in January 2010. With the ratio of reserve requirements kept at 16 percent and a still high

spread over the euribor, there are signs of tighter liquidity conditions. Staff thus argued for further reductions in the policy rate. Nonetheless, the BCV will exert caution in further lowering the policy rate and reducing the reserve requirements until the global recovery is firm and the risk premium falls.



14. **The authorities are trying to improve monetary operations and strengthen fiscal and monetary coordination.** They are discussing the possibility of using treasury bills as the main instrument of monetary policy. In line with FSAP recommendations, staff suggested a swap of illiquid BCV assets for government bills and creation of benchmark government securities to foster the development of the secondary market.

### C. Financial Sector Strategy: One Banking Law

15. **Legislation for the offshore banking sector is being overhauled.** Staff agreed with the authorities to wind down offshore banks and bring all banks under a single banking law. The legislation was drafted in early 2010 by the BCV and has been approved by the council of ministers. With no distinction between onshore and offshore banking activities, it will harmonize prudential norms and will be based on the EU banking law standards. The tax benefits granted to offshore banks will be maintained until their expiration in 2017; however, their banking operations within Cape Verde will be taxed as onshore banks.

16. **The authorities are taking steps to safeguard financial sector stability.** The BCV has tripled the staff of the supervision department since early 2009. As a result, the exam cycle for onsite visits to onshore banks decreased from 18 months to 12 months; however, the frequency of onsite visits to offshore banks is still irregular and depends on the financial health of the bank. The BCV also has strengthened its enforcement capacity for capital adequacy, (for example, in December 2009 a bank was recapitalized after falling slightly below the minimum capital requirement). Conducting stress tests has now become part of the macroprudential supervision. Recent results show that some banks would become undercapitalized if subjected to a large credit shock. A number of prudential measures (for example, large exposure to total loans and sectoral distribution of credit by economic sector) are being developed by the BCV and discussed with the banks.

### III. PROGRAM MONITORING AND PSI ENGAGEMENT

17. **Assessment criteria for 2009 and indicative targets for 2010 are in Table 10.**

18. **Based on a very positive ex-post assessment of the current PSI, the authorities have confirmed that they will seek a new one-year PSI during autumn 2010.** The authorities found the 2006–10 PSI very supportive of the Cape Verdean reform agenda and growth policy. The PSI helped to (i) consolidate macroeconomic stability and build international reserves buffers; (ii) improve public financial management; (iii) reduce fiscal risk, including from SOEs; (iv) strengthen the control and supervision of the financial sector; and (v) strengthen the national institutional framework through structural and legislative reforms. Staff concurs with the positive assessment of the previous PSI and agrees with the authorities that the possible successor PSI would continue to ensure debt sustainability, protect reserves, enhance debt management capacity, and implement financial sector reforms following the 2009 FSAP report. While the most recent Poverty Reduction Strategy (PRS) document is older than the normal 18-month limit, staff considers that the existing poverty reduction and growth strategy still provides adequate guidance for the final review of the current arrangement. The new arrangement will be guided by the new PRS that will be finalized in the next couple of months.

### IV. STAFF APPRAISAL

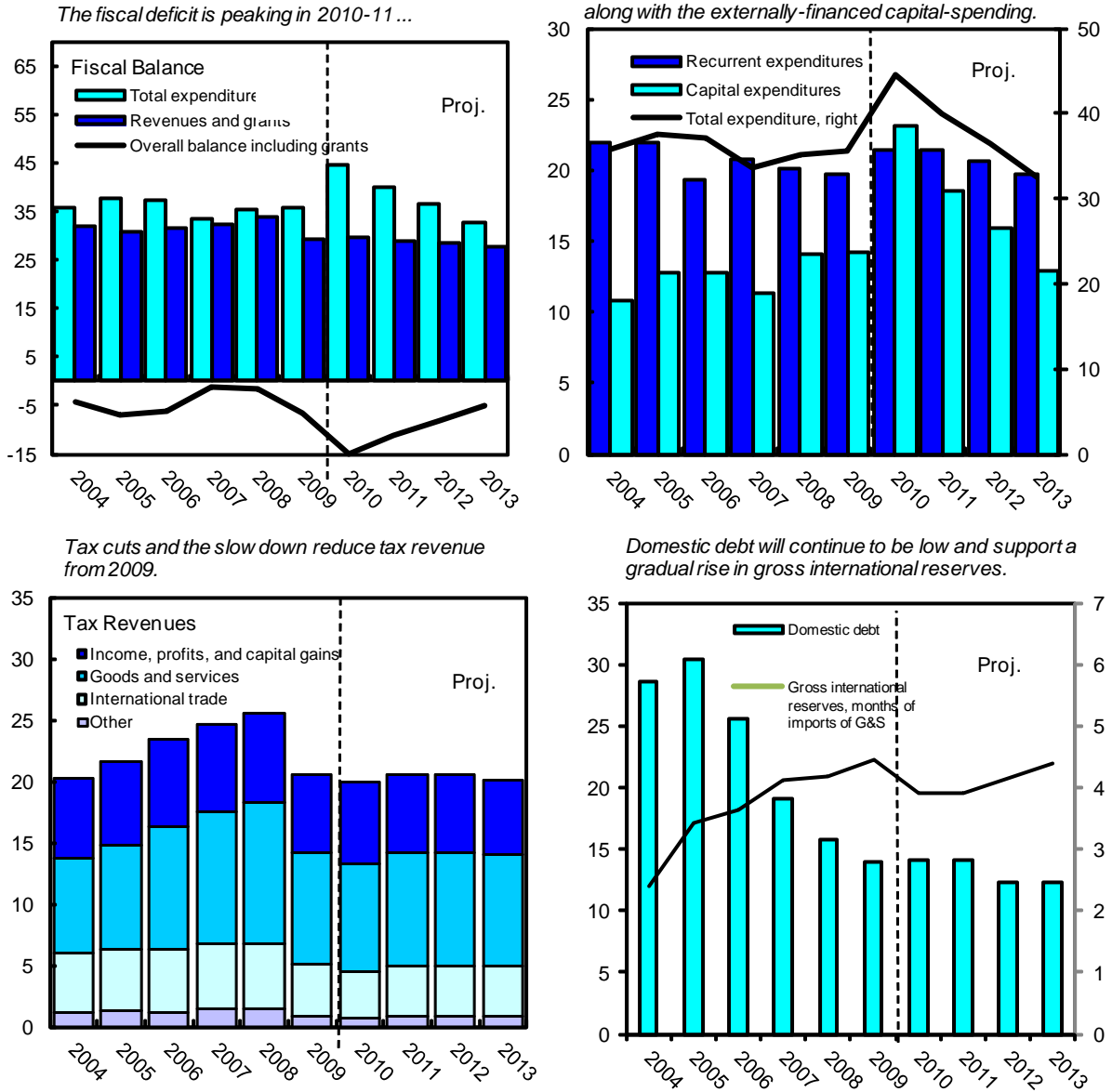
19. **Cape Verde's economic and policy performance remains strong.** It weathered the global crisis relatively well due to prudent macroeconomic management and sizable fiscal and reserve buffers built up in recent years. After moderating in 2009, growth should pick up in 2010, led by tourism and investment-related sectors. Inflation should remain low, consistent with the peg to the euro.

20. **Staff supports the strategy of public investment in infrastructure to crowd in private sector development.** Improving infrastructure, particularly ports and airports, should help reduce supply costs and foster the development of export industries, especially tourism. The acceleration of public investment from 2009 is also welcomed as counter-cyclical stimulus to the slowdown, and the use of concessional external debt to finance the investment is prudent.

21. **The government will need to manage carefully its debt to maintain its low risk of debt distress.** Although all debt burden indicators are below their thresholds under the new debt limit guidelines, the present value of external debt-to-GDP could rise above its threshold if the economy is hit by some negative shocks. The government should show restraint in executing fiscal policy from 2011 onwards to safely retain its low risk of debt distress and work toward a lower external debt ratio to ensure a buffer against negative shocks. The capital spending program should be phased in keeping debt sustainability in mind. Domestic debt should also be kept low, including by tightly controlling recurrent spending, improving tax administration, and rationalizing tax exemptions.

22. **Staff welcomes the decrease in interest rates that took place earlier this year, but sees scope for a further lowering of the policy rate.** Staff shares the goal of stabilizing capital flows, given the peg to the euro. In light of the buildup in foreign reserves so far this year, staff considers there is room to reduce the high spread of the BCV rate over the euribor. Staff supports efforts to improve monetary and fiscal coordination and enhance monetary operations.
23. **Staff welcomes the ongoing efforts to strengthen the financial sector regulation and supervision.** Winding down the offshore sector is an important step toward creating a unified banking system. Further efforts are needed, however, to improve onsite and offsite supervision techniques to make them more effective and risk-focused and to continue to improve prudential regulations.
24. **Staff recommends completion of the eighth review under the PSI.**

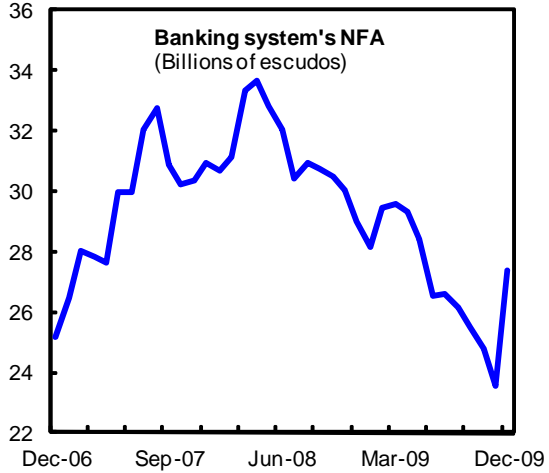
**Figure 1. Cape Verde: Fiscal Performance**  
(Percent of GDP)



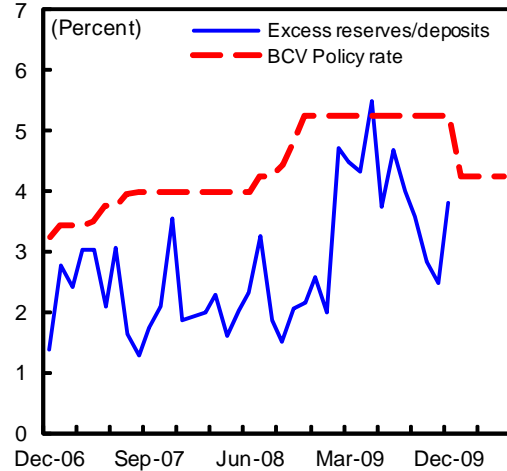
Sources: Cape Verdean authorities and IMF staff estimates.

**Figure 2. Cape Verde: Monetary Developments**

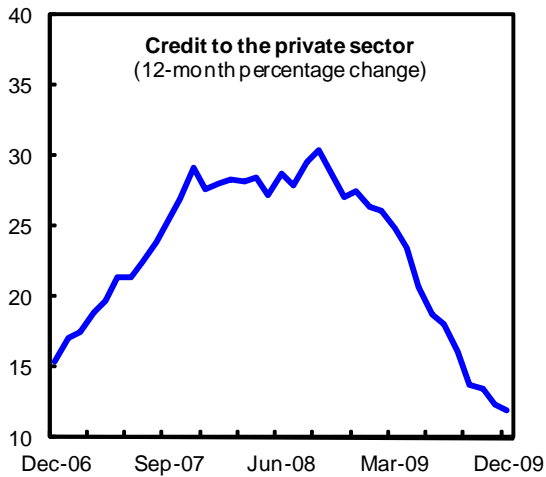
*The banking system's net foreign asset (NFA) rebounded in late 2009 ...*



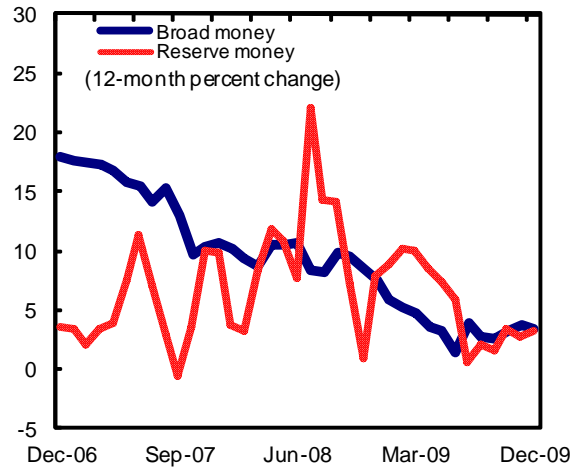
*... and the central bank cut its policy rate in January 2010.*



*The growth of credit to the private sector has been decreasing ...*



*... as have the growth rates of broad money and reserve money.*

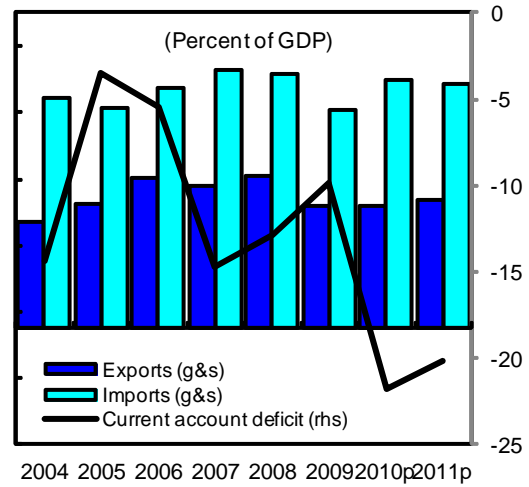
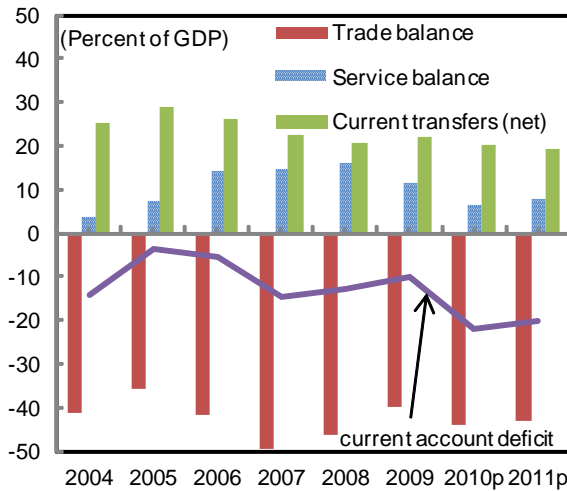


Sources: Bank of Cape Verde and IMF staff calculations.

