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July 22, 2011

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Cape Verde: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

July 5, 2011

LETTER OF INTENT

July 5, 2011

Christine Lagarde
The Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Dear Ms. Christine Lagarde:

The Cape Verdean government continues to make good progress to implement sound economic and structural policies under the Policy Support Instrument (PSI). In November 22, 2010 the IMF Executive Board approved the request of the government of Cape Verde for a fifteen-month PSI. It is designed to support the government's economic objectives and policy framework for 2010–11. The economic outlook remains favorable as envisaged when the PSI was approved. The government continues to implement key measures to reduce fiscal risks, improve debt management, enhance monetary operations, safeguard the financial sector, and strengthen structural reforms. Details of the economic program being supported by the PSI are set out in the November 2010 Memorandum of Economic and Financial Policies (MEFP) and the attached updated MEFP.

We are committed to implementing the program described in the updated MEFP. It gives particular attention to policy developments and prospects for 2011, and reflects understandings reached with an IMF staff team during the first review mission of the PSI in May 2011. In this update, the government signals its ongoing commitment to pursue macroeconomic and structural policies in support of sustained economic stability, growth, and poverty reduction.

All but one indicate targets were met for end-December 2010, and the quantitative assessment criteria (AC) related to the net domestic borrowing of the central government was met for end-March 2011. The floor on the net international reserves targeted for end-March 2011 was not met because of weaker-than-expected balance of payment performance mainly due to higher import prices and an accelerated repayment of outstanding private external debt. The AC on net domestic assets of the central bank for end-March was not met due to the reduction of the central government deposits at the BCV to implement the public investment program.

We are making good progress toward the three structural benchmarks that have not been observed and request a resetting of these benchmarks. The new IT platform to issue fungible government securities is expected to be in place by end-June 2011. The fiscal-monetary coordination agreement has been drafted and an agreement at the technical level has been reached. It will be signed by September 2011. The memorandum of understanding to expand the financial stability committee was discussed, and would be signed by the government by September 2011. The specific quantitative targets and structural measures underlying our adjustment program are summarized in Tables 1 and 2.

Looking forward to the end-September 2011 assessment criterion, we request a modification of the net domestic borrowing for the central government. Domestic financing needs have increased due to strict co-financing requirements associated with some concessional credit lines. We also request the modification of the definition of nonconcessional external debt of the central government to include the non-guaranteed debt of two state owned enterprises, TACV and Electra.

As committed previously, the government will keep the IMF regularly updated on economic and policy developments and will provide the data needed for adequate monitoring of the program. During the period of the PSI, Cape Verde will consult with the IMF on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director of the IMF requests such a consultation.

We authorize the IMF to publish this letter, the attached MEFP, and the related staff report.

Sincerely yours,

/s/

Cristina Duarte
Minister of Finance

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

ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. INTRODUCTION

1. This updated Memorandum of Economic and Financial Policies (MEFP) reviews implementation to date of the Cape Verde government's macroeconomic and structural program as set out in the November 2010 Letter of Intent. It describes economic and policy developments since the approval of the PSI and presents the government's main objectives and policy actions for the remainder of the PSI.

2. The government of Cape Verde re-confirms its commitment to pursue sound macroeconomic and structural polices to underpin the country's growth and development. Macroeconomic results and prospects for 2010–11 are broadly in line with expectations at the start of the PSI program. The government is confident that the program will remain on the track.

II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

3. The Cape Verde's economy has been rebounding better than expected. Economic performance has been encouraging, and GDP growth in 2010 is projected to be around 6 percent reflecting stronger-than-expected outcome of the tourism sector and implementation of the public investment program (PIP). Growth should continue to pick up in 2011 benefiting from strong demand in the tourism sector given political turmoil in northern Africa. Economic climate indicators for 2011Q1 shows an increase in economic activities across all sectors. In particular, both the current and perspective activities are mainly favorable in transportation, tourism, and commerce. Employment opportunities are strong in agricultural and construction, especially in the second-home real estate market. In spite of the steady stream of remittances and tourism receipts, the foreign reserves have fallen in the first quarter of 2011. The growth of imports, partly due to price effects, the reductions of the official transfers and foreign direct investment, and the acceleration of the amortization of the outstanding private external debt are the main reasons for the evolution of the foreign reserves in the period.