**Figure 3. Cape Verde: External Sector**

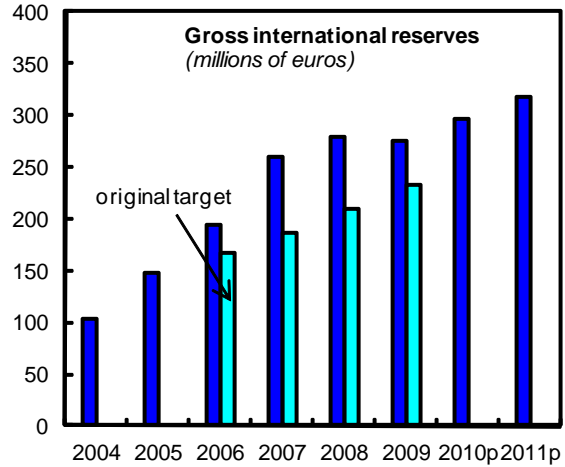
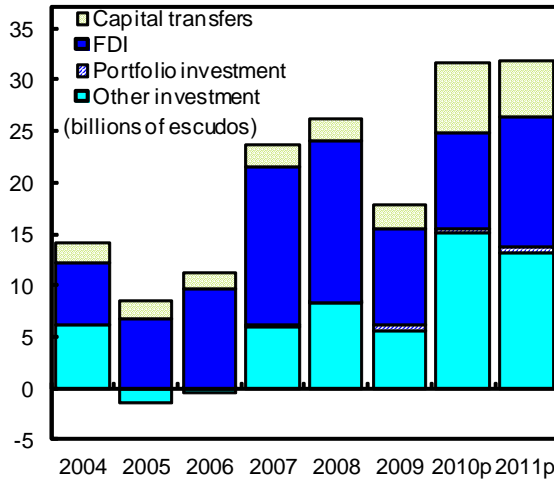
*A rise in current transfers offset the worsening of trade and services balances in 2009 ...*

*... but the rise in infrastructure-related imports will widen the current account deficit in 2010.*



*Capital grants and concessional loans will finance the rise in the deficit.*

*Reserves have been ahead of the targets set at the beginning of the PSI in July 2006.*



Sources: Cape Verdean authorities and IMF staff estimates.

Table 1. Cape Verde: Selected Indicators, 2007–15

	2007	2008	2009	2010	2011	2012	2013	2014	2015	
	Estimates			Projections						
	(Annual percentage change)									
National accounts and prices										
Real GDP	8.6	5.6	3.0	4.1	6.0	6.9	7.6	7.7	6.8	
Real GDP per capita	7.1	4.1	0.2	2.2	3.1	3.9	4.7	4.7	3.8	
GDP deflator	1.4	2.1	4.7	4.2	3.7	3.2	3.2	3.2	3.2	
Consumer price index (annual average)	4.4	6.8	1.0	1.5	2.0	2.0	2.0	2.0	2.0	
External sector										
Exports of goods and services	4.5	16.2	-13.2	7.4	13.6	15.5	15.8	15.6	15.7	
Of which: tourism	23.0	7.9	-16.2	3.9	14.6	17.5	17.5	17.2	17.4	
Imports of goods and services	17.8	6.3	-7.5	22.4	7.5	6.3	7.5	8.0	11.3	
Exports of goods and services - Volume	13.3	4.8	-10.1	-3.1	9.4	12.8	14.0	13.7	14.3	
Imports of goods and services - Volume	18.2	2.7	-4.1	16.7	2.8	3.1	7.7	9.4	12.9	
Real effective exchange rate (annual average)	2.6	4.3	0.4	...	...	...	...	...	...	
Terms of trade (minus = deterioration)	-1.3	-4.6	7.4	-4.4	-0.5	-0.5	-0.5	-0.5	-0.5	
Government finance										
Total revenue (excluding grants)	17.0	10.8	-9.4	5.3	12.7	10.0	9.1	21.1	14.5	
Total expenditure	-0.7	13.1	9.3	34.4	-2.0	0.3	-1.3	10.3	8.3	
Noncapital expenditure	-0.4	3.0	9.1	7.9	9.2	5.6	5.3	8.7	8.6	
Capital expenditure	-1.4	32.9	9.6	74.0	-12.4	-5.8	-10.0	12.6	7.9	
Money and credit										
Net foreign assets	23.0	-6.4	-5.5	11.7	8.2	14.5	13.9	14.6	10.7	
Net domestic assets	5.6	14.4	7.0	3.8	9.3	8.1	9.1	9.3	9.7	
Of which: net claims on the central government	-61.6	31.4	-6.6	29.0	11.0	-18.3	-12.1	-18.6	-12.3	
credit to the economy	25.5	24.9	11.5	8.2	12.1	12.4	13.4	12.8	15.6	
Broad money (M2)	10.8	7.6	3.5	5.8	9.0	9.9	10.5	10.9	10.0	
Income velocity (GDP/M2)	1.19	1.18	1.20	1.20	1.20	1.20	1.20	1.20	1.20	
Reserve money (M0)	10.0	8.0	3.4	2.5	7.6	8.9	9.9	10.3	11.6	
(Percent of GDP, unless otherwise indicated)										
Saving-investment balance										
Gross capital formation	46.4	52.0	44.7	51.3	47.3	44.8	41.4	40.7	40.2	
Government	11.4	14.1	14.3	23.1	18.6	15.9	13.0	13.2	12.9	
Nongovernment	35.0	37.9	30.5	28.2	28.7	28.9	28.4	27.5	27.3	
Gross national savings	32.3	39.1	34.9	29.5	27.2	27.8	27.5	29.6	30.0	
Government	11.1	14.5	11.4	7.8	7.1	7.3	7.4	9.5	10.6	
Nongovernment	21.2	24.7	23.5	21.7	20.1	20.4	20.0	20.1	19.4	
External current account (including official current transfers)	-14.7	-12.9	-9.9	-21.8	-20.1	-17.1	-13.9	-11.1	-10.2	
External current account (excluding official current transfers)	-19.8	-19.7	-17.5	-28.1	-25.1	-21.5	-17.7	-14.4	-13.3	
Overall balance of payments	6.6	1.7	-1.0	1.8	1.6	2.9	2.9	3.2	2.5	
Government finance										
Total domestic revenue	27.6	28.3	23.8	23.3	24.1	24.1	23.8	26.0	27.1	
Total external grants	5.2	5.6	5.5	6.4	5.0	4.5	3.8	3.3	3.1	
Total expenditure	33.6	35.2	35.7	44.5	40.0	36.6	32.6	32.5	32.0	
Overall balance before grants	-6.0	-6.9	-11.9	-21.2	-15.9	-12.4	-8.8	-6.4	-4.9	
Overall balance (including grants)	-0.8	-1.3	-6.4	-14.9	-11.0	-8.0	-5.0	-3.2	-1.8	
Primary basic balance <sup>1</sup>	6.1	5.9	1.2	1.8	1.1	2.1	2.6	2.9	3.4	
External financing (net)	2.2	3.0	5.1	12.3	9.6	7.8	4.5	2.8	1.9	
Domestic financing (net)	-0.8	-1.0	0.8	1.9	1.4	0.2	0.4	0.4	-0.1	
Public debt										
Total nominal government debt <sup>2</sup>	68.0	65.6	64.5	79.0	84.9	86.3	83.5	78.4	72.8	
External government debt <sup>3</sup>	46.5	47.7	47.8	62.4	67.2	69.1	67.4	63.9	60.1	
Domestic government debt, net of deposits	21.5	17.8	16.7	16.6	17.7	17.2	16.1	14.5	12.7	
External debt service (percent of exports of goods and services)	5.1	4.6	5.1	5.1	4.7	4.5	3.9	4.1	4.2	
Present Value of External Debt - DSA										
PV of debt to GDP (moderate risk threshold: 50%)	...	...	...	44.3	47.9	49.3	48.5	47.6	45.8	
PV of debt-to-revenue ratio (moderate risk threshold: 300%)	...	...	...	190.5	198.8	204.4	203.5	182.9	168.9	
PV of debt-to-exports ratio (moderate risk threshold: 200%)	...	...	...	119.6	123.8	121.3	113.8	107.2	98.0	
External current account (€ millions, including official transfers)	-143.1	-135.0	-111.8	-264.9	-267.0	-249.1	-223.7	-198.6	-201.0	
Gross international reserves (€ millions, end of period)	259.5	280.0	275.3	297.1	318.5	360.7	407.7	464.7	513.2	
Gross international reserves to reserve money	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.2	1.3	
Gross international reserves (months of current imports of goods and services)	4.1	4.2	4.4	3.9	3.9	4.2	4.4	4.6	4.6	
Memorandum items:										
Nominal GDP (billions of Cape Verde escudos)	107.3	115.6	124.8	134.3	146.4	160.8	177.7	197.0	216.7	
Net domestic borrowing, net of arrears clearance	-5.4	-2.2	0.2	3.2	2.5	1.1	0.5	0.0	-0.5	
Exchange rate (Cape Verde escudos per US\$)										
Period average	80.4	74.9	79.2	...	...	...	...	...	...	
End period	75.6	80.9	75.5	...	...	...	...	...	...	

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

<sup>1</sup> Excluding grants, interest payments, and foreign financed investments<sup>2</sup> Net of central government deposits; including verified stock of domestic and external arrears.<sup>3</sup> Excluding claims on the offshore Trust Fund.



Table 2. Cape Verde: Fiscal Operations of the Central Government, 2008–15

(Millions of Cape Verde escudos, unless otherwise indicated)

	2008			2009			2010			2011	2012	2013	2014	2015
		Q1	Budget	Est.	Q1	Budget.	Proj.	MTFF <sup>1</sup>	MTFF	MTFF	Proj.	Proj.		
Revenue, grants, and net lending	39,187	9,064	43,639	36,540	7,994	42,344	39,785	42,508	45,934	49,141	57,718	65,337		
Domestic revenue (incl. net lending)	32,757	7,643	36,267	29,690	7,071	33,824	31,257	35,239	38,776	42,324	51,274	58,710		
Tax revenue	29,585	6,986	30,302	25,676	6,291	28,737	26,679	29,948	32,908	35,773	43,917	50,522		
Income and profit taxes	8,525	2,212	8,900	8,059	2,317	9,067	8,958	9,162	10,067	10,944	13,335	14,958		
Personal income tax	4,824	1,241	5,365	4,452	1,161	5,268	4,683	5,323	5,849	6,358	7,950	8,983		
Corporate income tax	3,701	970	3,535	3,607	1,156	3,799	4,275	3,839	4,218	4,585	5,384	5,976		
Consumption taxes	13,300	2,993	14,508	11,300	2,672	12,505	11,641	13,547	14,886	16,182	18,731	21,144		
International trade taxes	6,110	1,382	5,917	5,219	1,107	5,917	5,117	5,979	6,570	7,142	9,854	12,022		
Other taxes	1,650	400	978	1,098	195	1,248	963	1,261	1,385	1,506	1,998	2,397		
Nontax revenue	3,102	657	5,944	4,014	765	5,087	4,556	5,291	5,868	6,550	7,357	8,188		
External grants	6,430	1,421	7,372	6,850	924	8,520	8,528	7,269	7,158	6,817	6,444	6,627		
Capital grants	4,790	320	5,478	4,670	758	6,201	6,697	5,368	5,259	5,028	4,444	4,627		
Budget support	1,640	1,101	1,894	2,180	165	2,319	1,831	1,901	1,899	1,789	2,000	2,000		
Total expenditure	40,715	6,870	51,435	44,493	8,712	57,094	59,779	58,579	58,776	57,988	63,939	69,243		
Recurrent expenditure	23,264	4,877	27,984	24,602	5,708	28,920	28,763	31,421	33,192	34,952	37,992	41,253		
Primary recurrent expenditure	21,367	4,445	25,692	22,705	5,232	26,408	26,232	28,430	30,130	31,428	34,112	37,292		
Wages and salaries	13,518	3,093	15,950	14,844	3,693	17,129	17,140	17,882	18,508	19,156	21,241	23,366		
Goods and services	2,048	221	2,964	2,341	395	3,162	2,891	3,214	3,362	3,450	3,826	4,208		
Transfers and subsidies	4,781	899	4,924	4,874	1,024	5,173	4,982	5,898	6,115	6,464	6,953	7,647		
Transfers	3,910	870	4,667	4,029	1,004	4,800	4,472	5,130	5,309	5,495	6,094	6,702		
Subsidies	871	29	258	845	21	372	510	768	806	969	859	945		
Other expenditures	1,020	232	1,854	646	120	944	1,219	1,437	2,145	2,358	2,092	2,070		
Domestic interest payments	1,348	306	1,570	1,305	306	1,727	1,747	2,298	2,258	2,705	2,803	2,841		
External interest payments	548	126	722	592	170	784	784	693	804	820	1,077	1,120		
Capital expenditure	16,264	1,660	20,990	17,823	2,836	27,974	31,016	27,158	25,584	23,036	25,947	27,990		
Foreign financed	11,701	996	13,939	12,346	1,964	22,976	26,018	21,896	20,322	16,835	14,447	13,964		
Domestically financed	4,562	664	7,052	5,477	871	4,998	4,998	5,262	5,262	6,201	11,499	14,026		
Other expenditures (incl. arrears clearance)	1,188	333	2,460	2,068	167	200	0	0	0	0	0	0		
Overall balance, including grants	-1,529	2,194	-7,796	-7,953	-717	-14,749	-19,994	-16,071	-12,841	-8,848	-6,220	-3,906		
Financing	1,529	-2,194	7,796	7,953	1,443	14,749	19,994	16,071	12,841	8,848	6,220	3,906		
Foreign, net	3,495	-187	6,756	6,301	2,104	16,343	16,492	14,048	12,536	8,054	5,489	4,156		
Drawings	5,381	196	8,884	8,248	2,514	18,456	18,522	16,042	14,564	10,018	8,004	7,337		
Amortization	-1,886	-383	-2,127	-1,947	-409	-2,114	-2,030	-1,994	-2,028	-1,964	-2,514	-3,181		
Domestic, net	-1,138	-2,011	1,039	965	-661	-1,593	2,525	2,023	306	794	738	-241		
Net domestic borrowing	-1,972	-2,661	1,759	1,900	-654	1,666	4,355	3,640	1,725	961	0	-1,000		
Banking system	-2,008	-2,135	...	518	-754	2,145	4,355	1,046	-1,933	-1,047	-1,419	-761		
Nonbanks	36	-525	...	1,382	101	-479	0	2,594	3,659	2,008	1,419	-239		
Privatization and other sales of assets	834	650	-720	-106	-7	229	-400	-202	-20	-167	738	759		
Accounts payable, net (o/w onlending)	0	0	...	-829	0	-3,489	-1,430	-1,415	-1,400	0	0	0		
Net errors and omissions	-828	4	0	687	0	0	0	0	0	0	0	0		
Financing gap	0	0	0	0	0	0	977	0	0	0	-7	-9		
<i>Memorandum items:</i>														
Overall balance, including grants <sup>2</sup>	-955	2,267	-5,336	-6,278	-717	-14,549	-19,994	-16,071	-12,841	-8,848	-6,220	-3,906		
Arrears clearance	574	72	2,460	1,675	0	200	0	0	0	0	0	0		
Net domestic borrowing <sup>2</sup>	-2,546	-2,733	-701	225	-654	1,466	4,355	3,640	1,725	961	0	-1,000		
Primary basic balance <sup>3</sup>	6,828	...	...	1,508	...	...	2,418	1,546	3,384	4,695	7,392	7,882		
Recurrent domestic balance <sup>4</sup>	9,493	2,765	8,283	5,088	1,362	4,904	2,494	3,818	5,584	7,371	13,283	17,457		
External flows <sup>5</sup>	11,811	1,617	16,255	15,098	3,437	26,976	27,050	23,311	21,722	16,835	14,447	13,964		
External debt service (percent of domestic revenue)	7.4	6.7	7.9	8.6	8.2	8.6	9.0	7.6	7.3	6.6	7.0	7.3		
Domestic debt <sup>6</sup>	20,606	...	19,905	20,830	...	24,985	20,830	28,625	30,351	31,312	31,312	30,232		

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

<sup>1</sup> Medium-Term Fiscal Framework<sup>2</sup> Excluding clearance of arrears and accounts payable<sup>3</sup> Excluding grants, interest, and foreign-financed expenditure.<sup>4</sup> Domestic revenue – recurrent expenditure.<sup>5</sup> External grants + foreign financing.<sup>6</sup> Including arrears and accounts payable, net of deposits

**Table 3. Cape Verde: Fiscal Operations of the Central Government, 2008–15**  
(Percent of GDP)

	2008	2009		2010		2011	2012	2013	2014	2015
		Budget	Prel	Budget	Proj.	MTFF. <sup>1</sup>	MTFF.	MTFF.	Projections	
Revenue, grants, and net lending	33.9	35.0	29.3	31.5	29.6	29.0	28.6	27.7	29.3	30.2
Domestic revenue (incl. net lending)	28.3	29.1	23.8	25.2	23.3	24.1	24.1	23.8	26.0	27.1
Tax revenue	25.6	24.3	20.6	21.4	19.9	20.5	20.5	20.1	22.3	23.3
Income and profit taxes	7.4	7.1	6.5	6.8	6.7	6.3	6.3	6.2	6.8	6.9
Consumption taxes	11.5	11.6	9.1	9.3	8.7	9.3	9.3	9.1	9.5	9.8
International trade taxes	5.3	4.7	4.2	4.4	3.8	4.1	4.1	4.0	5.0	5.5
Other taxes	1.4	0.8	0.9	0.9	0.7	0.9	0.9	0.8	1.0	1.1
Nontax revenue	2.7	4.8	3.2	3.8	3.4	3.6	3.6	3.7	3.7	3.8
External grants	5.6	5.9	5.5	6.3	6.4	5.0	4.5	3.8	3.3	3.1
Capital grants	4.1	4.4	3.7	4.6	5.0	3.7	3.3	2.8	2.3	2.1
Budget support	1.4	1.5	1.7	1.7	1.4	1.3	1.2	1.0	1.0	0.9
Total expenditure	35.2	41.2	35.7	42.5	44.5	40.0	36.6	32.6	32.5	32.0
Recurrent expenditure	20.1	22.4	19.7	21.5	21.4	21.5	20.6	19.7	19.3	19.0
Primary recurrent expenditure	18.5	20.6	18.2	19.7	19.5	19.4	18.7	17.7	17.3	17.2
Wages and salaries	11.7	12.8	11.9	12.8	12.8	12.2	11.5	10.8	10.8	10.8
Goods and services	1.8	2.4	1.9	2.4	2.2	2.2	2.1	1.9	1.9	1.9
Transfers and subsidies	4.1	3.9	3.9	3.9	3.7	4.0	3.8	3.6	3.5	3.5
Transfers	3.4	3.7	3.2	3.6	3.3	3.5	3.3	3.1	3.1	3.1
Subsidies	0.8	0.2	0.7	0.3	0.4	0.5	0.5	0.5	0.4	0.4
Other expenditures	0.9	1.5	0.5	0.7	0.9	1.0	1.3	1.3	1.1	1.0
Domestic interest payments	1.2	1.3	1.0	1.3	1.3	1.6	1.4	1.5	1.4	1.3
External interest payments	0.5	0.6	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Capital expenditure	14.1	16.8	14.3	20.8	23.1	18.6	15.9	13.0	13.2	12.9
Foreign financed	10.1	11.2	9.9	17.1	19.4	15.0	12.6	9.5	7.3	6.4
Domestically financed	3.9	5.7	4.4	3.7	3.7	3.6	3.3	3.5	5.8	6.5
Other expenditures (incl. arrears clearance)	1.0	2.0	1.7	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, including grants	-1.3	-6.2	-6.4	-11.0	-14.9	-11.0	-8.0	-5.0	-3.2	-1.8
Financing	1.3	6.2	6.4	11.0	14.9	11.0	8.0	5.0	3.2	1.8
Foreign, net	3.0	5.4	5.1	12.2	12.3	9.6	7.8	4.5	2.8	1.9
Drawings	4.7	7.1	6.6	13.7	13.8	11.0	9.1	5.6	4.1	3.4
Balance of payments, budget	0.7	0.9	2.1	2.2	2.2	1.0	0.9	0.3	0.2	0.2
Project loans	4.0	6.2	4.5	11.5	11.6	10.0	8.2	5.3	3.9	3.2
Amortization	-1.6	-1.7	-1.6	-1.6	-1.5	-1.4	-1.3	-1.1	-1.3	-1.5
Domestic, net	-1.0	0.8	0.8	-1.2	1.9	1.4	0.2	0.4	0.4	-0.1
Net domestic borrowing	-1.7	1.4	1.5	1.2	3.2	2.5	1.1	0.5	0.0	-0.5
Privatization and other sales of assets	0.7	-0.6	-0.1	0.2	-0.3	-0.1	0.0	-0.1	0.4	0.4
Accounts payable, net (o/w onlending)	0.0	...	-0.7	-2.6	-1.1	-1.0	-0.9	0.0	0.0	0.0
Net errors and omissions	-0.7	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	0.7	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>										
Overall balance, including grants <sup>2</sup>	-0.8	-4.3	-5.0	-10.8	-14.9	-11.0	-8.0	-5.0	-3.2	-1.8
Arrears clearance	0.5	2.0	1.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic borrowing <sup>2</sup>	-2.2	-0.6	0.2	1.1	3.2	2.5	1.1	0.5	0.0	-0.5
Primary basic balance <sup>3</sup>	5.9	...	-4.9	...	1.8	1.1	2.1	2.6	3.8	3.6
Recurrent domestic balance <sup>4</sup>	8.2	6.6	4.1	3.7	1.9	2.6	3.5	4.1	6.7	8.1
External flows <sup>5</sup>	10.2	13.0	10.5	20.1	20.1	15.9	13.5	9.5	7.3	6.4
Domestic debt <sup>6</sup>	17.8	16.0	16.7	18.6	15.5	19.6	18.9	17.6	15.9	14.0
Nominal GDP (millions of CVEsc)	115,650	124,755	124,755	134,280	134,280	146,356	160,785	177,663	197,006	216,684

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

<sup>1</sup> Medium-Term Fiscal Framework

<sup>2</sup> Excluding clearance of arrears and accounts payable

<sup>3</sup> Excluding grants, interest, and foreign-financed expenditure.

<sup>4</sup> Domestic revenue – recurrent expenditure.

<sup>5</sup> External grants + foreign financing.

<sup>6</sup> Including arrears and accounts payable, net of deposits

**Table 4. Cape Verde: Balance of Payments, 2008–15**  
(Millions of euros, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014
		Est.			Projections		
Current account balance (including official transfers)	-135	-112	-265	-267	-249	-224	-199
Trade balance	-487	-453	-538	-569	-617	-643	-679
Exports, f.o.b.	78	65	80	90	101	113	127
Imports, f.o.b.	-566	-518	-618	-659	-718	-757	-806
Services (net)	168	130	80	105	171	213	266
Credit	406	356	372	423	492	573	667
<i>Of which: tourism</i>	230	193	200	229	269	317	371
Debit	-238	-226	-292	-319	-322	-360	-400
Income (net)	-32	-37	-54	-56	-57	-62	-67
Credit	19	16	15	15	17	19	21
Debit	-51	-53	-69	-71	-74	-80	-87
Government interest	-5	-4	-5	-6	-9	-9	-10
Interest by other sectors	-19	-16	-24	-25	-26	-27	-29
Income on direct investment and other income	-27	-34	-41	-40	-39	-44	-49
Current transfers (net)	217	249	247	254	254	268	281
Government	71	86	77	66	65	62	58
Others, incl. emigrant remittances	146	163	170	188	189	206	222
Capital and financial account (net)	237	161	287	289	291	271	256
Capital transfers	19	20	61	49	48	46	40
Direct investment (net)	143	86	85	115	132	149	162
Portfolio investment	0	4	4	4	4	4	4
Other investments, central government	29	49	150	127	114	73	50
Net official flows	29	49	150	127	114	73	50
Disbursements	46	67	168	145	132	91	73
Amortization	-17	-18	-18	-18	-18	-18	-23
Other investments, non-central government	46	2	-13	-7	-6	-1	-1
Commercial banks (net)	44	8	0	0	1	1	1
Commercial credit (net)	6	4	0	0	0	0	0
Other	-4	-10	-13	-8	-7	-1	-1
Net errors and omissions	-84	-61	0	0	0	0	0
Overall balance	18	-12	22	21	42	47	57
Financing	-18	12	-22	-21	-42	-47	-57
Gross international reserves (– accumulation)	-21	4	-22	-21	-42	-47	-57
Exceptional financing	3	8	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0
<i>Memorandum items:</i>							
Current account (including official transfers; percent of GDP)	-12.9	-9.9	-21.8	-20.1	-17.1	-13.9	-11.1
Current account (excluding official transfers; percent of GDP)	-19.7	-17.5	-28.1	-25.1	-21.5	-17.7	-14.4
Overall balance (percent of GDP)	1.7	-1.0	1.8	1.6	2.9	2.9	3.2
Gross international reserves	280	275	297	319	361	408	465
Months of current year's import of goods and services	4.2	4.4	3.9	3.9	4.2	4.4	4.6
Months of next year's import of goods and services	4.5	3.6	3.6	3.7	3.9	4.1	4.2
External public debt	501	541	759	892	1,007	1,086	1,142
External aid (grants and loans; percent of GDP)	13.0	15.3	25.1	19.6	16.8	12.3	9.6