4. Inflation has edged up in recent months. The 12-month inflation rate increased to 5.2 percent in May 2011, compared to 3.4 percent in December 2010, reflecting the pass-through from the rise in global food and energy prices. Since the beginning of 2011, gasoline and diesel prices increased 13 and 18 percent, respectively. Utility prices for household consumers also increased by 27 percent (electricity) and 15 percent (water). The pass-through to domestic prices could be less than the previous spike in food prices in 2008, given that more agriculture products are now produced in Cape Verde.

5. Global commodity price shocks and economic turmoil in Europe could pose some risks to the economic outlook. The recent spike in the global food and oil prices is likely to increase inflationary pressures over the coming months. Bilateral and multilateral financing of credit lines have been steady; however, further austerity measures and economic deterioration in the euro area

could pose additional risks, mainly to the tourism sector and official financing. Remittances and emigrant deposits have been stable.

6. We have met all but one indicative targets for end-December 2010 and five of seven quantitative assessment criteria (AC) for the end-March 2011, while three structural benchmarks have been delayed with some progress. A fiscal-monetary coordination agreement has been developed and is expect to be signed in by September 2011. Issuance of fungible treasury bonds with common face and coupon values and dates of payments is expected to commence once the IT platform is in place by end-June 2011. Even though phase I of IT platform had already been completed, full implementation has been delayed because of some technical corrections in the system that the project executor in Portugal was asked to complete. A memorandum of understanding to expand and formalize the standing financial stability committee at the BCV has been developed and is expected to be signed by the Minister of Finance and the BCV Governor by September 2011.

III. Fiscal Developments and Policies

7. We remain committed to fiscal sustainability and implementation of the medium-term public investment program. Fiscal developments in 2010 were in line with both objectives. The fiscal deficit reached 10.7 percent of GDP reflecting the higher growth of the public investment program. Recurrent expenditures were swiftly reduced to compensate for weaker-than-expected tax revenues during the year and the overall fiscal balance was lower than projected. For 2011 and 2012, we plan to maintain a steady pace for the public infrastructure investment program in line with our medium-term fiscal framework (MTFF). We have been assured by our partners that concessional financing will be maintained and the partners showed willingness to extend concessional financing until 2015. The government will focus on the implementation of on-going projects, rather than mobilizing resources for new ones.

8. We are committed to strengthening capacity of the revenue administration and improving the tax regulatory framework. We acknowledge that there is scope for improving performance of the revenue administration and are dedicated to carry out the necessary diagnostic work to uncover specific issues. We have already identified some areas for improvements including human resources, training, and information systems for revenue management. Additionally, the government is finalizing a long-standing tax reform package for submission to Parliament by 2012 which will revamp the legal framework of the tax system. The individual and corporate income tax bills are part of the necessary reforms and constitute structural benchmarks of the PSI. We will develop a tax exemption bill to rationalize fiscal incentives and level the playing field.

9. The government has taken steps to prepare for any expenditure pressures that materialize from external price shocks. Fiscal space is limited and lower than prior to the 2008/09 global crisis. As a result we are allowing the increase in international food and oil prices to pass on to the consumers, and will limit wage increases. Indeed, there is no provision for wage increases for

public servants in the 2011 budget. However, we are prepared to use targeted interventions to protect real incomes of the most vulnerable households and safeguard social priority spending. To accomplish this, the government can draw on existing fiscal buffers, reallocate recurrent expenditures, and speed up the use of some existing donor financing linked to social objectives. In doing so, the government expects to address any expenditure needs within the envelope of the MTFF.

10. We continue to improve capacity in debt management and sustainability analysis. A Medium-Term Debt Sustainability (MTDS) exercise with participation from the World Bank and the IMF is underway to improve debt management capacity and provide the basis for preparing the strategy report on public debt. Achievement of the structural benchmark will be delayed until September 2011 due to the timing of the MTDS mission. Additionally, we are receiving technical assistance from the World Bank in fiscal sustainability analysis. The government is committed to enhancing its ability to maintain debt sustainability while promoting the necessary infrastructure investments for the country.