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

**Table 5. Cape Verde: Monetary Survey, 2007–15**

	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Est.			Projections			
(Millions of Cape Verde escudos, unless otherwise specified)									
Net foreign assets	30,976	28,991	27,410	30,607	33,128	37,932	43,219	49,542	54,867
Foreign assets	38,762	38,152	37,610	40,037	42,495	47,253	52,542	58,933	64,392
<i>Of which:</i> foreign reserves	28,627	30,880	30,366	32,769	35,129	39,786	44,972	51,258	56,610
Foreign liabilities	-7,786	-9,161	-10,200	-9,430	-9,367	-9,320	-9,323	-9,391	-9,525
Net domestic assets	63,652	72,793	77,897	80,841	88,344	95,514	104,237	113,967	124,975
Net domestic credit	68,534	89,754	97,832	106,518	118,004	128,050	141,598	156,023	176,968
Net claims on general government	11,639	18,675	18,598	20,814	21,954	20,133	19,218	17,953	17,348
Claims on the Trust Fund (TCMFs)	6,433	11,038	11,038	11,038	11,038	11,038	11,038	11,038	11,038
Net claims on the central government	6,029	7,925	7,402	9,547	10,594	8,660	7,613	6,194	5,432
Credit to central government	13,095	14,377	15,223	18,085	19,768	18,661	18,592	18,233	18,586
Deposits of central government	-7,066	-6,453	-7,821	-8,538	-9,174	-10,000	-10,979	-12,040	-13,154
Net claims on local government	-310	403	1,052	1,132	1,234	1,355	1,498	1,661	1,826
Net claims on other government agencies (INPS)	-514	-690	-894	-903	-912	-921	-930	-940	-949
Credit to the economy	56,896	71,079	79,234	85,704	96,050	107,918	122,380	138,070	159,620
Credit to private sector	55,553	70,443	78,761	85,231	95,577	107,444	121,906	137,597	159,147
Claims on nonbank financial institutions	1,340	636	473	473	473	473	473	473	473
Other items (net)	-4,882	-16,962	-19,935	-25,677	-29,660	-32,536	-37,361	-42,056	-51,994
Broad money (M2)	94,628	101,783	105,304	111,448	121,472	133,447	147,456	163,509	179,842
Narrow money (M1)	43,021	44,638	43,010	45,519	49,613	54,504	60,225	66,782	73,453
Currency outside banks	8,399	8,713	8,362	8,849	9,118	9,612	10,307	11,117	11,918
Demand deposits	34,622	35,926	34,649	36,670	40,495	44,892	49,918	55,665	61,535
Quasi-money	45,640	52,360	57,700	61,068	66,561	73,123	80,799	89,595	98,545
Foreign currency deposits	5,967	4,784	4,593	4,861	5,298	5,820	6,431	7,132	7,844
(Change in percent of broad money 12 months earlier)									
Net foreign assets	6.8	-2.1	-1.6	3.0	2.3	4.0	4.0	4.3	3.3
Net domestic assets	4.0	9.7	5.0	2.8	6.7	5.9	6.5	6.6	6.7
Net domestic credit	-3.2	22.4	7.9	8.2	10.3	8.3	10.2	9.8	12.8
Net claims on the central government	-11.3	2.0	-0.5	2.0	0.9	-1.6	-0.8	-1.0	-0.5
Credit to the economy	13.5	15.0	8.0	6.1	9.3	9.8	10.8	10.6	13.2
Credit to private sector	13.8	15.7	8.2	6.1	9.3	9.8	10.8	10.6	13.2
Other items (net)	7.2	-12.8	-2.9	-5.5	-3.6	-2.4	-3.6	-3.2	-6.1
Broad money (M2)	10.8	7.6	3.5	5.8	9.0	9.9	10.5	10.9	10.0
<i>Memorandum items:</i>									
Income velocity of money	1.19	1.18	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Emigrant deposits (as percent total deposits)	37.9	36.9	37.1	37.1	37.0	36.9	36.9	36.8	36.8
Excess reserves/total deposits (percent)	2.3	2.6	3.8	1.3	1.3	1.3	1.3	1.3	1.6
Money multiplier (M2/M0)	3.9	4.0	4.0	4.1	4.1	4.1	4.2	4.2	4.1
Credit to the economy (percentage change)	25.5	24.9	11.5	8.2	12.1	12.4	13.4	12.8	15.6

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

**Table 6. Cape Verde: Central Bank Survey, 2007–15**

	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Est.			Projections			
(Millions of Cape Verde escudos, unless otherwise specified)									
Net foreign assets	27,614	29,780	27,958	31,169	33,745	38,605	43,949	50,331	55,715
<i>Of which:</i> net international reserves	27,572	29,866	29,471	32,064	34,640	39,500	44,844	51,226	56,610
Foreign assets	28,760	31,019	30,503	32,905	35,265	39,922	45,108	51,394	56,746
Foreign liabilities	-1,146	-1,239	-2,545	-1,736	-1,520	-1,316	-1,159	-1,063	-1,031
Net domestic assets	-3,574	-3,821	-1,129	-3,662	-4,140	-6,354	-8,506	-11,221	-12,068
Net domestic credit	-9,666	-1,105	1,345	-1,310	-1,742	-3,908	-6,011	-8,676	-9,472
Trust Fund claims	0	4,605	4,605	4,605	4,605	4,605	4,605	4,605	4,605
Net claims on central government	-4,346	79	-1,432	-2,149	-2,785	-3,611	-4,590	-5,651	-6,765
Credit to central government	0	3,640	3,640	3,640	3,640	3,640	3,640	3,640	3,640
Deposits of central government	-4,346	-3,561	-5,072	-5,789	-6,425	-7,251	-8,230	-9,291	-10,405
Credit to the economy	1,162	1,106	1,111	1,119	1,124	1,130	1,135	1,141	1,147
Credit to private sector	1,159	1,106	1,111	1,118	1,124	1,130	1,135	1,141	1,147
Claims on nonbank financial institutions	3	0	0	0	0	0	0	0	0
Net Credit to commercial banks	-6,483	-6,895	-2,939	-4,885	-4,686	-6,031	-7,161	-8,771	-8,459
Other items (net)	6,092	-2,715	-2,474	-2,351	-2,398	-2,446	-2,495	-2,545	-2,596
Reserve money (M0)	24,041	25,959	26,829	27,507	29,605	32,251	35,442	39,110	43,647
Currency issued	9,983	10,350	10,425	10,844	11,515	12,415	13,459	14,819	15,689
Deposits of commercial banks	14,058	15,609	16,979	17,082	18,761	20,736	23,028	25,651	28,828
<i>Memorandum items:</i>									
Gross international reserves (€ millions)	259.6	280.1	275.4	297.2	318.6	360.8	407.8	464.9	513.4
Net international reserves (€ millions)	250.1	270.9	267.3	290.8	314.1	358.2	406.7	464.6	513.4
(months of imports)	3.9	4.5	3.6	3.6	3.7	3.9	4.1	4.2	4.2
Reserve money (12-month change in percent)	10.0	8.0	3.4	2.5	7.6	8.9	9.9	10.3	11.6

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

**Table 7. Cape Verde: Deposit Money Bank Survey, 2007–15**

	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Est.			Projections			
	(Millions of Cape Verde escudos, unless otherwise specified)								
Net foreign assets	3,361	-789	-548	-562	-617	-673	-730	-788	-848
Foreign assets	10,001	7,134	7,107	7,132	7,230	7,331	7,434	7,539	7,646
Foreign liabilities	-6,640	-7,922	-7,655	-7,693	-7,847	-8,004	-8,164	-8,327	-8,494
<i>Of which: nonresident deposits</i>	-5,198	-5,647	-4,918	-4,942	-5,041	-5,142	-5,245	-5,350	-5,457
Net domestic assets	82,859	93,859	97,490	103,161	112,970	124,508	137,878	153,181	168,772
Net domestic credit	93,628	107,392	113,805	126,487	140,232	154,597	172,744	192,692	218,169
Net claims on general government	0	13,991	15,425	18,358	20,134	19,139	19,203	18,998	19,507
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)	-514	-690	-894	-903	-912	-921	-930	-940	-949
Net claims on central government	10,375	7,846	8,834	11,696	13,379	12,272	12,203	11,844	12,197
Claims on central government	13,095	10,737	11,583	14,445	16,128	15,021	14,952	14,593	14,946
Deposits of central government	-2,721	-2,891	-2,749	-2,749	-2,749	-2,749	-2,749	-2,749	-2,749
Net claims on local government	-310	403	1,052	1,132	1,234	1,355	1,498	1,661	1,826
Claims on local government	295	772	1,409	1,516	1,653	1,816	2,006	2,225	2,447
Deposits of local government	-605	-369	-357	-384	-419	-460	-509	-564	-620
Credit to the economy	55,733	69,973	78,123	84,586	94,926	106,788	121,244	136,929	158,474
Credit to private sector	54,394	69,337	77,650	84,112	94,453	106,315	120,771	136,456	158,000
Claims on nonbank financial institutions	1,337	636	473	473	473	473	473	473	473
Net claims on the Bank of Cape Verde	21,911	23,428	20,257	23,543	25,172	28,670	32,296	36,764	40,189
Other items (net)	-10,770	-13,533	-16,315	-23,326	-27,262	-30,090	-34,866	-39,511	-49,397
Deposit liabilities to nonbank residents	86,220	93,070	96,942	102,599	112,353	123,835	137,148	152,392	167,924
Local currency deposits	80,253	88,286	92,349	97,738	107,055	118,014	130,717	145,261	160,080
Demand deposits	34,613	35,926	34,649	36,670	40,495	44,892	49,918	55,665	61,535
<i>Of which: emigrant deposits</i>	4,285	4,972	5,413	5,728	6,326	7,013	7,798	8,696	9,613
Time deposits	45,640	52,360	57,700	61,068	66,561	73,123	80,799	89,595	98,545
<i>Of which: emigrant deposits</i>	27,187	28,159	29,217	30,921	33,702	37,024	40,911	45,365	49,896
Foreign currency deposits	5,967	4,784	4,593	4,861	5,298	5,820	6,431	7,132	7,844
<i>Of which: emigrant deposits</i>	1,081	1,225	1,369	1,448	1,579	1,734	1,916	2,125	2,337
<i>Memorandum items:</i>									
Emigrant deposits (ratio to total deposits)	0.38	0.37	0.37	0.37	0.37	0.37	0.37	0.37	0.37
Other deposits (ratio to broad money)	0.57	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67
Composition of emigrant deposits									
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	0.16	0.16	0.16	0.16	0.16	0.16	0.16
Time	0.83	0.85	0.84	0.84	0.84	0.84	0.84	0.84	0.84
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: Financial Soundness of the Banking Sector**

(End-year; percent unless otherwise indicated)

Indicator	2005	2006	2007	2008	Nov-09
<b>Capital adequacy</b>					
Regulatory capital to risk-weighted assets	12.1	11.1	11.4	10.7	10.3
Regulatory tier 1 capital to risk-weighted assets	13.4	11.3	11.8	10.3	10.1
<b>Asset quality<sup>1</sup></b>					
Nonperforming loans to total loans	6.3	3.9	13.5	10.3	14.8
Nonperforming loans net of provisions to capital	-2.5	-1.7	91.1	52.3	80.8
Provisions to nonperforming loans	104.9	104.1	35.0	50.6	40.1
<b>Earnings and profitability</b>					
Return on assets	0.5	1.1	1.6	1.7	0.4
Return on equity	9.7	19.7	30.1	28.2	5.4
Interest margin to gross income	62.7	67.2	71.3	71.6	71.8
Noninterest expenses to gross income	61.2	54.5	46.1	45.3	63.8
<b>Liquidity<sup>2</sup></b>					
Liquid assets to total assets	46.2	18.3	17.7	17.0	16.5
Liquid assets to short-term liabilities	170.2	46.1	42.9	45.1	45.1

Source: Bank of Cape Verde.

<sup>1</sup> The NPL ratio for the four onshore banks increased in 2007 because of new stricter loan classification criteria. Thus, the NPLs should be interpreted with cautious since a loan was considered nonperforming if it is only 1 day overdue

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

**Table 9. Cape Verde : Proposed Work Program for 2010**

Mission Date	Purpose	Board Review
September 2010	One-year PSI negotiation and Article IV consultation	November 2010

**Table 10. Cape Verde: Quantitative Assessment Criteria and Indicative Targets for 2009-10 under the PSI<sup>1, 2</sup>**

	Cumulative Flows from End-Dec, 2008								Cumulative Flows from End-Dec, 2009					
	2009				2010				2009			2010		
	March	June		Sep.	March	June		Dec.	Indicative	Indicative	Flow	Indicative	Indicative	Dec.
Indicative	Assessment	Assessment	Flow	Indicative	Assessment	Assessment	Flow	Indicative	Indicative	Prel.	Indicative	Indicative	Indicative	
Targets	Criteria	Criteria	Actual	Targets	Criteria	Criteria	est.	Targets	Targets	with adjusters	Targets	Targets	Targets	
		with adjusters				with adjusters			with adjusters					
<b>Quantitative targets</b>														
(Billions of Cape Verde escudos)														
Ceiling on net domestic borrowing of the central government <sup>3</sup>	-0.1	1.4	2.7	-0.4	1.7	-1.1	0.2	0.2	0.4	1.0	-0.7	0.7	1.1	1.5
Ceiling on net domestic assets of the central bank <sup>4</sup>	-0.9	4.9	5.1	1.3	4.9	4.9	4.6	2.7	0.0	0.5	...	0.1	0.1	0.1
Ceiling on the accumulation of new domestic payment arrears by the central government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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 <sup>5</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the contracting or guaranteeing of non-concessional external debt with original maturity of more than one year by the central government <sup>6</sup>	8.8	22.5	22.5	0.0	28.8	48.0	48.0	0.0	35.0	35.0	...	35.0	35.0	35.0
Ceiling on the outstanding stock of nonconcessional external debt with a maturity of less than one year by the central government <sup>5,7</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Millions of euros)														
Floor on net international reserves of the Bank of Cape Verde (BCV) <sup>8</sup>	13.1	-19.5	-22.0	-8.7	-19.5	-25.2	-13.3	-3.6	3.7	-0.2	...	7.4	11.2	15.0
(Percentage)														
Floor on the regulatory capital ratio of individual banks <sup>9</sup>	...	10.0	10.0	9.8	10.0	10.0	...	...	10.0	...	...	10.0	10.0	10.0
<i>Memorandum item:</i>														
(Billions of Cape Verde escudos)														
<b>Program assumptions</b>														
Nonproject external financial assistance, including credit line (program assumption)	0.8	1.5	...	1.0	2.3	4.8	...	4.8	0.7	...	0.2	1.5	2.2	3.0
External debt service	0.5	1.4	...	1.2	2.1	2.8	...	2.5	0.7	...	0.6	1.4	2.2	2.9
Land sales	0.4	1.0	...	0.0	1.3	1.6	...	0.0	0.2	...	0.0	0.4	0.6	0.7
Clearance of end-2006 stock of domestic arrears	0.6	0.8	...	0.6	1.6	2.3	...	1.7	0.1	...	0.0	0.1	0.2	0.2

<sup>1</sup> Quantitative assessment criteria and benchmarks are described in the technical memorandum of understanding.

<sup>2</sup> For purposes of calculating program adjusters, foreign currency amounts will be converted at current exchange rates.

<sup>3</sup> 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.

<sup>4</sup> 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.

<sup>5</sup> This assessment criterion is on a continuous basis.

<sup>6</sup> 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.

<sup>7</sup> 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.

<sup>8</sup> 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, the floor on net international reserves 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.

<sup>9</sup> The floor on banks' regulatory capital ratios is an indicative floor for all test dates. This indicative target is continuous.

<sup>10</sup> Does not include the positive flow caused by the allocation of € 9.3 million SDRs to Cape Verde.

<sup>11</sup> Differs from IMF Country Report 09/198 because of a small upward revision of net international reserves by the Bank of Cape Verde.



**APPENDIX I.****LETTER OF INTENT**

June 15, 2010

Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
700 19<sup>th</sup> Street, N.W.  
Washington, D.C. 20431  
USA

Dear Mr. Strauss-Kahn:

1. Discussions for the concluding review of the Policy Support Instruments (PSI) were held in Praia during May 13–25, 2010. The PSI provided firm support for our policies for macroeconomic stability, economic growth, and poverty reduction. The PSI has served the country well and we intend to request a new one-year PSI during the fall 2010 as a bridge to a 3-year PSI after the elections.
2. Cape Verde used the policy space available from the buildup of fiscal and reserve buffers before the crisis to limit the impact of the world economic slowdown. The government accelerated its investment program and increased social spending, as well as reduced tax rates across the board. The government undertook a strong effort to cut recurrent expenditure relative to budget to help offset the shortfall in revenue, and it sought additional grants and concessional financing including from new partners. The BCV kept monetary conditions tight to protect reserves from downward pressure associated with the decline in foreign direct investment. Inflation remained subdued and in line with core inflation in the euro area.
3. All end-December 2009 PSI assessment criteria were met (Table 1) and progress has been made on the three remaining structural benchmarks. The BCV has prepared a memorandum for strengthening monetary and fiscal policy coordination, which was discussed by the PSI monitoring committee. The draft individual and corporate income tax bill has been finalized and will be submitted to the National Assembly. The government has revisited its strategy regarding offshore banks to wind down the sector and bring all banks under a single banking law; a Policy Strategy Memorandum has been discussed by the board of the BCV, and approved by the Council of Ministers.

4. The economy is expected to recover in 2010 as preliminary data suggest a pickup in activity and confidence in the first quarter, and growth should strengthen further over the medium term supported by sound policies and reforms. Medium-term fiscal policy will aim to lower the deficit to pre-crisis levels to safeguard external debt sustainability and protect reserves. Monetary policy will continue to be geared towards anchoring market expectations and keeping capital flows stable. As the recovery strengthens, risk premium narrows, and pressure on reserves eases, there may be room for further lowering the interest spread over the Euribor. Structural reforms are still needed to enhance the debt management capacity, reform loss-making SOEs, and implement financial sector reforms.

5. A successor PSI would aim at addressing these concerns, as well as ensuring continued macroeconomic stability, economic growth, and poverty reduction. We authorize the IMF to publish this letter of intent, and the related staff report.

Sincerely yours,

/s/

Cristina Duarte,  
Minister of Finance

**Table 1. Cape Verde: Quantitative Assessment Criteria and Indicative Targets for 2009-10 under the PSI<sup>1, 2</sup>**

	Cumulative Flows from End-Dec, 2008								Cumulative Flows from End-Dec, 2009					
	2009				2010				2009		2010		2010	
	March	June		Sep.	Dec.	March	June	Sep.	Dec.	March	June	Sep.	Dec.	
Indicative Targets	Assessment Criteria	Assessment Criteria with adjusters	Flow Actual	Indicative Targets	Assessment Criteria	Assessment Criteria with adjusters	Flow est.	Indicative Targets	Indicative Targets with adjusters	Flow Prel.	Indicative Targets	Indicative Targets	Indicative Targets	
<b>Quantitative targets</b>	(Billions of Cape Verde escudos)													
Ceiling on net domestic borrowing of the central government <sup>3</sup>	-0.1	1.4	2.7	-0.4	1.7	-1.1	0.2	0.2	0.4	1.0	-0.7	0.7	1.1	1.5
Ceiling on net domestic assets of the central bank <sup>4</sup>	-0.9	4.9	5.1	1.3	4.9	4.9	4.6	2.7	0.0	0.5	...	0.1	0.1	0.1
Ceiling on the accumulation of new domestic payment arrears by the central government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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 <sup>5</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the contracting or guaranteeing of non-concessional external debt with original maturity of more than one year by the central government <sup>6</sup>	8.8	22.5	22.5	0.0	28.8	48.0	48.0	0.0	35.0	35.0	...	35.0	35.0	35.0
Ceiling on the outstanding stock of nonconcessional external debt with a maturity of less than one year by the central government <sup>5,7</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(Millions of euros)													
Floor on net international reserves of the Bank of Cape Verde (BCV) <sup>8</sup>	13.1	-19.5	-22.0	-8.7	-19.5	-25.2	-13.3	-3.6	3.7	-0.2	...	7.4	11.2	15.0
	(Percentage)													
Floor on the regulatory capital ratio of individual banks <sup>9</sup>	...	10.0	10.0	9.8	10.0	10.0	...	...	10.0	...	...	10.0	10.0	10.0
<i>Memorandum item:</i>	(Billions of Cape Verde escudos)													
<b>Program assumptions</b>														
Nonproject external financial assistance, including credit line (program assumption)	0.8	1.5	...	1.0	2.3	4.8	...	4.8	0.7	...	0.2	1.5	2.2	3.0
External debt service	0.5	1.4	...	1.2	2.1	2.8	...	2.5	0.7	...	0.6	1.4	2.2	2.9
Land sales	0.4	1.0	...	0.0	1.3	1.6	...	0.0	0.2	...	0.0	0.4	0.6	0.7
Clearance of end-2006 stock of domestic arrears	0.6	0.8	...	0.6	1.6	2.3	...	1.7	0.1	...	0.0	0.1	0.2	0.2

<sup>1</sup> Quantitative assessment criteria and benchmarks are described in the technical memorandum of understanding.

<sup>2</sup> For purposes of calculating program adjusters, foreign currency amounts will be converted at current exchange rates.

<sup>3</sup> 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.

<sup>4</sup> 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.

<sup>5</sup> This assessment criterion is on a continuous basis.

<sup>6</sup> 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.

<sup>7</sup> 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.

<sup>8</sup> 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, the floor on net international reserves 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.

<sup>9</sup> The floor on banks' regulatory capital ratios is an indicative floor for all test dates. This indicative target is continuous.

<sup>10</sup> Does not include the positive flow caused by the allocation of € 9.3 million SDRs to Cape Verde.

<sup>11</sup> Differs from IMF Country Report 09/198 because of a small upward revision of net international reserves by the Bank of Cape Verde.

## APPENDIX II

## CAPE VERDE: DEBT SUSTAINABILITY—UPDATE

1. **Staff has updated Cape Verde’s debt sustainability analysis to account for recent economic changes, including the fiscal response to the crisis.** The previous assessment (for the 7<sup>th</sup> PSI review) found that the risk of debt distress for Cape Verde was low, despite a faster-than-expected increase in debt ratios reducing the comfort level. The updated assessment incorporates the new and lower-than-foreseen end-2009 stock of debt, as well as the new 2010–30 foreign debt service. Macroeconomic assumptions have been revised, including a slightly lower growth rate in 2010, a revised medium-term fiscal framework, and new exchange rate projections in line with the euro depreciation. Moreover, historical nominal GDP numbers have been revised downward, mechanically worsening the debt ratios.

2. **The projected ratios of debt under the baseline and alternative scenarios are similar or slightly more favorable than in the previous DSA, except for the scenario projecting forward the current primary balance.** All debt burden indicators, except the ones associated with the PV of debt-to-GDP, remain well below the thresholds even under the extreme tests. As in the previous DSA, the most extreme shock for the PV of debt-to-GDP—a 30 percent devaluation of the escudo relative to the U.S. dollar—leads to a sustained breach of the threshold. However, this scenario does not incorporate the potential growth and export enhancing effects of the depreciation that would likely offset the direct impact of the higher burden of dollar debt. Also as in the previous DSA, the low growth scenario results in a marginal and temporary breach of the PV of debt-to-GDP threshold. The scenario that fixes the primary balance at the current year’s level shows debt ratios that deteriorate relative to the previous DSA given the higher deficit in 2010 relative to 2009. However, staff considers this scenario to be unrealistic given that 2010 represents the peak of the public investment program, and the deficit is projected to decline sharply over the coming years as the major investment projects are completed.