11. The government continues to take steps to manage fiscal risks from SOEs and is committed to address the financial difficulties of TACV and ELECTRA. We continue to prepare our contingent liability report currently covering five SOEs. The report provides statistical information and a debt risk assessment for each company, which is then used to inform budgetary provisions for contingent liabilities. This will also contribute to the achievement of End-June structural benchmark on presenting cross debt information among SOEs. For PSI purposes, we will expand coverage of the external non-concessional borrowing limit to include TACV and ELECTRA, which are the SOEs which pose higher fiscal risk.

IV. Monetary and Financial Sector Developments and Policies

12. The monetary policy framework continues to be underpinned by the peg, and we are committed under the PSI to stabilize and protect foreign reserves. The BCV has kept the monetary policy stance tight to maintain emigrant deposits and reserve accumulation, where net international reserves increased by 7.7 percent in 2010. Going forward, we will continue to be vigilant about short-term capital flows and assess their implications for domestic interest rates and credit growth.

13. The BCV will continue to improve the operational framework for liquidity management and monetary operations by a number of measures. We intend to: (i) enhance and clarify different roles and instruments of short-term liquidity management and longer-term structural liquidity management; (ii) take measures to create conditions for repo and reverse repo activities; (iii) rationalize the BCV’s standing facility to facilitate the interbank market development; (iv) enhance the effectiveness of the monetary transition mechanism; and (v) improve government cash flow forecasting and the BCV’s liquidity forecasting to support decisions on liquidity management and monetary operations.

14. We are cognizant that good coordination between MoF and BCV are critical for financial stability, market development, and monetary policy operations. To create enabling institution for market development, a fiscal-monetary coordination agreement between the MoF and BCV has been developed and is expected to be signed in September 2011. Under the agreement, the BCV and MoF will work together to set up a framework for using treasury securities as an important instrument for monetary operations. We have also developed a memorandum of understanding (MoU) to expand the existing standing financial stability committee at the BCV to include MoF to strengthen timely coordination and information exchange between the MoF and BCV in crisis response.

15. We continue our effort to develop an efficient money market and public debt securities market. We are reviewing and developing necessary market infrastructure to introduce fungible public debt securities, which is expected to be in place by end-June 2011. We recently started to publish an issuance calendar to strengthen the transparency of the markets. Going forward, we will continue to develop money market and public debt securities markets by: (i) aligning the different tax treatments between treasury securities and BCV securities; (ii) broadening and diversifying the investor base by introducing low-cost modern investment channels such as internet and mobile banking and providing alternative investment opportunities; (iii) enhancing the auction mechanisms by introducing noncompetitive bidding; and (iv) enhancing the market transparency by timely publication of auction results.

16. We are making progress to strengthen the financial sector. The draft legislation of the new banking law harmonizes prudential regulations between onshore and offshore banking activities. The BCV has been working with an external consultant to finalize a dual banking system law by July 2011 to adequately address the supervisory and regulatory framework of the off-shore banking system. We expect the approval of the banking law by the National Assembly by end December 2011. In addition, the BCV has issued its first financial stability report in 2010 and will issue the report on a regular basis in the future. Banks have demonstrated resilience to external shocks. A number of banks increased their equity in 2010. The payment system has made significant progress with substantial increase in the use of ATMs.

17. Going forward, the BCV is committed to strengthening the financial stability by enhancing both micro and macro prudential regulations and the supervisory framework. The BCV will ensure sufficient resources to its supervisory body to effectively carry out both onsite and offsite supervisions. In addition, we will explore and develop comprehensive financial crisis prevention and resolution framework and implementation capacity, which shall incorporate both the latest international experience and our local situation.

V. STRUCTURAL REFORMS

18. The government will embark on a new national agenda for economic transformation and social development. Our long term vision is to build a more inclusive, just, and prosperous nation with opportunities for Cape Verdeans, whether in Cape Verde or in the Diaspora. To achieve this

vision, we will adopt the policy agenda articulated in the government plan for 2011–16 that emphasizes: (i) building a dynamic, competitive, and innovative economy; (ii) facilitating private sector growth, investment, and productivity; (iii) training human resources; (iv) promoting social development; (v) promoting good governance; (vi) modernizing infrastructure; and (vii) affirming our global partnership to increase competitiveness.