Table 1.: External Debt Sustainability Framework, Baseline Scenario, 2007-2030 1/  
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 0 Standard		Projections						2010-2015		2016-2030	
	2007	2008	2009	Average	0 Deviation	2010	2011	2012	2013	2014	2015	Average	2020	2030	Average
<b>External debt (nominal) 1/</b>	<b>62.8</b>	<b>62.1</b>	<b>61.9</b>			<b>73.6</b>	<b>77.3</b>	<b>78.1</b>	<b>75.7</b>	<b>71.4</b>	<b>66.8</b>		<b>53.9</b>	<b>39.9</b>	
o/w public and publicly guaranteed (PPG)	46.5	47.7	47.8			62.2	67.0	69.0	67.3	63.8	59.9		47.7	32.6	
Change in external debt	-1.2	-0.7	-0.2			11.7	3.7	0.8	-2.5	-4.3	-4.5		-1.7	-4.8	
Identified net debt-creating flows	-10.4	-9.4	1.1			12.2	7.3	3.1	-0.8	-3.2	-2.7		-0.1	-3.6	
<b>Non-interest current account deficit</b>	<b>12.6</b>	<b>10.6</b>	<b>8.5</b>	<b>7.8</b>	<b>4.0</b>	<b>19.4</b>	<b>17.8</b>	<b>14.7</b>	<b>11.6</b>	<b>9.0</b>	<b>8.2</b>	<b>13.4</b>	<b>4.8</b>	<b>-0.6</b>	<b>3.2</b>
Deficit in balance of goods and services	34.9	30.5	28.6			37.6	35.0	30.6	26.7	23.1	21.6		15.2	8.5	
Exports	42.8	46.2	37.2			37.1	38.7	40.7	42.6	44.4	46.7	41.7	58.0	63.3	<b>60.2</b>
Imports	77.8	76.6	65.7			74.7	73.7	71.3	69.3	67.5	68.4	70.8	73.1	71.8	<b>73.1</b>
Net current transfers (negative = inflow)	-22.6	-20.7	-22.0	<b>-24.8</b>	<b>2.6</b>	-20.3	-19.1	-17.4	-16.6	-15.7	-15.0	-17.4	-11.8	-9.3	<b>-10.7</b>
o/w official	-5.1	-6.8	-7.6			-6.4	-5.0	-4.5	-3.8	-3.3	-3.1		-2.3	-0.8	
Other current account flows (negative = net inflow)	0.2	0.8	1.9			2.1	1.9	1.5	1.6	1.6	1.6		1.5	0.2	
<b>Net FDI (negative = inflow)</b>	<b>-14.3</b>	<b>-13.6</b>	<b>-7.6</b>	<b>-8.1</b>	<b>3.7</b>	<b>-7.0</b>	<b>-8.7</b>	<b>-9.1</b>	<b>-9.2</b>	<b>-9.1</b>	<b>-8.5</b>	<b>-8.6</b>	<b>-4.2</b>	<b>-2.6</b>	<b>-3.1</b>
<b>Endogenous debt dynamics 2/</b>	<b>-8.7</b>	<b>-6.4</b>	<b>0.2</b>			<b>-0.3</b>	<b>-1.8</b>	<b>-2.5</b>	<b>-3.2</b>	<b>-3.1</b>	<b>-2.4</b>		<b>-0.7</b>	<b>-0.4</b>	
Contribution from nominal interest rate	2.0	2.2	1.5			2.2	2.4	2.4	2.3	2.2	2.1		1.9	1.7	
Contribution from real GDP growth	-4.6	-3.0	-1.8			-2.5	-4.2	-4.9	-5.4	-5.3	-4.4		-2.6	-2.1	
Contribution from price and exchange rate changes	-6.2	-5.5	0.6			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	9.2	8.7	-1.3			-0.5	-3.6	-2.3	-1.7	-1.1	-1.9		-1.6	-1.2	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	47.2			55.7	58.2	58.5	56.9	55.2	52.7		46.0	36.7	
In percent of exports	...	...	126.9			150.3	150.4	143.8	133.5	124.3	112.9		79.3	57.9	
<b>PV of PPG external debt</b>	<b>...</b>	<b>...</b>	<b>33.0</b>			<b>44.3</b>	<b>47.9</b>	<b>49.3</b>	<b>48.5</b>	<b>47.6</b>	<b>45.8</b>		<b>39.8</b>	<b>29.4</b>	
<b>In percent of exports</b>	<b>...</b>	<b>...</b>	<b>88.9</b>			<b>119.6</b>	<b>123.8</b>	<b>121.3</b>	<b>113.8</b>	<b>107.2</b>	<b>98.0</b>		<b>68.6</b>	<b>46.4</b>	
<b>In percent of government revenues</b>	<b>...</b>	<b>...</b>	<b>138.9</b>			<b>190.5</b>	<b>198.8</b>	<b>204.4</b>	<b>203.5</b>	<b>182.9</b>	<b>168.9</b>		<b>146.1</b>	<b>103.8</b>	
<b>Debt service-to-exports ratio (in percent)</b>	<b>8.9</b>	<b>8.5</b>	<b>7.9</b>			<b>10.3</b>	<b>9.6</b>	<b>9.0</b>	<b>7.9</b>	<b>7.7</b>	<b>7.5</b>		<b>7.6</b>	<b>6.9</b>	
<b>PPG debt service-to-exports ratio (in percent)</b>	<b>5.1</b>	<b>4.6</b>	<b>4.2</b>			<b>5.1</b>	<b>4.7</b>	<b>4.5</b>	<b>3.9</b>	<b>4.1</b>	<b>4.2</b>		<b>5.4</b>	<b>5.3</b>	
<b>PPG debt service-to-revenue ratio (in percent)</b>	<b>7.9</b>	<b>7.5</b>	<b>6.6</b>			<b>8.1</b>	<b>7.6</b>	<b>7.7</b>	<b>7.0</b>	<b>7.0</b>	<b>7.3</b>		<b>11.4</b>	<b>11.9</b>	
Total gross financing need (Billions of U.S. dollars)	0.0	0.0	0.1			0.3	0.2	0.2	0.1	0.1	0.1		0.2	0.1	
Non-interest current account deficit that stabilizes debt ratio	13.8	11.3	8.7			7.7	14.1	13.9	14.1	13.2	12.7		6.6	4.2	
<b>Key macroeconomic assumptions</b>															
Real GDP growth (in percent)	8.6	5.6	3.0	6.2	2.1	4.1	6.0	6.9	7.6	7.7	6.8	6.5	5.0	5.2	5.0
GDP deflator in US dollar terms (change in percent)	10.6	9.7	-0.9	4.4	10.5	-1.4	0.6	2.2	2.1	2.5	3.0	1.5	3.0	3.1	3.0
Effective interest rate (percent) 5/	3.8	4.0	2.4	4.5	1.2	3.7	3.4	3.4	3.2	3.1	3.2	3.3	3.7	4.2	3.9
Growth of exports of G&S (US dollar terms, in percent)	14.1	24.8	-17.8	17.7	14.2	2.4	11.3	14.9	15.2	15.0	15.7	12.4	11.3	7.2	10.3
Growth of imports of G&S (US dollar terms, in percent)	28.6	14.1	-12.4	12.2	14.9	16.7	5.2	5.7	6.9	7.5	11.3	8.9	7.9	9.0	8.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	27.5	36.2	38.4	40.3	11.4	18.0	28.6	12.9	20.3	15.3
Government revenues (excluding grants, in percent of GDP)	27.6	28.3	23.8			23.3	24.1	24.1	23.8	26.0	27.1		27.2	28.3	27.6
Aid flows (in Billions of US dollars) 7/	0.1	0.1	0.1			0.2	0.2	0.2	0.2	0.1	0.1		0.1	0.1	
o/w Grants	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
o/w Concessional loans	0.1	0.0	0.0			0.1	0.1	0.1	0.1	0.0	0.0		0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			10.1	8.9	7.9	6.1	3.7	3.7		2.9	1.4	2.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			50.4	56.1	58.7	64.5	50.9	56.9		41.2	38.1	40.3
<i>Memorandum items:</i>															
Nominal GDP (Billions of US dollars)	1.3	1.5	1.6			1.6	1.7	1.9	2.1	2.3	2.5		3.7	8.1	
Nominal dollar GDP growth	20.2	15.8	2.1			2.7	6.7	9.3	9.9	10.3	10.0	8.1	8.2	8.4	8.1
PV of PPG external debt (in Billions of US dollars)			0.5			0.7	0.8	0.9	1.0	1.1	1.2		1.5	2.4	
(PVt-PVt-1)/GDPt-1 (in percent)						10.0	7.4	6.1	4.0	4.0	2.7	5.7	2.7	0.2	2.0

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as  $[r - g - \rho(1+g)] / (1+g+\rho+gp)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate, and  $\rho$  = growth rate of GDP deflator in U.S. dollar terms.

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

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

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

Table 2. Cape Verde: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030  
(In percent)

	Projections							2030
	2010	2011	2012	2013	2014	2015	2020	
<b>PV of debt-to GDP ratio</b>								
<b>Baseline</b>	44	48	49	48	48	46	<b>40</b>	29
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2010-2030 1/	44	37	32	31	33	34	<b>31</b>	18
A2. New public sector loans on less favorable terms in 2010-2030 2	44	51	55	55	53	52	<b>48</b>	43
A3. Low growth Scenario 7/	44	49	51	51	51	49	45	36
A4. High Growth Scenario 7/	44	47	48	46	45	43	34	23
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	44	49	52	51	50	48	<b>42</b>	31
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	44	50	58	57	54	50	<b>40</b>	29
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	44	51	58	57	56	53	<b>47</b>	34
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	44	49	50	49	48	46	<b>40</b>	29
B5. Combination of B1-B4 using one-half standard deviation shocks	44	48	53	52	51	49	<b>43</b>	32
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	44	68	70	69	68	65	<b>57</b>	42
<b>PV of debt-to-exports ratio</b>								
<b>Baseline</b>	120	124	121	114	107	98	<b>69</b>	46
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2010-2030 1/	120	95	80	73	75	74	<b>53</b>	29
A2. New public sector loans on less favorable terms in 2010-2030 2	120	132	134	129	120	112	<b>83</b>	67
A3. Low growth Scenario 7/	120	125	124	117	111	102	74	51
A4. High Growth Scenario 7/	120	122	119	110	104	94	62	36
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	120	123	121	114	107	98	<b>69</b>	46
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	120	140	172	159	145	128	<b>82</b>	55
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	120	123	121	114	107	98	<b>69</b>	46
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	120	127	124	116	109	99	<b>69</b>	46
B5. Combination of B1-B4 using one-half standard deviation shocks	120	122	126	119	112	102	<b>72</b>	49
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	120	123	121	114	107	98	<b>69</b>	46
<b>PV of debt-to-revenue ratio</b>								
<b>Baseline</b>	190	199	204	204	183	169	<b>146</b>	104
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2010-2030 1/	190	153	135	131	127	127	<b>113</b>	65
A2. New public sector loans on less favorable terms in 2010-2030 2	190	212	227	231	206	193	<b>177</b>	150
A3. Low growth Scenario 7/	190	204	212	212	189	176	161	119
A4. High Growth Scenario 7/	190	193	197	195	177	162	130	82
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	190	202	214	213	191	177	<b>153</b>	109
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	190	209	242	238	207	185	<b>147</b>	104
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	190	212	239	238	214	197	<b>171</b>	121
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	190	203	209	207	185	170	<b>146</b>	104
B5. Combination of B1-B4 using one-half standard deviation shocks	190	199	218	218	196	181	<b>157</b>	112
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	190	282	291	290	260	241	<b>208</b>	148

Table 2. Cape Verde: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030 (continued)  
(In percent)

<b>Debt service-to-exports ratio</b>								
<b>Baseline</b>	5	5	5	4	4	4	5	5
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2010-2030 1/	5	5	4	-1	-3	-3	4	3
A2. New public sector loans on less favorable terms in 2010-2030 2	5	5	5	5	4	5	6	8
A3. Low growth Scenario 7/	5	5	5	4	4	4	6	6
A4. High Growth Scenario 7/	5	5	4	4	4	4	5	4
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	5	5	5	4	4	4	5	5
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	5	5	6	7	10	9	7	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	5	5	5	4	4	4	5	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	5	5	5	4	5	5	5	5
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	5	4	4	4	6	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	5	5	5	4	4	4	5	5
<b>Debt service-to-revenue ratio</b>								
<b>Baseline</b>	8	8	8	7	7	7	11	12
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2010-2030 1/	8	7	6	-2	-4	-4	8	6
A2. New public sector loans on less favorable terms in 2010-2030 2	8	8	8	8	8	9	13	17
A3. Low growth Scenario 7/	8	8	8	7	7	8	12	14
A4. High Growth Scenario 7/	8	7	7	7	7	7	10	10
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	8	8	8	7	7	8	12	12
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	8	8	8	10	14	13	12	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	8	8	9	8	8	9	13	14
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	8	8	8	8	8	8	11	12
B5. Combination of B1-B4 using one-half standard deviation shocks	8	8	8	7	7	8	12	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	8	11	11	10	10	10	16	17
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	0	0	0	0	0	0	0	0

Sources: Country authorities; and staff estimates and projections.

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

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming

an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

7/ Assumes growth rates respectively 1 percentage points above and below the baseline in 2011-16.

Table 3. Cape Verde: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007-2030  
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate					Projections				
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2030	2016-30 Average
<b>Public sector debt 1/</b>	68.0	65.6	64.5			80.8	86.6	87.8	84.9	79.7	73.8		58.5	40.5	
o/w foreign-currency denominated	46.5	47.7	47.8			62.2	67.0	69.0	67.3	63.8	59.9		47.7	32.6	
Change in public sector debt	-11.6	-2.5	-1.1			16.3	5.7	1.3	-2.9	-5.2	-5.8		-1.8	-2.9	
Identified debt-creating flows	-12.6	-1.5	-0.8			15.2	4.1	0.1	-3.3	-5.2	-5.7		-2.0	-3.2	
<b>Primary deficit</b>	<b>-1.0</b>	<b>-0.3</b>	<b>5.3</b>	<b>4.2</b>	<b>5.1</b>	<b>13.2</b>	<b>8.9</b>	<b>6.0</b>	<b>2.9</b>	<b>1.2</b>	<b>0.0</b>	<b>5.4</b>	<b>1.3</b>	<b>-1.1</b>	<b>0.4</b>
Revenue and grants	32.8	33.9	29.3	<b>30.4</b>	<b>2.5</b>	29.6	29.0	28.6	27.7	29.3	30.2	<b>29.1</b>	29.5	29.1	<b>29.4</b>
of which: grants	5.2	5.6	5.5			6.4	5.0	4.5	3.8	3.3	3.1		2.3	0.8	
Primary (noninterest) expenditure	31.8	33.6	34.6	<b>34.6</b>	<b>3.9</b>	42.8	38.0	34.6	30.6	30.5	30.1	34.4	30.8	28.1	<b>29.9</b>
Automatic debt dynamics	-10.3	-0.5	-6.2			2.1	-4.7	-6.0	-6.3	-6.4	-5.8		-3.3	-2.1	
Contribution from interest rate/growth differential	-6.5	-3.6	-1.7			-2.1	-4.3	-5.5	-6.2	-6.1	-5.1		-2.8	-1.7	
of which: contribution from average real interest rate	-0.2	0.0	0.3			0.5	0.3	0.1	0.1	0.0	-0.1		0.1	0.4	
of which: contribution from real GDP growth	-6.3	-3.6	-1.9			-2.6	-4.6	-5.6	-6.2	-6.0	-5.1		-2.9	-2.2	
Contribution from real exchange rate depreciation	-3.8	3.1	-4.6			4.2	-0.5	-0.4	-0.1	-0.3	-0.6		...	...	
Other identified debt-creating flows	-1.4	-0.7	0.1			-0.1	-0.1	0.0	0.1	0.1	0.1		0.0	0.0	
Privatization receipts (negative)	-1.4	-0.7	0.1			-0.1	-0.1	0.0	0.1	0.1	0.1		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.0	-0.9	-0.3			1.2	1.6	1.2	0.4	-0.1	-0.1		0.2	0.3	
<b>Other Sustainability Indicators</b>															
<b>PV of public sector debt</b>	<b>21.5</b>	<b>17.8</b>	<b>49.7</b>			<b>62.9</b>	<b>67.4</b>	<b>68.2</b>	<b>66.1</b>	<b>63.5</b>	<b>59.7</b>		<b>50.6</b>	<b>37.3</b>	
o/w foreign-currency denominated	0.0	0.0	33.0			44.3	47.9	49.3	48.5	47.6	45.8		39.8	29.4	
o/w external	...	...	33.0			44.3	47.9	49.3	48.5	47.6	45.8		39.8	29.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	4.6	4.7	11.2			18.8	14.9	12.0	9.1	8.6	7.2		9.0	7.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	65.6	52.6	169.8			212.5	232.1	238.6	239.0	216.7	198.1		171.5	128.1	
PV of public sector debt-to-revenue ratio (in percent)	78.0	62.9	209.0			270.4	280.0	282.7	277.5	244.0	220.4		185.8	132.0	
o/w external 3/	...	...	138.9			190.5	198.8	204.4	203.5	182.9	168.9		146.1	103.8	
Debt service-to-revenue and grants ratio (in percent) 4/	17.0	14.8	20.2			18.7	20.4	21.2	22.6	25.1	24.0		26.4	30.9	
Debt service-to-revenue ratio (in percent) 4/	20.3	17.7	24.8			23.8	24.6	25.1	26.2	28.3	26.7		28.6	31.8	
Primary deficit that stabilizes the debt-to-GDP ratio	10.6	2.1	6.4	<b>6.4</b>	<b>4.2</b>	-3.1	3.2	4.7	5.8	6.4	5.8	<b>3.8</b>	3.1	1.8	<b>2.6</b>
<b>Key macroeconomic and fiscal assumptions</b>															
Real GDP growth (in percent)	8.6	5.6	3.0	6.2	2.1	4.1	6.0	6.9	7.6	7.7	6.8	6.5	5.0	5.2	5.0
Average nominal interest rate on forex debt (in percent)	1.1	1.1	0.0	1.2	0.5	0.8	0.8	1.0	0.9	0.9	0.9	0.9	1.3	2.3	1.5
Average real interest rate on domestic debt (in percent)	2.5	2.3	0.1	4.0	2.8	2.7	4.0	3.1	3.9	3.5	3.5	3.4	3.7	3.5	3.7
Real exchange rate depreciation (in percent, + indicates depreciation)	-8.0	7.0	-9.8	-1.8	12.9	9.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	1.4	2.1	4.7	1.2	2.3	3.4	2.8	2.8	2.7	3.0	3.0	2.9	3.0	3.1	3.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.1	0.1	0.1	0.2	0.3	-0.1	0.0	0.0	0.1	0.1	0.0	0.1	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	27.5	36.2	38.4	40.3	11.4	18.0	28.6	12.9	20.3	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.



Table 4. Cape Verde: Sensitivity Analysis for Key Indicators of Public Debt 2010-2030

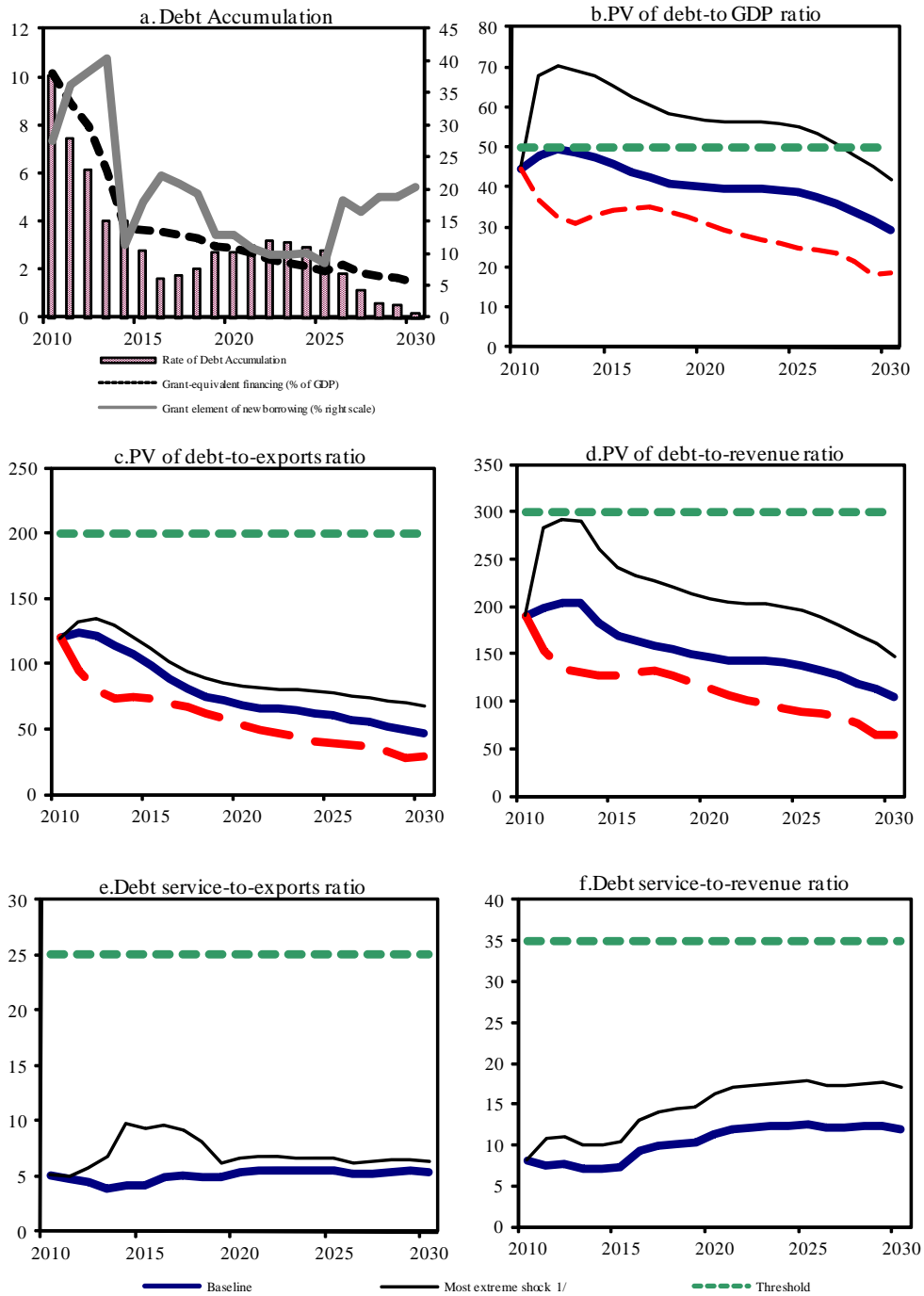
	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
<b>PV of Debt-to-GDP Ratio</b>								
<b>Baseline</b>	63	67	68	66	63	60	51	37
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	63	63	62	63	65	66	73	88
A2. Primary balance is unchanged from 2010	63	72	81	90	99	108	160	254
A3. Permanently lower GDP growth 1/	63	68	70	69	67	64	62	72
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	63	70	74	73	72	69	67	66
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	63	68	73	71	68	65	57	45
B3. Combination of B1-B2 using one half standard deviation shocks	63	66	69	68	66	63	59	54
B4. One-time 30 percent real depreciation in 2011	63	85	84	81	78	74	65	57
B5. 10 percent of GDP increase in other debt-creating flows in 2011	63	79	79	77	74	70	62	49
<b>PV of Debt-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	212	232	239	239	217	198	172	128
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	212	216	218	228	221	219	247	304
A2. Primary balance is unchanged from 2010	212	249	284	324	338	359	542	872
A3. Permanently lower GDP growth 1/	212	235	244	248	228	213	210	245
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	212	239	256	263	244	229	226	228
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	212	235	255	256	233	215	192	155
B3. Combination of B1-B2 using one half standard deviation shocks	212	227	241	245	226	210	199	186
B4. One-time 30 percent real depreciation in 2011	212	292	293	291	266	245	221	197
B5. 10 percent of GDP increase in other debt-creating flows in 2011	212	270	277	278	253	233	209	170
<b>Debt Service-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	19	20	21	23	25	24	26	31
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	19	20	20	22	21	19	38	62
A2. Primary balance is unchanged from 2010	19	20	22	25	33	39	97	191
A3. Permanently lower GDP growth 1/	19	20	21	23	26	25	31	51
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	19	21	22	24	27	27	35	49
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	19	20	21	23	26	28	30	33
B3. Combination of B1-B2 using one half standard deviation shocks	19	21	21	23	24	23	29	39
B4. One-time 30 percent real depreciation in 2011	19	22	24	25	29	28	37	52
B5. 10 percent of GDP increase in other debt-creating flows in 2011	19	20	23	24	35	34	34	37

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

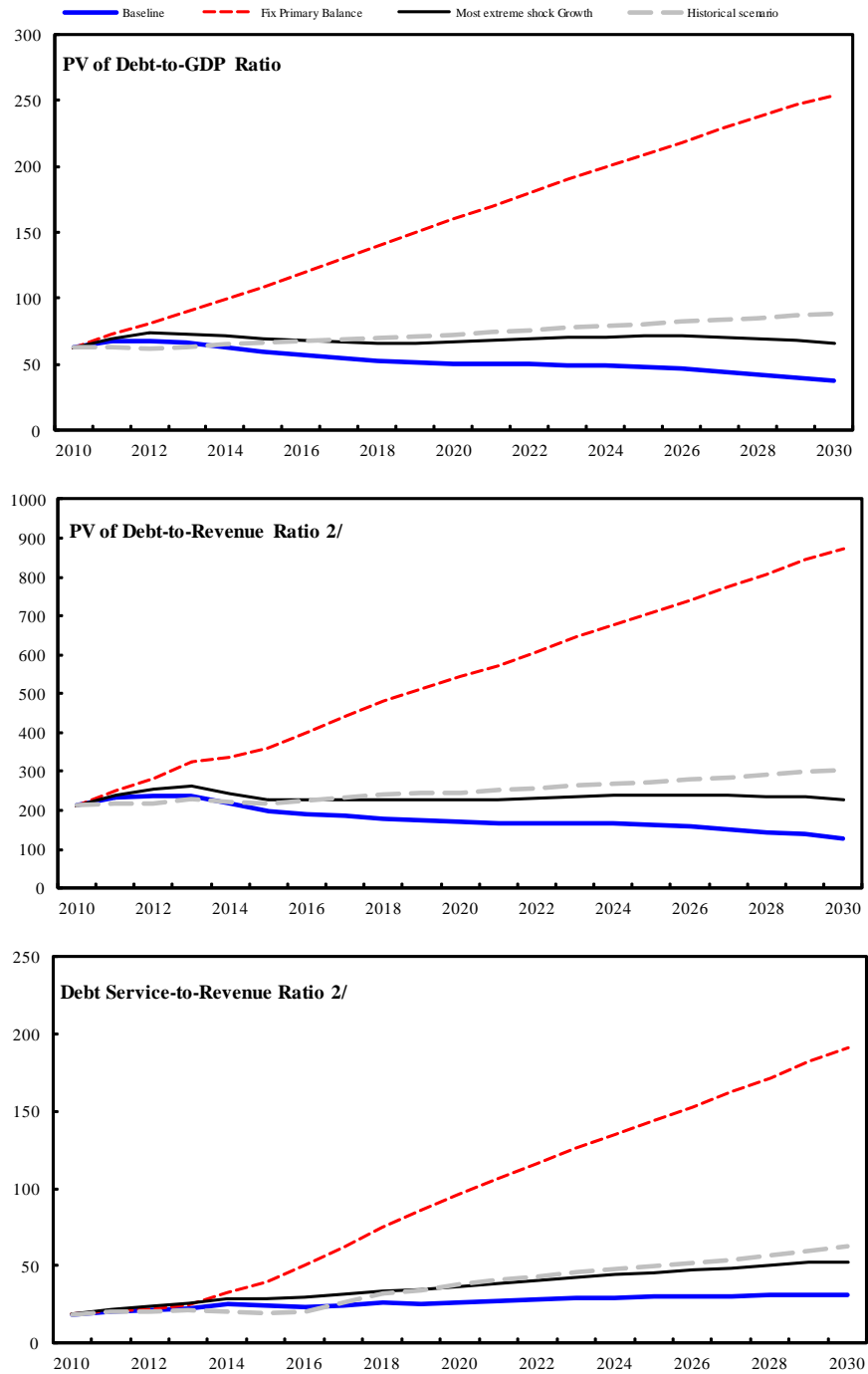
Figure 1. Cape Verde: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.