19. We are cognizant that SOE reforms and business diversification are critical for successful private sector development. SOE reforms slowed down due to the breakout of the global financial crisis. With our economy showing signs of recovery from the global crisis, the National Assembly (Parliament) approved the Law of State Enterprises and Public Managers at the end of 2009, which laid a new legal framework for SOE reforms. As our recovery gains momentum, we are ready to speed up SOE reforms.

20. We are planning to take some bold actions to put both Electra and TACV on a viable restructuring plan in order to address their long-standing financial difficulties. The ultimate goal is to allow these companies to improve their profitability so that strategic partners in the private sector are attracted to acquire a stake and allow the companies to play a crucial role in the implementation of the Economic Transformation Agenda. Further improvements in Electra's performance as evidenced by: (i) the adoption of the action plan for the second phase of its institutional restructuring; (ii) the design of a comprehensive, realistic and time-bound approach to the financial restructuring of ELECTRA, including: recapitalization and restructuring of financial short term debt and financing mechanisms for public lighting; (iii) the adoption of a new regulatory tariff-adjustment model compatible with ELECTRA's institutional restructuring; and (iv) the signature of a results-based management contract between ELECTRA and the General Directorate of the. TACV is expected to improve operational, financial and commercial management as evidenced by: (i) the presentation of the audited annual accounts for 2009 and 2010; (ii) the maintenance of zero arrears in the balance for 2010; (iii) full operation of the integrated accounting system for the timely preparation of reports; (iv) signature of a result-based management contract between the government and TACV; and (v) the adoption of a business plan for 2011–15 by the TACV Board.

VI. Program Monitoring

21. **We are proposing to modify the end-September 2011 assessment criterion on the net domestic borrowing for the central government**. The domestic financing needs have increased due to strict co-financing requirements associated with some concessional credit lines. The remaining ACs and structural benchmarks will be maintained. Definitions of terms and specification of reporting requirements are contained in the technical memorandum of understanding (TMU). The second review will be based on the end-September 2011 assessment criteria and is scheduled to be completed by January 31, 2012.

Table 1. Cape Verde: Quantitative Assessment Criteria and Indicative Targets for 2010-11 under the PSI[1]

	Cumulative Flows from End-Dec, 2009			Cumulative Flows from End-Dec, 2010				
	2010			2011				
	end-December			end-March			end-June	end-September
	Indicative Targets	Adjusted Indicative Targets	Actual	Assessment Criteria	Adjusted Assessment Criteria	Actual	Indicative Targets	Assessment Criteria
Quantitative targets				(Billions of Cape Verde escudos)				
Net domestic borrowing of the central government, ceiling[2]	1.5	1.8	2.3	0.9	2.0	0.6	1.5	2.9
Net domestic assets of the central bank, ceiling[2]	0.1	2.6	-2.9	0.3	2.4	3.2	0.6	0.8
Nonaccumulation of new domestic arrears	0.0		0.0	0.0		0.0	0.0	0.0
				(Millions of U.S. dollars)				
Nonaccumulation of new external arrears[3]	0.0		0.0	0.0		0.0	0.0	0.0
Contracting or guaranteeing nonconcessional external debt with original maturity of more than one year, ceiling[4]	35.0		0.0	35.0		0.0	35.0	35.0
Outstanding stock of nonconcessional external debt with a maturity of less than one year, ceiling[3, 5]	0.0		0.0	0.0		0.0	0.0	0.0
				(Millions of euros)				
Net international reserves, floor[2]	15.0	-7.5	20.6	6.6	-12.8	-22.7	13.2	19.8
Indicative target				(Percent)				
Regulatory capital ratio of individual banks, floor[3]	10.0		15.6	10.0		15.3	10.0	10.0
Memorandum item:								
Program assumptions				(Billions of Cape Verde escudos)				
Nonproject external financial assistance, including credit line (program assumption)	6.0		6.1	1.2		0.0	2.4	3.5
External debt service	2.9		2.7	0.9		0.6	1.5	2.0
Land sales	0.7		0.2	0.2		0.0	0.3	0.3
External financial assistance, project and budget support loans	28.0		25.3	5.9		3.5	11.7	17.6

[1] Foreign currency amounts will be converted at current exchange rates.