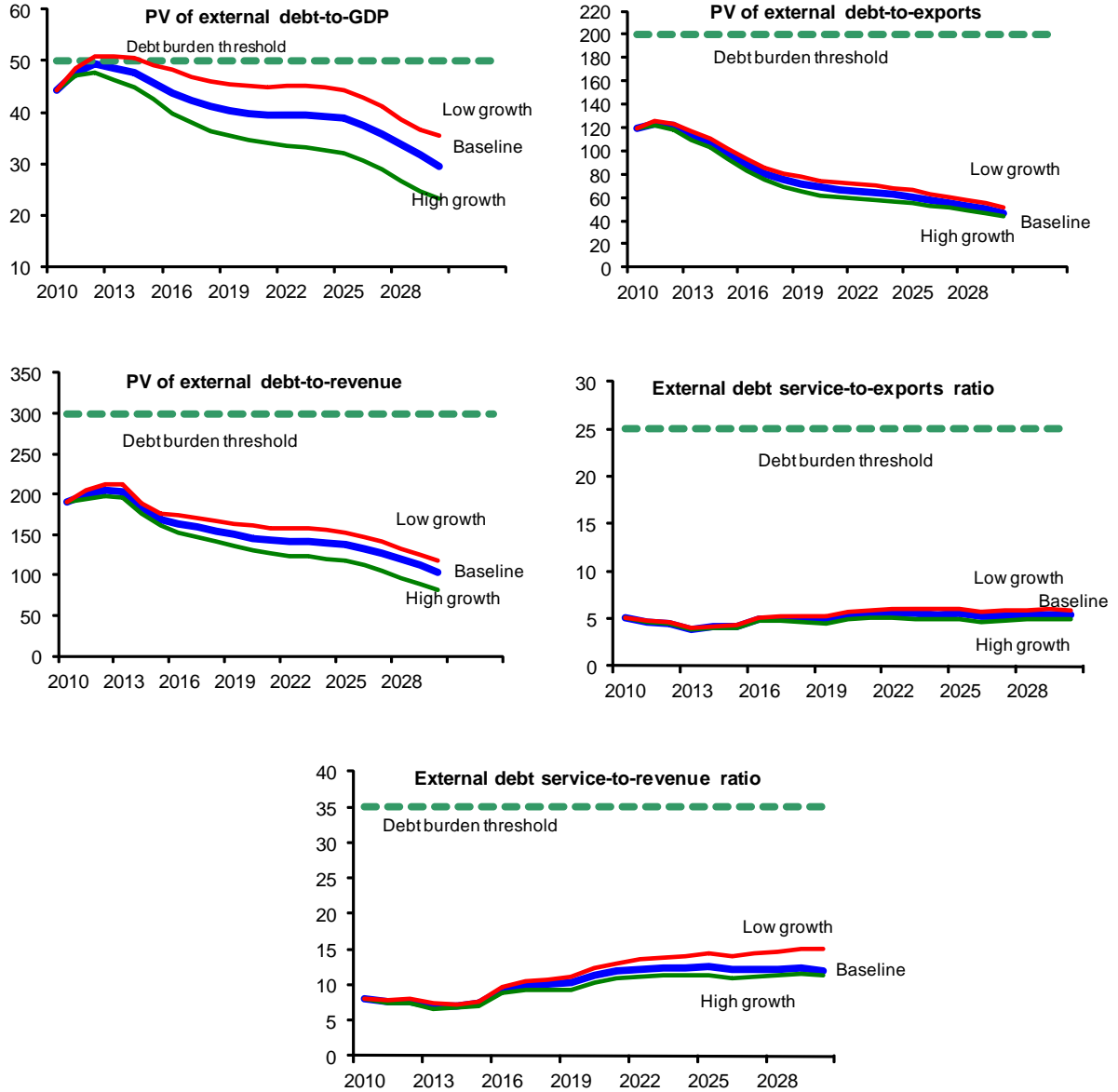
1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2.Cape Verde: Indicators of Public Debt Under Alternative Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.  
 1/ The most extreme stress test is the test that yields the highest ratio in 2020.  
 2/ Revenues are defined inclusive of grants.

Figure 3. Cape Verde: Debt Sustainability Analysis <sup>1/2/</sup>



Sources: Cape Verdean authorities and IMF staff estimates.

1/ The DSA does not take into account some remaining amortization due beyond 2030

2/ The high (low) growth scenario assumes a higher (lower) real growth rate by 1 percentage point between 2011 and 2016.

**ANNEX I. CAPE VERDE—FUND RELATIONS**  
(as of June 7, 2010)

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

<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>%Quota</b>
Quota	9.60	100.00
Fund holdings of currency	9.59	99.93
Reserve Position	0.02	0.17
Holdings Exchange Rate		

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>%Allocation</b>
Net cumulative allocation	9.17	100.00
Holdings	7.85	85.59

<b>IV. Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>%Quota</b>
PRGF Arrangements	6.67	69.50

**V. Latest Financial Arrangements:**

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ECF <sup>1/</sup>	Apr 10, 2002	Jul 31, 2005	8.64	8.64
Stand-By	Feb 20, 1998	Mar 15, 2000	2.50	0.00

<sup>1/</sup> Formerly PRGF

**VI. Projected Payments to Fund<sup>2</sup>**

(SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Principal	<u>0.25</u>	<u>1.48</u>	<u>1.73</u>	<u>1.61</u>	<u>1.24</u>
Charges/Interest	<u>0.02</u>	<u>0.03</u>	<u>0.03</u>	<u>0.02</u>	<u>0.01</u>
<b>Total</b>	<u>0.269</u>	<u>1.51</u>	<u>1.75</u>	<u>1.62</u>	<u>1.25</u>

<sup>2</sup> 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 safeguard assessment with respect to the Policy Support Instrument (PSI) approved on July 31, 2006 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 are still significant outstanding vulnerabilities, notably in the system of internal control, internal audit, and transparency and publication of the financial statements.

## **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); the sixth PSI review on June 19, 2009 (Country Report 09/198); and the seventh PSI review on December 18, 2009 (Country Report 09/328).

## **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).
- Joint IMF-World Bank on debt management (DeMPA, February 2009) and on Medium-Term Debt Strategy (MTDS) (August–September 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.

**ANNEX II. CAPE VERDE—JOINT IMF–WORLD BANK MANAGEMENT ACTION PLAN—  
IMPLEMENTATION MATRIX**

Title	Products	Provisional Timing of Missions	Expected Delivery Date
<b>A. Mutual information on relevant work programs</b>			
Bank work program in the next 12 months	<p><b>Lending:</b></p> <ul style="list-style-type: none"> <li>-PRSC-6 (IDA)</li> <li>- Roads Project-2 (IDA)</li> <li>- SME Technical Assistance and Capacity Building Operation (IDA)</li> <li>- Energy Operation (IBRD)</li> </ul> <p><b>-Trust Fund for Statistical Capacity Building (TFSCB) - Grant</b></p> <p><b>Analytical and advisory activities:</b></p> <ul style="list-style-type: none"> <li>- Poverty assessment</li> <li>-Country Economic Memorandum</li> <li>- Public-Private Infrastructure Advisory Facility (PPIAF)/TA proposal on road sector is under revision</li> <li>- PPIAF/TA on the energy sector (develop strategic/recovery plan for Electra; Electra management model)</li> <li>- Skills Development/Labor market study</li> <li>- General economic monitoring</li> <li>- Transport assessment (TACV)</li> <li>- FSAP update</li> </ul>	<ul style="list-style-type: none"> <li>May/Sep. 2010</li> <li>October 2009 (ongoing)</li> <li>November 2009</li> <li>November 2009</li> <li>Dec 2009</li> <li>Dec. 2009</li> <li>May/Sep 2010</li> <li>Nov./Dec. 2009</li> <li>October 2009 (ongoing)</li> <li>Sep 09 / March 10</li> <li>Next Budget Support Group joint mission</li> <li>Nov./Dec. 2009</li> <li>To be defined</li> </ul>	<ul style="list-style-type: none"> <li>Q2 FY11</li> <li>Q2 FY 11 (Dec 2010)</li> <li>Q4 FY10 (April 2010)</li> <li>Q2 FY11</li> <li>Approved in May 27, 2010</li> <li>Jul. 2010</li> <li>March 2011</li> <li>April/May 2010</li> <li>Q2 FY10</li> <li>Q4 FY10</li> <li>Q4FY10</li> <li>Q2FY11</li> </ul>



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

Title	Products	Provisional Timing of Missions	Expected Delivery Date
<b>A. Mutual information on relevant work programs</b>			
IMF work program in next 12 months	PSI program, and 2010 Article IV consultation	September 2010	Board meeting November 2010
	PSI program, 1st review	March-April 2011	Board meeting May 2011
<b>B. Agreement on joint products and missions</b>			
Joint products in next 12 months	Technical assistance on debt management	January-March 2010	End FY2010 (possible second phase of TA in FY11)

### ANNEX III. CAPE VERDE—STATISTICS ISSUES

1. **Data provision has some shortcomings, but is broadly adequate for surveillance.** There is a need for substantial improvements in the areas of government finances, national accounts, and balance of payments. The country has participated in the GDDS since February 2004. Cape Verde's plans for improvements of its statistical system are posted on the Fund's DSBB; the metadata of the monetary and financial sector were updated in August 2007. The country has benefited from STA technical assistance under the GDDS project for Lusophone Africa.
2. **The authorities are taking steps to strengthen statistics, but the statistical system still suffers from a shortage of financial and human resources.** A comprehensive master plan has been developed under the direction of the National Statistical Institute (INE), which assesses the need for upgrading the agencies that constitute the statistical system and outlines steps to broaden and improve all areas of statistics. The country's development partners have already committed a substantial part of the estimated US\$15 million required to implement the plan through 2010.

#### Real sector statistics

3. **Although some improvements have been made to the national accounts, significant weaknesses remain, including a lack of reliable demand-side GDP.** The timeliness of the data has not been improved, with the INE releasing production and expenditure-based GDP data for 2005–07 in 2010 and providing production-based GDP estimates for 2008 to the AFR mission in May 2010. However, the lag is still lengthy by international standards. In addition, the base year for the constant price estimates is outdated.
4. **INE is currently working on a complete overhaul of the national accounts.** It is updating the national accounts benchmark and base years from 1980 to 2002 and adopting the 1993 SNA. The objective is timely compilation of GDP by industry and expenditure categories at current and constant prices as well as institutional sector accounts.
5. **INE will also introduce Tourism Satellite Accounts.** These accounts will measure upstream linkages between the tourism sector and the rest of the economy and the import content of tourism exports.
6. **Full implementation of the 1993 SNA would require a substantial improvement in source data collection, for which capacity is currently lacking.** The 2006 STA mission found a critical need to improve the timeliness and accuracy of national accounts source data, in particular the business survey. The capacity of INE staff working on national accounts was found to be overstretched; they assess in detail and correct individual source data entries—something not undertaken in most countries by national accounts compilers. The statistical master plan will address many of these challenges.

7. **A revamped CPI with new methodology was launched in February 2008.** The previous official CPI was based on weights dating back to 1989, four years before imports were liberalized. Import liberalization considerably changed consumption patterns. INE has had assistance from the National Statistics Institute of Portugal and benefited from STA CPI missions in May–June, 2006, October 2006, and October 2007, to support the introduction and dissemination of the revised CPI. The new index has new weights and an updated commodity basket.
8. **Labor market statistics are weak.** Data on unemployment are compiled with long delays and there are no wage data.

### **Government finance statistics**

9. **Fiscal data have been improved.** Benefiting from TA under the GDDS project for Lusophone Africa, the Government Finance Statistics (GFS) compilation system is being upgraded. Most deposits previously held with commercial banks have been consolidated at the central bank. SIGOF, the Integrated Online Budget Management System, has been expanded to cover all semi-autonomous institutes and most municipalities by the end of 2007. In addition, a new chart of government accounts (PNCP) will be implemented in 2009 that adopts accrual accounting and double-entry principles. The authorities have started reporting GFS for publication in the *GFS Yearbook*.
10. **However quality is a serious concern.** The fiscal accounts are subject to large statistical discrepancies, flows and stocks are not consistent, and recording of arrears accumulation and clearance operations is not in line with best practices. Significant delay in donor reporting of project financing also affects the accuracy of fiscal data. Despite the recent revision of external debt data, significant weaknesses affect preparation of debt sustainability analyses. Multilateral debt statistics regularly differ from data received by creditors, and debt service projections cannot be reconciled with the debt stock.

### **Monetary and financial statistics**

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

## External sector statistics

12. **With technical assistance from STA, the accuracy, periodicity, and timeliness of balance of payments statistics compiled by BCV have continued to improve.** A greater use of surveys, combined with the International Transactions Reporting System implemented by the BCV, has permitted a significant expansion of data sources and statistical coverage, which to a large extent follow the recommendations of the 5th edition of the *Balance of Payments Manual*. However, gaps in the tracking of large external flows—notably FDI, emigrant deposits, and remittances—remains. Dissemination of quarterly BOP data on the BCV website has been regular and in 2007 the BCV resumed regular and timely transmission of these data to STA for publication in *International Financial Statistics* and in the Balance of Payments Statistics Yearbook. However, the BCV does not compile an International Investment Position statement.

Cape Verde: Common Indicators Required for Surveillance  
(As of June 7, 2009)

	Date of Latest Observation	Date Received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of Publication <sup>7</sup>
Exchange Rates	05/31/10	06/06/10	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	05/31/10	06/06/10	D	W	M
Reserve/Base Money	05/31/10	06/06/10	D	W	M
Broad Money	Dec-09	Apr-10	M	M	M
Central Bank Balance Sheet	05/31/10	06/06/10	D	W	M
Consolidated Balance Sheet of the Banking System	Dec-09	Apr-10	M	M	M
Interest Rates <sup>2</sup>	Dec-09	Apr-10	M	M	M
Consumer Price Index	April-10	May-10	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	N/A	N/A	N/A	N/A	N/A
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	March-10	May-10	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	Dec-09	May-10	A	A	A
External Current Account Balance	Sep-09	Oct-09	Q	Q	Q
Exports and Imports of Goods and Services	Sep-09	Oct-09	Q	Q	Q
GDP/GNP	2007	March-10	A	A	A
Gross External Debt	Dec-09	May-10	A	A	A
International Investment Position <sup>6</sup>	2007	Aug-08	A	A	A

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup> Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>7</sup> Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).



Press Release No. 10/283  
FOR IMMEDIATE RELEASE  
July 8, 2010

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Completes Eighth Review of Cape Verde's PSI**

The Executive Board of the International Monetary Fund (IMF) has completed the eighth and final review under a three-year Policy Support Instrument (PSI) for Cape Verde. The Executive Board's decision was taken on a lapse of time basis.<sup>1</sup>

The review focused on Cape Verde's policy response and recovery from the global economic crisis. The investment-driven rise in the fiscal deficit helped limit the impact of the slowdown and will likely support the country's growth potential. Growth is expected to pick up and inflation to remain low, although economic recovery in Cape Verde's major European trading partners remains fragile.

Cape Verde's PSI was approved on July 31, 2006 (see [Press Release No. 06/172](#)). The arrangement was extended by one year in June 2009. The program's main objective is to enhance the sustainability of growth and development by maintaining a stable macroeconomic environment and implementing structural reforms. 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.

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<sup>1</sup> 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.