[2] The ceiling or floor will be adjusted as specified in the TMU.

[3] Continuous.

[4] 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, as amended on August 31, 2009), but also commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are debt rescheduling and debt reorganization, the Portuguese credit line, and borrowings from the Fund.

[5] The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), August 24, 2000, as amended on August 31, 2009). Excluded from this performance criterion are rescheduling arrangements, the Portuguese credit line, borrowings from the Fund, and import-related financing.

Table 2. Cape Verde: Structural Benchmarks for 2010–11

Objective/Macro Criticality	Structural Benchmark	Timing	Status
Strengthen fiscal-monetary policy coordination	The BCV and Ministry of Finance sign a fiscal-monetary coordination agreement	end-December 2010	Reset to September 2011
Strengthen securities market	Issue fungible treasury bonds with common face and coupon values and dates of payments	end-December 2010	Reset to June 2011
Strengthen the financial sector	The BCV and Ministry of Finance sign a memorandum of understanding to expand and formalize the standing financial stability committee at the BCV	end-March 2011	Reset to September 2011
Strengthen debt management	Create a medium-term strategy report on the debt level, composition, and desirable trend and present the report to the council of ministers	end-June 2011	Reset to September 2011
Strengthen tax base	Submit the draft individual and corporate income tax bills to the National Assembly	end-June 2011	
Promote fiscal accountability	Present cross debt between SOEs in the contingent liabilities report and submit at the council of ministers.	end-June 2011	
Strengthen the financial sector	Submit the new banking law, which unifies the regulatory framework for onshore and offshore banks, to the National Assembly	end-June 2011	Reset to December 2011

ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING

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

I. QUANTITATIVE ASSESSMENT CRITERIA AND INDICATIVE TARGETS

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

2. The central government includes all units of budgetary central government. It does not include local government (municipalities) and public corporations.

3. Net domestic borrowing excluding for clearance of arrears and net late payments is defined as the cumulative change since the start of the calendar year of the net credit to the central government from the banking and nonbanking sectors less (1) the cumulative clearance during the calendar year of the stock of arrears as of the end of the previous year and (2) the cumulative payments during the first three months of the calendar year of expenses authorized by the previous year's budget, plus the expenses accrued during the current year that will be paid during the first three months of the next calendar year as provisioned for in the budget law (late payments or *atrasados*).

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

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

5. Reporting requirements. Data on the implementation of the budget compiled by the Ministry of Finance and Public Administration will be provided on a quarterly basis, to be submitted no later than five weeks after the end of each quarter, including (i) government domestic revenue by category; (ii) external budget support grants; (iii) government expenditure, including primary current expenditure, domestic and external interest payments, and capital expenditure, including domestically and budget support financed capital expenditure and estimates of externally project financed capital expenditure; (iv) the gross payment and gross accumulation of domestic accounts payable (*atrasados*); (v) the gross payment and gross accumulation of domestic payments arrears; (vi) external loan receipts and principal payments; (vii) external arrears payments and accumulation; (viii) bank and nonbank financing; (ix) privatization and land sale receipts; and (x) any other revenue, expenditure, or financing not included above.

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

B. Net Domestic Assets of the Central Bank

7. The ceiling on the cumulative change, from the beginning of calendar-year 2011, in net domestic assets of the BCV constitutes an assessment criterion. Net domestic assets (NDA) of the BCV are defined as reserve money minus net foreign assets of the BCV, evaluated at the current end-of-period exchange rates.

- The program ceilings for NDA will be adjusted upward by
  - the cumulative upward deviations in external debt service, by
  - the cumulative downward deviations in external financial assistance, and project and budget loans relative to program assumptions, and by the costs of restructuring state-owned enterprises up to a limit of CVE 1.5 billion.
- The ceiling will be adjusted downward by the cumulative downward deviation in external debt service relative to program assumptions.

For purposes of calculating the adjusters, these flows will be valued at current exchange rates. Reserve money comprises bank reserves and deposits of the monetary institutions and private sector with the central bank, as well as cash in circulation.

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

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

9. External debt (long-term, medium-term, and short-term) is defined as debt to nonresidents contracted or guaranteed by the central government, the Bank of Cape Verde, and the external debt of the official sector entities and state owned enterprises (SOEs) guaranteed by the central government. External debt also includes the private external debt to nonresidents for which official guarantees have been extended. For the purposes of the relevant assessment criteria, the definition of debt is set out in Executive Board Decision No.6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)). External debt is defined as debt contracted with nonresidents. The ceiling on nonconcessional external debt applies to external debt contracted or guaranteed by the central government, the Bank of Cape Verde, TACV and ELECTRA.

10. The program's assessment criteria on nonconcessional external debt include ceilings on medium- and long-term, as well as on short-term, nonconcessional external debt. The ceiling on contracting or guaranteeing nonconcessional external debt with original maturity of less than one year by the central government is assessed on a continuous basis. Nonconcessional external debt is defined as debt contracted or guaranteed by the central government, the Bank of Cape Verde, TACV and ELECTRA with a grant element of less than 35 percent, calculated using currency-specific commercial interest reference rates (CIRRs) published by the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). Debt rescheduling and debt reorganization are excluded from the limits on nonconcessional external debt. The assessment criteria on new nonconcessional external debt contracted or guaranteed by the central government, the Bank of Cape Verde, TACV and ELECTRA (excluding borrowing from the Fund) are specified in Table 1 of the Letter of Intent. Nonconcessional external debt with maturity of more than one year excludes normal short-term (less than one year) import-related financing. The Portuguese government's precautionary credit line (the "Portuguese credit line") in support of the exchange rate peg is also excluded from the definition of nonconcessional external debt.

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

D. Net International Reserves of the Central Bank

12. The floor on the cumulative change, from the beginning of calendar-year 2011, in net international reserves (NIR) of the BCV constitutes an assessment criterion under the program. The NIR of the BCV are defined as gross international reserves of the BCV net of its external reserve liabilities, calculated at the current exchange rates. Gross reserves of the

BCV are those that are readily available (i.e., liquid and marketable and free of any pledges or encumbrances), controlled by the BCV and held for the purposes of meeting balance of payments needs and intervening in foreign exchange markets. They include gold, holdings of SDRs, the reserve position at the IMF, holdings of foreign exchange and traveler's checks, demand and short-term deposits at foreign banks abroad, fixed-term deposits abroad that can be liquidated without penalty, and any holdings of investment-grade securities. External liabilities of the BCV comprise liabilities to nonresidents contracted by the BCV with an original maturity of less than a year, any net off-balance-sheet position of the BCV (futures, forwards, swaps, or options) with either residents and nonresidents, any arrears on principal and interest to external creditors and suppliers, and purchases from the IMF.

- The program floors for the NIR will be adjusted downward by
    - the cumulative upward deviations in external debt service, by
    - the cumulative downward deviations in external financial assistance, and project and budget loans relative to program assumptions, and by the costs of restructuring state owned enterprises up to a limit of € 13.6 million. For purposes of calculating the adjusters, these flows will be valued at current exchange rates.
- The floor will be adjusted upward by the cumulative downward deviation in external debt service relative to program assumptions. Additionally, in the case Cape Verde participates in any SDR allocation(s) between June 30, 2009 and the test date, this floor will be adjusted upwards by the equivalent of the amount of the cumulative additional SDR allocation(s) up to the test date measured at program exchange rates.

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

E. Nonaccumulation of New Domestic Payments Arrears

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

15. Reporting requirements. The Ministry of Finance and Public Administration, through the D.G.T., will submit on a quarterly basis a detailed table of the stock of domestic payments arrears, including the accumulation, payment, rescheduling and write-off of

domestic payments arrears during the quarter. The data are to be provided within four weeks after the end of the quarter.

F. Nonaccumulation of External Payments Arrears

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

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

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

G. Regulatory Capital Ratio

19. The floor is defined as the minimum ratio of regulatory capital to risk-weighted assets following the IMF Financial Soundness Indicators Compilation Guide. This will be monitored through the monthly regulatory capital to risk-weighted assets for each individual bank in the financial soundness indicators of the banking sector. The regulatory capital ratio of individual banks will be provided to the IMF on a monthly basis within six weeks after the end of each month.

II. Other Data Requirements

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

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

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

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